



**BOMBARDIER**

# OUR WAY FORWARD

ANNUAL REPORT, YEAR ENDED JANUARY 31, 2009



# FINANCIAL HIGHLIGHTS

(in millions of U.S. dollars, except per share and backlog amounts)

For the fiscal years ended January 31	2009	2008
Revenues	\$ 19,721	\$ 17,506
EBIT before special item	\$ 1,411	\$ 902
EBT before special item	\$ 1,273	\$ 601
Income taxes	\$ 265	\$ 122
Net income	\$ 1,008	\$ 317
Earnings per share before special item ( <i>in dollars</i> ):		
Basic	\$ 0.57	\$ 0.26
Diluted	\$ 0.56	\$ 0.26
Earnings per share ( <i>in dollars</i> ):		
Basic	\$ 0.57	\$ 0.17
Diluted	\$ 0.56	\$ 0.16
Dividend per common share ( <i>in Cdn dollars</i> ):		
Class A	\$ 0.08	\$ -
Class B	\$ 0.08	\$ -
As at January 31	2009	2008
Total assets	\$ 21,306	\$ 22,120
Shareholders' equity	\$ 2,544	\$ 3,118
Net additions to property, plant and equipment and intangible assets	\$ 567	\$ 417
Total backlog ( <i>in billions of dollars</i> )	\$ 48.2	\$ 53.6
Book value per common share ( <i>in dollars</i> )	\$ 1.27	\$ 1.60
Number of common shares		
Class A	316,582,537	316,961,957
Class B	1,413,866,601	1,413,700,636

## STOCK MARKET PRICE RANGES

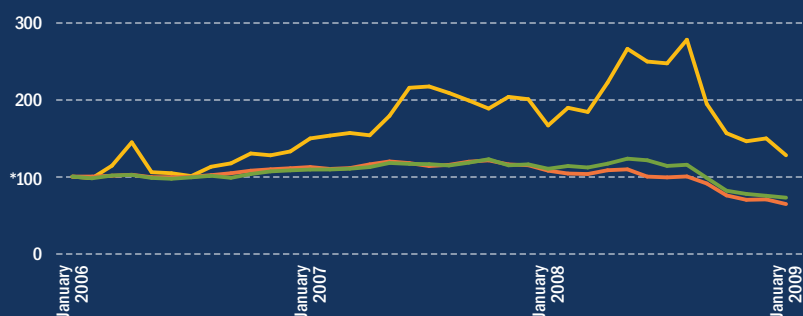
(in Cdn dollars)

For the years ended January 31

	2009	2008
<b>Class A</b>		
High	\$ 9.00	\$ 7.00
Low	\$ 3.25	\$ 4.10
Close	\$ 3.85	\$ 4.96
<b>Class B</b>		
High	\$ 8.97	\$ 6.97
Low	\$ 3.17	\$ 4.06
Close	\$ 3.80	\$ 4.95

## BOMBARDIER'S STOCK PERFORMANCE

January 31, 2006 to January 31, 2009



## MARKET CAPITALIZATION

\$6,592 million Cdn

(as at January 31, 2009)

■ BBD ■ SPTSX ■ S&P 500

\*Index: Closing price as at January 31, 2006 = 100

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# At Bombardier, the focus is “Our Way Forward.”

It embodies our vision for the future and signals the continued evolution of our company. It reflects our challenging times and the need for prudent execution and clear priorities.

Through careful management, we’ve delivered solid financial performance, rallied effective leadership teams and carved out an enviable market position. It is time to build on this strong foundation by acting on key priorities that will take us even further.

Over the coming years, we will capitalize on our legendary entrepreneurial spirit to pursue carefully selected opportunities. Our goal? To be a leader for all of our stakeholders.

“Our Way Forward” starts here with five strategic priorities.



# Execution excellence

Customer satisfaction is our top priority. It requires that we become masters at executing flawlessly to consistently deliver on our promises. It's a question of discipline and the answer is to engage every employee in focusing everything we do on our customers' needs. We will settle for nothing less than getting it right the first time, every time. It is our way forward to greater growth and profitability.





DELIVER ON PROMISES

The *TRAXX* family of locomotives is the technology of choice for operators throughout Europe. Thanks to careful planning and execution, this highly successful platform offers 70% to 90% commonality across diesel, electric and multi-system product models. The result is reduced manufacturing costs, faster market delivery and unparalleled operational efficiency.



SURPASS EXPECTATIONS

"We were the launch customer for the *CRJ700* aircraft, and we've been very happy with its outstanding performance, passenger acceptance, reliability and economics. Now we're proud to be the launch customer for the *CRJ1000 NextGen* aircraft, with its new interior, improved economics and reduced emissions."

Marc Lamidey, President and Director of Brit Air

# Unbeatable talent

Every employee at Bombardier impacts our performance. Proud and engaged employees are unstoppable. When we invest in their success, we ensure our own. We attract the best and give them every reason to stay and to be more engaged. With the right people in the right place, we can grow where and how we need to. It's about raising our talent management to world-class standards. It is our way forward to fostering exceptional employees.







Bombardier Aerospace employs more than 30,000 people worldwide. Everywhere we operate, we strive to provide a safe and rewarding workplace where talented people continuously improve their performance while building long and satisfying careers. We respect our employees, welcome their ideas, support their development and celebrate their successes. Our annual employee surveys help us constantly focus our action plans on better engaging our people.

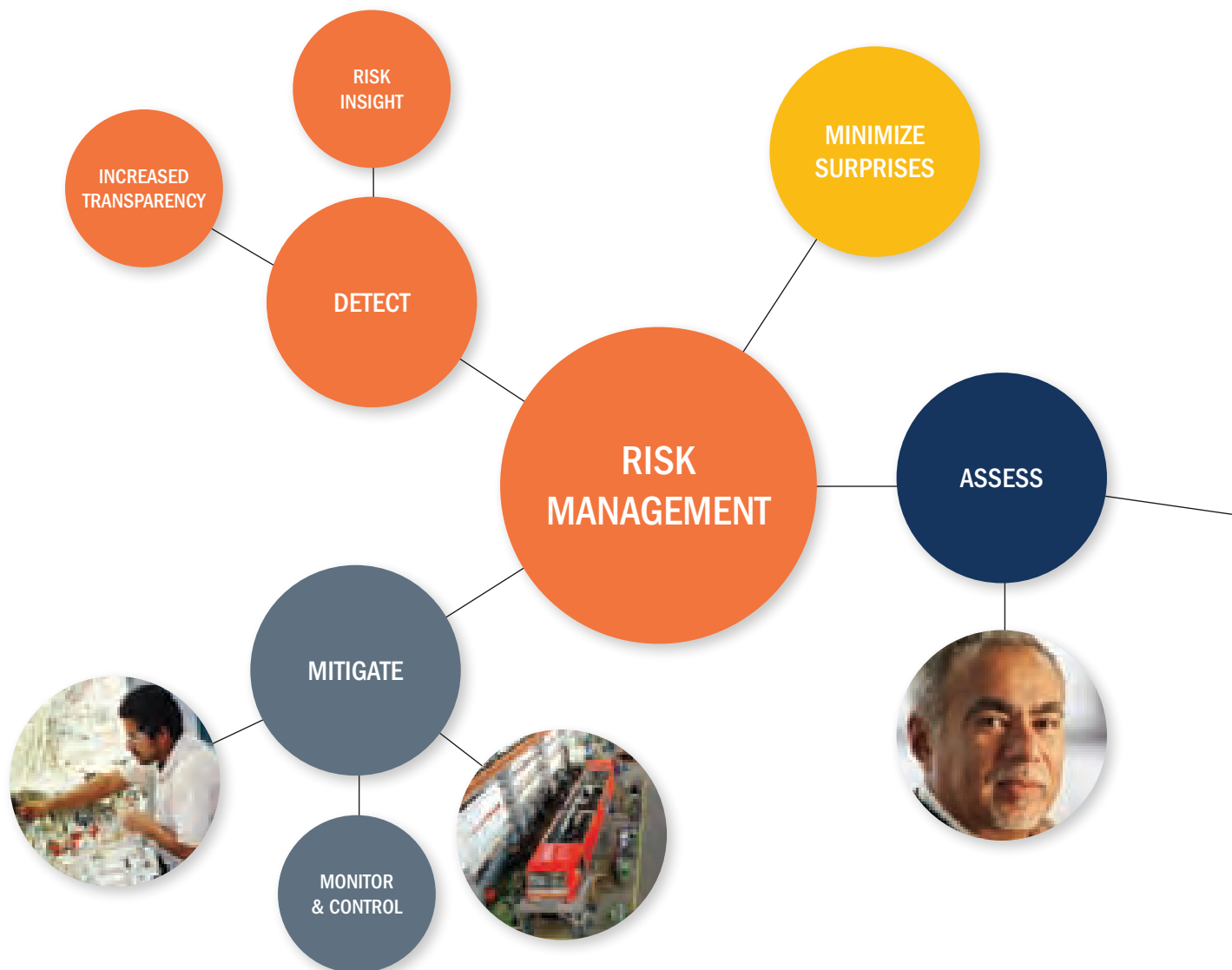


GROWTH  
OPPORTUNITIES

At Bombardier Transportation, the well-being of our 34,000 employees comes first. That's why we proactively address health and safety issues, and invest in targeted efforts to recruit, develop and retain engaged talent. Creating a boundary-less organization where ideas, knowledge and talent flow easily is one of our top priorities.

# Calculated risks

We can never eliminate all risks in business, nor would we want to. Taking on certain calculated risks has spawned many successes at Bombardier. But we do want to get better at detecting and assessing risks, at minimizing the surprises, at choosing the ones that drive value and passing on those that don't. It is our way forward to making sure every risk we take on generates robust benefits.







When China needed a transit solution for the Beijing International Airport in time for the 2008 Olympic Games, it chose Bombardier. A challenging project leading up to an important world event left no room for error. Using effective risk management controls and an efficient supply chain, we delivered our CX-100 APM (automated people mover) on time and on budget, establishing the first automated transit system in mainland China.



APPROPRIATE  
RESOURCES

CAPTURE  
OPPORTUNITIES

PEOPLE  
EFFICIENCY

We continue to demonstrate our ability to identify niche markets and develop new aircraft to address them. The clean sheet design of our *Challenger 300* jet filled an unmet need for a true continental range aircraft offering superior performance at a competitive price. Comprehensive risk detection and mitigation plans were essential to successfully bring this aircraft to market on time and on budget.

# Deep local roots

Think global, act local. In our world of swift and sudden change, it's even truer today than it was yesterday. Keeping our eye on the big picture, we'll build centres of gravity in emerging markets where significant opportunities abound. We'll adapt our organizational model to grow deeper local roots in key markets. It is our way forward to enhanced customer value and overall profitability.



Ever alert to opportunities worldwide to increase our competitiveness, we see clear benefits in the ongoing globalization of the aerospace industry. Our long-term commitment in Mexico highlights the benefits of our local roots focus. Working closely with the Mexican government, we are helping develop an aerospace industry that will attract investment, highly qualified labour, technology and new expertise in many business sectors.



RELEVANT PARTNERSHIP



PROCUREMENT OPTIMIZATION

At Bombardier Transportation, we operate 50 production and engineering sites and 21 service centres in 24 countries, bringing us closer to strategic markets and customers. In 2008, we opened a new manufacturing facility in Savli, India, to serve the growing demand for rail equipment in this country and ultimately across the Asia-Pacific region. We build local capacity through recruitment of a skilled domestic labour force trained on-site and at our established manufacturing centres of expertise in other parts of the world.

# Greater corporate social responsibility

So much more is expected of us today. Having good products is no longer enough; they must also contribute to a greener planet. Our operations must not only keep employees healthy and safe, they must also leave a minimal footprint. And as a neighbour, we must be a consistently stellar one. We are doing many things right but we can do much more. It is our way forward to outperforming the competition.





We build energy efficiency and end-of-life considerations into products right from the design phase. In 2008, we launched our *ECO4* package of breakthrough technologies to improve performance and achieve energy savings of up to 50%. *ECO4* is part of our ongoing efforts to enhance rail's standing as the most sustainable form of public transport by attracting riders, shrinking environmental footprints and supporting sustainable mobility worldwide.



HUMAN RIGHTS

TRANSPARENCY

In 2008, we strengthened our Design for Environment program, improving our ability to develop fuel-efficient aircraft with the lowest noise and emissions in their category. The *Q400 NextGen* turboprop emits 30% to 40% less CO<sub>2</sub>, consumes 30% to 40% less energy and significantly reduces noise emissions. Our *Q-Series* aircraft also play a vital role in delivering humanitarian relief on United Nations' missions to war-torn regions in Africa.





(from left to right) André Navarri, President and Chief Operating Officer, Bombardier Transportation, Pierre Beaudoin, President and Chief Executive Officer, Bombardier Inc., Guy C. Hachey, President and Chief Operating Officer, Bombardier Aerospace

# Driving Forward

Employee dedication and discipline, combined with the ongoing popularity of our products, boosted our earnings and industry leadership in fiscal year 2009. Today we are #1 or #2 in most of our markets, with revenues, earnings before interest and taxes (EBIT) and EBIT margins steadily improving since 2005. Our organization is robust, and our backlog and product pipeline are healthy.





During the past year, we more than held our own as the world's financial markets tumbled and the global economy weakened. Our revenues improved by 13%, increasing from \$17.5 billion in fiscal 2008 to \$19.7 billion in fiscal 2009. EBIT before special item rose to \$1.4 billion compared to \$902 million last fiscal year. EBIT margin before special item also grew from 5.2% in fiscal 2008 to 7.2% this year.

Net income totalled \$1.0 billion compared to \$317 million in fiscal 2008. Our free cash flow totalled \$342 million in fiscal 2009, down from \$2 billion in fiscal 2008. Our cash position as at January 31, 2009 was \$3.5 billion, compared to last year's \$3.6 billion. Our overall backlog reached \$48.2 billion compared to \$53.6 billion as at January 31, 2008. Diluted earnings per share (EPS) before special item rose to \$0.56 from \$0.26 last year. Stronger EPS allowed us to reinstate our \$0.025 Cdn quarterly dividend per common share in June 2008.

### CHARTING OUR COURSE FORWARD

Our business environment is changing fast. New opportunities and risks are at the door, not the least of which is the impact of a worsening economy. Only companies with the best strategy, execution, products and customer orientation will stay at the top. With our financial position improved, we are well-equipped to face the challenges ahead, but today's economy leaves no room for error. We must execute projects flawlessly, to further drive our leadership and capture best-in-class growth and earnings.

## LEADERSHIP CHANGES

After 45 years with Bombardier, Laurent Beaudoin stepped down as its Chief Executive Officer on June 4, 2008. Pierre Beaudoin, a 23-year executive with the company, took over the reins of Bombardier Inc., while Guy C. Hachey came on board to replace Pierre as the head of Bombardier Aerospace. Guy brings 30 years of experience in the global automotive industry and lean manufacturing. Leveraging two decades of leadership in the rail industry, André Navarri has held the top position at Bombardier Transportation since 2004.



In the latter part of calendar year 2008, our executive management team engaged in a series of strategy sessions to chart the course ahead. The result is “Our Way Forward,” Bombardier’s vision for success in the years to come. “Our Way Forward” consists of five priorities, with key performance indicators and governance structures currently being developed for each.

- 1 Become #1 in customer satisfaction through enhanced execution discipline.** Delivering on every promise we make will open up new streams of profitability and growth.
- 2 Raise our game on global talent management.** We must do an even better job of attracting, developing and supporting our most crucial asset—our people—worldwide.
- 3 Actively manage risks.** Strengthening our risk management culture will increase shareholder value by improving the stability of our earnings.
- 4 Establish local roots in all key markets.** Becoming more local in emerging and key markets will allow us to capture product, talent, supplier and partnership opportunities.
- 5 Enhance our corporate social responsibility.** We will more actively address the concerns of our stakeholders, contribute to the well-being of our communities, and leverage our energy-efficient products to become a true “green champion.”

Ensuring the success of “Our Way Forward” is our top objective. A review of Bombardier Aerospace and Bombardier Transportation activities during fiscal 2009 shows how some elements of these strategic priorities are already in place.

## BOMBARDIER AEROSPACE: FOCUSING ON FLAWLESS EXECUTION TO DELIVER AN AMAZING CUSTOMER EXPERIENCE

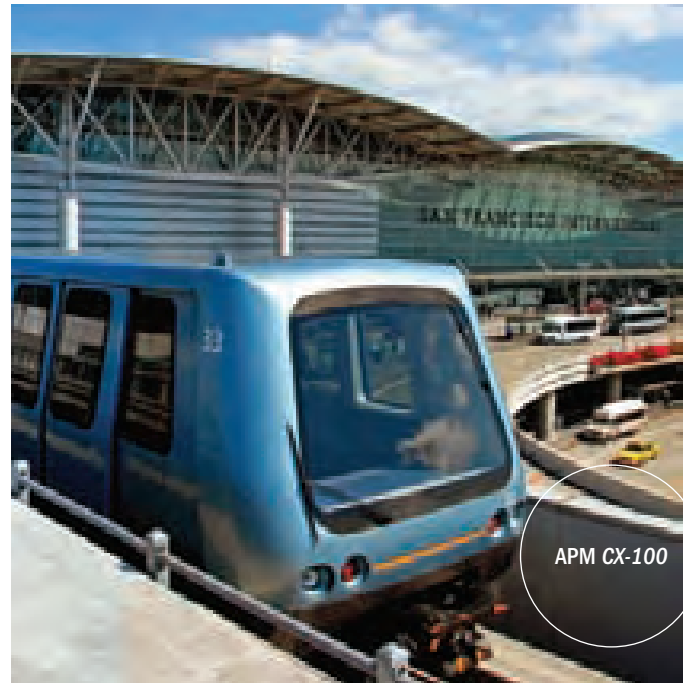
### Reinforcing our leadership

Since entering the aerospace segment in 1986, we have launched 25 aircraft programs, making us the leader in civil aircraft development. A Bombardier aircraft now takes off or lands around the globe every three seconds, underscoring the importance of our in-service fleet’s safety and reliability to our customers.

In fiscal 2009, we once again succeeded in achieving solid financial performance despite a decline in market conditions due to the slowdown in the global economy. Today, we are in a strong position to tackle the challenges of this volatile environment. Our large order backlog provides resilience and our enviably broad product line addresses the needs of a diverse customer base. Subsequent to year-end, we took prudent and decisive action by aligning our production rates with market demand. At the same time, we continue to invest in the development of our current and future products to ensure our long-term success.

### Market alignment in business aircraft

We offer the industry’s most comprehensive portfolio of business aircraft. Our three families of business jets serve an extensive range of customers. Our portfolio performed well again this year, capturing an industry-leading revenue market share for the fifth consecutive year. However, in the latter half of fiscal 2009, the global economic downturn triggered reduced demand for business aircraft worldwide. As a result, we announced decreases in business aircraft production



rates in early fiscal 2010. On the other hand, ongoing investments in advanced solutions such as the *Learjet 85* aircraft will position us to seize future opportunities when the market recovers.

### Expanding in commercial aircraft

Our commercial aircraft portfolio meets airlines' growing need for more fuel-efficient, larger capacity aircraft that are more respectful of the environment. To supply rising demand for our largest turboprop with its superior operating economics, we increased production of the 78-seat *Q400* aircraft. However, lower order intake in the *CRJ* family of aircraft required us to announce, in April 2009, a decrease in production rates.

In September 2008, the 100-seat *CRJ1000 NextGen*, our largest regional jet, completed its inaugural test flight and is scheduled to enter into service in fiscal 2010. In July 2008, we launched our fuel-efficient and environmentally focused *CSeries* aircraft program. This program marks our entry into the mainline market with the first newly designed single-aisle 110- to 130-seat jet in the 100- to 149-seat commercial aircraft segment.

### More integrated customer services

We provide a broad range of services related to our aircraft portfolio. In fiscal 2009, we continued to develop more integrated services as demanded by our regional jet and turboprop operators, while expanding our already well-established business aircraft services. Our focus is to provide customers with total lifecycle solutions that address the complete aftermarket experience, including parts requirements, maintenance services and pilot training. Through *Flexjet* and *Skyjet*, we also offer business aircraft ownership management and flight service solutions.

## AEROSPACE FISCAL 2009 HIGHLIGHTS

- 349 aircraft deliveries and 367 net orders
- Backlog of \$23.5 billion across all product lines
- Revenues of \$10.0 billion
- EBIT of \$896 million for an EBIT margin of 9.0%
- Entered the mainline market with the launch of our game-changing *CSeries* commercial aircraft program
- Successfully completed the first flight of the *CRJ1000 NextGen* aircraft
- Conducted the first flight of a civil aircraft equipped with an innovative all-electric braking system
- Celebrated the 100th anniversary of Bombardier Aerospace (Short Brothers) in Belfast and the 45th anniversary of Learjet
- Inaugurated our new Aerospace Product Development Centre (APDC) to ensure best-in-class product development
- Strengthened our local roots by increasing our manufacturing capability in Mexico's Querétaro Aerospace Park



### Facing the challenges ahead

A glance at our performance over the last five years provides much insight into our ability to overcome challenging times. Our cultural transformation, operational improvements and supporting strategies have enhanced our financial performance.

Our objective is to strengthen our long-term leadership through revenue growth, sustainable best-in-class financial performance and the most loyal customer base. We will achieve this by leveraging our comprehensive portfolio of high-performance business jets, efficient commercial jets and turboprops, and quality aircraft services through:

- Being #1 in customer satisfaction.
- Providing a rewarding workplace that attracts and engages a talented team.
- Having a culture of flawless execution and continuous improvement.
- Developing innovative, environmentally conscious products and services that meet customer needs globally.
- Evolving into a lean enterprise with strong global supply chain partnerships and a reduced environmental footprint.

### BOMBARDIER TRANSPORTATION: MOVING INTO HIGH GEAR

#### A promising era for rail

It is an excellent time to be in rail. Volatile fuel costs and greater environmental awareness, along with accelerated urbanization and congestion in countries around the world, are increasing public demand for transit solutions and driving new investment in rail. Rail is a high-capacity, affordable and environmentally friendly mode of transportation, and is widely acknowledged as the most sustainable form of mass transit. Growing rail's modal share to attain greater balance with air and road transport modes is key to achieving the world's sustainability objectives, including the European Union's commitment to reduce overall emissions to at least 20% below 1990 levels by 2020.

At Bombardier Transportation, the turnaround we launched in fiscal 2005 is complete, and we are delivering on our promise of improved performance. In fiscal 2009, we captured synergies by simplifying our organization and delivered enhanced profitability by accelerating our TOPSIX efficiency initiatives. Major contracts in all divisions and segments drove our 25% revenue growth, maintained our solid order backlog and confirmed our leadership with a 22% market share. Today we are more geographically diversified than ever.

#### Inroads in emerging markets

We continue to expand our presence in high-potential emerging transit markets. In India, we inaugurated the first full-scale manufacturing site owned by a foreign entity, which will build rail vehicles for domestic



and export markets. In Singapore, a breakthrough contract for 219 driverless *MOVIA* metro cars, to be delivered through our Chinese joint venture, gave us a strong foothold in this important market. Two new systems provided critical transit throughout the 2008 Beijing Olympic Games and we reached key milestones on orders for metro cars, signalling technology and locomotives elsewhere in China.

High-speed and very high-speed rail remain an important investment focus for China as it seeks to create a world-class national rail network. This vital sector of the Chinese market is also one of our priorities. In fact, our CRH1 high-speed trains are already delivering best-in-class reliability in southern China. At our joint-venture manufacturing facilities in Qingdao, we are currently building additional high-speed trains for deployment in the Chinese market. We are also providing China with advanced signalling technology for high-speed rail applications.

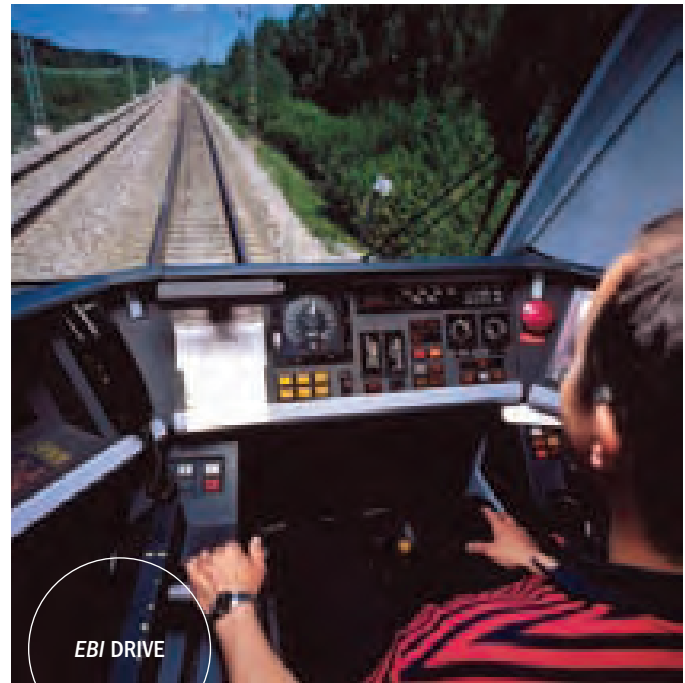
### New opportunities in traditional markets

Strong momentum in our core markets included new regional train contracts in France, the U.K., Belgium, Germany and Northern Europe, along with locomotive contracts throughout the European continent. In January 2009, we signed a \$2.1-billion framework agreement with Deutsche Bahn in Germany for 800 double-deck coaches. In Italy, we are joining forces with AnsaldoBreda to develop a very high-speed train using our proprietary *ZEFIRO* technology.

Agreements with operators in New Jersey and Montréal will make them the first North American locations to operate dual-mode, hybrid locomotives capable of running without interruption on electric overhead and diesel power supply. We signed a new service contract for

## TRANSPORTATION FISCAL 2009 HIGHLIGHTS

- New orders of \$9.8 billion for a book-to-bill ratio of 1.0
- Strong backlog of \$24.7 billion across all product lines
- Revenues of \$9.8 billion
- EBIT of \$515 million for an EBIT margin of 5.3%
- Streamlined our organization into six divisions to enhance efficiency, profitability and customer responsiveness
- Launched our *ECO4* suite of leading-edge technologies to maximize energy efficiency and total train performance
- Strengthened our leadership with major contracts and developments in emerging markets across Asia
- Secured important contracts across a range of product lines in European and North American markets
- Received the 2008 Company of the Year Award in the global rail market from Frost & Sullivan for excellence in leadership, innovation and other categories



high-speed trains in Spain and renewed operations and maintenance contracts for an Automated People Mover (APM) at San Francisco's International Airport and the Las Vegas monorail system.

### Product innovations

In fiscal 2009, we continued to introduce new products to improve rail's attractiveness, performance and ecological footprint. We reinforced our customer orientation by unveiling the *ECO4* portfolio of sustainable technologies, a package of innovations designed to improve operating and energy efficiency in trains by up to 50%. *ECO4* technologies were part of Sweden's landmark Gröna Tåget (Green Train) test project, in which a Bombardier train set the country's rail speed record at 303 kilometres per hour. We introduced our highly flexible *TALENT 2* commuter/regional train and the new *FLEXITY* tram for the city of Berlin. We are also producing *ZEFIRO* high-speed trains for China, including the world's first sleeper cars capable of operating at 250 kilometres per hour.

### Four cornerstones for success

As we shift into high gear, our focus is on driving consistent profitable growth over the long term and achieving an acceptable balance between market share and profitability. Our goal is to lead the industry in customer satisfaction, profitability, market share and employee engagement. As we align with "Our Way Forward," focusing on four cornerstones will help us achieve this goal.

- Maintain our market leadership by sharpening our customer orientation and innovating with value-added products and services.

- Enhance our execution efficiency to secure our reputation as the rail equipment supplier that delivers on time, on quality and at a competitive price.
- Intensify our focus on efficient organizational structures and processes that facilitate internal collaboration on promising market opportunities.
- Drive training, development and other initiatives to unlock the full potential of our people.

### MOTIVATED EMPLOYEES

We owe a debt of gratitude to our employees. Their tireless efforts have enabled us to turn the corner and lay the groundwork for profitable growth. Their passion for winning and drive for results consistently separate us from the competition. We will continue to focus on our employees achieving flawless performance and unprecedented customer satisfaction.

### EXPERIENCED BOARD MEMBERS

We are also grateful for the governance guidance provided by the dedicated members of our Board of Directors. We pay special tribute to the valuable contributions of the Board members who stepped down in 2008. Six-year director Federico Sada G. did not stand for re-election, while Jane F. Garvey went to work on U.S. President Barack Obama's transition team. Both business group heads also no longer sit on the Board, increasing the majority of independent members.





CHALLENGER  
605



HYBRID  
LOCOMOTIVE  
AND MULTILEVEL  
CARS

With the appointment of Thierry Desmarest in January 2009, we now have 13 Board members, including eight independent directors. As Chairman of the Board of Directors of Total, the world's fourth-largest oil and gas company, Mr. Desmarest brings extensive international experience and an in-depth knowledge of the European market.

**CORPORATE SOCIAL RESPONSIBILITY**

In fiscal 2009, we released our first company-wide corporate social responsibility report, providing a snapshot of our sustainability journey to date. Our significant progress toward our five-year greenhouse gas emission and water and energy consumption targets were among the milestones highlighted in the report. We are also proud to have been listed, for the second consecutive year, on the Dow Jones Sustainability World and North America indexes.

**STAYING STRONG IN A DIFFICULT ECONOMY**

Our strong balance sheet and healthy order backlog in all segments should help us navigate through the recession despite negative short-term impacts. Over the long term, we predict sustainable growth in both the aerospace and transportation sectors with our exceptional product pipeline reinforcing our leadership.

In the aerospace industry, our 10-year Business Aircraft Market Forecast calls for 13,200 new deliveries and our 20-year Commercial Aircraft Market Forecast anticipates 12,900 deliveries in the 40- to 149-seat category. Sustainable fleet development is expected to increasingly drive aircraft purchase decisions as operators seek to modernize their fleet with more fuel- and cost-efficient aircraft.

In March 2009, these factors prompted Deutsche Lufthansa AG to sign a firm agreement to buy 30 CSeries CS100 single-aisle aircraft with an option for 30 more. Also in March 2009, Lease Corporation International ordered three CS100 and 17 CS300 jetliners with an option for 20 more. These contracts open the door to exciting growth opportunities for us in the mainline market.

In the rail transportation sector, a study conducted by the European Rail Industry (UNIFE) in September 2008 predicts 2.9% growth per annum until 2016. We forecast increased broad-based rail and mass transit investments in emerging markets, major rolling stock replacement projects in North America, and growing demand for high-speed and very high-speed solutions in Europe and Asia.

Aerospace and Transportation's geographic and product diversification bode well for future revenues. With governments investing in infrastructure to stimulate the economy, Transportation's counter-cyclical nature will help compensate for aircraft order deferrals and cancellations. And as we steer our way forward to greater shareholder value, increased profitability and balance sheet rigour will remain the order of the day.



**Pierre Beaudoin**  
President and Chief Executive Officer  
Bombardier Inc.

# Our Board of Directors



**Laurent Beaudoin, C.C., FCA**  
 Chairman of the Board of Directors  
 Bombardier Inc.  
 Westmount, Canada  
 Director since 1975 · Not independent

Mr. Laurent Beaudoin began his career with Bombardier in 1963. Over the years, he has received many honours including Canada's Outstanding CEO of the Year and Canada's International Executive of the Year. He is a member of the International Business Council of the World Economic Forum. He is also the Chairman of Bombardier Recreational Products Inc. (BRP).



**Pierre Beaudoin**  
 President and Chief Executive Officer  
 Bombardier Inc.  
 Westmount, Canada  
 Director since 2004 · Not independent

Mr. Pierre Beaudoin joined Bombardier in 1985, rising through management positions of increasing responsibilities before becoming President and COO of Bombardier Recreational Products, President of Bombardier Aerospace, Business Aircraft and President and COO of Bombardier Aerospace. He is a member of the Boards of Directors of Power Corporation of Canada and BRP.



**André Bérard**  
 Corporate Director  
 Montréal, Canada  
 Director since 2004  
 Lead Director since 2007 · Independent

Mr. André Bérard was Chairman of the Board of National Bank of Canada from 2002 to 2004. He previously served as the Bank's President and COO (1986 to 1989), President and CEO (1989), and Chairman of the Board and CEO (1990 to 2002). He also serves on other boards.



**J.R. André Bombardier**  
 Vice Chairman of the Board of Directors  
 Bombardier Inc.  
 Montréal, Canada  
 Director since 1975 · Not independent

Mr. J.R. André Bombardier joined Bombardier in 1969 as Vice President, Industrial Division. He held several positions before assuming the Vice Chairmanship of Bombardier Inc. in 1978. He is a member of the Board of Directors of BRP.



**Janine Bombardier**  
 President and Governor  
 J. Armand Bombardier Foundation  
 Westmount, Canada  
 Director since 1984 · Not independent

Mrs. Janine Bombardier has been a Governor of the J. Armand Bombardier Foundation since March 27, 1965, and its President since August 21, 1978.



**L. Denis Desautels, O.C., FCA**  
 Corporate Director  
 Ottawa, Canada  
 Director since 2003 · Independent

Auditor General of Canada from 1991 to 2001, Mr. L. Denis Desautels was previously a senior partner in the Montréal office of Ernst & Young, where he worked for 27 years. He is Vice Chairman of the Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants. He also serves on other boards.



**Thierry Desmarest**  
 Chairman of the Board of Directors  
 Total  
 Paris, France  
 Director since 2009 · Independent

Mr. Thierry Desmarest has been Chairman of the Board of Total since 2007. He has held various senior management positions within Total since joining the company in 1981, ultimately becoming its Chairman and Chief Executive Officer. He also serves on the board of other companies.



**Jean-Louis Fontaine**  
 Vice Chairman of the Board of Directors  
 Bombardier Inc.  
 Westmount, Canada  
 Director since 1975 · Not independent

Mr. Jean-Louis Fontaine joined Bombardier in 1964 as Vice President, Production, of the Ski-Doo division. He subsequently held various senior management positions before becoming Vice Chairman of Bombardier Inc. in 1988. He also serves on other boards.



**Daniel Johnson**  
 Counsel  
 McCarthy Tétrault LLP  
 Montréal, Canada  
 Director since 1999 · Independent

A former Premier of the Province of Québec, Mr. Daniel Johnson was a member of the National Assembly of Québec for more than 17 years and held numerous positions in the provincial government. He also serves on the board of other companies.



**Jean C. Monty**  
 Corporate Director  
 Montréal, Canada  
 Director since 1998 · Independent

Former Chairman of the Board and Chief Executive Officer of Bell Canada Enterprises (BCE Inc.), Mr. Jean C. Monty retired following a 28-year career at BCE Inc., Bell Canada and Nortel Networks. In recognition of his achievements, he was named Canada's Outstanding CEO of the Year in 1997. He also serves on other boards.



**Carlos E. Represas**  
 Chairman of the Board  
 Nestlé Group México  
 Mexico City, Mexico  
 Director since 2004 · Independent

Mr. Carlos E. Represas has been Chairman of Nestlé Group México since 1983. In 2004, he retired from his executive responsibilities at Nestlé, where he had worked for 36 years in seven different countries. He serves on other boards and is a member of the Latin American Business Council (CEAL).



**Jean-Pierre Rosso**  
 Chairman  
 World Economic Forum USA Inc.  
 New York City, United States  
 Director since 2006 · Independent

Retired Chairman and former CEO of CNH Global N.V., Mr. Rosso also served as Chairman and CEO of Case Corporation. Prior to that, he was President of Honeywell's Home & Building Control Business, and President of its European operations. He also serves on the board of other companies.



**Heinrich Weiss**  
 Chairman and Chief Executive Officer  
 SMS GmbH  
 Düsseldorf, Germany  
 Director since 2005 · Independent

Dr. Weiss is Chairman of the Foreign Trade Advisory Council to the German Secretary of Economics and Labour. He is a board member of the Asia Pacific Committee of German Business and sits on the Board of the East-West Trade Committee. He also serves on other boards.

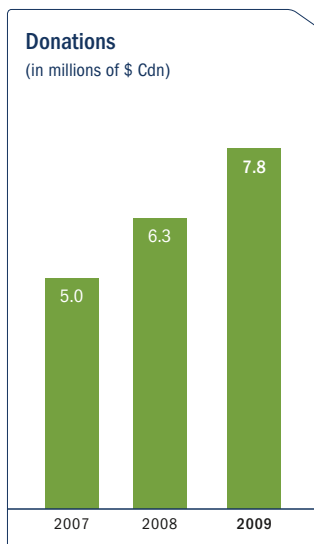
You will find detailed biographies of our Directors on our Web site at [www.bombardier.com](http://www.bombardier.com) and in the 2009 Management Proxy Circular.

# Dream, believe, share

Since 1965, the J. Armand Bombardier Foundation has contributed to the development of Canadian communities. It supports organizations and institutions that bring hope and spark change. Since the Foundation's inception, its donations total more than \$90 million Cdn.

## Highlights

During the 2009 fiscal year, the J. Armand Bombardier Foundation gave more than \$7.8 million Cdn in donations. This represents a 25% increase over fiscal 2008 and a 49% increase over fiscal 2007.



The Foundation has thereby supported 151 organizations active in education, community support, healthcare, as well as arts and culture.

The year was also marked by the development of a new Web site dedicated to the philanthropic activities of the J. Armand Bombardier Foundation ([www.bombardierfoundation.ca](http://www.bombardierfoundation.ca)). The site, available since February 2009, is aimed at further strengthening the Foundation's links to communities.

## EDUCATION – \$1.9 MILLION CDN

### The driving force in our society

Contributions of \$1.9 million Cdn to five Canadian universities and many institutions, including:

- Fonds de développement du Collège Édouard-Montpetit
- Queen's University
- Royal Society of Canada
- Université de Sherbrooke
- Université du Québec à Rimouski
- University of British Columbia
- University of Ottawa

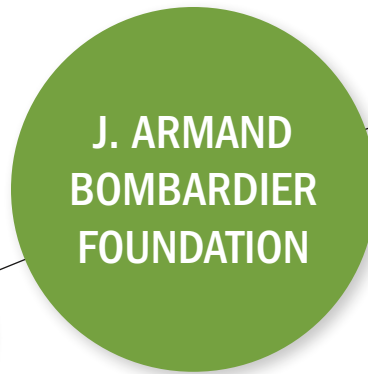
The Foundation has also made additional commitments to donate \$2.7 million Cdn to various institutions over the next six years.

## COMMUNITY SUPPORT – \$3.3 MILLION CDN

### Helping those who need it most

Contributions of \$3.3 million Cdn to 106 organizations, among them:

- **Canadian Red Cross, Québec Division** – Management and training of corporate volunteers in the *Ready When the Time Comes* program
- **Centraide – United Way** – The Foundation, in concert with the Bombardier family, supports the efforts of Bombardier employees who collect funds for the annual Centraide – United Way campaigns in the following regions: Greater Montréal, Estrie, Laurentides, KRTB-Côte-du-Sud, Greater Toronto and Kingston-Frontenac-Lennox.
- **Doctors of the World** – Psychological support program for community workers as part of *Projet Montréal*
- **Fondation Le Grand Chemin** – Treatment centre for young people addicted to alcohol, drugs or gambling
- **Fondation Lina Cyr** – Pre- and post-operative care for patients undergoing transplants
- **Fondation Père Sablon** – Support program enabling young people from disadvantaged neighbourhoods to participate in sports activities
- **Fonds de développement du Centre François-Michelle** – Training program focusing on employment for young people aged 16 to 21 who live with an intellectual disability
- **Le Bon Dieu dans la rue** – Programs and services for street kids
- **Mental Illness Foundation** – Program to raise awareness of the reality of mental illness in the workplace
- **PROMIS** – Integration and francization of new arrivals
- **Sun Youth Organization** – Provide emergency funds to replenish the food bank during an economic crisis
- **Tel-jeunes** – Workshops to support parenting skills



**Innovation, entrepreneurship, commitment.** Those three words truly describe Joseph-Armand Bombardier. That is why the J. Armand Bombardier Foundation accords a special place to organizations and institutions that work at training a new generation of entrepreneurs:

- **Fondation des Offices jeunesse internationaux du Québec** – Scholarships for young entrepreneurs for their internship or mentoring projects
- **Fondation du maire de Montréal pour la jeunesse** – Grants to young Montréal entrepreneurs
- **Fondation Ressources-Jeunesse** – Providing new arrivals with a training workshop on the leadership qualities of J. Armand Bombardier
- **Jeunes Entreprises du Québec** – Entrepreneurship initiation program for secondary school and college students
- **Junior Achievement of Central Ontario** – Grants for excellence within entrepreneurship programs in secondary schools

The Foundation has also made additional commitments to donate \$1.3 million Cdn to various organizations over the next four years.

## HEALTHCARE – \$2.1 MILLION CDN

### A commitment for life

Contributions of \$2.1 million Cdn to various establishments and organizations. Among them:

- Centre hospitalier universitaire de Sherbrooke
- Douglas Mental Health University Institute Foundation
- Fondation Armand-Frappier
- Fondation de l'Hôpital du Sacré-Cœur de Montréal
- Fondation du Centre hospitalier universitaire de Québec (CHUQ)
- Foundation of stars
- Montreal Heart Institute Foundation
- Pallia-Vie
- Sainte-Justine Hospital Foundation

The Foundation has also made additional commitments to donate \$1.9 million Cdn to various organizations and health establishments over the next four years.

## ARTS AND CULTURE – \$505,000 CDN

### Part of our collective wealth

Contributions of \$505,000 Cdn to 14 organizations, including:

- **Cantos Music Foundation** – Funds dedicated to the development of music initiation and outreach music programs
- **Les Grands Ballets Canadiens de Montréal** – Funds enabling disadvantaged children to attend a performance of *The Nutcracker*
- **Orchestre Métropolitain du Grand Montréal** – Programming development and support
- **Repercussion Theatre** – Introduction of various communities to repertory theatre through outdoor presentations

Bombardier continued to push forward its corporate social responsibility initiatives aiming at striking a balance between its sustainable economic growth and a responsible management of our impact on communities, the environment and the economy.

In December 2008, we published our first company-wide corporate social responsibility report presenting our approach to sustainability, our efforts and achievements, along with areas needing improvement. In this report, available at [www.bombardier.com](http://www.bombardier.com), we notably highlighted the launch of a Supplier Code of Conduct consistent with the United Nations Global Compact, our commitment to developing a portfolio of sustainable products, and our progress toward a 15% reduction in greenhouse gas emissions over five years—an objective we had voluntarily set for ourselves in 2003.

On the philanthropic front, Bombardier believes in its responsibility to create a net positive value in every one of the communities where it operates. As part of this commitment, we support the J. Armand Bombardier Foundation and also invest in various community projects around the world.

# FINANCIAL SECTION

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The following table includes a list of abbreviations used in the financial section.

TERM	DESCRIPTION	TERM	DESCRIPTION
AcSB	Accounting Standards Board	HFT	Held for trading
AFS	Available for sale	H&S	Health and safety
AOCI	Accumulated other comprehensive income	IAMAW	International Association of Machinists and Aerospace Workers 712
AOG	Aircraft on ground	IASB	International Accounting Standards Board
BA	Bombardier Aerospace	IFRS	International Financial Reporting Standards
BT	Bombardier Transportation	L&R	Loans and receivables
CTA	Cumulative translation adjustment	MD&A	Management's discussion and analysis
EBIT	Earnings before financing income, financing expense and income taxes	NGO	Non-governmental organization
EBITDA	Earnings before financing income, financing expense, income taxes and depreciation and amortization	NO <sub>x</sub>	Nitrogen oxide
EBT	Earnings before income taxes	OCI	Other comprehensive income
EOAPC	Excess-over-average production costs	OEM	Original equipment manufacturer
EPS	Earnings (losses) per share	PSU	Performance share unit
GAAP	Generally accepted accounting principles	R&D	Research and development
G&A	General and administrative	RVG	Residual value guarantee
GDP	Gross domestic product	SG&A	Selling, general and administrative
GHG	Greenhouse gas	VIE	Variable interest entity



# MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts in this report are expressed in U.S. dollars

and all amounts in the tables are in millions of U.S. dollars, unless otherwise indicated.

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

The data presented in this MD&A is structured by manufacturing segment, BA and BT, and then by market segment, which is reflective of our organizational structure. Some financial measures used in this MD&A are not in accordance with Canadian GAAP. See the Non-GAAP financial measures section hereafter for the reconciliation to the most comparable Canadian GAAP measures.

## Materiality for disclosures

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

## Forward-looking statements

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

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the airline industry's financial condition), operational risks (such as risks involved in developing new products and services, in doing business with partners, relating to product performance warranty and casualty claim losses,

regulatory and legal proceedings, to environmental and health and safety, to our dependence on certain customers and suppliers, to human resources, to fixed-price commitments and to production and project execution), financing risks (such as risks relating to liquidity and access to capital markets, to the terms of certain restrictive debt covenants, to financing support provided on behalf of certain customers, and from reliance on government support and market risks (such as risks relating to foreign currency fluctuations, to changing interest rates and commodity prices risks). For more details, see the Risks and uncertainties section in Other. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this MD&A and are subject to change after such date. Unless otherwise required by applicable securities laws, 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.

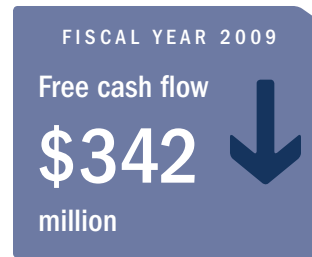
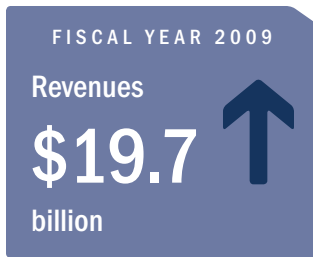


# OVERVIEW

<b>FORWARD-LOOKING STATEMENTS</b>	Disclaimers in connection with our forward-looking statements.	25
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# HIGHLIGHTS

## Strong results but progress will be more difficult in the current environment



↑ Figure is higher than in fiscal year 2008.

↓ Figure is lower than in fiscal year 2008 or lower than as at January 31, 2008.

### Fourth quarter

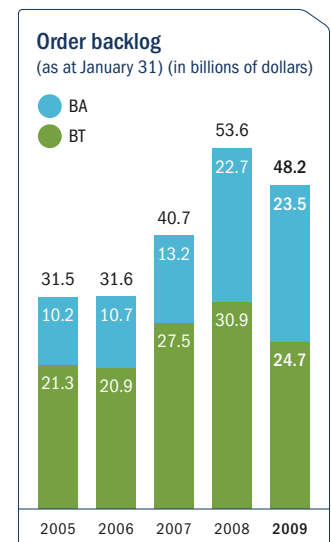
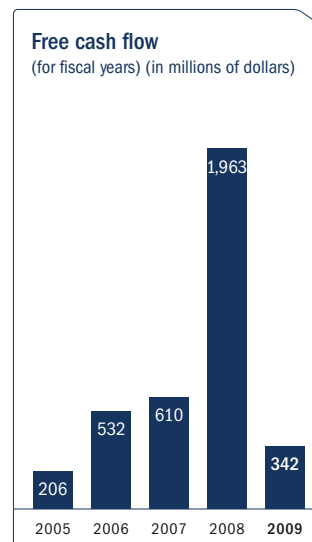
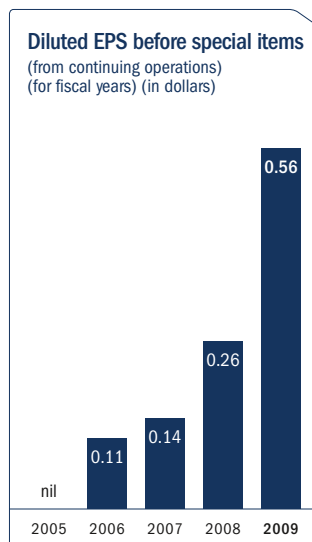
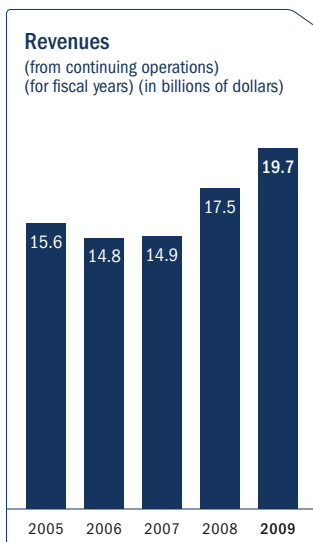
- Revenues of \$5.4 billion, an improvement of 3% compared to the same period last fiscal year.
- EBIT of \$435 million, or 8.0% of revenues, compared to \$305 million, or 5.8% (\$372 million, or 7.1%, before EOAPC charge), for the same period last fiscal year.
- Net income of \$309 million (diluted EPS of \$0.17), compared to \$218 million (diluted EPS of \$0.12) for the same period last fiscal year.
- Free cash flow usage of \$91 million, compared to free cash flow of \$924 million for the same period last fiscal year.
- Successful negotiation of a new €3.75-billion BT letter of credit facility.

### Fiscal year

- Revenues of \$19.7 billion, an improvement of 13% compared to last fiscal year.
- EBIT of \$1.4 billion, or 7.2% of revenues, compared to \$740 million, or 4.2% (\$1.2 billion, or 6.7%, before special item and EOAPC charge), last fiscal year.
- Net income of \$1.0 billion (diluted EPS of \$0.56), compared to \$317 million (\$479 million or diluted EPS of \$0.26 before special item) last fiscal year.
- Free cash flow of \$342 million, compared to \$2.0 billion last fiscal year.
- Cash position of \$3.5 billion as at January 31, 2009.
- Order backlog of \$48.2 billion as at January 31, 2009, compared to \$53.6 billion as at January 31, 2008.

### Subsequent to January 31, 2009

- Reduction in production rates for all our business aircraft, and for all our regional jets later in fiscal year 2010, leading to a reduction of our workforce by approximately 4,400 permanent and contractual employees representing 14% of the BA workforce as at January 31, 2009.
- Our February 5, 2009 guidance of 10% fewer deliveries on business aircraft for fiscal year 2010 has been revised to 25% fewer deliveries, while our guidance on commercial aircraft deliveries remains an increase of 10%, both compared to fiscal year 2009.
- In March 2009, Deutsche Lufthansa AG signed a purchase agreement for 30 CS100 aircraft, with options for an additional 30 CSeries aircraft, and Lease Corporation International Aviation (New Buildings) Limited signed a purchase agreement for 3 CS100 and 17 CS300 aircraft, with options for an additional 20 CSeries aircraft.



# KEY PERFORMANCE MEASURES AND METRICS

Incentive compensation is linked to the achievement of targeted results, based on EBIT and either free cash flow or average adjusted net segmented assets. We view special items as potentially distorting the analysis of trends, and as such they are excluded from our profitability metrics. The table below summarizes our most relevant key performance measures and related metrics.

<b>Profitability</b>	<ul style="list-style-type: none"> <li>▪ Diluted EPS before special items, as a measure of consolidated performance.</li> <li>▪ EBIT before special items, as a measure of segment performance.</li> </ul>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>▪ Free cash flow, as a measure of liquidity generation.</li> <li>▪ Cash and cash equivalents, as a measure of liquidity adequacy.</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>▪ Revenues, as a measure of growth.</li> <li>▪ Order backlog, as a measure of future revenues.</li> <li>▪ Book-to-bill ratio<sup>(1)</sup>, as an indicator of future revenue growth.</li> <li>▪ Market share and scale, as measures of competitive positioning.</li> </ul>
<b>Capital structure</b>	<ul style="list-style-type: none"> <li>▪ Adjusted EBIT to adjusted net interest ratio<sup>(2)</sup>, as a measure of interest coverage.</li> <li>▪ Adjusted debt to adjusted EBITDA ratio<sup>(2)</sup>, as a measure of financial leverage.</li> <li>▪ Adjusted debt to adjusted total capitalization ratio<sup>(2)</sup>, as a measure of capitalization.</li> <li>▪ Weighted-average long-term debt maturity, as a measure of the term structure.</li> </ul>
<b>Capital employed</b>	<ul style="list-style-type: none"> <li>▪ Average adjusted net segmented assets, as a measure of capital efficiency.</li> </ul>

(1) Refer to BA's and BT's Key performance measures and metrics sections for definitions of these metrics.

(2) Refer to the Non-GAAP financial section hereafter for definitions of these metrics.

(from continuing operations)	2009	2008	2007	2006	2005
<b>For fiscal years</b>					
Revenues	\$ 19,721	\$ 17,506	\$ 14,882	\$ 14,781	\$ 15,585
EBIT before special items	\$ 1,411	\$ 902	\$ 577	\$ 445	\$ 236
EBIT margin before special items	7.2%	5.2%	3.9%	3.0%	1.5%
EBIT	\$ 1,411	\$ 740	\$ 553	\$ 357	\$ 64
EBIT margin	7.2%	4.2%	3.7%	2.4%	0.4%
Effective income tax (recovery) rate	20.8%	27.8%	27.5%	10.0%	(23.8%)
Net income (loss)	\$ 1,008	\$ 317	\$ 268	\$ 249	\$ (85)
Diluted EPS (in dollars)	\$ 0.56	\$ 0.16	\$ 0.12	\$ 0.06	\$ (0.08)
Free cash flow	\$ 342	\$ 1,963	\$ 610	\$ 532	\$ 206
Adjusted EBIT to adjusted net interest ratio	6.2	2.5	1.9	1.5	1.0
<b>As at January 31</b>					
Order backlog (in billions)	\$ 48.2	\$ 53.6	\$ 40.7	\$ 31.6	\$ 31.5
Cash and cash equivalents	\$ 3,470	\$ 3,602	\$ 2,648	\$ 2,917	\$ 2,344
Adjusted debt to adjusted EBITDA ratio	2.8	3.8	5.5	5.8	7.3
Adjusted debt to adjusted total capitalization ratio	66%	67%	73%	76%	79%

# PROFILE

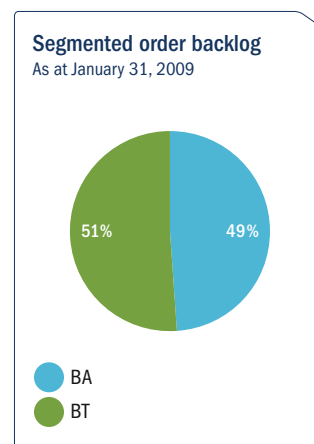
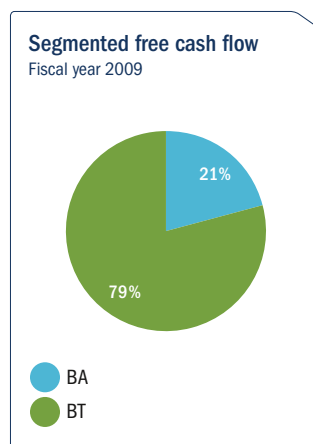
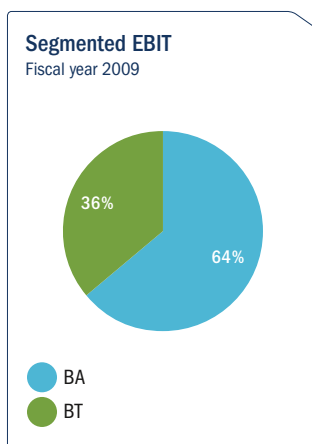
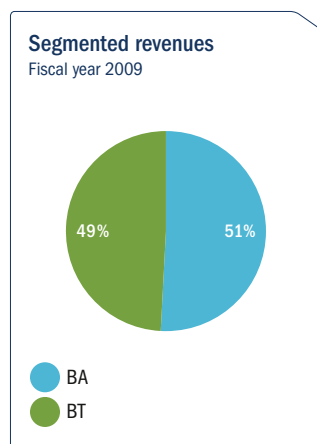
## Planes. Trains. Worldwide.

### Both segments are contributing to growth and profitability

We are a world-leading manufacturer of innovative transportation solutions. We operate under two broad manufacturing segments: aerospace (through BA) and rail transportation (through BT).

	BA	BT
<b>BOMBARDIER</b>		
	A world leader in the design and manufacture of innovative aviation products and a provider of related services.	The global leader in rail equipment and system manufacturing and a provider of related services.
Revenues	\$10.0 billion	\$9.8 billion
EBIT	\$896 million	\$515 million
Free cash flow	\$128 million	\$480 million
Order backlog	\$23.5 billion	\$24.7 billion
Number of employees	32,500	34,200

These two manufacturing segments operate in the transportation industry, but they face different economic realities and have different risk profiles. The aerospace industry is capital intensive, with significant investments in product development and long recovery periods. The rail industry requires smaller initial investments, which are usually recovered from specific contracts. The profitability of their respective operations reflects this reality.

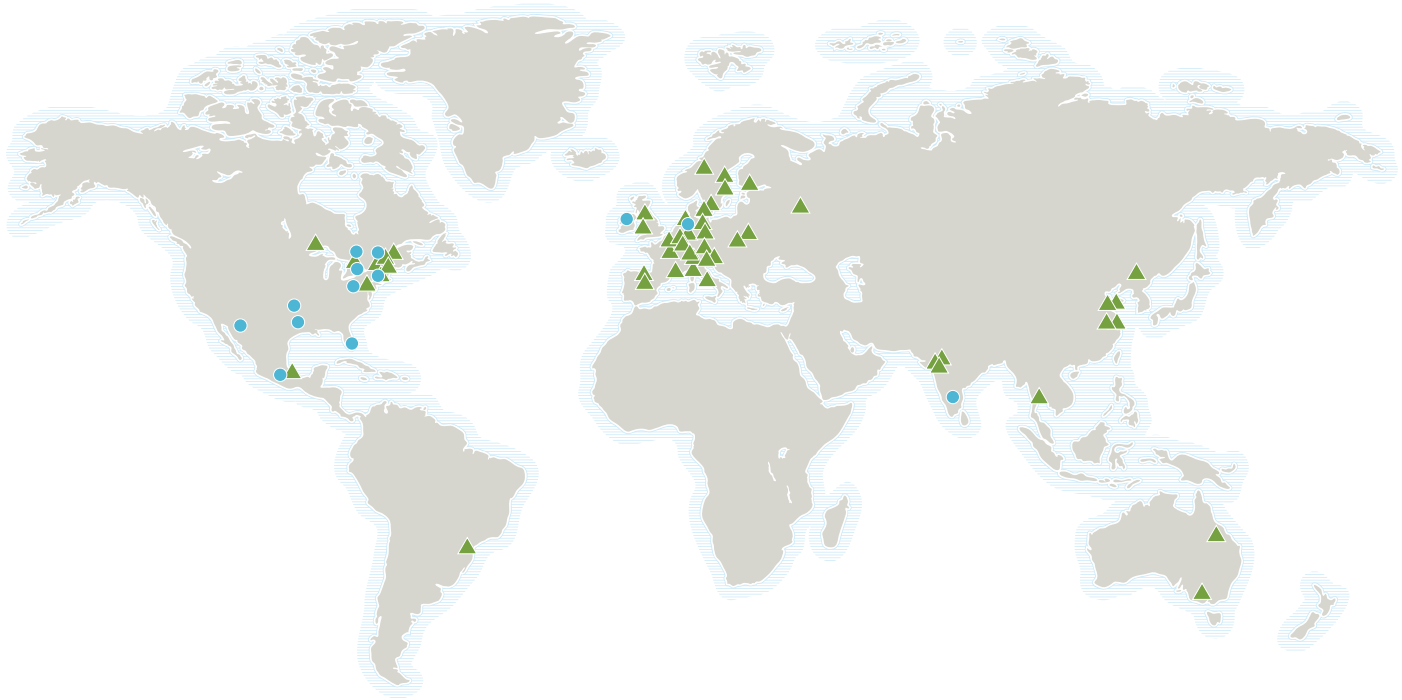




## We are global with local roots

96% of our revenues for fiscal year 2009 were generated outside Canada. We had a global workforce of 66,900 employees as at January 31, 2009.

We have 60 production and engineering sites in 23 countries, and a worldwide network of over 45 service centres.



● BA production and engineering sites, and service centres

▲ BT production and engineering sites

## BUSINESS ENVIRONMENT

### Significant challenges ahead

Fiscal year 2009 has been marked by worsening business conditions, starting with a tightening of credit that has evolved into a severe recession affecting most economies worldwide. These negative trends have continued in fiscal year 2010, and we anticipate them to continue in the short term. Governments around the world have taken unprecedented actions to limit the impact of these events, but it is still difficult to assess the severity and duration of this recession.

Over the past few years, we have taken significant steps to strengthen our operations and financial position, better positioning us to face the challenges ahead. As some of the impacts from the recession are significant, both groups are looking for ways to reduce overall costs in their operations and improve their working capital. We have also taken measures to maximize cash retention. These measures should benefit the Corporation in the long run, once we emerge from this recession.

As a result of significant reductions in aircraft orders, as well as cancellations and deferrals of existing orders, BA announced subsequent to January 31, 2009 that it will reduce its production rates for all business aircraft and regional jets, leading to a reduction of its workforce by approximately 4,400 employees.

For the rail industry, the fundamentals remain strong and the recession is not expected to have a major impact. If governments' stimulus plans and infrastructure funding programs come through, the rail industry could even benefit from increased demand. We are monitoring major rail project developments from governments in Canada, China, France, the U.K. and the U.S., among others.

The following table highlights the most important selected impacts of recent economic events and other known trends on the Corporation, based on information currently available.

Selected impacts of recent economic events		Reference
Operations	<ul style="list-style-type: none"> <li>▪ Decreased orders for business aircraft and commercial aircraft (excluding orders for the CSeries family of aircraft).</li> <li>▪ Greater-than-usual level of deferrals of delivery positions and cancellations, especially for business jets.</li> <li>▪ Reduction of production rates for all our business aircraft and regional jets. As a result, we expect to deliver in fiscal year 2010 25% fewer business aircraft, while still delivering 10% more commercial aircraft, compared to fiscal year 2009.</li> <li>▪ Decreased BA aftermarket service revenues resulting from the lower utilization of the in-service fleet.</li> <li>▪ Ramp up in production will continue at BT through the execution of the order backlog.</li> <li>▪ Prices of pre-owned aircraft are decreasing, which will also impact demand and pricing for new aircraft.</li> </ul>	<p>p. 58</p> <p>p. 62</p> <p>p. 62, 63</p> <p>p. 58</p> <p>p. 101</p> <p>p. 74</p>
Results of operations	<ul style="list-style-type: none"> <li>▪ BA's revenues, EBIT margin and free cash flow for fiscal years 2010 and 2011 will be negatively impacted.</li> <li>▪ BT's revenues (in currencies of origin) and EBIT margin should continue to increase in fiscal year 2010, and its free cash flow is expected to remain in line with EBIT.</li> <li>▪ Sustained strengthening of the U.S. dollar against the Canadian dollar and pound sterling would lower BA's costs incurred in these currencies, although on a delayed basis due to our hedging program.</li> <li>▪ Sustained decrease in the price of commodities would lower our cost base on a delayed basis due to protection clauses limiting volatility of prices in our suppliers' contracts.</li> </ul>	<p>p. 64</p> <p>p. 102</p> <p>p. 43</p> <p>p. 69, 104</p>
Liquidity and capital resources	<ul style="list-style-type: none"> <li>▪ Lower order intake has a negative impact on liquidity.</li> <li>▪ Access to capital markets is expected to be challenging for our customers and us.</li> <li>▪ Higher pension funding requirements given recent increase in pension deficit.</li> </ul>	<p>p. 85, 115</p> <p>p. 40</p> <p>p. 51</p>
Financial position	<ul style="list-style-type: none"> <li>▪ Net segmented assets expected to remain at a high level at BA, mainly driven by increases in inventories and receivables and a reduction in customer advances.</li> <li>▪ Assets and liabilities denominated in foreign currencies are subject to fluctuations arising from their conversion to U.S. dollars, but the net impact on income should be mitigated by our hedging programs.</li> </ul>	<p>p. 52, 85</p> <p>p. 52, 53</p>
Capital structure	<ul style="list-style-type: none"> <li>▪ Temporary suspension of the deleveraging of our balance sheet through repayments of long-term debt and discretionary pension fund contributions, delaying the achievement of our global leverage metric targets.</li> <li>▪ Pension deficit is under pressure given negative returns on plan assets.</li> </ul>	<p>p. 40, 41</p> <p>p. 50, 51</p>
Risk management	<ul style="list-style-type: none"> <li>▪ Financial health of key suppliers is being monitored.</li> <li>▪ Credit risk is being closely monitored in order to lower our exposure to specific customers, counterparties to financial arrangements, industries and geographical regions.</li> <li>▪ Financial instruments and our pool of guarantees, carried at fair value, are being closely monitored given the volatility of certain indicators such as interest rates, price of pre-owned aircraft, and credit and liquidity risks.</li> </ul>	<p>p. 69, 106</p> <p>p. 44</p> <p>p. 44</p>

# MISSION AND VISION

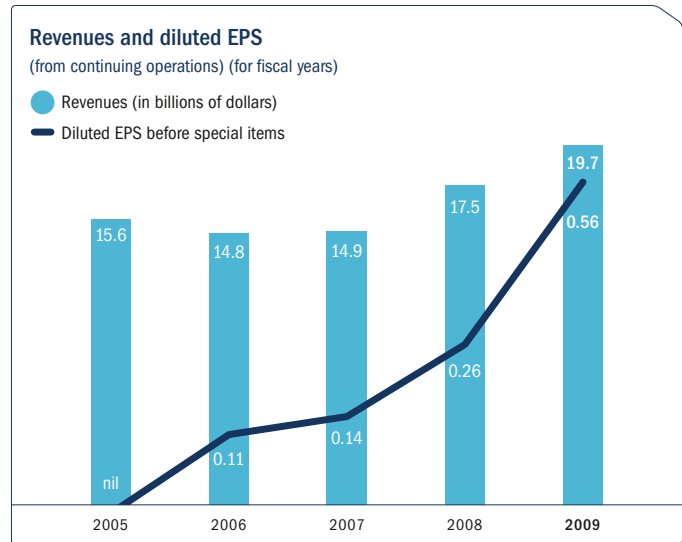
## We created a plan and executed it

Milestones in our history were often forged out of crisis and reinvention. Since our early years in Valcourt (Québec), we faced severe challenges and responded with bold and ingenious moves that transformed our company. When the oil crisis of 1973 weakened our traditional recreational business, we diversified into rail. When attractive acquisition opportunities emerged in aerospace in the late 1980s, we seized them and became one of the biggest players in the aerospace industry.

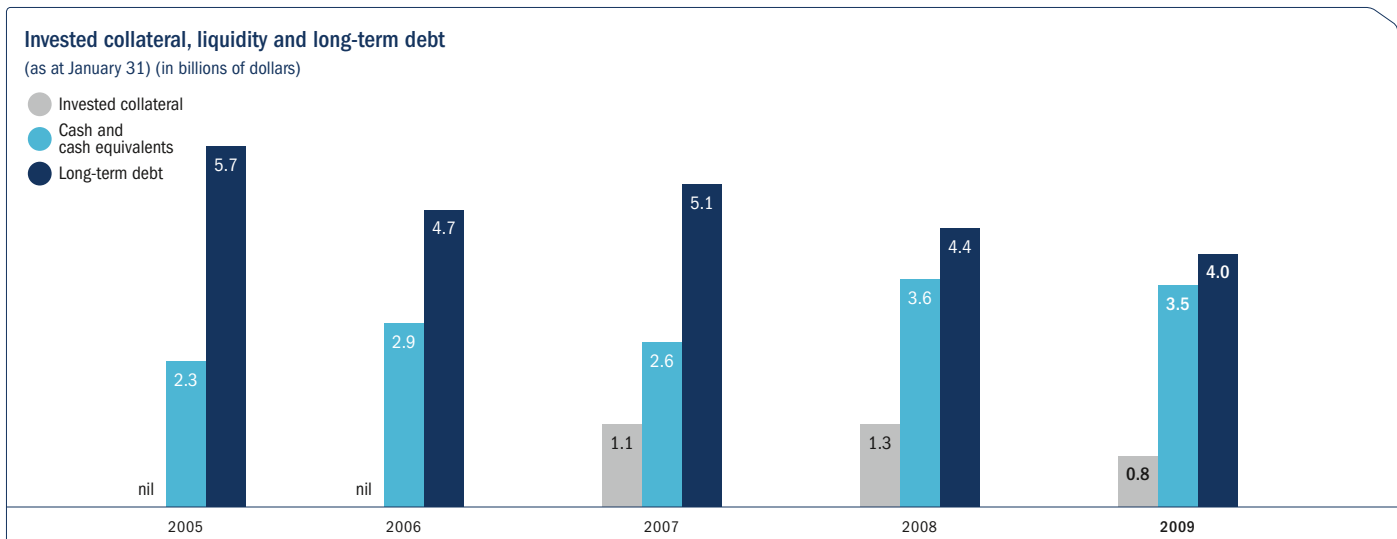
In the early 2000s, we were confronted with yet another major challenge. Several factors had come together: the difficult integration of Adtranz in BT, a financing division (Bombardier Capital) in difficulty, a serious down-cycle in business jets and regional jets, and a business model stretched in too many directions. During this period, our overall performance was deteriorating and we needed to get back on the track of profitability and financial stability.

So we created a plan and executed it.

1. We focused on our core businesses: trains and planes. Today, our broad product portfolio positions us as #1 or #2 in most of our markets. We have large order backlogs as at January 31, 2009 of \$23.5 billion in BA and \$24.7 billion in BT. Our revenues have grown by 27% since fiscal year 2005.



2. We improved our profitability and strengthened our financial position by de-leveraging our balance sheet. Our diluted EPS from continuing operations before special items has increased by \$0.56 since fiscal year 2005, and we had a cash position of \$3.5 billion as at January 31, 2009.
3. We restored our organization's health by strengthening our governance and improving transparency as we moved from a functional organization into one aligned by manufacturing segment (BA and BT) and then by market segment.



## Our mission is to be the world's leading manufacturer of planes and trains and to deliver best-in-class value for customers and profits for shareholders

Our products have been at the centre of our success and our passion since the beginning. With this DNA, we can take our organization to new heights. Our mission is to be the world's leading manufacturer in our markets and to deliver best-in-class value for customers and profits for shareholders. Our plan is to get there by providing superior value and

service through continuous investment in our people and products. We already lead through our high standards of innovation, product safety, efficiency and performance. Our focus is now to execute better and to consistently deliver the best possible value to our stakeholders.

### Our aspirations are bold

Now that we are in a good position, we are not complacent and are ready to take on new challenges.



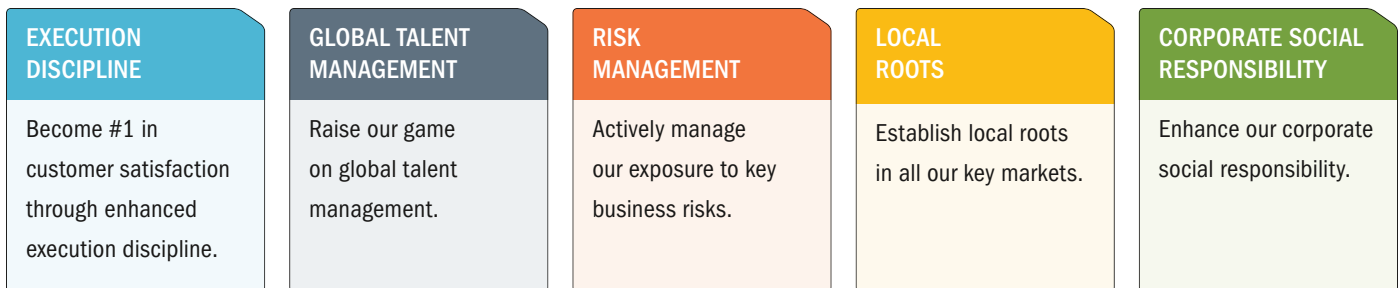
# OUR WAY FORWARD

## Our Way Forward sets the strategic direction for the company for the next three to five years.

Our Way Forward builds on what we currently do by leveraging our strengths. It also focuses on addressing our weaknesses to ensure we step up our plan to become the world's leading manufacturer in our markets and deliver best-in-class value for customers and profits for shareholders. Delivering on these business priorities will enable us to

achieve our aspirations and take advantage of the global trends, while allowing us to better navigate through difficult economic cycles.

Our Way Forward charts a course for the continued growth of our organization and employees by setting ambitious, yet achievable goals and priorities. It can be defined through five business priorities aligned with our aspirations:



Each priority has been assigned and is under the responsibility of a senior officer reporting directly to the Chief Executive Officer. Our Way Forward will soon be rolled out across the entire organization, as each priority needs to become an integral part of how we do business. Our current strategies and objectives are being aligned with Our Way Forward, and our performance will be assessed on this basis starting in fiscal year 2011.

### 1 Become #1 in customer satisfaction through enhanced execution discipline

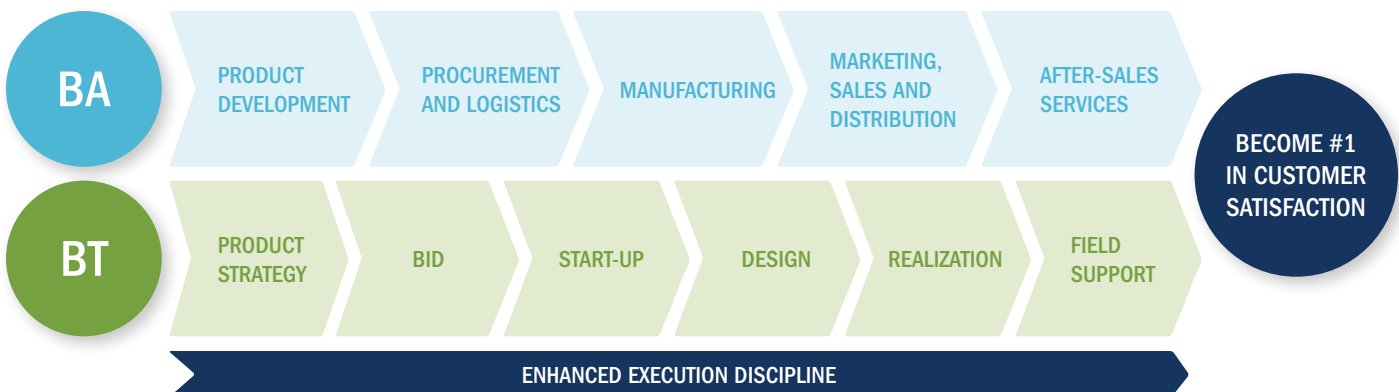
#### Why?

The world is more connected than ever before, fuelling a need for increased mobility. Customers rely on us to deliver on time, on quality and at a competitive price. We have great products with distinct value propositions. We must now build on our competitive advantages through flawless execution discipline to become #1 in customer satisfaction and open up new horizons of profits and growth. While this has been our aspiration for some time, we have yet to fully realize our potential in this

crucial area. Companies that perform well do so because of their strong execution. Customer satisfaction must therefore be embedded in all phases of our business processes.

#### What?

We will achieve best-in-class execution discipline in each step of the business processes along the value chain to radically improve customer satisfaction. This entails flawlessly delivering on our promises in everything that we do.





**How?**

Both BA and BT are developing a culture of enhanced execution discipline to achieve best practices in all their business processes. At BA, it is embedded in the Achieving Excellence System as well as in innovation, lean and extended enterprise and customer orientation strategies. At BT, efficient execution, increased focus and customer orientation strategies, as well as operational excellence (BOS) and project management (PRO) initiatives also target enhanced execution discipline.

To reach best-in-class practices, we will need to rigorously implement these strategies, and go even further by strengthening our culture of accountability and teamwork and by concentrating on the following leading initiatives:

- identify key execution issues and root causes along BA's and BT's value chains and develop metrics based on identified key drivers; and
- develop a comprehensive scorecard to proactively manage flawless execution and measure achievements against goals.

## 2 Raise our game on global talent management

**Why?**

Our people are an important driver of our success. Recent growth initiatives, such as BA's CSeries family of aircraft program and BT's new manufacturing facility in India, underscore the need for effective talent planning and management. Global skill shortages, new demographic realities and increased competition for the best people are making it more difficult to find, attract and retain high-quality talent worldwide. Improving the way we manage talent will enable us to address these challenges and strengthen our position as a world-class employer. While several initiatives are currently under way, we need to accelerate them and do an even better job to manage our most valuable asset—our people.

**What?**

For every employee at Bombardier, we will intensify our efforts as a world-class employer, invested in the development of skilled, engaged and proud talent around the globe.

**How?**

Both BA and BT are attuned to the above challenges and have a strategy focused on people. To achieve best-in-class practices, we still need to raise our game on global talent management and execute these

strategies. We need to clearly define and communicate, internally and externally, a people-first philosophy. This calls for a coherent, company-wide approach to talent management that employs the best internal and external practices and enables us to meet our hiring and growth objectives. We must assign our best people to our most important business priorities and do a better job of supporting employee development. We need to provide even more attractive career opportunities and facilitate mobility across divisions and geographies. We must foster greater accountability and collaboration, and better link rewards to performance. Our new talent roadmap is aligned with our world-class employer status. As part of this roadmap, in fiscal year 2010, we will:

- focus on cultivating people leadership and hold management accountable for their employees' development and engagement;
- develop and deliver a consistent global employment value proposition to clarify the value we bring to current and prospective employees and accelerate the hiring process;
- review our human resources policies, programs and processes to ensure that they support the best in talent management; and
- harmonize our senior leadership development programs with our high-potential employee identification and succession-planning processes.

Along with these objectives, focusing every employee on embracing and replicating our leadership attributes—put people first, work together, demonstrate a passion for winning and a drive for results—will raise our global talent management performance to world-class standards.

## 3 Actively manage our exposure to key business risks

**Why?**

Manufacturing planes and trains and developing new products and services in locations around the world expose us to a wide variety of risks and opportunities. Today's rapidly changing environment accelerates the pace at which such risks can materialize. Our risk management practices are already embedded in our activities. While we have proven our ability to successfully take on challenges, we must become even more proactive in recognizing and managing risks through a more structured framework. Improving the risk management culture, by further engaging all stakeholders' engagement, will increase shareholders' value.

### What?

We will actively manage our exposure to key business risks, further embedding risk management in all key functions across the organization. The objective is to further develop our risk insight and transparency in the management of key risks that drive value while proactively mitigating, managing or transferring risks that do not create value.



### How?

Over the years, we have developed a set of governance and management processes and policies. In May 2007, the Board of Directors created the Finance and Risk Management Committee, making risk management a key focus of the organization. Pursuant to its mandate, this committee reviews our material risks, the steps that management takes to monitor, control and manage such risks, and the adequacy of policies, procedures and controls designed by management. To further enhance active management of our exposure to key business risks, we must now leverage our existing competencies and develop new ones by:

- tightly linking our risk management practices into a framework. This will allow us to better benchmark our performance against best practices in order to identify gaps or redundant practices, while enhancing the efficiency of our people;
- clearly explaining the role of our governance and management processes. A shared understanding of our risks and objectives will engage employees and make stakeholders aware of the risk framework that connects our planning, management and operational processes;
- optimizing our capital structure to reduce costs and improve our ability to seize strategic opportunities. This will enable us to continuously invest in our products and services, while ensuring sound risk management; and
- allocating appropriate resources earlier in our decision-making process. This will transform risk management into a more proactive value-driven exercise.

## 4 Establish local roots in all our key markets

### Why?

Our key markets are evolving. We expect that the economic growth in our traditional markets will be moderate. The rise of emerging economies such as China, India and Russia presents numerous opportunities, including new markets for our products and services, access to well-trained pools of talents and potential alliances with local players. At the same time, increasingly capable and well-funded competitors in these emerging markets pose challenges, requiring us to be ever more innovative and cost-effective.

Recent economic events have underscored the need to reposition ourselves to fully seize growth opportunities in emerging markets while mitigating risks. While we have no influence over the global economy, we can control where we do business. We are already local in several key markets, with BT's 50 production and engineering sites and 21 service centres in 24 countries, and with over 40 service centres operated at BT's customers' premises across the world, as well as with BA's worldwide aftermarket network that supports customers in over 100 countries. Expanding local roots in these markets will strengthen our global scale and leadership. Being local will allow us to increase our overall bid success rate, lower costs through local deal sourcing, as well as improve our public relations, government relations and other key activities.

**What?**

We will develop an effective “local roots” organizational model targeting our key markets worldwide. This will allow us to readily capture new business opportunities and deliver best-in-class value for customers and overall profitability.

**How?**

Emerging markets are an important part of our expanded customer base. Both BA and BT have invested in developing new manufacturing sites (for example, in China, India and Mexico) and global supply chain partnerships through initiatives such as market leadership (LEAD) and procurement optimization (CODE 30+), in order to develop and strengthen their local roots. In addition, we have already established a network of Chief Country Representatives (“CCR”) in both core and emerging markets to align our efforts, engage with local business and political leaders, assist sales teams, and lead and support specific business development activities. We must now leverage this network of CCRs and adapt our structure and processes in emerging and new markets.

The new structure envisions a revised local organizational model, which will vary depending on local business requirements. The new structure will be built around a collaborative model between local CCR and the manufacturing segments and will be jointly supervised by senior management from both BA and BT. The local organizations will be in charge of developing and implementing a strategy by country or region, attracting and developing local talent and building a local brand and reputation. In fiscal year 2010, we will begin rolling out our local roots initiatives.

## 5 Enhance our corporate social responsibility

**Why?**

Our world and our shareholders’ expectations are evolving quickly, as the world faces mounting social and environmental challenges such as climate change and rapid urbanization. Governments, NGOs, public-sector entities, suppliers, customers and consumers are committed to resolving these challenges. So is Bombardier. We contribute by developing sustainable transportation solutions to today’s mobility challenges. In fact, our products provide us with a unique opportunity to outperform the competition and become a true “green champion.” It is also our responsibility to contribute to the well-being and development of our employees and of the communities where we operate. This is why a strong commitment and a strategic approach to corporate social responsibility are an integral part of Our Way Forward.

**What?**

We will enhance our commitment to corporate social responsibility by:

- reducing the environmental footprint of our products and operations;
- further promoting employee H&S in our daily decisions and actions; and
- actively contributing to the development of our communities.

**How?**

BA and BT are already focused on capturing “green opportunities” in their products and operations. With the *C-Series* family of aircraft, *Q-Series* turboprops and *CRJ NextGen* Series of aircraft, BA offers one of the industry’s most energy-efficient product portfolios. As the industry leader, BT recently built on its unique “The climate is right for trains” concept by launching the *ECO4* suite of energy-saving technologies. Both groups are strengthening their commitment to product lifecycle management, are setting ambitious H&S and environmental targets and are engaging employees in meeting them. We also published our first Corporate Social Responsibility report in December 2008, which presents our approach to sustainability, our achievements and the areas needing improvements. We have also been selected as part of the Dow Jones Sustainability North America Index and Dow Jones Sustainability World Index in the past two years.

To sustain our efforts and further enhance our commitment to corporate responsibility, in fiscal year 2010, we will:

- improve our H&S monitoring and set more stringent targets;
- embark on a long-term program to further reduce the environmental footprint of our manufacturing operations;
- strengthen our corporate social responsibility governance structure to better align our efforts across the organization;
- continue expanding external communications with stakeholder engagement meetings;
- review our human rights-related policies and monitoring mechanisms;
- increase the number of suppliers adhering to our supplier code of conduct; and
- review our community investment philosophy and our donations and sponsorship policy to better support the economic, environmental and social well-being of our communities.

Our Way Forward is therefore our vision for success in the years to come. It leverages what we currently do, but goes much further so we can reach our ambitious aspirations. Only companies with the best strategy, execution, products and customer orientation will stay at the top. We have great DNA and the right business priorities to realize our full potential. Now that we are in a better overall position, we must aim even higher. Transforming this potential into reality means that every employee has to contribute with commitment and passion.

# STRATEGIES AND CAPABILITY TO DELIVER RESULTS

## Three financial priorities to strengthen our position

Our global objective is still to create value for our shareholders through the development and manufacture of innovative and profitable transportation solutions that meet customer demand. Both BA and BT increased their profitability again in fiscal year 2009, as measured by the EBIT before special item. We also made progress in improving our capital structure, as our global leverage metrics have all improved since January 31, 2008. Despite lower free cash flow in the second half of fiscal year 2009, our liquidity remains at a satisfactory level.

In the near future, the current recession should however negatively impact BA's revenues, EBIT margin and free cash flow, and delay the achievement of our global leverage metric targets. To reflect this new economic reality, our business priorities had to be aligned in the short term, without impacting our long-term strategies as the long-term fundamentals in all our markets remain strong. We remain committed to these financial objectives, but the near-term situation will require even more discipline in the execution of these priorities.

### PROFITABILITY

Increase the level and consistency of profitability.

### LIQUIDITY

Ensure sufficient capacity to meet working capital requirements, capital expenditures and other short-term capital requirements.

### CAPITAL STRUCTURE

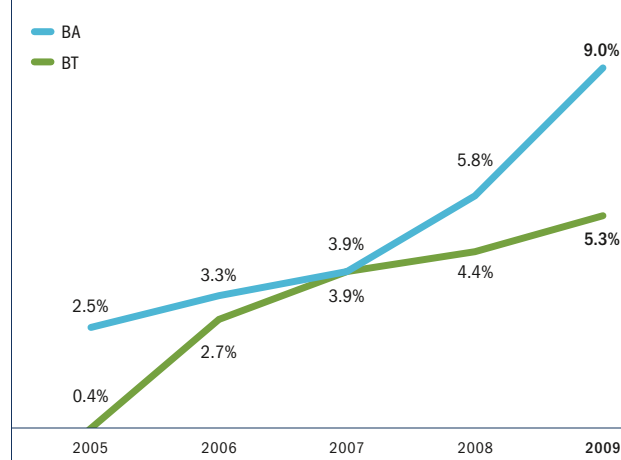
Optimize the capital structure to reduce costs and improve our ability to seize strategic opportunities.

### Maintaining our focus on profitability

Improving the level and consistency of our profitability remains one of our key focuses. Since fiscal year 2005, we have significantly improved net earnings, mainly driven by increased profitability across both manufacturing segments. Both groups are committed to continue to improve their financial performance through the effective management of operations. In the near term, we believe that BA's EBIT margin will be negatively impacted until the market returns to normal economic conditions, while BT's EBIT margin should continue to increase in fiscal year 2010.

Each manufacturing segment sets its own EBIT margin target based on its respective risk profile. BA requires significant investments in assets, as aircraft program development requires a significant initial investment. BT's products do not require the same level of initial investment, and thus BT's R&D activities generally have a lower risk profile than those of BA. The EBIT margin target of each segment reflects this economic reality.

EBIT margin before special items  
(for fiscal years)



PROFITABILITY	
<b>Our goals</b>	<ul style="list-style-type: none"> <li>Increase the level and consistency of profitability:                             <ul style="list-style-type: none"> <li>BA to achieve an EBIT margin of 12% by fiscal year 2013<sup>(1)</sup>; and</li> <li>BT to achieve an EBIT margin of 6% by fiscal year 2010<sup>(1)</sup>.</li> </ul> </li> <li>Maintain an effective income tax rate lower than the statutory income tax rate in the countries where we operate<sup>(1)</sup>.</li> <li>In the long term, reduce net financing expense by further de-leveraging our balance sheet<sup>(1)</sup>.</li> </ul>
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>Across the organization, we are focusing on reducing overall costs during the current recession through the execution of cost-reduction initiatives.</li> <li>We continue to implement profitability improvement initiatives, such as BA's Achieving Excellence System and lean manufacturing/waste-elimination initiatives, as well as BT's TOPSIX transversal program, while monitoring and adjusting operations in line with market demand (see BA's and BT's Strategies and capability to deliver results sections for more details on these initiatives).</li> <li>We continue to execute global tax planning strategies to minimize our effective income tax rate, while ensuring compliance with all applicable income tax laws.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>We increased our diluted EPS to \$0.56, compared to a diluted EPS before special item of \$0.26 last fiscal year.</li> <li>BA exceeded its previously stated goal to improve EBIT margin to 8%, with an EBIT margin of 9.0%.</li> <li>BT further increased its EBIT margin to 5.3%, compared to an EBIT margin before special item of 4.4% last fiscal year.</li> <li>We decreased net financing expense to \$138 million for fiscal year 2009, compared to \$301 million for fiscal year 2008.</li> <li>We achieved an effective income tax rate of 20.8%, which is lower than the statutory income tax rates in the countries where we operate.</li> </ul>

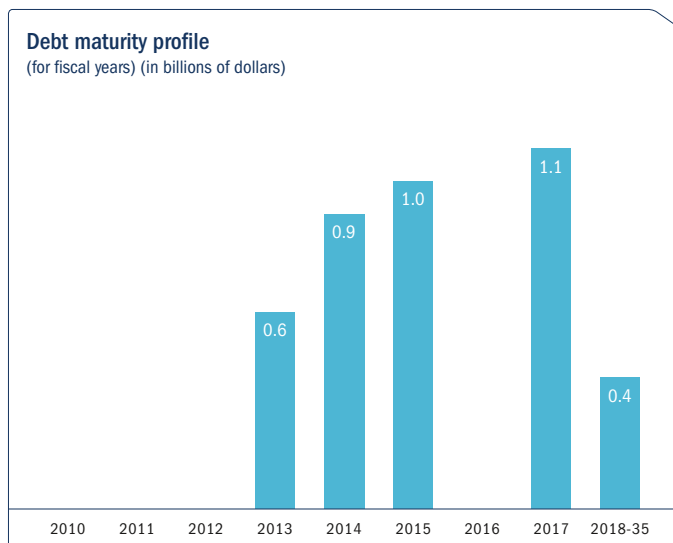
(1) See Forward-looking statements section.

### Our cash position and the absence of significant debt maturing before May 2012 will help us mitigate the impact of the recession

Maintaining sufficient liquidity continues to be one of our key focuses. From fiscal years 2005 to 2009, we significantly improved our capital structure, while still increasing cash and cash equivalents from \$2.3 billion as at January 31, 2005 to \$3.5 billion as at January 31, 2009.

Since our cash-generating capacity has been sufficient to satisfy near-term liquidity requirements, our syndicated bank facilities were specifically negotiated to be available exclusively for the issuance of letters of credit. Such facilities are more capital-friendly for banks, and thus provide better pricing for the Corporation. Our liquidity is therefore comprised solely of cash and cash equivalents.

As a result of the current economic environment, a more conservative approach to liquidity management is being implemented, as access to capital market is expected to be challenging in the near term. However, our cash position as at January 31, 2009 and the absence of significant debt maturing before May 2012 will help us mitigate the impact of this recession.



Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, the maturity profile of indebtedness, access to capital market, the level of customer advances and progress billings in excess of related long-term contract costs, working capital requirements and the funding of our product developments.

## LIQUIDITY

### Our goal

- Ensure sufficient liquidity to meet working capital requirements, capital expenditures and other short-term capital requirements.
  - Maintain a cash position in excess of expected liquidity requirements<sup>(1)</sup>.
  - Over the long run, generate free cash flow in line with net income<sup>(1)</sup>.

### Our leading initiatives

- In the short term, we are increasing our focus on the strict management of working capital in order to maximize available liquidity.
- We continue to execute profitability improvement initiatives at BA and BT.
- We continue our proactive approach to cash deployment to ensure a sufficient level of liquidity to fund growth initiatives such as product developments.
- We continue to pursue risk-sharing arrangements for projects requiring substantial funding.

### Our deliverables in fiscal year 2009

- We have a cash position of \$3.5 billion as at January 31, 2009, which remains at a satisfactory level.
- We generated a free cash flow of \$342 million, compared to a net income of \$1.0 billion. Our long-term goal to achieve a free cash flow in line with net income was not achieved, mainly as a result of the impact of the recession on BA's working capital. We are monitoring this situation closely and have adjusted BA's production rates in order to mitigate the impact.
- We received and accepted offers from suppliers and governments for the financing of the R&D of the CSeries family of aircraft.

(1) See Forward-looking statements section.

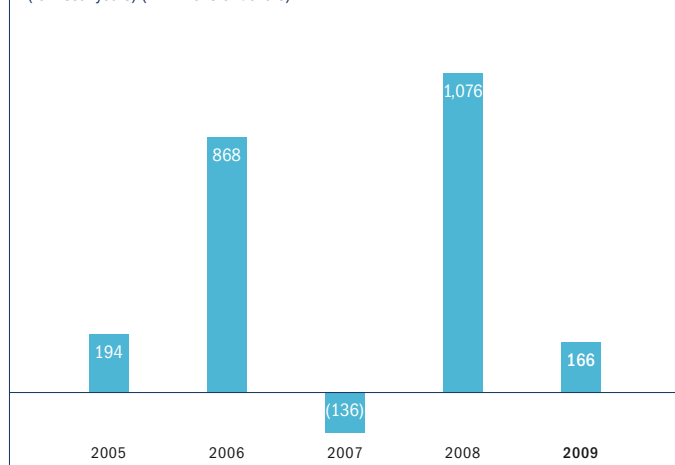
## Improved capital structure

Our capital structure has improved since fiscal year 2005, mainly due to our improved profitability and our continued focus on reducing our long-term debt and pension deficit. With access to capital markets becoming more difficult since the second quarter of fiscal year 2009, we decided to suspend the deleveraging of our balance sheet through repayments of long-term debt and discretionary pension plan contributions, delaying the achievement of our global leverage metric targets. In fiscal year 2009, we repurchased \$166 million of long-term

debt, which was lower than the amount that we had originally planned. In the near term, we do not plan to repurchase any long-term debt or make discretionary pension fund contributions (representing contributions made in excess of our legal funding requirements). Upon return to normalized credit environment and economic conditions, we remain committed to continue improving our capital structure by deleveraging our balance sheet.

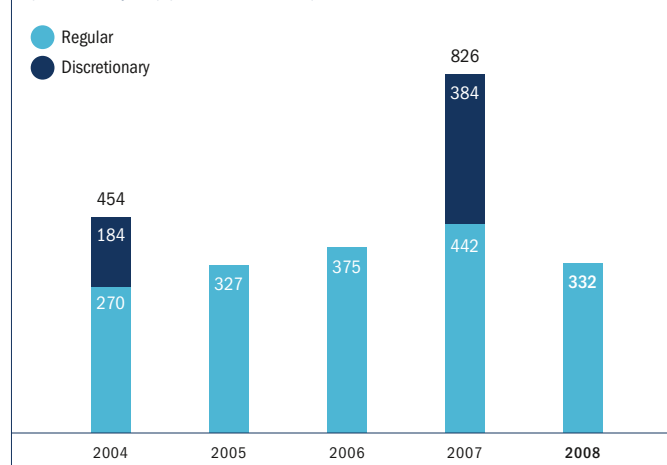
### Net long-term debt repayments

(for fiscal years) (in millions of dollars)



### Pension fund contributions

(for calendar years) (in millions of dollars)





CAPITAL STRUCTURE	
<b>Our goals</b>	<p>Over the long run, our goal remains to optimize the capital structure to reduce costs and improve our ability to seize strategic opportunities. We remain committed to our targets set in fiscal year 2008, but their achievement has been delayed given the current economic condition.</p> <ul style="list-style-type: none"> <li>▪ Maintain an adjusted EBIT to adjusted net interest ratio above 5.0<sup>(1)</sup>.</li> <li>▪ Achieve an adjusted debt to adjusted EBITDA ratio below 2.5<sup>(1)</sup>.</li> <li>▪ Achieve an adjusted debt to adjusted total capitalization ratio below 55%<sup>(1)</sup>.</li> </ul>
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>▪ In the near term, we want to closely monitor the capital structure to limit our needs for external financing and ensure our liquidity objectives are met.</li> <li>▪ Upon return to a more normalized credit environment and economic conditions, we will continue to reduce adjusted debt to improve our global leverage metrics by: <ul style="list-style-type: none"> <li>▪ deleveraging the balance sheet with strategic long-term debt repayments, in line with active management of consolidated liquidity, weighted-average cost of capital and term structure; and</li> <li>▪ proactively managing opportunities to reduce pension deficit, including an assessment for discretionary pension contributions to further enhance capital structure and the security of benefits.</li> </ul> </li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>▪ We improved on all our global leverage metrics. <ul style="list-style-type: none"> <li>▪ Adjusted EBIT to adjusted net interest ratio of 6.2, compared to 2.5 as at January 31, 2008, exceeding our target of 5.0.</li> <li>▪ Adjusted debt to adjusted EBITDA ratio of 2.8, compared to 3.8 for fiscal year 2008.</li> <li>▪ Adjusted debt to adjusted total capitalization ratio of 66%, compared to 67% as at January 31, 2008.</li> </ul> </li> <li>▪ We repurchased \$166 million of long-term debt.</li> </ul>

(1) See Forward-looking statements section.

### Investment-grade status still in sight

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

Credit ratings	Investment grade rating	Bombardier Inc.'s rating	
		January 31 2009	January 31 2008
Moody's	Baa3	Ba2	Ba2
S&P	BBB-	BB+	BB
Fitch	BBB-	BB+	BB

Two of these three rating agencies increased our credit rating in the first quarter of fiscal year 2009. In the context of this difficult credit environment, a new €3.75-billion letter of credit facility was negotiated in December 2008, which is an indicator of our current capacity to access capital markets.

Upon return to normalized credit environment and economic conditions, we should be in a good position to improve our credit rating

to an investment-grade risk profile, subject to the achievement of our planned profitability and deleveraging targets. An investment-grade rating would be beneficial to the Corporation as it would generally reduce the cost of our banking activities, improve our access to capital markets and lower the amount and cost of the guarantees we provide. It would also put us in a better position to seize strategic opportunities.

## We have what it takes to deliver results

Our capacity to deliver results is based on the following attributes:

- we have a broad, leading-edge product offering;
- we have a global presence and a diversified customer base;
- we are focused on continuous improvement of key business processes through our Achieving Excellence System and TOPSIX program;
- we have a strong relationship with our key stakeholders;
- we have a large talent pool of well-trained and motivated employees; and
- we have an experienced management team, committed to the long-term success of the organization.

These attributes, combined with our risk management practices, should enable us to successfully deliver on our long-term strategy.

### Risk management embedded in our activities

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

We have developed governance and risk management practices to reduce the nature and extent of our exposure to economic, business, operational, financing, and market risks (see the Risks and uncertainties section in Other for further details on these risks). The Board of Directors is ultimately responsible for reviewing the overall risks faced by the Corporation. The Finance and Risk Management Committee, consisting of four independent directors, reviews our material risks of a financial nature, the measures that management takes to monitor, control and manage such risks, and the adequacy of policies, procedures and controls designed by management to assess and manage these risks.

Our Way Forward, for which one of the priorities is risk management, will build on what we currently do by leveraging our strengths and addressing our weaknesses to ensure that we adopt best-in-class risk management practices. It will also ensure that we continue to select risks that drive value while proactively mitigating, managing or transferring risks that do not create value. Our current risk management practices already address many risks, with some of the principal areas being foreign currency fluctuations, changing interest rates, exposure to credit risk, BA's product development and BT's project execution.

### Foreign currency fluctuations

Our main exposures to foreign currencies are managed in accordance with our foreign currency policy and procedures. Our policy requires each segment and Corporate Office to identify all potential foreign currency exposures arising from their operations or financial position and to hedge these exposures according to pre-set criteria.

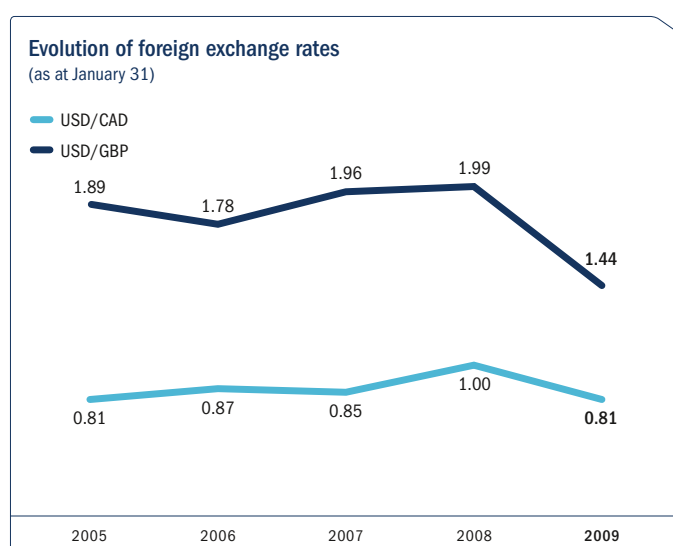
### Foreign exchange management

Owner	Hedged exposures	Hedging policy <sup>(1)</sup>	Risk-mitigation strategies
BA	Forecasted cash outflows, mainly denominated in Canadian dollar and pound sterling.	Hedge a minimum of 85% of the identified exposures for the first three months, a minimum of 75% for the next nine months and a minimum of 50% for the following year.	<ul style="list-style-type: none"> <li>▪ Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars and pounds sterling.</li> </ul>
BT	Forecasted cash inflows and outflows denominated in a currency other than the functional currency of the entity incurring the cash flows.	Hedge 100% of the identified foreign currency exposures at the time of order intake.	<ul style="list-style-type: none"> <li>▪ Use of forward exchange contracts, mainly to sell or purchase euros, pounds sterling, U.S. dollars, Swiss francs, Canadian dollars and other Western European currencies.</li> </ul>

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

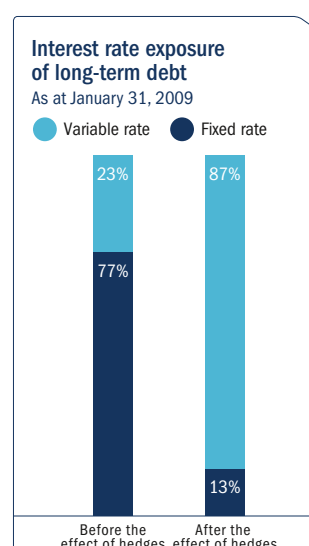
Owner	Hedged exposures	Hedging policy <sup>(1)</sup>	Risk-mitigation strategies
Corporate Office	Balance sheet exposures, including long-term debts and net investments in self-sustaining foreign operations.	Minimize the impact on income for foreign currency exposures at the time of order intake.	<ul style="list-style-type: none"> <li>Asset/liability management techniques.</li> <li>Use of forward foreign exchange contracts and cross-currency interest-rate swap agreements.</li> <li>Designation of long-term debt and inter-company loans as hedges of our net investments in self-sustaining foreign operations.</li> </ul>
	Forecasted cash outflows denominated in Canadian dollar.	Hedge a minimum of 85% of the identified exposures for the first year and a minimum of 75% for the following year.	<ul style="list-style-type: none"> <li>Use of forward foreign exchange contracts.</li> </ul>

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



The U.S. dollar has appreciated versus the Canadian dollar and pound sterling since January 31, 2008. Should this recent strengthening continue, BA's costs incurred in these currencies will be lower, although on a delayed basis due to our hedging program.

The hedged portion of BA's foreign currency denominated costs for fiscal year 2010 was as follows as at January 31, 2009:



BT's identified exposures are generally entirely hedged at the time of order intake, contract by contract, consistent with BT's policy to hedge all currency exposures arising from cash inflows and outflows. As such, BT's results of operations are not exposed to gains and losses from transactions in foreign currencies, but remain exposed to translation risks.

BA's foreign currency denominated costs			
	Expected costs	Hedged portion	Weighted-average hedge rate
Expected costs denominated in:			
Canadian dollar	2,297	96%	0.9487
Pound sterling	360	92%	1.8859

### Sensitivity analysis

The impact of foreign currency movements on the results of operations of BT and Corporate Office is not significant, as most of the identified foreign currency exposures are hedged using asset/liability management techniques or derivative financial instruments.

A U.S. one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact BA's expected costs for fiscal year 2010 by approximately \$23 million before giving effect to forward foreign exchange contracts (immaterial impact after giving effect to such contracts).

A U.S. one-cent change in the value of the pound sterling compared to the U.S. dollar would impact BA's expected costs for fiscal year 2010 by approximately \$4 million before giving effect to forward foreign exchange contracts (immaterial impact after giving effect to such contracts).

#### **Changing interest rates**

Our cash flow exposures to changing interest rates arise mainly from existing variable rate assets and liabilities. These exposures are managed by a central treasury function as part of an overall risk management policy, using asset/liability management techniques, including the use of financial instruments, such as interest-rate swap agreements, to align asset/liability exposures. This is achieved by converting our long-term debt from a fixed rate to a variable rate in order to match assets yielding variable interest.

In addition, we are economically exposed to changes in the fair value of our on- and off-balance sheet assets and liabilities with fixed-rate components, as a result of changes in interest rates, which includes marketability risk. The most significant on-balance sheet exposure arises from our fixed-rate loans and long-term debt, and from our portfolio of financial guarantees. Our exposure to fixed-rate long-term debt has been significantly reduced using the above-mentioned asset/liability management techniques. Our exposure arising from financial guarantees is mostly mitigated by offsetting positions from our portfolio of loans. The remaining exposure to changes in interest rates from these items did not have a material impact on our results in the past.

Our most important off-balance sheet risk arises from pension plans, for which there is a duration and nominal mismatch between the plans' assets and liabilities. Since fiscal year 2008, we have been mitigating such risk for all our U.S. and for some Canadian defined benefit pension plans through the utilization of interest-rate swap overlay portfolios. These derivatives are designed to protect the Corporation from an increase in the pension deficit arising from a reduction in long-term bond yields. This strategy has reduced our exposure to the decrease in the risk-free component of the discount rate, and also generated unanticipated gains following the disruption in capital markets leading to additional reductions in interest-rate swap spreads. This strategy was temporarily suspended when the swap agreements were terminated at the end of fiscal year 2009, since the hedging relationship was disrupted as a result of the financial crisis. Interest rate hedging will be reconsidered when financial markets allow it.

#### **Exposure to credit risk**

We are exposed to credit risk through our normal treasury activities on our derivative financial instruments, invested collateral and our other investing activities. The effective monitoring and controlling of credit risk is a key component of our risk management activities. Credit risk arising from the treasury activities is managed by a central treasury function in accordance with our Investment Management policy. The objective of this policy is to minimize our exposure to credit risk from our treasury activities by ensuring that we transact strictly with investment-grade financial institutions based on pre-established limits per financial institution.

We are also exposed to credit risk through our trade receivables arising from our normal commercial activities and from our lending activities, which relates primarily to loans and lease receivables provided to BA customers in connection with the sale of aircraft. In addition, we are exposed to credit risk arising from indirect financing support, primarily from credit guarantees provided for the benefit of providers of financing to customers in connection with the sale of aircraft.

Credit risks arising from our normal commercial and lending activities, as well as from our indirect financing support, are managed and controlled by our two manufacturing segments. The main credit exposure managed by the segments arises from customer credit risk. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and our own experience with the customers. The credit ratings and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

Customer credit ratings and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collateral to reduce our exposure to losses. Specific governance is in place to ensure that financial risks arising from large transactions are analyzed and approved by the appropriate level of management before financing or credit support is offered to the customer.

Credit risk is recorded and monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure. Various accounting and reporting systems are used to monitor trade receivables, loans, and lease receivables.

# RESULTS OF OPERATIONS

## Improved results in difficult economic conditions

Despite the current recession that has slowed our progress in the fourth quarter, both BA and BT delivered a strong financial performance in fiscal year 2009, which illustrates the solid competitiveness of our product and service portfolio. BA exceeded its goal of an EBIT margin of 8%, reaching 9.0%. BT further improved its EBIT margin to 5.3%, from 4.4% before

special item last fiscal year. Overall, our diluted EPS reached \$0.56, from \$0.26 before special item last fiscal year. While BT achieved a free cash flow in line with EBIT, BA felt the recession through higher working capital, mainly inventories and receivables.

Results of operations <sup>(1)</sup>				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008 <sup>(2)</sup>	2009	2008 <sup>(2)</sup>
Revenues	\$ 5,429	\$ 5,270	\$ 19,721	\$ 17,506
Cost of sales	4,413	4,429	16,049	14,607
Margin	1,016	841	3,672	2,899
Selling, general and administrative	387	409	1,558	1,408
Research and development	50	41	171	139
Other expense (income)	5	(41)	(23)	(62)
EBITDA before special item	574	432	1,966	1,414
Amortization	139	127	555	512
EBIT before special item	435	305	1,411	902
Financing income	(47)	(69)	(270)	(225)
Financing expense	103	161	408	526
EBT before special item	379	213	1,273	601
Special item <sup>(3)</sup>	-	-	-	162
EBT	379	213	1,273	439
Income tax expense (recovery)	70	(5)	265	122
Net income	\$ 309	\$ 218	\$ 1,008	\$ 317
Basic EPS (in dollars)				
Before special item	\$ 0.17	\$ 0.12	\$ 0.57	\$ 0.26
Net income	\$ 0.17	\$ 0.12	\$ 0.57	\$ 0.17
Diluted EPS (in dollars)				
Before special item	\$ 0.17	\$ 0.12	\$ 0.56	\$ 0.26
Net income	\$ 0.17	\$ 0.12	\$ 0.56	\$ 0.16
(as a percentage of revenues)				
EBIT before special item	8.0%	5.8%	7.2%	5.2%
EBIT	8.0%	5.8%	7.2%	4.2%

- (1) Effective February 1, 2008, we changed our accounting policy for aerospace programs from the average cost method to the unit cost method to comply with new accounting standards (see the Accounting and reporting developments section in Other for further details). As a result, EOAPC charges are nil for the fourth quarter and fiscal year ended January 31, 2009, compared to charges of \$67 million and \$271 million respectively for the same periods last fiscal year.
- (2) Effective February 1, 2008, we changed our overhead allocation policy, whereby all G&A overhead costs are now expensed as incurred (see the Accounting and reporting developments section in Other for further details). Comparative figures include reclassifications from cost of sales to SG&A of \$89 million and \$312 million respectively for the fourth quarter and fiscal year ended January 31, 2008.
- (3) The special item for fiscal year 2008 relates to the write-off of the carrying value of our investment in Metronet.

## Healthy revenue and EBIT margin growth

Revenues and EBIT margin before special item						
	Fourth quarters ended January 31			Fiscal years ended January 31		
	2009	2008	Increase (decrease)	2009	2008	Increase
<b>Revenues</b>			%			%
BA	\$ 2,777	\$ 2,893	(4.0)	\$ 9,965	\$ 9,713	2.6
BT	2,652	2,377	11.6	9,756	7,793	25.2
	\$ 5,429	\$ 5,270	3.0	\$ 19,721	\$ 17,506	12.7
<b>EBIT margin before special item</b>			Percentage points			Percentage points
BA	9.8%	6.8% <sup>(1)</sup>	3.0	9.0%	5.8% <sup>(2)</sup>	3.2
BT	6.2%	4.6%	1.6	5.3%	4.4% <sup>(3)</sup>	0.9
	8.0%	5.8% <sup>(4)</sup>	2.2	7.2%	5.2% <sup>(5)</sup>	2.0

(1) EBIT of 9.1% before EOAPC charge.

(2) EBIT of 8.6% before EOAPC charge.

(3) EBIT of 2.3%.

(4) EBIT of 7.1% before EOAPC charge.

(5) EBIT of 6.7% before special item and EOAPC charge.

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

### Lower net financing expense

Net financing expense amounted to \$56 million for the three-month period ended January 31, 2009, compared to \$92 million for the same period last fiscal year. Net financing expense amounted to \$138 million for fiscal year 2009, compared to \$301 million for fiscal year 2008. The \$36-million and \$163-million decreases are mainly due to:

- lower interest expense on long-term debt, after the effect of hedges (\$35 million for the fourth quarter, \$76 million for the fiscal year), consistent with the lower level of long-term debt following a \$1.0 billion repayment in the fourth quarter of fiscal year 2008;
- higher interest income on cash and cash equivalents for the fiscal year (\$47 million), consistent with a higher average level of cash on hand;
- a financing loss realized on the fiscal year 2008 long-term debt repurchases on the open market at an average price of 106% (\$22 million for the quarter and the fiscal year); and
- a net financing gain realized on the fiscal year 2009 long-term debt repurchases on the open market at an average price of 86% (\$10 million for the fourth quarter, \$22 million for the fiscal year).

Partially offset by:

- a loss related to the write-off of deferred costs in connection with the BT portion of the previous letter of credit facility (\$20 million for the fourth quarter and the fiscal year); and
- lower interest income on cash and cash equivalents for the fourth quarter (\$15 million), consistent with a lower average level of cash on hand.

### Lower global effective income tax rate

#### Fourth quarter

For the three-month period ended January 31, 2009, the effective income tax rate was 18.5%, compared to the statutory income tax rate of 31.5%. The lower effective tax rate is mainly due to a net change in the recognition of tax benefits relating to operating losses and temporary differences, partially offset by permanent differences and a write-down of deferred income tax assets.

For the three-month period ended January 31, 2008, we recorded an income tax recovery of \$5 million on an EBT of \$213 million as a result of a net change in the recognition of tax benefits related to operating losses and temporary differences, partially offset by a write-down of deferred income tax assets, permanent differences, and by the impact of the tax rate decreases on deferred income tax assets.

#### Fiscal year

For fiscal year 2009, the effective income tax rate was 20.8%, compared to the statutory income tax rate of 31.5%. The lower effective tax rate is mainly due to a net change in the recognition of tax benefits related to operating losses and temporary differences and the lower tax rate of foreign investees, partially offset by permanent differences and a write-down of deferred income tax assets.

For fiscal year 2008, the effective income tax rate was 27.8%, compared to the statutory income tax rate of 32.8%. The lower effective tax rate was mainly due to a net change in the recognition of tax benefits related to operating losses and temporary differences, partially offset by a write-down of deferred income tax assets, the non-recognition of tax benefits on the write-off of the carrying value of our investment in Metronet and the impact of tax rate decreases on the deferred income tax assets.



# LIQUIDITY AND CAPITAL RESOURCES

## BA free cash flow was significantly impacted by the recession

Reconciliation of free cash flow to cash flow from operating activities				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008	2009	2008
Segmented free cash flow				
BA	\$ (271)	\$ 554	\$ 128	\$ 1,676 <sup>(1)</sup>
BT	360	525	480 <sup>(2)</sup>	688 <sup>(3)</sup>
Income taxes and net financing expense <sup>(4)</sup>	(180)	(155)	(266)	(401)
<b>Free cash flow</b>	<b>(91)</b>	<b>924</b>	<b>342</b>	<b>1,963</b>
Add back: Net additions to property, plant and equipment and intangible assets	244	219	567	417
<b>Cash flow from operating activities</b>	<b>\$ 153</b>	<b>\$ 1,143</b>	<b>\$ 909</b>	<b>\$ 2,380</b>

(1) Includes payments of discretionary pension fund contributions totalling \$249 million in fiscal year 2008.

(2) Includes a payment of £95 million (\$189 million) to Westinghouse Rail Systems Limited (see the Analysis of results section in BT for further details).

(3) Includes payments of discretionary pension fund contributions totalling \$135 million in fiscal year 2008.

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

A detailed analysis of free cash flow is provided in the respective Analysis of results sections in BA and BT.

### Cash position of \$3.5 billion as at January 31, 2009

Variation in cash and cash equivalents				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008	2009	2008
Balance as at the beginning of period/fiscal year	\$ 3,251	\$ 3,634	\$ 3,602	\$ 2,648
Invested collateral <sup>(1)</sup>	390	-	390	-
Free cash flow	(91)	924	342	1,963
Repayments of long-term debt <sup>(2)</sup>	(54)	(1,047)	(166)	(1,076)
Payments of dividends	(41)	(8)	(147)	(30)
Effect of exchange rate changes on cash and cash equivalents	1	83	(494)	264
Purchase of common shares held in trust <sup>(3)</sup>	-	-	(54)	(55)
Investment in Metronet	-	-	-	(55)
Investment in securities held as collateral for guarantees issued in connection with the sale of aircraft	-	-	-	(55)
Other	14	16	(3)	(2)
<b>Balance as at the end of fiscal year</b>	<b>\$ 3,470</b>	<b>\$ 3,602</b>	<b>\$ 3,470</b>	<b>\$ 3,602</b>

(1) Reflects the release of a portion of the invested collateral used to secure our obligations under the letter of credit facilities. See Letter of credit facilities hereafter for further details.

(2) See Repayments of long-term debt table below for further details.

(3) Reflects the purchase in the open market, under the terms of a Trust Agreement, of 6,942,000 Class B Shares (Subordinated Voting) of the Corporation, in connection with the PSU plan in fiscal year 2009 (9,426,000 Class B Shares in fiscal year 2008).

Repayments of long-term debt				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008	2009	2008
Senior notes, due in November 2013, €111 million <sup>(1)</sup>	\$ 50	\$ -	\$ 133	\$ -
Senior notes, due in November 2016, €15 million <sup>(1)</sup>	4	-	13	-
BC's notes, due in May 2009, entire £300 million	-	589	-	589
Notes, due in February 2008, entire €282 million	-	414	-	414
Notes, due in fiscal years 2009-12, entire \$24 million Cdn	-	24	-	24
Other	-	20	20	49
	\$ 54	\$ 1,047	\$ 166	\$ 1,076

(1) Repayments made through buybacks on the open market at an average price of 86%.

## Liquidity requirements must factor in all our initiatives

Expected timing of future liquidity requirements					
January 31, 2009					
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Long-term debt <sup>(1)</sup>	\$ 3,886	\$ 3	\$ 6	\$ 1,454	\$ 2,423
Capital lease obligations <sup>(1)</sup>	66	6	14	10	36
Operating lease obligations <sup>(2)</sup>	585	88	145	86	266
Outsourcing commitments	1,060	198	340	304	218
Purchase obligations <sup>(3)</sup>	9,526	5,662	2,780	542	542
Related liabilities in connection with the sale of aircraft	275	49	71	33	122
	\$ 15,398	\$ 6,006	\$ 3,356	\$ 2,429	\$ 3,607

(1) Includes principal repayments only.

(2) Includes sale and leaseback and operating lease obligations.

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

The estimated payments required in connection with credit and residual value guarantees related to the sale of aircraft offered by BA, amounting to \$538 million as at January 31, 2009, have not been reflected in the above table, since it is not possible to determine the expected timing of payments. Our required pension fund cash contributions have also not been reflected in the above table, as cash contributions depend on periodic funding actuarial valuations.

We consider that our cash and cash equivalents combined with our expected free cash flow will enable the development of new products, the pursued growth of our activities, the payment of dividends, and will allow us to meet all other expected financial requirements in the near term.

## Successful negotiation of new letter of credit facilities in December 2008, notwithstanding the difficult credit environment

In December 2008, a €3.75-billion facility agreement was negotiated with a syndicate of international financial institutions available for the issuance of letters of credit by BT ("BT facility"). Simultaneously, we reduced from €4.3 billion to \$840 million our existing syndicated letter of credit facility and dedicated it to support BA's operations and our general needs ("BA facility"). Following these negotiations, we attained our objectives of securing BT's availability of letters of credit for an extended term, as well as the bifurcation of the facilities around our two segments.

In December 2008, we also entered into a performance security guarantee facility ("PSG facility") available for the issuance of letters of credit for the benefit of BT. Letters of credit issued by commercial banks in support of BT's operations under this facility are guaranteed by Export Development Canada ("EDC"). We have an agreement with EDC to increase their guarantee to \$600 million and we are currently negotiating with commercial banks to increase the facility to \$600 million.

Letter of credit facilities				
As at January 31, 2009				
	Amount committed	Letters of credit issued	Amount available	Maturity (fiscal year)
BT facility	\$ 4,801 <sup>(1)</sup>	\$ 4,446	\$ 355	2014 <sup>(2)</sup>
BA facility	840	655	185	2012 <sup>(3)</sup>
PSG facility	250	30	220	2010 <sup>(4)</sup>
	\$ 5,891	\$ 5,131	\$ 760	

- (1) €3,750 million.  
(2) In December 2011, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature, up to December 2013.  
(3) In December 2009, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature, up to December 2011.  
(4) The PSG facility is renewed and extended annually if mutually agreed. In December 2009, if the facility is not extended, the letters of credits issued under this facility will amortize over their maturity.

Under the BA and BT letter of credit facilities, we must maintain certain financial covenants (see Note 28 – Capital management to the Consolidated Financial Statements for further details), including a requirement to maintain a minimum BT liquidity of €600 million at the end of each calendar quarter. In addition, we must maintain

€446 million (\$571 million) of invested collateral under the BT facility and \$202 million under the BA facility. These conditions were all met as at January 31, 2009.

In addition to the above, letters of credit of \$257 million were outstanding under various bilateral agreements as at January 31, 2009.

## CAPITAL STRUCTURE

### Our improved capital structure will be key in the current environment

We analyze our capital structure using global leverage metrics, which are based on a broad economic view of the Corporation, taking into consideration the total pension deficit (including the off-balance sheet portion) and the net present value of operating lease obligations in the definition of adjusted debt.

These global leverage metrics do not represent the calculations required for bank covenants. For compliance purposes, we regularly monitor bank covenants to ensure that they are consistently all met. However, our focus is more on the global leverage metrics, as they represent the key metrics used to analyze our capital structure. As such,

the amount in AOCI relating to cash flow hedges has been excluded from adjusted total capitalization since the first quarter of fiscal year 2009, as we consider that it does not represent a true variance in our equity. The January 31, 2008 figure was restated accordingly.

With access to capital markets being more difficult since the second quarter of fiscal year 2009, we decided to suspend the deleveraging of our balance sheet through repayments of long-term debt and discretionary pension plan contributions, delaying the expected achievement of our global leverage metric targets. Upon return to normalized credit environment and economic conditions, we remain committed to improve our capital structure by de-leveraging our balance sheet, and to reach the global leverage metrics targets set.

Global leverage metrics <sup>(1)</sup>			
	Target <sup>(2)</sup>	January 31 2009	January 31 2008
Adjusted EBIT		\$ 1,517	\$ 1,013
Adjusted net interest		\$ 244	\$ 412
<b>Adjusted EBIT to adjusted net interest ratio</b>	Greater than 5.0	<b>6.2</b>	2.5
Adjusted debt		\$ 5,841	\$ 6,091
Adjusted EBITDA		\$ 2,111	\$ 1,583
<b>Adjusted debt to adjusted EBITDA ratio</b>	Lower than 2.5	<b>2.8</b>	3.8
Adjusted debt		\$ 5,841	\$ 6,091
Adjusted total capitalization		\$ 8,840	\$ 9,098
<b>Adjusted debt to adjusted total capitalization ratio</b>	Lower than 55%	<b>66%</b>	67%

- (1) Refer to the Non-GAAP financial measures section hereafter for the definitions and reconciliations to the most comparable Canadian GAAP measures.  
(2) See Forward-looking statements section.

Our global leverage metrics have all improved since January 31, 2008, with the adjusted EBIT to adjusted net interest ratio even exceeding our target. These improvements are mainly due to:

- improved profitability;
- lower long-term debt; and
- lower net financing expense.

Partially offset by:

- negative variation in the CTA; and
- increase in the pension deficit.

Adjusted EBIT and adjusted EBITDA improved due to our better operational performance. Adjusted net interest decreased due to a lower level of long-term debt and a higher level of average cash on hand.

### Adjusted debt

The adjusted debt as at January 31, 2009 decreased by \$250 million compared to January 31, 2008. This decrease is mainly due to:

- positive impact of foreign exchange rate movements on long-term debt (\$372 million);
- lower operating lease obligations (\$172 million), given the timing of operating leases and an increase in the discount rate; and
- long-term debt repayments (\$166 million).

Partially offset by:

- an increase in the pension deficit (\$363 million).

The pension deficit increased to \$1.5 billion as at December 31, 2008, compared to \$1.2 billion as at December 31, 2007. This increase is mainly due to:

- negative returns on plan assets reflecting the sharp decline in the value of stock markets around the world, net of gains arising from the utilization of interest-rate swap overlay portfolios.

Partially offset by:

- positive variations in discount rates, mainly reflecting the recent increases in high-quality corporate fixed-income rate premiums in Canada and the U.K.; and
- positive variations in foreign exchange rates.

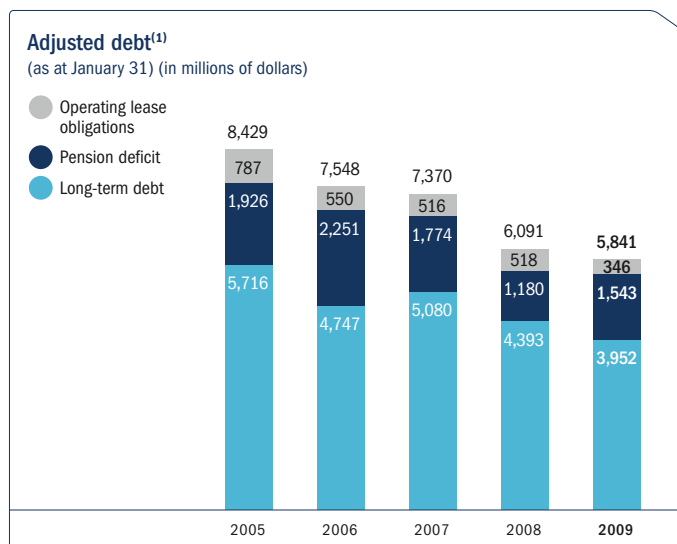
### Adjusted total capitalization

The adjusted total capitalization decreased by \$258 million compared to January 31, 2008. This decrease is mainly due to:

- a decrease in CTA (\$526 million);
- changes in accounting policies related to inventories and fair value measurement (\$327 million);
- the decrease in adjusted debt described above (\$250 million); and
- dividends paid (\$147 million).

Partially offset by:

- net income (\$1.0 billion).



(1) Refer to the Non-GAAP financial measures section hereafter for the definition.

## Pension deficit is under pressure given negative return on plan assets

We sponsor several domestic and foreign funded and unfunded defined benefit pension plans. Cash contributions to defined benefit pension plans are estimated at \$400 million for calendar year 2009, compared to actual contributions of \$332 million for calendar year 2008. The \$68-million increase is mainly due to the negative returns on plan assets reflecting the sharp decline in stock markets around the world, which will be factored in the new actuarial valuations results. We also manage several defined contribution plans, which specify how contributions are

determined rather than the amount of benefits an employee is to receive on retirement. Cash contributions to defined contribution pension plans are estimated at \$44 million for calendar year 2009, compared to actual contributions of \$38 million for calendar year 2008.

While we work closely with the trustees of our various pension plans to implement risk-management measures, including aligning management of plan assets with the terms of the plan obligations, our future cash contributions to the funded pension plans will nonetheless be dependent on changes in discount rates, actual returns on plan assets and other factors such as plan amendments.

Variation in pension deficit	
Balance as at December 31, 2007 <sup>(1)</sup>	\$ 1,180
Actual return on plan assets <sup>(2)</sup>	1,063
Changes in discount rate assumptions <sup>(3)</sup>	(681)
Interest cost <sup>(4)</sup>	373
Effect of changes in foreign exchange rates	(347)
Excess of contributions over current service cost <sup>(5)</sup>	(114)
Plan amendments and other	69
<b>Balance as at December 31, 2008<sup>(1)</sup></b>	<b>\$ 1,543</b>

- (1) Of which \$514 million is related to unfunded plans as at December 31, 2008 (\$577 million as at December 31, 2007). Funded plans are plans for which segregated plan assets are invested in trusts. Unfunded plans are plans for which there are no segregated plan assets, as the establishment of segregated plan assets is generally not permitted or not in line with local practice because of adverse tax consequences. There will therefore always be a deficit for unfunded plans for accounting purposes.
- (2) The performance of stock markets is a key driver in determining the pension fund's asset performance, since our targeted allocation for pension plan assets invested in publicly traded equity securities is 57%. Most of the remaining plan assets are invested in publicly traded long-term fixed-income securities.
- (3) The discount rate is used to determine the present value of the estimated future benefit payments at the measurement date. A higher discount rate decreases the benefit obligation and pension deficit. The discount rate must represent the market rate for high-quality corporate fixed-income investments available for the period to maturity of the benefits, and thus management has little discretion in its selection.
- (4) Represents the expected increase in pension obligation due to the passage of time.
- (5) Current service cost represents the present value of retirement benefits earned by participants during the current year.

The pension cost of defined benefit pension plans is estimated at \$206 million for fiscal year 2010, compared to an actual pension cost of \$248 million for fiscal year 2009. The expected decrease is mainly due to:

- positive variations in discount rates, reflecting the recent increases in high-quality corporate fixed-income rates in Canada and the U.K.; and
- positive variations in foreign exchange rates.

Partially offset by:

- negative returns on plan assets, reflecting the sharp decline in the value of stock markets around the world.

We will continue to proactively manage variations in our pension deficit. We believe that the total deficit remains at a manageable level, given our cash position and improved capital structure.

# FINANCIAL POSITION

We are feeling the recession through higher working capital in BA

	January 31 2009	January 31 2008	Increase (decrease)		Explanation of variations other than foreign exchange impact
			Foreign exchange impact	Variation excluding foreign exchange	
Cash and cash equivalents	\$ 3,470	\$ 3,602	\$ (494)	\$ 362	See the previous Variation in cash and cash equivalents table for details.
Invested collateral	777	1,295	(128)	(390)	Decrease due to the release of a portion of the existing collateral used to secure our obligations under our letter of credit facilities (\$390 million) following the renegotiation of the BT and BA facilities.
Receivables	1,981	1,998	(183)	166	Increase mainly due to a higher level of receivables in BA (\$323 million) resulting mainly from a higher level of wide-body business aircraft deliveries and delays in business aircraft customers obtaining financing. Increase was partially offset by a lower level of receivables in BT (\$74 million).
Aircraft financing	418	626	(8)	(200)	Decrease mainly due to the adoption of the new fair value measurement method for financial instruments <sup>(1)</sup> (\$106 million) and to a decrease in loans and lease receivables (\$68 million).
Gross inventories	8,830	7,725	(972)	2,077	Increase in gross inventories mainly due to increases in long-term contracts (\$1.3 billion) in line with the ramp-up in production at BT, increase in aerospace programs (\$493 million) in line with the production rate increases in the first three quarters of fiscal year 2009, and increase in finished products (\$612 million). This increase is resulting from increased inventories of new aircraft due to deferrals of deliveries and cancellations for both business and commercial aircraft, and to an additional 16 pre-owned business aircraft in inventories resulting from a softer market for pre-owned aircraft. The increase in gross inventories was partially offset by write-offs of \$277 million relating to EOAPC and \$41 million relating to G&A overhead costs, following changes in accounting policies <sup>(1)</sup> . Net increase in total advances and progress billings is mainly due to higher advances and progress billings on long-term contracts (\$924 million) in line with increased activities in BT.
Advances and progress billings	(3,308)	(2,633)	(501)	1,176	
Inventories	5,522	5,092			
Advances and progress billings in excess of related long-term contract costs	(2,072)	(2,791)	(467)	(252)	
Advances on aerospace programs	(2,991) (5,063)	(2,926) (5,717)	-	65	
Property, plant and equipment	1,568	1,732	(174)	10	Slight increase due to additions (\$246 million), partially offset by amortization (\$180 million) and disposals (\$54 million).
Intangible assets	1,399	1,451	(27)	(25)	Slight decrease due to amortization (\$360 million) and change in G&A overhead allocation policy on program tooling <sup>(1)</sup> (\$23 million), partially offset by additions (\$376 million).

(1) See the Accounting and reporting developments section in Other for further details.



	January 31 2009	January 31 2008	Increase (decrease)		Explanation of variations other than foreign exchange impact
			Foreign exchange impact	Variation excluding foreign exchange	
Fractional ownership deferred costs	444	500	-	(56)	Both decreases are due to a decline in fractional aircraft shares sold to external customers, as a result of the current economic environment.
Fractional ownership deferred revenues	(573)	(631)	-	(58)	
Deferred income tax asset	1,216	935	(64)	345	Increase mainly due to the deferred income tax recorded on derivative financial instruments that are in a net liability position compared to January 31, 2008 (\$165 million), and impact of changes in accounting policies <sup>(1)</sup> (\$116 million).
Accrued benefit assets	926	924	-		No significant variation.
Accrued benefit liabilities	(992) (66)	(1,066) (142)	7 7	(83)	
Derivative financial instruments - assets	626	458	-		Net decrease mainly due to the recent weakening of the Canadian dollar, euro and pound sterling against the U.S. dollar.
Derivative financial instruments - liabilities	(1,194) (568)	(276) 182	9 (9)	(741)	
Goodwill	2,010	2,533	(482)	(41)	No significant variation.
Other assets	949	974	(75)	50	No significant variation.
Accounts payable and accrued liabilities	(6,988)	(6,919)	(695)	764	Increase mainly due to a higher level of accounts payable and accrued liabilities in BA, in line with the increase in gross inventories on aerospace programs following the production rate increases in the first three quarters of fiscal year 2009 (\$373 million), and in BT in line with the ramp-up in production (\$319 million).
Long-term debt	(3,952)	(4,393)	(372)	(69)	Decrease mainly due to repayments (\$166 million), partially offset by an increase in the fair value of derivative financial instruments designated as fair value hedge on the long-term debt (\$134 million).
Shareholders' equity	(2,544)	(3,118)	n/a	(574)	Decrease mainly due to the negative impact of cash flow hedges measured at fair value (\$566 million), negative CTA impact from the recent weakening of the euro and other currencies against the U.S. dollar (\$526 million), reduction from changes in accounting policies <sup>(1)</sup> (\$327 million), and dividends paid (\$147 million), partially offset by net income (\$1.0 billion). The negative impact relating to cash flow hedges will be entirely compensated by the positive offsetting effect of lower future costs incurred in the related foreign currencies.

(1) See the Accounting and reporting developments section in Other for further details.  
n/a: Not applicable.

# NON-GAAP FINANCIAL MEASURES

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

Non-GAAP financial measures	
<b>Profitability</b>	
EBITDA	Earnings before financing income, financing expense, income taxes and depreciation and amortization.
EBITDA, EBIT, EBT and EPS, before special items	EBITDA, as defined above, and other relevant Canadian GAAP financial measures, before special items.
EBIT before EOAPC charge	Earnings before financing income, financing expense, income taxes and EOAPC charge.
<b>Liquidity</b>	
Free cash flow	Cash flows from operating activities less net additions to property, plant and equipment and intangible assets.
<b>Capital structure</b>	
Adjusted debt	Long-term debt plus the total pension deficit (including the off-balance sheet portion) and the net present value of operating lease obligations.
Adjusted EBIT	EBIT before special items plus adjustment for operating leases and pension deficit.
Adjusted EBITDA	EBITDA before special items plus amortization adjustment for operating leases and adjustment for operating leases and pension deficit.
Adjusted net interest	Financing income and financing expense plus adjustment for operating leases and pension deficit.
Adjusted total capitalization	Adjusted debt plus shareholders' equity less amount in AOCI relating to cash flow hedges.

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

## Profitability

A reconciliation to the most comparable Canadian GAAP financial measures is provided in the following sections:

- EBITDA to EBIT – see the Results of operations table before and in BA and BT;
- EBITDA and EBIT, before special item, to EBIT – see the Results of operations table before and in BT;
- EBIT before special item and EOAPC charge to EBIT – see table below;
- EBT before special item to EBT – see the Results of operations table before; and
- basic and diluted EPS before special item, to basic and diluted EPS – see opposite table.

Reconciliation of EPS before and after special item	
	Fiscal year 2008
Net income before special item	\$ 479
Special item, net of tax	(162)
Net income	\$ 317
Basic EPS (in dollars):	
Before special item	\$ 0.26
Special item, net of tax	(0.09)
	\$ 0.17
Diluted EPS (in dollars):	
Before special item	\$ 0.26
Special item, net of tax	(0.09)
	\$ 0.16

## Reconciliation of EBIT before special item and EOAPC charge to EBIT

	Fourth quarter ended January 31, 2008			Fiscal year ended January 31, 2008		
	Consolidated	BA	BT	Consolidated	BA	BT
EBIT before special item and EOAPC charge	\$ 372	\$ 263	\$ 109	\$ 1,173	\$ 834	\$ 339
Special item	-	-	-	(162)	-	(162)
EBIT before EOAPC charge	372	263	109	1,011	834	177
EOAPC charge	(67)	(67)	-	(271)	(271)	-
EBIT	\$ 305	\$ 196	\$ 109	\$ 740	\$ 563	\$ 177

## Liquidity

A reconciliation of free cash flow to the most comparable Canadian GAAP financial measure, cash flows from operating activities, is provided in the previous Reconciliation of free cash flow to cash flow from operating activities table.

## Capital structure

A reconciliation to the most comparable Canadian GAAP financial measure is provided hereafter:

- adjusted debt to long-term debt;
- adjusted EBIT and adjusted EBITDA, to EBIT;
- adjusted net interest to financing income and financing expenses; and
- adjusted total capitalization to shareholders' equity.

Reconciliation of adjusted debt to long-term debt		
	January 31 2009	January 31 2008
Long-term debt	\$ 3,952	\$ 4,393
Pension deficit	1,543	1,180
Operating lease obligations <sup>(1)</sup>	346	518
Adjusted debt	\$ 5,841	\$ 6,091

(1) Discounted using the average five-year U.S. treasury notes plus the average credit spread, given our credit rating, for the fiscal year.

Reconciliation of adjusted EBITDA and adjusted EBIT, to EBIT		
	Fiscal year 2009	Fiscal year 2008
EBIT	\$ 1,411	\$ 740
Special item	-	162
EBIT before special item	1,411	902
Adjustment for operating leases and pension deficit <sup>(1)</sup>	106	111
Adjusted EBIT	1,517	1,013
Amortization adjustment for operating leases <sup>(2)</sup>	39	58
Amortization	555	512
Adjusted EBITDA	\$ 2,111	\$ 1,583

(1) Represent the interest cost of a debt equivalent to the amount included in adjusted debt for these two items, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the fiscal year, given our credit rating for the corresponding fiscal year.

(2) Represent a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

Reconciliation of adjusted net interest to financing income and financing expense		
	Fiscal year 2009	Fiscal year 2008
Financing income and financing expense	\$ 138	\$ 301
Adjustment for operating leases and pension deficit <sup>(1)</sup>	106	111
Adjusted net interest	\$ 244	\$ 412

(1) Represent the interest cost of a debt equivalent to the amount included in adjusted debt for these two items, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the fiscal year, given our credit rating for the corresponding fiscal year.

Reconciliation of adjusted total capitalization to shareholders' equity		
	January 31 2009	January 31 2008
Shareholders' equity	\$ 2,544	\$ 3,118
Exclude: amount in AOCI relating to cash flow hedges	455	(111)
Adjusted debt	5,841	6,091
Adjusted total capitalization	\$ 8,840	\$ 9,098



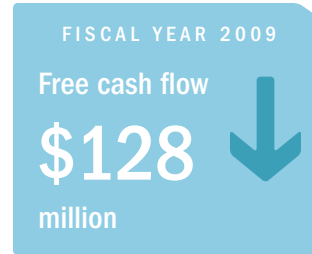
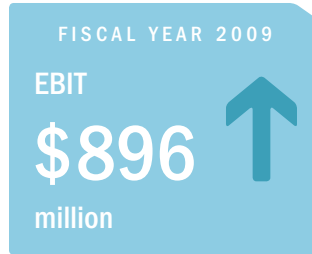
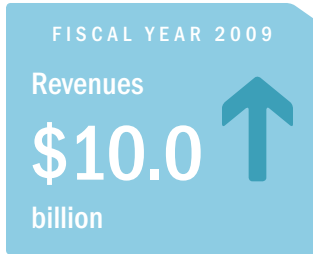
# AEROSPACE

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

<b>HIGHLIGHTS</b>	Highlights of the fourth quarter and fiscal year.	57
<b>KEY PERFORMANCE MEASURES AND METRICS</b>	Key performance measures and related metrics that we use to monitor our progress. Our progress over the last five years.	58
<b>FORWARD-LOOKING STATEMENTS</b>	Assumptions and risks related to our forward-looking statements.	58
<b>PROFILE</b>	Overview of our operations and products.	59
<b>BUSINESS ENVIRONMENT</b>	Position of our industry in the current business environment.	62
<b>STRATEGIES AND CAPABILITY TO DELIVER RESULTS</b>	Our five strategic priorities to strengthen our long-term industry leadership. Our fiscal year 2009 achievements. How we will deliver.	64
<b>MARKET AND OUTLOOK</b>	Overview of our markets and major competitors. Short-term and long-term market outlook.	71
<b>ANALYSIS OF RESULTS</b>	Our financial performance in the fourth quarter and fiscal year 2009: revenues, EBIT, free cash flow and net orders. Order backlog and workforce as at January 31, 2009.	82

# HIGHLIGHTS

## Improved financial performance but we are facing challenges



↑ Figure is higher than in fiscal year 2008 or higher than as at January 31, 2008.

↓ Figure is lower than in fiscal year 2008.

### Fourth quarter

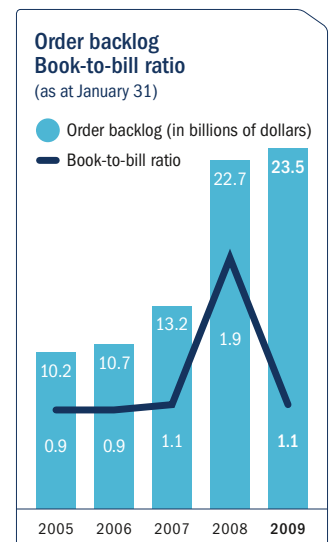
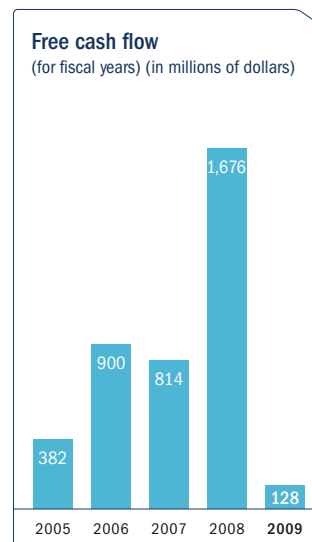
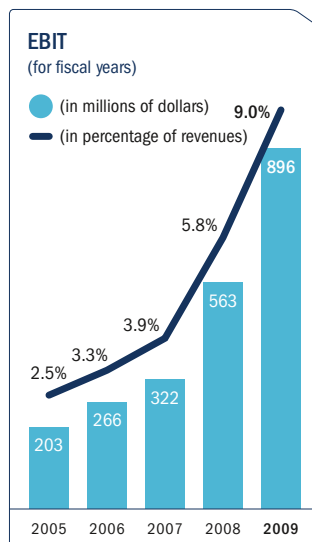
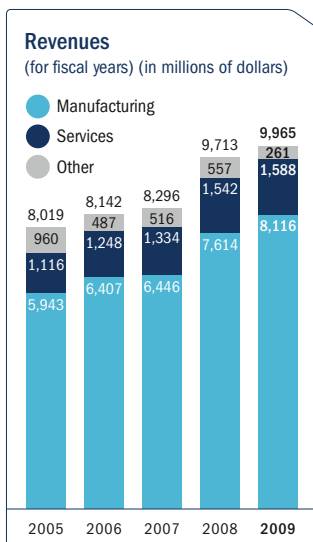
- Revenues of \$2.8 billion, compared to \$2.9 billion for the same period last fiscal year.
- EBIT of \$271 million, or 9.8% of revenues, compared to \$196 million, or 6.8% (\$263 million, or 9.1%, before EOAPC charge), for the same period last fiscal year.
- Free cash flow usage of \$271 million, compared to free cash flow of \$554 million for the same period last fiscal year.
- 93 aircraft deliveries and six net orders, compared to 115 and 213, respectively, for the same period last fiscal year.

### Fiscal year

- Revenues of \$10.0 billion, compared to \$9.7 billion last fiscal year.
- EBIT of \$896 million or 9.0% of revenues, compared to \$563 million, or 5.8% (\$834 million, or 8.6%, before EOAPC charge), last fiscal year.
- Free cash flow of \$128 million, compared to \$1.7 billion last fiscal year.
- 349 aircraft deliveries and 367 net orders, compared to 361 and 698, respectively for the last fiscal year.
- Order backlog of \$23.5 billion, compared to \$22.7 billion as at January 31, 2008.
- The prototype of the CRJ1000 NextGen aircraft had a successful first flight from the Mirabel, Québec, site in September 2008.

### Subsequent events

- Reduction in production rates for all our business aircraft, and for all our regional jets later in fiscal year 2010, leading to a reduction of our workforce by approximately 4,400 permanent and contractual employees representing 14% of our total workforce as at January 31, 2009.
- Our February 5, 2009 guidance of 10% fewer business aircraft deliveries for fiscal year 2010 has been revised to 25% fewer deliveries, while our guidance on commercial aircraft deliveries remains an increase of 10%, both compared to fiscal year 2009.
- In March 2009, Deutsche Lufthansa AG ("Lufthansa") signed a purchase agreement for 30 CS100 aircraft, with options for an additional 30 CSeries aircraft and Lease Corporation International Aviation (New Buildings) Limited ("Lease Corporation") signed a purchase agreement for 3 CS100 aircraft and 17 CS300 aircraft, with options for an additional 20 CSeries aircraft.



# KEY PERFORMANCE MEASURES AND METRICS

Incentive compensation is linked to the achievement of targeted results, based on EBIT and average adjusted net segmented assets. For fiscal year 2010, our incentive compensation, which we will start to extend to most salaried employees in Canada and in the U.S., will continue to be based on EBIT and average adjusted net segmented assets, and

in addition will also be linked to two customer satisfaction metrics: on-time aircraft deliveries and fleet dispatch reliability. The table below summarizes our most relevant key performance measures and relevant metrics.

<b>Profitability</b>	<ul style="list-style-type: none"> <li>EBIT, as a measure of performance.</li> </ul>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>Free cash flow, as a measure of liquidity generation.</li> </ul>
<b>Growth and competitive positioning</b>	<ul style="list-style-type: none"> <li>Revenues and delivery units, as a measure of growth.</li> <li>Order backlog, as a measure of future revenues.</li> <li>Book-to-bill ratio, as an indicator of future revenue growth. The ratio represents the net orders received over aircraft deliveries, measured in units in a given period.</li> <li>Market share, in terms of revenues and deliveries, and scale, as measures of competitive positioning.</li> </ul>
<b>Capital employed</b>	<ul style="list-style-type: none"> <li>Average adjusted net segmented assets, as a measure of capital efficiency.</li> </ul>
<b>Customer satisfaction</b>	<ul style="list-style-type: none"> <li>On-time aircraft deliveries, as a measure of meeting our commitment to customers.</li> <li>Fleet dispatch reliability, as a measure of the reliability of our products.</li> </ul>

	2009	2008	2007	2006	2005
<b>For fiscal years</b>					
Aircraft deliveries (in units)					
Business aircraft	235	232	212	197	131
Commercial aircraft	110	128	112	138	197
Amphibious aircraft	4	1	2	2	1
	349	361	326	337	329
Revenues	\$ 9,965	\$ 9,713	\$ 8,296	\$ 8,142	\$ 8,019
EBIT	\$ 896	\$ 563 <sup>(1)</sup>	\$ 322 <sup>(2)</sup>	\$ 266 <sup>(3)</sup>	\$ 203 <sup>(3)</sup>
EBIT margin	9.0%	5.8% <sup>(1)</sup>	3.9% <sup>(2)</sup>	3.3% <sup>(3)</sup>	2.5% <sup>(3)</sup>
Free cash flow	\$ 128	\$ 1,676	\$ 814	\$ 900	\$ 382
Net orders (in units)	367	698	363	302	288
Book-to-bill ratio	1.1	1.9	1.1	0.9	0.9
<b>As at January 31</b>					
Order backlog (in billions)	\$ 23.5	\$ 22.7	\$ 13.2	\$ 10.7	\$ 10.2
Total number of employees <sup>(4)</sup>	32,500	28,100	27,100	26,800	27,100

(1) EBIT of \$834 million, or 8.6%, before EOAPC charge.

(2) EBIT of \$599 million, or 7.2%, before EOAPC charge.

(3) EBIT before EOAPC charge for these two fiscal years was not restated.

(4) Including contractual employees.

## Forward-looking statements

Forward-looking statements<sup>(1)</sup> in this section of the MD&A are based on:

- a return to normal economic conditions over the next two fiscal years;
- current order backlog and estimated future order intake determined by<sup>(2)</sup>:
  - decreased orders for business aircraft for fiscal year 2010 compared to fiscal year 2009, followed by a gradual recovery by fiscal year 2012 to a level of orders similar to that in fiscal year 2009;
  - decreased orders for commercial aircraft for fiscal year 2010 compared to fiscal year 2009 (excluding orders for the CSeries family of aircraft) followed by a gradual recovery in fiscal year 2011 to a level of orders similar to that in fiscal year 2009; and
  - decreased aftermarket service revenues resulting from the lower utilization of the in-service fleet until the end of fiscal year 2010, with a gradual recovery in fiscal year 2011.

- continued deployment and execution of leading initiatives related to cost reductions;
- ability to meet scheduled entry-into-service dates for new aircraft programs;
- ability to recruit and retain highly skilled people to deploy our product development strategy;
- ability of supply base to support planned production rates; and
- Canadian GAAP as currently applied by the Corporation.<sup>(3)</sup>

(1) See also the Forward-looking statements section in Overview.

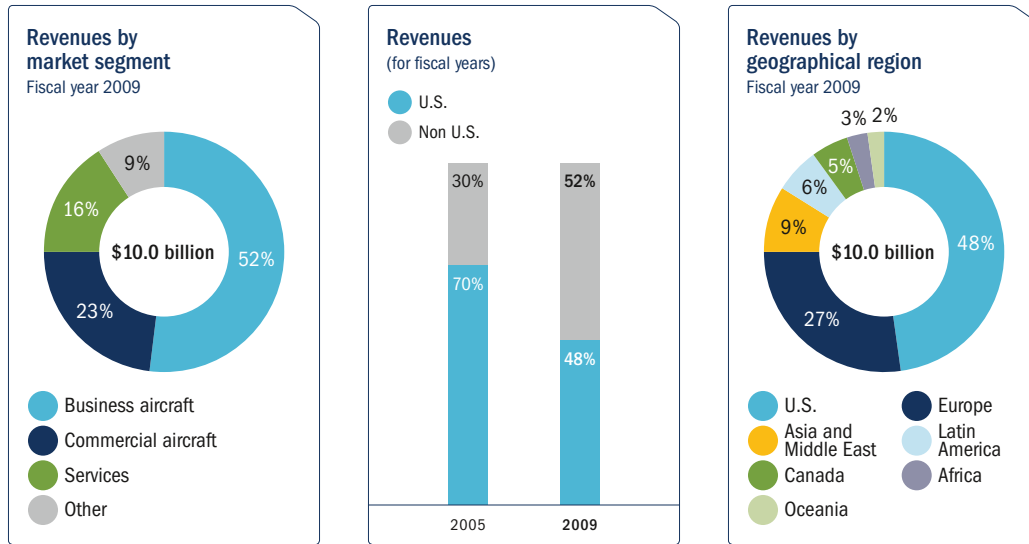
(2) Demand forecast is based on the analysis of main market drivers, as detailed in the Market and outlook section.

(3) Before taking into account the changeover to IFRS (see the Accounting and reporting developments section in Other).



# PROFILE

## Bombardier Aerospace – A world leader



We are a world leader in the design and manufacture of innovative aviation products and a provider of related services for the business, commercial, amphibious and specialized aircraft markets. Through our ten manufacturing and engineering sites and our international service and support network, we have a presence in 23 countries. We had a workforce of 32,500 employees as at January 31, 2009, of which 55% were covered by collective agreements.

Our revenues reached \$10.0 billion for fiscal year 2009. We are becoming less concentrated on the U.S. market, with the U.S. accounting for 48% of our total revenues for fiscal year 2009, compared to 70% for fiscal year 2005.

Our customers are located in over 100 countries and are primarily civil-owner operators or aviation service providers. They consist mainly of corporations and high-net-worth individuals for business aircraft, and airlines and leasing companies for commercial aircraft. *Flexjet* and *Skyjet* also serve the private jet travel needs of corporations and high-net-worth individuals in North America without the requirement for them to purchase and manage an entire aircraft.

### Meeting the needs of our customers

Our business aircraft customers are buying aircraft that meet their requirements in terms of performance such as speed and range, cabin comfort and style, amenities and interior customization. Our business jet customers expect nothing less than reliable flight operations with flawless service and maintenance support and exclusive and personalized customer care. Our industry-leading comprehensive portfolio of business jets and our focus on delivering an amazing

customer experience allow us to meet the high standards of our business aircraft customers.

Our commercial aircraft customers are buying aircraft that meet their required range and payload. They are selecting product features that ensure safe, reliable service that is adapted to their business model, such as:

- regional airlines offering higher-frequency service to complement mainline airlines;
- commercial airlines needing the right capacity in order to meet flight frequency expected by passengers at cost levels that allow for profitable operations; or
- low-fare carriers needing aircraft that consistently deliver low seat-mile costs while subjected to very high utilization levels.

Our broad portfolio of commercial aircraft, including our *CSeries* family of aircraft, is designed to meet those diverse operational requirements from airlines around the world.

### We have a strong supply chain

An effective global supply chain is critical to our business. We seek long-term relationships with major direct and indirect suppliers for the development of new aircraft programs and for the delivery of materials, major systems and components to build and deliver aircraft and support our customers with related services. We are continuously assessing and streamlining our supplier base to ensure an efficient global supply chain and sustainable procurement processes. Within our supply chain, we have built relationships with suppliers present in over 35 countries.

## We have a strong product and service offering

### BUSINESS AIRCRAFT

Our three families of business jets, which combined, represent the most comprehensive offering of all business aircraft manufacturers, enable us to address the needs of most business aircraft users, owners and operators. The market categories in which we have a product offering cover 95% of the total business aircraft market revenue.



#### LEARJET FAMILY OF AIRCRAFT

**MODELS:** *Learjet 40 XR, Learjet 45 XR, Learjet 60 XR and Learjet 85<sup>(1)</sup>*

**MARKET CATEGORY:** Light business jets

**COMPETITIVE ADVANTAGES<sup>(2)</sup>:** The *Learjet* heritage of high performance is upheld by each *Learjet* product. The *Learjet* family of aircraft sport exceptionally fast cruise speeds, highest climb rates and operating ceilings, with competitive operating costs.

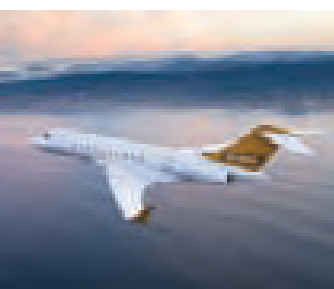


#### CHALLENGER FAMILY OF AIRCRAFT

**MODELS:** *Challenger 300, Challenger 605 and Challenger 800 Series*

**MARKET CATEGORY:** Medium business jets

**COMPETITIVE ADVANTAGES<sup>(2)</sup>:** The *Challenger* family of aircraft are productivity enhancing business tools, each model having high dispatch reliability. The *Challenger* aircraft have among the widest, most spacious cabins within their segments, and each is outfitted with the right cabin communication equipment, creating highly efficient business environments in the sky.



#### GLOBAL FAMILY OF AIRCRAFT

**MODELS:** *Global 5000 and Global Express XRS*

**MARKET CATEGORY:** Large business jets

**COMPETITIVE ADVANTAGES<sup>(2)</sup>:** The *Global* family of aircraft has faster cruise speeds and greater interior volume, and provides the perfect balance of performance and comfort for long range missions. These superior long- and ultra long-range business aircraft incorporate advanced technologies and superior design.

### AMPHIBIOUS TURBOPROPS AND SPECIALIZED AIRCRAFT SOLUTIONS



**MODELS:** *Bombardier 415 and Bombardier 415 MP*

**COMPETITIVE ADVANTAGES<sup>(2)</sup>:** The *Bombardier 415* amphibious aircraft, a purpose-built fire fighting aircraft, offers unique operational capabilities and exceptional performance, allowing it to operate in the most rugged and demanding of circumstances.

**MODELS:** *All Bombardier business and commercial aircraft.*

**COMPETITIVE ADVANTAGES<sup>(2)</sup>:** Specialized aircraft solutions offer a comprehensive and unique range of aircraft platforms and solutions.

(1) Currently under development. (2) Under certain operating conditions, when compared to currently in-service aircraft.

## COMMERCIAL AIRCRAFT

Our portfolio of products is optimized for the market segments they serve. Our *CSeries* family of commercial aircraft is set to redefine the 100- to 149-seat category with operational flexibility, cost effectiveness and passenger comfort. It will be the most environmentally sensitive family of aircraft in its market segment.

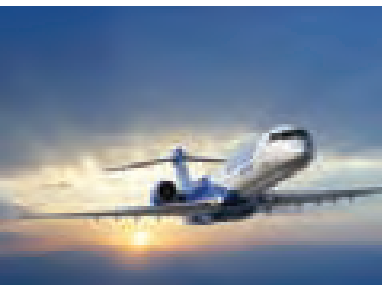


### Q-SERIES TURBOPROP

**MODEL:** Q400 NextGen

**MARKET CATEGORY:** 60- to 90-seat turboprops

**COMPETITIVE ADVANTAGES<sup>(1)</sup>:** Competitive operating costs and jet-like speed, an extended range, as well as product commonality across the family.



### CRJ NEXTGEN REGIONAL JETS FAMILY OF AIRCRAFT

**MODELS:** CRJ200<sup>(2)</sup>, CRJ700/CRJ705 NextGen, CRJ900 NextGen and CRJ1000 NextGen<sup>(3)</sup>

**MARKET CATEGORY:** 40- to 100-seat regional jets

**COMPETITIVE ADVANTAGES<sup>(1)</sup>:** Best-in-class operating costs, fuel burn, GHG emissions and product commonality across the family.



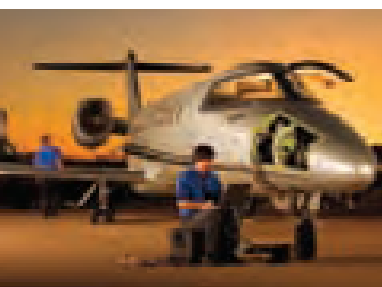
### CSERIES MAINLINE SINGLE-AISLE JETS FAMILY OF AIRCRAFT

**MODELS:** CS100<sup>(3)</sup> and CS300<sup>(3)</sup>

**MARKET CATEGORY:** 100- to 149-seat commercial jets

**COMPETITIVE ADVANTAGES<sup>(1)</sup>:** Designed to produce up to 15% lower cash operating costs and up to 20% lower fuel burn and CO<sub>2</sub> emissions, with transcontinental range and superior field performance.

## AIRCRAFT SERVICES



### CUSTOMER SERVICES

Parts logistics

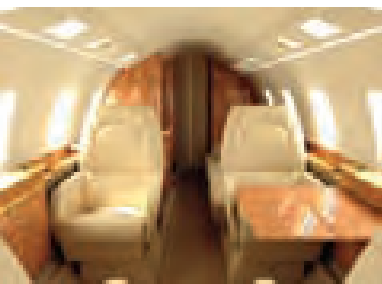
Aircraft maintenance

Training solutions

Tailored per hour parts and services solutions

Customer support

**COMPETITIVE ADVANTAGES:** Worldwide service and support through a network of field service personnel, 24/7 customer response centres, a flexible airborne parts delivery service, spare parts depots, training centres, service centres and authorized service facilities.



### FLEXJET AND SKYJET PROGRAMS IN THE U.S.

Fractional ownership

Jet card programs

On-demand charter

Aircraft management

**COMPETITIVE ADVANTAGES:** Amongst the youngest fleet in the U.S. fractional ownership industry. In calendar year 2008, *Flexjet* was selected as 2008 "Best of the Best" in its respective category by the Robb Report publication.

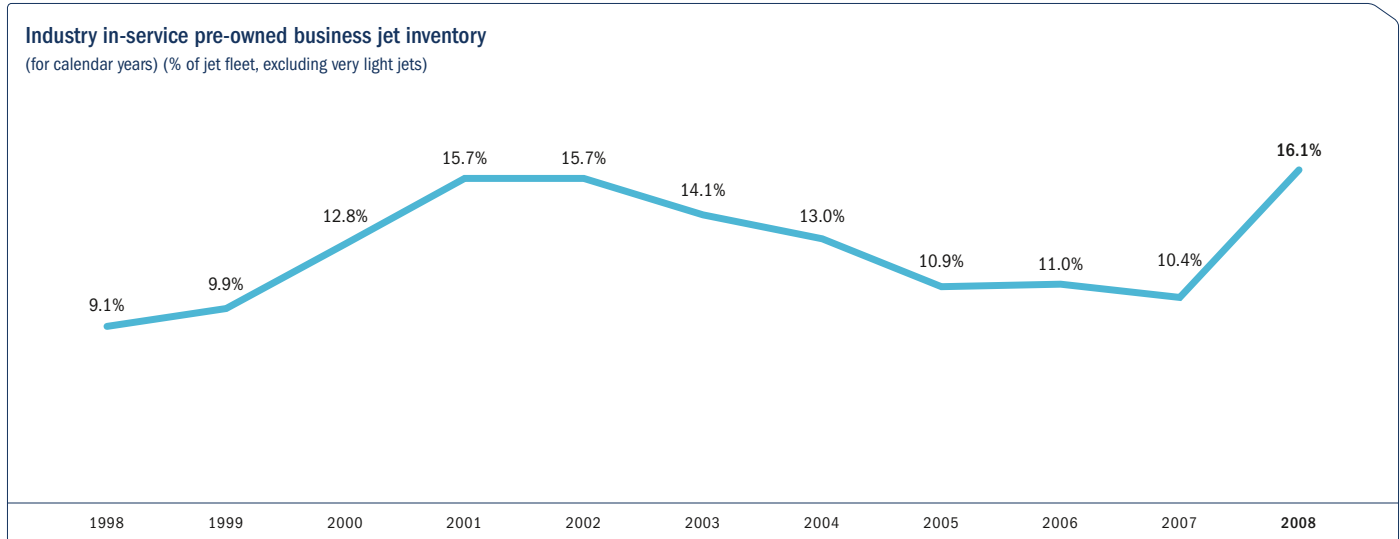
(1) Under certain operating conditions, when compared to currently in-service aircraft in the respective category for short-haul flights of 500 nautical miles.  
 (2) Not currently in production. (3) Currently under development.

# BUSINESS ENVIRONMENT

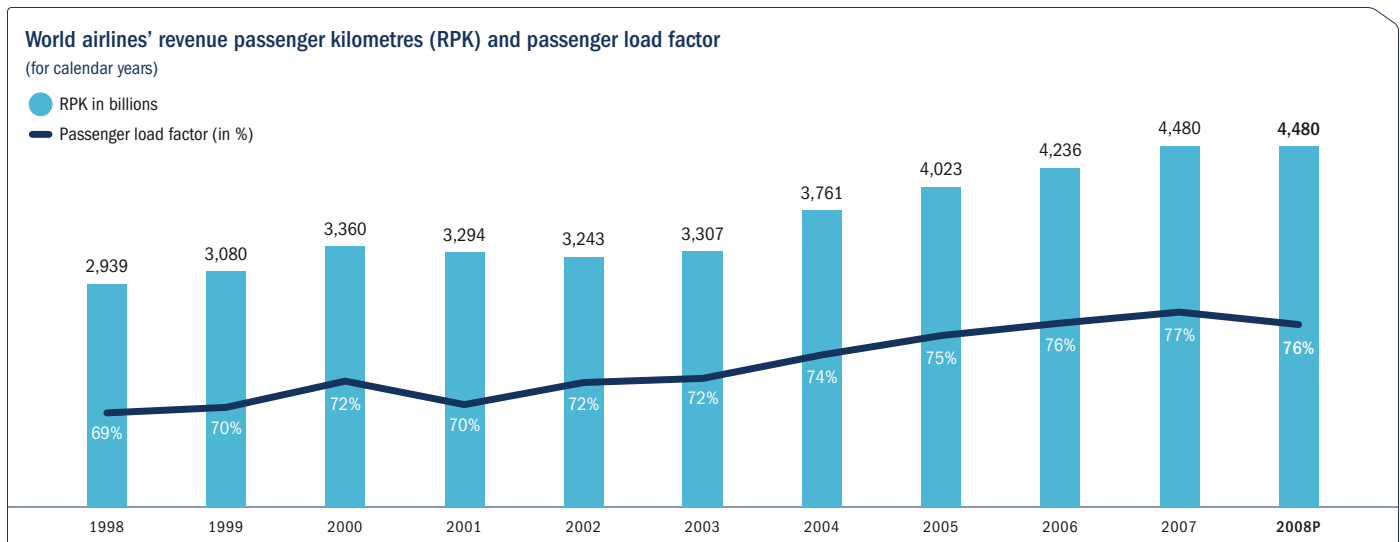
## The current economic environment is challenging and we are taking action

During fiscal year 2009, the aerospace industry has experienced worsening business conditions. Since the second quarter of fiscal year 2009, market events have reduced available liquidity and overall economic activity, leading to a severe recession that has impacted the business jet and commercial aviation industries. As a result, the order intake for new aircraft deeply slowed and the aviation industry faced a greater-than-usual level of deferrals of delivery positions and

cancellations, especially for business jets. These negative trends have continued in fiscal year 2010 and we anticipate them to continue in the short term. The current economic environment has led to an increase in the in-service pre-owned business jet inventory and to a decrease in demand for air travel, highlighted by the first declining year in passenger load factors since calendar year 2001.



Source: Based on Jetnet and Case database.



Source: Airlines Monitor, January-February 2009.

As a result of the continued deterioration in our market drivers for business aircraft and the impact of cancellations, deferrals and lower order intake, we have taken the decision to reduce our production rates for all business aircraft families. In light of this decision, we are revising our February 5, 2009 guidance of 10% fewer business aircraft deliveries for fiscal year 2010 to 25% fewer business aircraft deliveries, when compared to fiscal year 2009.

For commercial aircraft, we continue to see steady demand for the Q400 turboprop and as a result, we have increased our production rate for this aircraft. Recent orders for the Q400 NextGen turboprop demonstrate that we have the right product for operators looking to take advantage of the competitive operating economics of this aircraft. However, the commercial airline industry has been impacted by a drop in passenger traffic and therefore we are also planning for a reduction in the

production rate for all regional jets later in fiscal year 2010 to align with demand. Since this reduction will take effect later in fiscal year 2010, we maintain our previous February 5, 2009 delivery guidance for fiscal year 2010 of delivering 10% more commercial aircraft when compared to fiscal year 2009.

Going forward, we will continue to closely monitor our exposure to the following risks, which could impact future profitability and cash flows, and we are ready to take further action if required:

- high deferrals and cancellation rates;
- low order intake;
- low availability of customer financing;

- deterioration in the financial health of our key suppliers; and
- sustained increase in pre-owned business jet inventories and the resulting impact on pricing for both new and pre-owned aircraft.

We have taken significant steps to strengthen our operations over the past few years, as demonstrated by our improved financial performance in fiscal year 2009, and we will continue to be prudent and take decisive action to ensure our continued success over the long term and maintain our leadership position by meeting customer commitments and by continuing to invest in our current and future products.

## Despite current economic challenges, the world needs efficient air travel

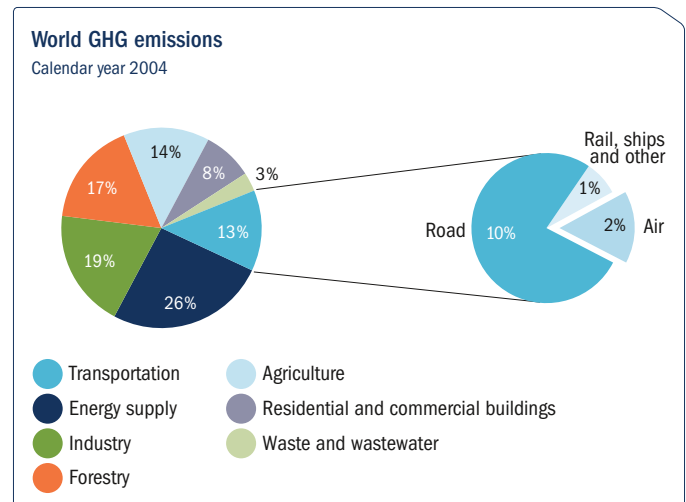
### Aircraft are meeting the demand for global mobility and are becoming more fuel-efficient and greener

Aircraft support the growing demand for global mobility and enable economic and social progress. They provide access to international markets and generate trade and tourism. They forge links between nations and cultures. Civil aviation, mainly commercial and business, helps connect communities and extend the global transportation network to remote locations. Current economic conditions have dampened that demand, but we do not expect the current recession to impact market fundamentals in the long run, and as such we expect demand to gradually return as the world starts to emerge from the current recession.

Besides the obvious advantages that aircraft provide, the civil aviation industry has always been faced with key challenges that it needs to address to remain an essential part of tomorrow's sustainable mobility. Foremost among these challenges is ensuring the safety and reliability of air travel. Second, in light of declining passenger traffic and fuel cost volatility, airlines and operators must eliminate inefficiencies by rightsizing their fleet and by employing more modern and energy-efficient aircraft. Reducing the noise and carbon emission footprint and attracting and retaining a skilled workforce also figure prominently among the industry's shared challenges. We believe that by putting all the required effort into addressing these challenges, we will remain at the forefront of global mobility.

Air travel contributes 2% of the globe's GHG emissions. Air transport's impact on the environment, mainly through noise and emissions affecting local air quality and global climates, has gained public attention in recent years. New regulations, such as emissions trading schemes, are expected to influence even more airlines and operators to replace less efficient aircraft with newer aircraft with a lower environmental footprint.

We are working with airlines to reduce their environmental footprint by developing and delivering aircraft with lower fuel burn, resulting in



lower GHG and noise emissions. Our *CRJ NextGen* Series of aircraft generate up to 35% less CO<sub>2</sub> emissions, compared to similar capacity older-generation aircraft on short-haul flights of 500 nautical miles, under certain operating conditions. In addition, our *Q400 NextGen* turboprop generates 30%-40% less CO<sub>2</sub> emissions compared to similar older-generation turboprops or 50-seat jets on short-haul flights of 300 nautical miles, under certain operating conditions, while also producing noise at a level significantly below current noise standards<sup>(1)</sup>. We are also encouraging airlines and business jet owners and operators to proactively adopt sustainable practices. For example, we became the first OEM to offer business aircraft customers a fully managed carbon-offset program to annually offset their aircraft's average carbon emissions. Since October 2008, we also offer *Flexjet* owners the opportunity to offset carbon emissions each time they fly. We also follow these principles and decided, in September 2007, to offset the carbon emissions of our own demonstration fleet and *PartsExpress* aircraft. The funds collected through our carbon-offset program are invested in green energy projects through ClimateCare, one of the world's leading carbon-offset providers.

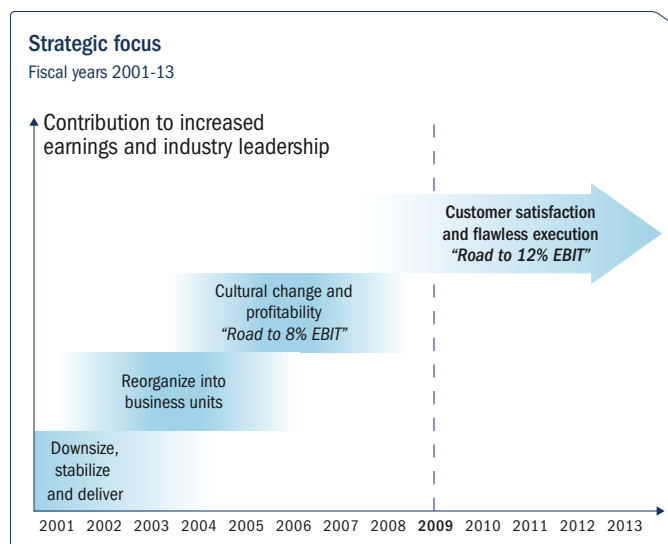
(1) Over 15 EPNdB (effective perceived noise, in decibels) below the stage IV International Civil Aviation Organization (ICAO) noise standards.

# STRATEGIES AND CAPABILITY TO DELIVER RESULTS

## Our strategy: Customer satisfaction and flawless execution

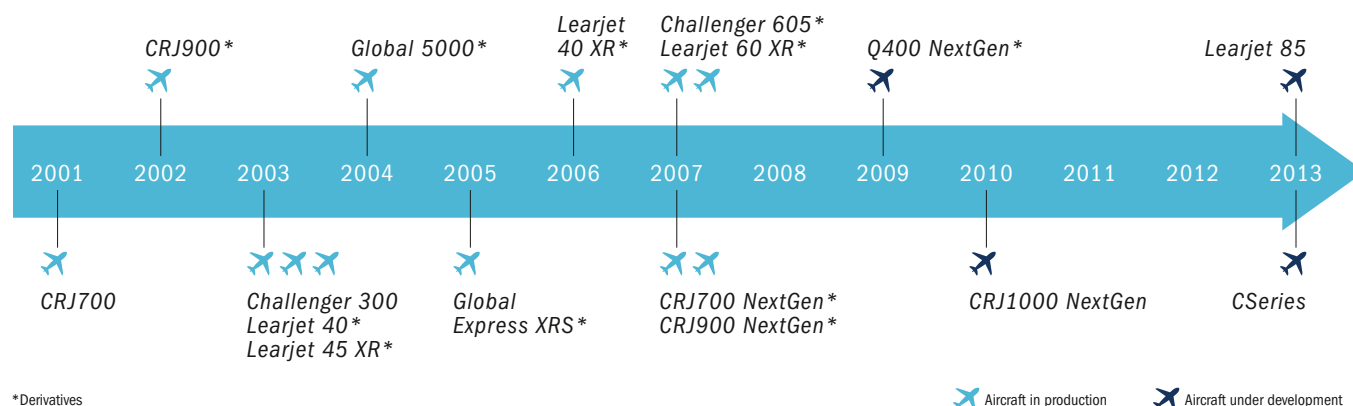
A glance at our performance since fiscal year 2001 provides much insight into our capability to overcome challenging times. Following the last market downturn after the events of September 11, 2001, we executed a turnaround that has brought us to our current path of becoming a world-class company through flawless execution. This turnaround involved some difficult decisions that had to be made at the time, including downsizing our operations, reducing our workforce and reorganizing into market segments (business aircraft, commercial aircraft and aircraft services) to improve accountability.

Since calendar year 2001, we also solidified our position in the growing business jet market through a targeted product strategy that brought eight business jets and derivatives to market while in the commercial aircraft market, we evolved to meet changing customer needs by bringing one new regional jet and three derivatives to market.



### New aircraft program and derivative entry-into-service dates

Calendar years 2001-13



By fiscal year 2004, we started on our path to profitable growth through our cultural transformation and our Achieving Excellence System. Our cultural transformation, operational improvements and supporting strategies have contributed to improving our results and exceeding our goal of an EBIT margin of 8% in fiscal year 2009.

In the near term, revenues, EBIT margin and free cash flow will be negatively impacted until markets return to normal economic conditions. However, we remain committed to our objective of an EBIT margin of 12% by fiscal year 2013<sup>(1)</sup>, through the effective management of operations, by continuing to invest in our product portfolio and by focusing on customer satisfaction, employee engagement and flawless execution.

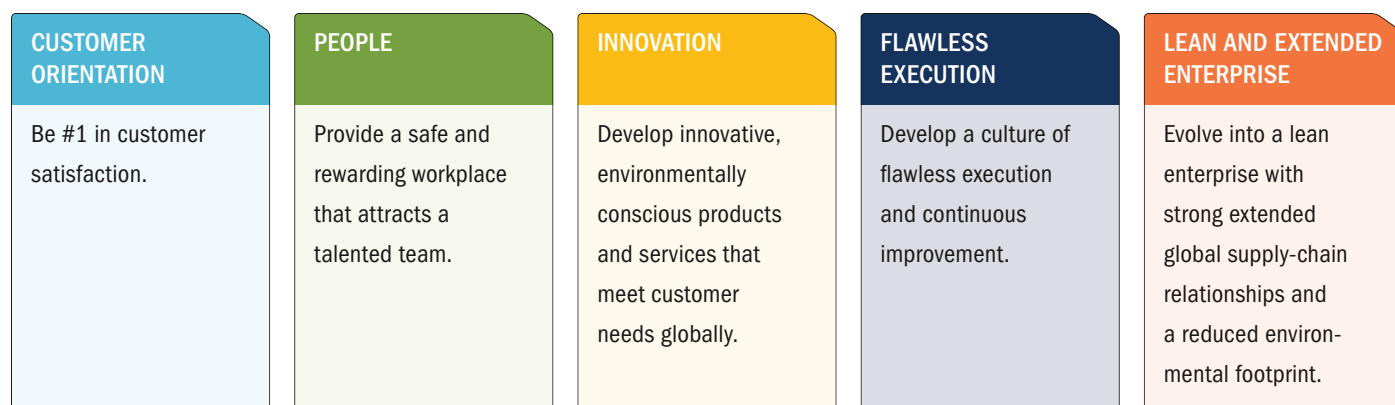
(1) See Forward-looking statements section.



## Five strategic priorities to strengthen our long-term industry leadership

Looking ahead, our objective is to strengthen our long-term leadership in our industry segments through revenue growth and sustainable best-in-class financial performance with the most loyal customer base. We will achieve this by leveraging our comprehensive portfolio

of high-performance business jets, efficient commercial jets and turboprops, and quality innovative aircraft services as well as through the following five strategic priorities:



### Delivering an amazing customer experience

Understanding our customers' needs is a top priority. We aim to deliver an amazing customer experience through our conduct and actions in all interactions with our customers. We have invested heavily in order to provide a consistently reliable experience for our customers and

we are focused on strengthening our internal quality processes and systems, increasing our employee incentives to focus on the customer, and expanding our services and support network worldwide to generate further improvement.

CUSTOMER ORIENTATION	
<b>Our goal</b>	Be #1 in customer satisfaction by exceeding our customer expectations and delivering on our brand promises through every customer interaction.
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>We are creating a customer-centric culture.</li> <li>We are improving the performance of our sale, contracting, delivery and support processes by establishing specific initiatives targeted at improving customer satisfaction.</li> <li>We are focusing on improving the performance of our aircraft by further strengthening our internal quality processes and systems.</li> <li>We are developing a problem-solving culture based on the use of rigorous tools and processes.</li> <li>We want to continue expanding our international service and support network to enhance our service offering and to always be closer to our customers.</li> <li>We plan to leverage this extended network to support our international customer base by providing parts logistics, aircraft maintenance services and support in remote regions.</li> <li>We are embedding two customer satisfaction metrics in our Management and Employee Incentive Compensation program to reinforce customer satisfaction focus throughout our organization: on-time deliveries and fleet dispatch reliability.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>We started the implementation of a new inventory management system for parts logistics and services in order to optimize forecasting, planning and worldwide spare parts inventory positioning.</li> <li>We continued the deployment of our regional spare parts depot optimization plan to improve parts availability and delivery performance.</li> <li>We launched a Customer Care organization for business aircraft owners and operators in order to improve our customer support management.</li> <li>We invested in international services infrastructure:               <ul style="list-style-type: none"> <li>established AOG teams at maintenance facilities in the U.S.;</li> <li>added four business aircraft AOG/line maintenance facilities in Buenos Aires, Argentina; Hillsboro, U.S.; Helsinki, Finland; and in Moscow, Russia; and</li> <li>opened commercial aircraft support offices in Garching, Germany, and in Sydney, Australia, and expanded the existing office in Shanghai, China.</li> </ul> </li> </ul>

## Creating a safe and rewarding workplace

Everywhere we operate, we strive to provide a safe and rewarding workplace. We respect our employees, welcome their ideas, support their development and celebrate their successes because we depend on them

to innovate, drive results and create an amazing customer experience. A reduction of our workforce is therefore always a difficult decision to make, especially when it impacts a large number of employees.

PEOPLE	
<b>Our goal</b>	Provide a safe and rewarding workplace that attracts a talented team and where people are engaged in delivering results.
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>We want to provide a safe working environment at all of our sites and continue to focus on improving our H&amp;S performance through lean principles empowering our employees to seek improvement in their work areas. As we continue to improve further, we have set six-year targets to reduce our accident frequency ratio to 0.5 accident per 200,000 hours worked and to reduce our accident severity ratio to 30 workdays lost per 200,000 hours worked, both ratios including hours worked for restricted duty.</li> <li>We maintain our objective to have 100% of our manufacturing and service sites with more than 150 employees certified to the Occupational Health and Safety Audit System (“OHSAS”) 18001 standard by the end of fiscal year 2010.</li> <li>We are developing means to attract new employees in order to support our aftermarket worldwide network and help us mitigate the impact of the industry-wide talent shortage in specific engineering specialties.</li> <li>We seek to help the development of our employees through our Talent Acceleration Pool program, which accelerates the development of high-potential employees through stretch jobs/assignments, special projects, feedback and coaching. Each employee is assessed by an external industrial psychologist and works with an assigned learning-coach to build a rigorous and customized development plan.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>We have implemented a system of health protection and workplace safety, based on OHSAS standards. This system helps us identify and control hazards and risks, and enables us to leverage best practices across our manufacturing and service facilities.</li> <li>We had 53% of our manufacturing and service sites with more than 150 employees certified to the OHSAS 18001 standards as at January 31, 2009, compared to 13% as at January 31, 2008.</li> <li>We had an accident frequency ratio of 1.32 accidents per 200,000 hours worked, compared to 1.23 in fiscal year 2008, but we have reduced our accident severity ratio to 39 workdays lost per 200,000 hours worked, compared to 41 in fiscal year 2008, both ratios including hours worked for restricted duty.</li> <li>In June 2008, we signed a six-year collective agreement with the IAMAW of Montréal that will expire in November 2014. The exceptional length of the term of this agreement should increase the stability of our Montréal workforce until the entry into service of the CSeries family of aircraft. This agreement will also allow us to manufacture the CSeries family of aircraft at our future Mirabel site, with further flexibility in terms of work arrangements with our employees.</li> </ul>

## Developing innovative products and services for our customers

Our goal is to develop innovative, environmentally conscious products and services that meet customer needs globally. Our priority is to design the most fuel-efficient aircraft with the lowest noise and carbon

emissions in their category. We also aim to innovate in our service offering to set new industry standards and respond to our customers' aftermarket and fleet-management needs.

INNOVATION	
<b>Our goal</b>	Develop innovative, environmentally conscious products and services that meet customer needs globally.
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>We are developing competency and capability in core strategic technologies in areas such as advanced composites, new metallic materials, electrical components (such as fly-by-wire technology), emerging technologies and novel future aircraft configurations. These new technologies will contribute to strengthening our product offering in terms of superior aircraft economics, cabin comfort, speed, range and reduced environmental footprint.</li> <li>We will leverage ongoing collaboration with universities and research institutions in Canada, the U.S. and Northern Ireland (U.K.), as well as expand R&amp;D relationships in Mexico, India and China, to support the development of core strategic technologies and competencies and gain from current and emerging aerospace engineering expertise worldwide.</li> <li>We are strengthening our Design for Environment program by developing and acquiring expertise within our R&amp;D product innovation engineering teams, focusing on integrating entire lifecycle environmental principles in the design phase of our future aircraft programs. This program examines lifecycle attributes such as recyclability, energy and fuel efficiency, GHG emissions, noise and other emissions, and thus supports our commitment to keep developing the most environmentally conscious products in their categories.</li> <li>We will continue to focus on providing customers with total lifecycle solutions that address the complete aftermarket experience, including parts requirements, maintenance services and pilot training. For example, we will continue to develop our Smart Services program for business and commercial aircraft customers, which is an integrated fleet management service offering, typically paid through fixed rates per flight hours.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>In Montréal, we created the Aerospace Product Development Centre ("APDC"), the central hub of our extensive product development network. The APDC enables us to share knowledge and expertise, and to better optimize engineering resources. The APDC leverages talent from our existing dedicated centres of excellence in Montréal (Saint-Laurent, Mirabel and Dorval), Toronto, Wichita, Belfast and Querétaro, and with our engineering centre in Bangalore, India.</li> <li>We have received and accepted offers of repayable investments for the R&amp;D of the CSeries family of aircraft from the Governments of Canada and Québec, as well as Northern Ireland and British government departments. We have also contracted with a large portion of the key suppliers.</li> <li>We have successfully flown the first civil aircraft with an all-electric braking control system, which reduces the use of toxic hydraulic fluids.</li> <li>Through a technical collaboration with Bell Helicopter Textron Canada Limited (BHTCL), Canada's National Research Council (NRC) and Composites Atlantic Limited (CAL), we have completed manufacturing the first section of an advanced composite fuselage for business jets.</li> <li>We are involved in a U.K. national research program aimed at developing new composite wing technologies that will reduce the environmental impact of future aircraft. The program will enable the development of technologies that will lead to the design, manufacture and testing of more lightweight and efficient aircraft. We will focus on optimizing the overall design and manufacturing processes needed to produce a next-generation composite wing, with the emphasis on reducing weight, aerodynamic drag and lifecycle costs.</li> <li>We extended our <i>Smart Services</i> program to our Q400 aircraft customers.</li> <li>We have partnered with Jet Solutions L.L.C. to launch a new version of the popular <i>Flexjet 25</i> Jet Card, offering blocks of 12.5 hours of flight time. We also expanded <i>Flexjet's</i> service area to incorporate all of Central America and Northern Canada, and introduced innovative round-trip and efficient-trip pricing to benefit owners of larger shares.</li> </ul>

## Focus on flawless execution

We are developing a culture of flawless execution and continuous improvement to achieve world-class best practices in all our activities by improving the performance of current operations as well as how programs

are managed and products developed. This is our goal and priority in order to bring our products under development into service, while meeting our commitment in terms of aircraft deliveries and profitability.

FLAWLESS EXECUTION	
<b>Our goal</b>	Develop a culture of flawless execution and continuous improvement in order to achieve world-class best practices in all our activities, by improving the performance of current operations as well as how programs are managed and products developed.
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>▪ We are remaining focused on flawless execution at every phase in the development of our products in order to continue to provide high-quality products and ensure timely entry into service. This is achieved by harmonizing and standardizing program management and product development activities and through a rigorous risk management process at each stage of the manufacturing value chain.</li> <li>▪ We are aligning our organizational structure to clarify roles and responsibilities and reinforce a culture of accountability.</li> <li>▪ We are standardizing our operations and management processes across all sites, market segments and functions through our Achieving Excellence System, as well as implementing a common approach to lean manufacturing and creating a common set of metrics.</li> <li>▪ We are strengthening our program management governance to better share and leverage existing knowledge on product development activities, mainly the <i>CSeries</i> family of aircraft, as well as the <i>Learjet 85</i> and <i>CRJ1000 NextGen</i> aircraft.</li> <li>▪ We are proactively monitoring the exposure on our order backlog, future profitability and free cash flow that could result from sustained higher deferrals and cancellation rates, lower order intake, lower availability of customer financing, deterioration in the financial health of our key suppliers and a sustained increase in pre-owned aircraft jet inventories.</li> <li>▪ We are optimizing cash flow through the effective management of operations and net segmented assets, mainly inventories, receivables, advances from customers and capital expenditures.</li> <li>▪ We are transforming our program development process by concentrating on the reduction of design changes throughout the process in order to achieve early design maturity as well as product maturity and reliability at entry-into-service of aircraft.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>▪ We created operations and engineering committees, bringing together all senior management in charge of operations and engineering, to reinforce our effort to improve current operations and to foster flawless execution through an integrated system based on common processes, tools and best practices across all market segments and manufacturing sites.</li> <li>▪ In September 2008, the prototype of the <i>CRJ1000 NextGen</i> aircraft had a successful first flight. The <i>CRJ1000 NextGen</i> aircraft has completed approximately 40% of the total flight test program, and is expected to enter into service in the fourth quarter of fiscal year 2010.</li> <li>▪ The <i>CSeries</i> family of aircraft was launched in July 2008 and is progressing as scheduled. A large portion of the expected bill of material has already been contracted with suppliers. We also concluded contractual agreements for a total of 50 firm orders from Lufthansa and Lease Corporation in March 2009. During fiscal year 2010, the <i>CSeries</i> program will continue to undergo various development tests. The <i>CSeries</i> family of aircraft is scheduled to enter into service in the second half of calendar year 2013.</li> <li>▪ In light of the termination of our development agreement with Grob Aerospace AG, effective September 17, 2008 following the appointment of an interim bankruptcy administrator for Grob Aerospace AG's affiliated company, we repatriated responsibility for the detail design of the <i>Learjet 85</i> aircraft. On November 3, 2008, Grob Aerospace AG also filed for bankruptcy. As a result, we have assumed complete responsibility for the detail design and manufacturing of all primary and secondary structures for this aircraft. The <i>Learjet 85</i> aircraft is scheduled to enter into service in calendar year 2013.</li> </ul>

## Making our operations leaner

We are continuously improving our operational performance by eliminating waste and reducing our environmental footprint in our manufacturing processes, optimizing our industrial networks, and collaborating with our supply network. We strive to build mutually

beneficial relationships with our suppliers and we are also deploying our industrialization strategy to reduce our cost and optimize our manufacturing network.

### LEAN AND EXTENDED ENTERPRISE

#### Our goal

- Evolve into a lean enterprise with strong extended global supply-chain relationships and a reduced environmental footprint by:
- eliminating waste in our manufacturing processes in order to reduce costs and increase quality;
  - optimizing our industrial networks; and
  - improving our collaborative approach with our suppliers as well as raising the level of performance in our supply base.

#### Our leading initiatives

- We will deploy and implement comprehensive and common lean enterprise strategies across our global sites, leveraging the culture change momentum created by our Achieving Excellence System.
- We will continue to develop our manufacturing base in low-cost countries, to complement our third-party supply base and to reduce operating costs.
- We are securing competitive total life-cycle value propositions from our supply base on new and existing programs, including commodity strategies and long-term escalation protection, and to secure the availability of supply.
- We will continue our selective outsourcing of engineering activities and business process operations to support core activities and reduce costs.
- We are establishing risk-sharing relationships with key suppliers and governments to support our product development.
- We will continue to improve our supply-chain management processes to achieve better lead-time control, multi-program coordination and capacity planning. With our suppliers, we are also monitoring the impact of the recession on their financial health and on the evolution of material and commodity pricing.
- We aim to certify 100% of our manufacturing and service sites with over 150 employees to the International Organization for Standardization (“ISO”) 14001 environmental management system by the end of fiscal year 2010. This certification is key in helping us identify and manage risks and continuously improve the environmental performance of our manufacturing and service sites.

#### Our deliverables in fiscal year 2009

- We successfully continued transfers of existing work packages from our Saint-Laurent and Toronto facilities to our facility in Querétaro in order to continue optimizing our cost and manufacturing footprint.
- We have begun training selected employees from our facility in Querétaro in composite manufacturing technologies at a Montréal third-party training facility in preparation for the manufacture of the *Learjet 85* fuselage in Mexico. The facility in Querétaro will manufacture the composite structure and the electrical harness, and will also install sub-assembly systems for the *Learjet 85* aircraft. Final assembly, interior completions, flight test and delivery of the aircraft to the customer will take place at our Wichita facility in Kansas.
- We have selected Mirabel as the final assembly location for the *CSeries* family of aircraft, while our Belfast operations will manufacture the composite wings. We have signed a contract with Shenyang Aircraft Corporation, a subsidiary of the state-owned aviation industrial entity China Aviation Industry Corporation (formerly known as AVIC I) to supply the centre fuselage for the *CSeries* family of aircraft.
- 80% of our manufacturing and service sites with over 150 employees have been certified to the ISO 14001 environmental management system as at January 31, 2009.

## We have what it takes to deliver on our long-term strategy

While the current economic situation is difficult, our past experience demonstrates that we have the resilience to withstand the turmoil.

Our capability to deliver results is based on the following attributes:

- we have a strong commitment to innovation, based on more than 250 years of combined aerospace experience and heritage, brought about by a combination of Canadair, Short Brothers, de Havilland and Learjet and the 25 new aircraft programs brought to market since 1989;
- we have a diversified portfolio of jet- and turbo-propelled aircraft that evolves to address the various needs of geographically diversified commercial and business aviation customers;
- we are focused on the continuous improvement of key business processes and on implementing lean manufacturing principles through our Achieving Excellence System;
- we have strong relationships with our key stakeholders, including customers, unions, suppliers, local governments and regulatory agencies, which enable us to improve our operations and products and foster a mutually beneficial continuous improvement in our relationships;
- we have a large talent pool of well-trained and motivated employees; and
- we have an experienced management team, committed to the long-term success of the organization.

This difficult period provides us an opportunity to further improve our processes and operations. Our Achieving Excellence System is an engaging initiative that impacts all initiatives since it empowers all employees in a continuous improvement roadmap and integrates world-class best practices and the principles of lean manufacturing. The setting of key performance metrics and the implementation of a certification and recognition plan support and measure the achievement of sustained performance levels in areas such as ethics, environment, H&S, as well

as customer and stakeholder engagement. We increased the number of work cells that are certified Silver in our Achieving Excellence System from 6% as at January 31, 2008 to 54% as at January 31, 2009. As at January 31, 2009, 89% of our work cells were qualified Silver, which was close to our target of 90% set last year.

We have also put in place risk management practices to proactively identify risks and have embedded these practices in our activities. Our most critical risks to mitigate relate to our product development, and we have put extensive risk-mitigation strategies in place to minimize these risks:

- An Aircraft Portfolio Strategy Board ensures that proper portfolio diversification is achieved across all market segments, leveraging market opportunities and improving our competitive positioning. We rely on a gated process to evaluate new product development ideas. At each stage of the process, specific criteria derived from past product development experience must be met before a new product is allowed to continue its progression toward launch.
- Our technology development processes integrate metrics initially developed by the National Aeronautics and Space Administration (NASA) to measure the readiness level of new technologies and their associated risks.
- We ensure compliance with the regulatory requirements of various bodies such as Transport Canada, the Federal Aviation Administration and the European Aviation Safety Agency, to manage technical risks.
- We rely on methodologies and past experience to reduce the risk associated with estimating, planning and performing projects.
- We apply AS 9100 standards and Quality Management System requirements specific to the aerospace industry in order to improve product quality and reduce costs through the standardization of quality processes and procedures.

Our attributes, combined with our risk management practices, will enable us to successfully deliver on our long-term strategy.

# MARKET AND OUTLOOK

## Business aircraft: Focused on strengthening our leadership position

### The most comprehensive product offering in the business jet market

We have the most comprehensive product offering of all business aircraft manufacturers. Business aircraft product offering can be segmented by performance attributes into Very Light, Light, Medium and Large business jets<sup>(1)</sup>. Our *Learjet*, *Challenger* and *Global* families of aircraft

cover the Light, Medium and Large market categories. On a revenue basis, these market categories represented 95% of the total business aircraft market for calendar year 2008.

The following product developments are aimed at strengthening our market leadership:

Product development	Features	Key milestones
<i>Learjet 85</i> aircraft	<ul style="list-style-type: none"> <li>The first all-composite structure business jet designed for type certification under U.S. Federal Aviation Regulation ("FAR") Part 25.</li> <li>Larger, more comfortable stand-up cabin than any existing aircraft in its class.</li> <li>High cruising speed of Mach 0.82 and a transcontinental range of up to 3,000 nautical miles (5,556 km) under certain operating conditions.</li> <li>Pratt &amp; Whitney Canada Corp.'s PW307B turbofan engines, each boasting 6,100 pounds of take-off thrust, while the low NO<sub>x</sub> emission combustor will offer reduced environmental impact.</li> <li>Rockwell Collins' new Pro Line Fusion avionics suite, which incorporates a number of advanced technologies.</li> </ul>	<ul style="list-style-type: none"> <li>Launched in October 2007.</li> <li>Initial market interest in this next-generation offering is strong, as we have received more than 55 firm orders from customers for this aircraft as at January 31, 2009.</li> </ul>
<i>Global 5000</i> extended range	<ul style="list-style-type: none"> <li>Increased range from 4,800 to 5,200 nautical miles at a cruising speed of Mach 0.85.</li> </ul>	<ul style="list-style-type: none"> <li>The range increase is standard for all <i>Global 5000</i> aircraft ordered as of February 1, 2008, and is now available as an option for previously ordered aircraft.</li> </ul>
<i>Global Vision</i> flight deck	<ul style="list-style-type: none"> <li>Improved avionics system based on Rockwell Collins' new Pro Line Fusion avionics suite.</li> <li>Increased situational awareness and comfort.</li> <li>Superior design aesthetics.</li> </ul>	<ul style="list-style-type: none"> <li>The flight deck will be the most advanced flight deck in the industry when it enters into service in fiscal year 2012.</li> </ul>




































(1) In the past, our technical segmentation based on cabin size, aircraft range and price used to be divided into nine underlying categories: very light, light, super light, midsize, super midsize, large, super large, ultra long range and corporate airliner. In order to reflect the evolution in the product offering and move away from a segmentation based on technical performance to one based on customer profile and preference, we have adjusted our segmentation, grouping the light, super light and midsize categories into the Light business jet category, the super midsize and large categories into the Medium business jet category and the super large and ultra long range categories into the Large business jet category. Aircraft that used to fall into the converted airliner category are now classified in the Medium or Large business jet categories.



We have seven main competitors in the business aircraft market categories in which we compete:

- Cessna Aircraft Company (“Cessna”), a subsidiary of Textron Inc.;
- Dassault Aviation (“Dassault”);
- Gulfstream Aerospace Corporation (“Gulfstream”), a subsidiary of General Dynamics;

- Hawker Beechcraft Corporation (“Hawker Beechcraft”), a private company owned by Goldman Sachs and Onex Partners;
- Embraer-Empresa Brasileira de Aeronáutica S.A (“Embraer”);
- Airbus S.A.S. (“Airbus”), a subsidiary of European Aeronautic Defence and Space Company EADS N.V. (“EADS”); and
- The Boeing Company (“Boeing”).

	Narrow body				Wide body					
	Light				Medium			Large		
BOMBARDIER <sup>(1)</sup>	L40 XR 	L45 XR 	L60 XR 	L85 	CL300 	CL605 	CL800 SERIES 	G5000 	GEX XRS 	
Cessna	 									
Dassault						 		 		
Gulfstream					 				 	
Hawker Beechcraft	 									
Embraer										
Airbus										
Boeing										

(1) L refers to Learjet, CL to Challenger, G to Global and GEX XRS to Global Express XRS.

 Product in service  Product under development

Business aircraft market (based on deliveries)						
	Calendar year 2008			Calendar year 2007		
	BA			BA		
By market category	Total market (in units) <sup>(1)</sup>	Total deliveries (in units)	Market share <sup>(2)</sup>	Total market (in units) <sup>(1)</sup>	Total deliveries (in units)	Market share <sup>(2)</sup>
Light	501	74	15%	468	80	17%
Medium	244	121	50%	216	98	45%
Large	199	52	26%	179	48	27%
	944	247	26%	863	226	26%

Source: General Aviation Manufacturers Association ("GAMA") report dated February 15, 2009.

- (1) Deliveries in the Very Light category (371 units in calendar year 2008 and 275 units in calendar year 2007) are not included in the market total shown above as we have no product offering in this category.
- (2) Assessment of market share in the business aircraft industry is based on delivery data from GAMA for the calendar year and thus does not correspond with the number of aircraft deliveries recorded during the Corporation's fiscal years ending January 31.

According to data from the GAMA, calendar year 2008 was another strong year in terms of business aircraft deliveries and billings. The GAMA report dated February 15, 2009 confirms that we were the leader in terms of revenues in the business aircraft market categories in which we compete for a fifth consecutive year, with a market share of 30%, and second in terms of units delivered, with a market share of 26%.

We have increased our deliveries in the Medium and Large categories, represented by the *Challenger* and *Global* families of aircraft, which has helped us sustain our market share of 26% for both calendar years 2007 and 2008. Furthermore, the change in delivery mix has had a positive effect on our revenue market share, increasing it from 29% to 30%.

### Our long-term business aircraft outlook remains favourable despite short-term volatility

Key business aircraft market drivers have deteriorated rapidly during the second half of fiscal year 2009 and are expected to remain weak in the short term. We therefore anticipate that the industry business aircraft orders will be weak over the next two fiscal years and that the current recession will continue to negatively impact market demand.

The major difference between the current economic conditions and those that prevailed during the last downturn following the events of September 11, 2001 is the increased contribution of the international markets to industry orders. From fiscal years 2003 to 2009, our business

jet orders increased by a compounded growth rate of 5% in the U.S. and of 32% in the rest of the world. Russia, Eastern Europe and the Middle East have emerged as significant business aircraft markets, since their economies have expanded and their number of high-net-worth individuals has grown significantly. Even though the recession is also strongly impacting those markets, we anticipate that the demand from emerging markets should contribute to an industry recovery going forward.

In these challenging times, to help the U.S. aviation industry, the 2009 U.S. Government economic stimulus bill includes a provision allowing accelerated depreciation for aircraft purchased during calendar year 2009 and delivered before the end of calendar year 2010. We believe this incentive could stimulate business aircraft demand in the U.S.

The 2008 edition of our Business Aircraft Market Forecast reflected 13,200 deliveries for calendar years 2008-17. The Business aircraft market driver outlook tables hereafter show that the trends in the business aircraft market drivers are negative over the short term, but are expected to remain positive over the long term, indicating that the current recession should not impact market fundamentals in the long run. However, the level of orders and deliveries in the short term will be much lower than previously indicated, thus requiring a longer period to reach our previous forecast of 13,200 deliveries. The 2009 edition of our Business Aircraft Market Forecast will reflect these changes.

## Business aircraft market driver outlook

Calendar years 2009-10 outlook		
Market drivers	Outlook	Description
World economic environment	↓	According to the International Monetary Fund, the world economy has entered a major recession. A weakened economy has an adverse effect on new business jet orders as many corporations will report declining profits, reducing their ability and that of high-net-worth individuals to purchase business jets.
Credit scarcity	↓	The financial crisis is limiting aircraft buyers' access to traditional sources of credit. In the short term, credit scarcity has and will continue to have a negative impact on new aircraft orders and deliveries.
Pre-owned jet inventory level and resale values	↓	In-service pre-owned business jet inventory as a percentage of fleet has increased in the industry by six percentage points to 16.1% during calendar year 2008. Resale values decreased over the same period. Rising pre-owned business jet inventory levels and decreasing resale values make it more difficult for customers to sell their current aircraft to partially finance the purchase of a new aircraft. Also, the resulting lower prices make it more attractive for buyers to purchase pre-owned aircraft.
Business jet usage	↓	Business jet utilization rates in the U.S., estimated by the number of departures, are at their lowest level since calendar year 2001. This is explained by the recession, which has led owners to decrease flight hours and to aircraft being parked or put up for sale in the secondary market.
Business jet perceptions	↓	The recent negative media coverage regarding corporate use of business jets is having adverse effects on the business aviation industry, mainly in the U.S. The actual impact on new business jet orders remains unclear in the short term.

Calendar years 2011-17 outlook		
Market drivers	Outlook	Description
World economic environment	↑	There is growth potential from emerging economies. With expected future spending on air travel infrastructures, emerging economies should account for significant new order growth.
New aircraft programs	↑	New aircraft programs stimulate demand for new aircraft. There are numerous aircraft currently in development in the categories in which we compete scheduled for potential entry into service over the next decade. These new offerings should stimulate demand for new aircraft.
Non-traditional demand	→	Non-traditional operators (air taxi, branded charter, jet card programs and fractional ownership) provide customers with more options to find services tailor-made to suit their needs. The proportion of total deliveries from fractional providers is expected to represent between 10% to 20% of total industry deliveries in the long term.
Replacement demand	↑	The worldwide installed base is comprised of over 16,000 aircraft. With an average of more than 60% of customers trading up to a larger aircraft and assuming average aircraft replacement every 6.5 years for new purchases, the market should continue to show vitality.

↑ Indicates a favourable trend in the market categories in which we compete.

↓ Indicates an unfavourable trend in the market categories in which we compete.

→ Indicates a neutral trend in the market categories in which we compete.

## Commercial aircraft: Entering a new market

### Our products in development are opening new market opportunities

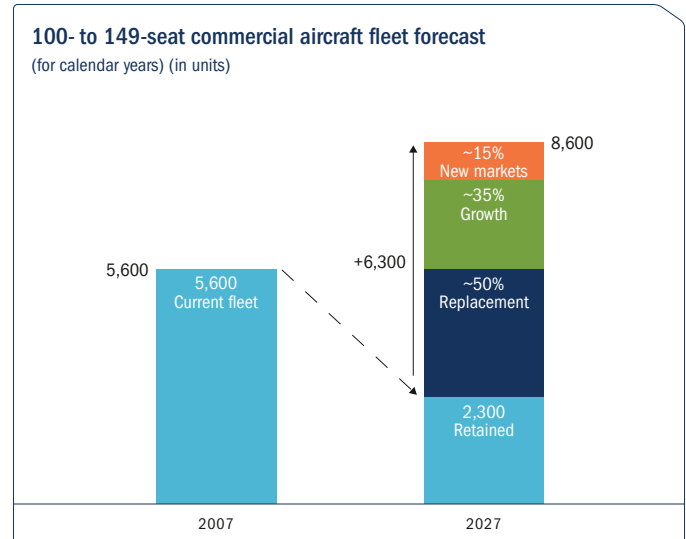
We believe that we are well positioned in the regional jet and turboprop categories, due to the economic advantage of our products, a large installed customer base and family commonality benefits across the CRJ Series aircraft and the Q-Series family of aircraft. In March 2008, we launched the new Q400 NextGen turboprop, the next step in the continuing evolution of the Q400 aircraft. Entry into service is scheduled for the first half of fiscal year 2010. According to an Air Transport World publication dated January 2009, our commercial aircraft are in service in 12 of the world's 20 largest airlines, their subsidiaries or affiliated companies. Upcoming commercial aircraft product developments, including the CSeries family of aircraft and the CRJ1000 NextGen aircraft, are aimed at strengthening the economic advantage of our regional jets and offering aircraft with distinct value propositions that respond to customers' needs in the 40- to 149-seat category.

We launched the CRJ1000 NextGen aircraft specifically to meet the growing needs of regional airlines for jets up to 100 seats. The first flight was completed in September 2008, and the flight test program is progressing. The CRJ1000 NextGen aircraft will further enhance the CRJ NextGen family of aircraft, allowing regional airlines to optimize capacity from 40- to 100-seats with common crew qualifications. The CRJ1000 NextGen aircraft will provide the lightest and most cost-efficient 100-seat regional jet on the market on typical regional jet flight times, under certain operating conditions.

### Seizing a new opportunity in the 100- to 149-seat commercial aircraft market with the first newly designed single-aisle mainline jet offering in 20 years

The CSeries family of aircraft is a five-abreast family specifically designed for airline needs in the 100- to 149-seat commercial aircraft segment. Mainline airlines generally operate aircraft over 100 seats in a network of both domestic and international routes. A significant number of smaller single-aisle five- and six-abreast aircraft, specifically designed for the 100- to 149-seat market, such as the five-abreast DC9 and MD80 originally manufactured by the Douglas Aircraft Company and the McDonnell Douglas Corporation, and the six-abreast Boeing 737-200/300/500 families of aircraft, were produced from the 1960s through the 1980s. This segment was key in the development of the mainline carriers of today, with an estimated 5,600 aircraft still in service. Since that time, there have been no new aircraft designed specifically for this segment, though derivative products designed for smaller or larger seating capacity have been created by Airbus, Boeing

and Embraer. The retirement of a large number of aircraft currently in service is therefore the main driver of demand in this segment. As total ownership cost, environmental and rightsizing pressures increase, new and efficient jets will be needed to replace thousands of older-generation aircraft. According to our Commercial Aircraft Market Forecast published in May 2008, we estimate 6,300 new aircraft deliveries in the 20-year period up to calendar year 2027.



### The CSeries family of aircraft is specifically designed for this market segment

The aircraft design will incorporate the latest technologies:

- new, largely composite and advanced aluminum alloy structure;
- latest systems technology including fly-by-wire combined with fourth-generation aerodynamics; and
- Pratt & Whitney's PurePower PW1000G (formerly referred to as the Geared Turbofan GTF engine).

The CSeries family of aircraft is designed to revolutionize the 100- to 149-seat category by achieving up to 15% lower cash operating costs, up to 20% lower fuel burn and CO<sub>2</sub> emissions, while producing NO<sub>x</sub> emissions<sup>(1)</sup> and noise<sup>(2)</sup> at a level significantly below current industry standards, all on short-haul flights of 500 nautical miles under certain operating conditions and compared to current aircraft in service. Our aerodynamic design, choice of lighter materials and latest systems technology will be accountable for half of this improvement, with the engine providing for the remainder. The CSeries family of aircraft will also offer transcontinental range and superior field performance. Our target is to achieve a 50% market share in the 100- to 149-seat category.




















(1) 50% below the 2008 NO<sub>x</sub> emissions requirements set by the Committee on Aviation Environmental Protection (CAEP) of the International Civil Aviation Organization ("ICAO").  
(2) 20 EPNdB (effective perceived noise, in decibels) below the stage IV ICAO noise standards.

## Competition is increasing in our current segments

Our main competitors in the up to 149-seat categories, representing the market in which we have a product offering, are:

- Avions de Transport Régional (“ATR”), a joint venture between EADS and Alenia Aeronautica S.P.A., a Finmeccanica S.P.A. company, in the turboprop market;
- Embraer in the 40- to 100-seat regional jet market; and
- Airbus, Boeing and Embraer in the 100- to 149-seat commercial jet market.

Additional companies currently developing competitive products in the 40- to 100-seat regional aircraft market categories include Commercial Aircraft Corporation of China, Ltd. (“COMAC”), a state-owned company in which China Aviation Industry Corporation (formerly known as AVIC I) holds an interest, Mitsubishi Heavy Industries Ltd. (“MHI”) and Sukhoi Company (JSC) (“Sukhoi”).

	Turboprops	Regional jets				Commercial jets	
	60-90	40-59	60-79	80-100		110-119	120-149
BOMBARDIER	Q400 	CRJ200 	CRJ700/705 <sup>(1)</sup> 	CRJ900 <sup>(1)</sup> 	CRJ1000 <sup>(1)</sup> 	CS100 	CS300 
ATR							
Embraer							
COMAC							
MHI							
Sukhoi							
Airbus							
Boeing							

(1) NextGen aircraft models.

 Product in service  Product under development

## Strongly positioned to meet airlines' requirements

The assessment of market share is based on the up to 149-seat categories, representing the market in which we have a product offering.

A total of 504 commercial aircraft of up to 149 seats was delivered worldwide in calendar year 2008, compared to 512 in calendar year 2007.

Commercial aircraft market (based on deliveries)						
By market category	Calendar year 2008			Calendar year 2007		
	Total market (in units)	BA		Total market (in units)	BA	
		Total deliveries (in units)	Market share <sup>(1)</sup>		Total deliveries (in units)	Market share <sup>(1)</sup>
20- to 90-seat turboprops	114	59	52%	104	60	58%
40- to 100-seat regional jets	209	60	29%	184	61	33%
100- to 149-seat commercial jets	181	-	n/a	224	-	n/a
	504	119		512	121	

Source: Competitor reports publicly available.

(1) Assessment of market share in the commercial aircraft industry is calculated on the basis of aircraft deliveries recorded during the calendar year, which does not correspond to the number of aircraft deliveries recorded during the Corporation's fiscal years ending January 31.

n/a: Not applicable.

Our market share in the 20- to 90-seat turboprop category decreased by six percentage points as our competitor increased production during calendar year 2008. Our overall turboprop deliveries remained unchanged versus calendar year 2007, but with a significant change in mix as we transitioned out of the Q200/300 aircraft programs toward an exclusively Q400 turboprop program. This transition will be completed in the first half of fiscal year 2010.

Our market share in the 40- to 100-seat regional jet category decreased by four percentage points, mainly due to an overall increase in the number of larger regional jet deliveries, which is an aircraft category where we are not yet present but soon will be with the entry into service of our CRJ1000 NextGen aircraft, planned in the fourth quarter of fiscal year 2010.

## Our long-term outlook remains favourable despite current short-term setbacks

The airline industry is cyclical. Despite short-term setbacks, the industry has averaged high growth over time. Though short-term forecasts predict

negative growth and negative profitability for airlines, the long-term forecast remains positive. Continuous development and improvement of aircraft allow airlines to develop new markets and/or improve their profitability. We believe the design characteristics of our Q400 NextGen aircraft, CRJ NextGen and the CSeries families of aircraft allow airlines to optimize their networks to maximize capability, passenger appeal and minimize cost. Our product development strategy is aligned with the evolution of the airline industry.

The Commercial aircraft 40- to 149-seat category market driver outlook tables show that the trends are negative over the short term but remain positive over the long term. As long-term market fundamentals remain positive, the 2008 edition of our Commercial Aircraft Market Forecast covering calendar years 2008-27, available on our Web site, remains valid. North America and Europe will continue to represent the largest markets. The highest capacity growth rate is expected to be in China.

20-year commercial aircraft 40- to 149-seat category market outlook	Calendar years	
	2008-27 outlook	1988-2007 actual
	Aircraft deliveries worldwide <sup>(1)</sup> (in units)	12,900
Industry revenues <sup>(1)</sup> (in billions of dollars)	\$ 528	\$ 389

Source: BA Commercial Aircraft Market Forecast published in May 2008.

(1) Scope: Market categories in which we have a product offering.

## Commercial aircraft 40- to 149-seat category market driver outlook

Calendar years 2009-10 outlook		
Market drivers	Outlook	Description
Short-term economic environment	↓	Based on the International Air Transport Association Financial Forecast dated March 2009, the global airline industry passenger traffic will fall by 5.7% in calendar year 2009 compared to calendar year 2008, driven by the weakness of the worldwide economy.
Airline profitability	↓	Based on the International Air Transport Association Financial Forecast dated March 2009, the global airline industry will report losses for calendar years 2008 and 2009. Thus, the lack of airline profitability could negatively impact aircraft orders in the near term.
Aircraft financing availability	↓	The financial crisis is limiting access to secure financing for new aircraft orders and for aircraft in the backlog. We expect export credit agencies worldwide to increase their support in the short term to partially mitigate this situation.

Calendar years 2011-17 outlook		
Market drivers	Outlook	Description
Long-term economic environment	↑	Based on Global Insight data issued in January 2009, the worldwide GDP growth rate should return to 3.8% by calendar year 2011 and long-term GDP forecasts should remain essentially unchanged with GDP compound annual growth rate greater than 2.4% in the U.S., 1.7% in Europe and 5.4% in emerging markets as defined by Global Insight.
Fuel prices	→	Fuel is an important variable component of airlines' profitability, but it is also a positive driver for larger, more efficient regional jets and turboprops. The high volatility in crude oil prices experienced since mid-2003 put pressure on airlines' profitability, but should also result in more effective planning and in demand for more fuel-efficient aircraft.
Environmental regulations	→	New environmental regulations related to the aviation industry are putting additional pressure on airlines to renew their fleets with more fuel-efficient aircraft, thereby reducing their environmental footprint. This pressure could also impact airlines' profitability.
Aging of fleet	↑	As mentioned earlier, specifically designed mainline single-aisle jets for the 100- to 149-seat commercial jet market were produced from the 1960s through the 1980s. Hence, the retirement of a large number of aircraft currently in service in place of more fuel-efficient and economical aircraft is the main driver of demand in this segment.
Airline capacity growth	↑	The demand for larger-capacity regional aircraft is driven by the need of mainline airlines to rightsize their fleets by transferring short-haul routes to their regional airline partners. This trend should continue to push regional airline requirements toward larger-capacity aircraft.
Scope clauses	↑	We believe that U.S. airline scope clauses, negotiated agreements between mainline carriers labour and management, will continue to evolve and progress to permit aircraft of up to 100 seats to be flown by regional carriers.

↑ Indicates a favourable trend in the market categories in which we compete.

↓ Indicates an unfavourable trend in the market categories in which we compete.

→ Indicates a neutral trend in the market categories in which we compete.



## Amphibious aircraft and specialized aircraft solutions: Providing tailored solutions

BA's product and service offering		Description	Main competitors
AMPHIBIOUS TURBOPROPS	<b>Bombardier 415</b> <b>Bombardier 415 MP</b>	We manufacture and market the <i>Bombardier 415</i> amphibious aircraft, a purpose-built firefighting aircraft. It can also be adapted to a multi-purpose version, the <i>Bombardier 415 MP</i> aircraft, which can be used in a variety of specialized missions such as search and rescue, coastal patrol, environmental protection, and transportation. We also offer a new application for maritime patrol and surveillance operations.	Although a variety of other land-based fixed-wing aircraft, mostly old converted aircraft, and adapted helicopters exist, the <i>Bombardier 415</i> aircraft is the only large amphibious aircraft currently in production, purposely designed for aerial firefighting.
SPECIALIZED AIRCRAFT SOLUTIONS	<b>Comprehensive range of aircraft platforms including the <i>Learjet</i>, <i>Challenger</i>, <i>Global</i> and <i>CRJ</i> families of aircraft, as well as <i>Q400</i> turboprops.</b>	We provide specialized aircraft solutions for governments, agencies and specialized organizations worldwide by modifying commercial and business aircraft to suit the needs of customers for different mission requirements.	We face competition from all the other aerospace OEMs.

The aerial firefighting market is a niche market providing protection for countries facing severe fire threats. During calendar year 2008, the *Bombardier 415* aircraft and its predecessor, the *CL-215* aircraft, operated in ten countries with 17 different operators. The current market for the *Bombardier 415* aircraft includes additions to existing fleets and *CL-215* aircraft replacements.

We continue to identify and provide special-mission aircraft solutions to governments and special-requirement organizations worldwide. There

are currently over 300 Bombardier business and commercial aircraft in operation in specialized roles and various configurations, including maritime patrol, runway calibration, communications and surveillance platforms, search and rescue, transport and government aircraft.

In addition, our Military Aviation Training ("MAT") unit, in collaboration with a team of sub-contractors, delivers integrated aviation training solutions. MAT currently has two major Canadian military aviation training contracts.

## Customer services: Providing innovative and comprehensive lifecycle service and support

### Aftermarket poised to grow in the long term despite a short-term slowdown in flying hours and traffic

The aftermarket includes every activity that needs to be performed to support aircraft operations, as well as any other requirements our

customers may have to operate their aircraft. Such services are provided through our international service and support network of authorized providers and fully owned facilities.

Activities	International service and support network
PARTS LOGISTICS	<ul style="list-style-type: none"> <li>▪ Two spare parts distribution centres<sup>(1)</sup> and six spare parts depots<sup>(1)</sup>.</li> </ul>
AIRCRAFT MAINTENANCE	<ul style="list-style-type: none"> <li>▪ A total of 42 third-party AOG/line maintenance<sup>(2)</sup> and authorized service<sup>(3)</sup> facilities for business aircraft maintenance.</li> <li>▪ A business aircraft maintenance centre in which we own an equity interest.</li> <li>▪ Five third-party recognized service<sup>(2)</sup> facilities for commercial aircraft maintenance.</li> <li>▪ Six service centres<sup>(1)</sup>.</li> </ul>
TRAINING SOLUTIONS	<ul style="list-style-type: none"> <li>▪ Two training centres<sup>(1)</sup>.</li> <li>▪ A training centre through a joint venture.</li> </ul>
CUSTOMER SUPPORT	<ul style="list-style-type: none"> <li>▪ Four customer response centres<sup>(1)</sup>.</li> <li>▪ Four regional support offices<sup>(1)</sup> for commercial aircraft customers.</li> <li>▪ Over 130 field service personnel.</li> </ul>

(1) Wholly-owned by the Corporation.

(2) An authorized AOG/line maintenance facility is capable of performing first-level inspections, has line maintenance capabilities, and provides warranty support.

(3) Authorized and recognized service facilities are capable of performing routine, minor and major inspections, modifications and repairs, as well as providing warranty support.

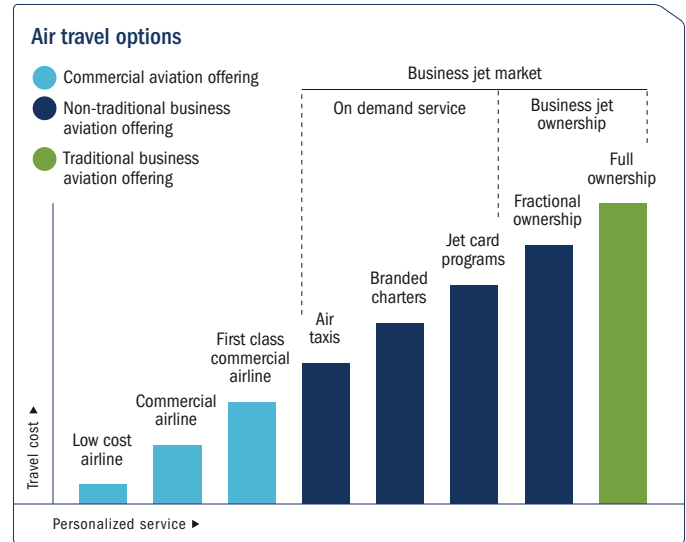
In the short term, recent economic events have negatively impacted the overall aviation industry, including spare parts and service sales. However, according to the AeroStrategy Management Consulting reports published in March and July 2008, the worldwide demand for aircraft services will continue to grow steadily in the long term.

To capture a greater share of the aftermarket business generated from our growing installed base of approximately 6,000 business,

commercial, specialized and amphibious aircraft, we are offering customers our *Smart Services* program, an integrated hourly based service including spare parts and rotables management. Within our business aircraft customer base, over 1,000 customers are using our *Smart Services* offering. In fiscal year 2009, we launched a similar program for our Q400 aircraft.

## Flexjet and Skyjet: Complementing our business aircraft activities

Fractional ownership and charter operators offer convenient turnkey solutions to customers who may not need an entire aircraft, or who seek to avoid the cost, commitment and complexities of whole aircraft ownership. Through *Flexjet* and *Skyjet* in North America, we offer full and fractional ownership, jet card programs and branded charter services. *Flexjet* features the world's largest fleet of Bombardier business jets, including the *Learjet 40 XR*, *Learjet 45 XR*, *Learjet 60 XR*, *Challenger 300* and *Challenger 604/605* business jets.



BA's product offering	Description	Main competitors
<b>FLEXJET</b>	<b>Full ownership</b>	<ul style="list-style-type: none"> <li>JetDirect Aviation, Inc.</li> <li>Executive Jet Management, Inc.</li> <li>XOJET, Inc.</li> </ul>
	<b>Fractional ownership</b>	<ul style="list-style-type: none"> <li>NetJets Inc.</li> <li>Flight Options, L.L.C.</li> <li>CitationShares Holdings, L.L.C.</li> <li>XOJET, Inc.</li> </ul>
	<b>Jet card programs</b>	<ul style="list-style-type: none"> <li>Marquis Jet Partners, Inc.</li> <li>Flight Options, L.L.C.</li> <li>CitationShares Holdings, L.L.C.</li> <li>Sentient Flight Group, L.L.C.</li> </ul>
<b>SKYJET</b>	<b>North American branded charters</b>	<ul style="list-style-type: none"> <li>Sentient Flight Group, L.L.C.</li> <li>Delta AirElite Business Jets, Inc.</li> <li>JetDirect Aviation, Inc.</li> <li>Blue Star Jets, Inc.</li> </ul>

Fractional providers typically represent between 10% to 20% of annual deliveries of new business jets from the various aircraft manufacturers. In the U.S. alone, 730 business jets were in service at the four major fractional providers by the end of calendar year 2008. *Flexjet's* fleet comprises 102 aircraft in service as of January 31, 2009, and is amongst the youngest fleet in the U.S. fractional ownership industry.

*Flexjet* ranks second in terms of shares sold in the U.S. fractional ownership industry.

The recession in the U.S. is however a challenge for operators in all business aviation segments. With strong operational performance and customer satisfaction, *Flexjet* will work on offsetting the impact of the recession, primarily through service innovations.

# ANALYSIS OF RESULTS

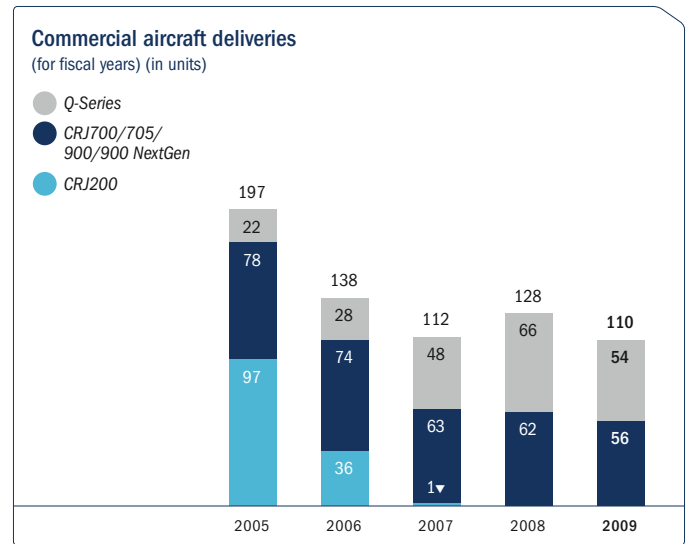
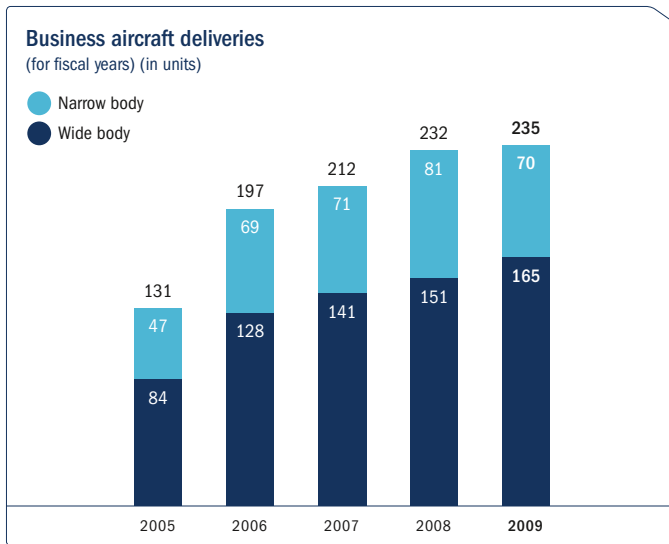
Improved financial performance in turbulent times...

Results of operations <sup>(1)</sup>				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008 <sup>(2)</sup>	2009	2008 <sup>(2)</sup>
Revenues				
Manufacturing:				
Business aircraft	\$ 1,363	\$ 1,453	\$ 5,203	\$ 4,673
Commercial aircraft	790	759	2,271	2,503
Other	192	140	642	438
Total manufacturing revenues	2,345	2,352	8,116	7,614
Services <sup>(3)</sup>	354	415	1,588	1,542
Other <sup>(4)</sup>	78	126	261	557
Total revenues	2,777	2,893	9,965	9,713
Cost of sales	2,220	2,425	7,876	8,099
Margin	557	468	2,089	1,614
Selling, general and administrative	180	199	715	669
Research and development	13	13	51	37
Other income <sup>(5)</sup>	(16)	(39)	(4)	(58)
EBITDA	380	295	1,327	966
Amortization	109	99	431	403
EBIT	\$ 271	\$ 196	\$ 896	\$ 563
(as a percentage of total revenues)				
Margin	20.1%	16.2%	21.0%	16.6%
EBITDA	13.7%	10.2%	13.3%	9.9%
EBIT	9.8%	6.8% <sup>(6)</sup>	9.0%	5.8% <sup>(7)</sup>

- Effective February 1, 2008, we changed our accounting policy for aerospace programs from the average cost method to the unit cost method to comply with new accounting standards (see the Accounting and reporting developments section in Other). As a result, the EOAPC charges are nil for the fourth quarter and fiscal year ended January 31, 2009, compared to net charges of \$67 million and \$271 million for the same periods last fiscal year.
- Effective February 1, 2008, we changed our overhead allocation policy, whereby all G&A overhead costs are now expensed as incurred (see the Accounting and reporting developments section in Other for further details). Comparative figures include reclassifications from cost of sales to SG&A of \$36 million and \$117 million respectively for the fourth quarter and fiscal year ended January 31, 2008.
- Includes revenues from parts logistics, aircraft fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training) and MAT.
- Includes mainly sales of pre-owned aircraft.
- Includes net loss (gain) on certain financial instruments, foreign exchange losses (gains), severance and other involuntary termination costs (including changes in estimates), settlement of claims and losses (gains) related to disposal of businesses, property, plant and equipment and intangible assets.
- EBIT margin of 9.1% before EOAPC charge.
- EBIT margin of 8.6% before EOAPC charge.

Total aircraft deliveries				
	Fourth quarters ended January 31		Fiscal years ended January 31	
(in units)	2009	2008	2009	2008
Business aircraft				
Excluding those of the fractional ownership program	53	68	223	213
Fractional ownership program <sup>(1)</sup>	1	8	12	19
	54	76	235	232
Commercial aircraft	37	38	110	128
Amphibious aircraft	2	1	4	1
	93	115	349	361

- An aircraft delivery is included in the above table when the equivalent of 100% of the fractional shares of an aircraft model has been sold to external customers through *Flexjet*. The revenue on aircraft sold through *Flexjet* is deferred and recognized over the term of the management agreement, which is typically 60 months. As a result, the negative *Flexjet* delivery variance for the fourth quarter and for the fiscal year ended January 31, 2009 has had a minimal impact on manufacturing revenues.



### Manufacturing revenues

The \$7-million decrease for the fourth quarter is mainly due to:

- lower deliveries of business aircraft (\$161 million).  
Partially offset by:
  - the sale of an additional amphibious aircraft and improved selling prices for commercial aircraft (\$68 million);
  - higher revenues from the completion of interiors on wide-body business aircraft (\$42 million); and
  - improved selling prices for certain business aircraft (\$29 million).

The \$502-million increase for the fiscal year is mainly due to:

- increased deliveries for wide-body business aircraft and improved selling prices for business aircraft (\$457 million);
- the sale of three additional amphibious aircraft and improved selling prices for commercial aircraft (\$153 million); and
- higher revenues from the completion of interiors on wide-body business aircraft (\$102 million).

Partially offset by:

- lower deliveries of commercial aircraft (\$300 million).

### Service revenues

The \$61-million decrease for the fourth quarter is mainly due to:

- lower fractional ownership and hourly flight entitlement programs' service activities resulting from fewer hours flown by customers (\$36 million); and

- lower revenues from product support activities, mainly due to lower maintenance revenue from business aircraft customers as a result of lower flight activity and the current economic context (\$15 million).

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

- higher volume of spare parts sold during the first three quarters of this fiscal year due to a growth in the installed fleet and improved selling prices for spare parts (\$54 million); and
- higher revenues from product support activities during the first three quarters of this fiscal year (\$18 million).

Partially offset by:

- lower revenues from a MAT contract, mainly as a result of the achievement of a significant milestone in the third quarter of fiscal year 2008 (\$27 million).

### Other revenues

The \$48-million decrease for the fourth quarter is mainly due to fewer sales of pre-owned commercial aircraft.

The \$296-million decrease for the fiscal year is mainly due to fewer sales of pre-owned business aircraft (\$180 million) and fewer sales of pre-owned commercial aircraft (\$99 million).

## EBIT margin

The 3.0 percentage-point increase for the fourth quarter is mainly due to:

- improved selling prices for commercial and certain business aircraft;
- EOAPC charge of nil, compared to \$67 million for the same period last fiscal year;
- a favourable mix for business aircraft; and
- lower SG&A expenses.

Partially offset by:

- a provision for the write-down of pre-owned aircraft, mainly pre-owned business aircraft;
- higher cost of sales per unit, mainly due to price escalations of materials;
- higher amortization expense; and
- a negative variance on certain financial instruments carried at fair value and mainly recorded in other income, of which \$26 million relates to the implementation of a new accounting principle on fair value measurement (see Accounting and reporting developments section in Other).

The 3.2 percentage-point increase for the fiscal year is mainly due to:

- EOAPC charge of nil, compared to \$271 million last fiscal year;
- improved selling prices and a favourable mix for business aircraft;
- improved selling prices for commercial aircraft; and
- the positive impact in other income from the revaluation of certain balance sheet accounts in foreign currencies at the balance sheet date.

Partially offset by:

- higher cost of sales per unit, mainly due to price escalations of materials;
- the negative impact of the higher exchange rates, after giving effect to hedges, for the Canadian dollar against the U.S. dollar;
- a provision for the write-down of pre-owned aircraft, mainly pre-owned business aircraft; and
- a negative variance on certain financial instruments carried at fair value and mainly recorded in other income, of which \$43 million relates to the implementation of a new accounting principle on fair value measurement.

The EBIT margin for fiscal year 2009 was also impacted by the following non-recurring items recorded in other income during the three-month period ended April 30, 2008:

- a gain of \$28 million arising from the settlement with Mitsubishi Heavy Industries of Japan with respect to the transfer of the production of certain components for the *CRJ* family of aircraft to another third-party supplier; and
- a loss of \$23 million related to accumulated foreign exchange losses (previously recorded in AOCI) in connection with the sale of *Skyjet International*. These accumulated foreign exchange losses resulted from the translation of *Skyjet International's* net assets to U.S. dollars in prior periods.

The EBIT margin for fiscal year 2008 was also impacted by a non-recurring gain of \$18 million arising from the settlement of a claim with Northwest Airlines, recorded in other income during the three-month period ended July 31, 2007.

## ...but we are feeling the headwinds

Free cash flow	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008	2009	2008
EBIT	\$ 271	\$ 196	\$ 896	\$ 563
Non-cash items:				
Amortization				
Program tooling	76	74	310	289
Other	33	25	121	114
Loss on disposals of property, plant and equipment	-	-	4	-
Stock-based compensation	7	7	25	17
Net change in non-cash balances related to operations	(505)	390	(802)	979
Net additions to property, plant and equipment and intangible assets	(153)	(138)	(426)	(286)
Free cash flow	\$ (271)	\$ 554	\$ 128	\$ 1,676

The \$825-million decrease for the fourth quarter is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations (\$895 million) (see explanation below).

Partially offset by:

- higher profitability (\$75 million).

The \$1.5-billion decrease for the fiscal year is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations (\$1.8 billion) (see explanation below); and
- higher net additions to property, plant and equipment and intangible assets (\$140 million).

Partially offset by:

- higher profitability (\$333 million).

### Net change in non-cash balances related to operations

Overall, the negative variances in the net change in non-cash balances related to operations are mainly due to the increase in inventories in the first three quarters of fiscal year 2009, and a higher level of advances on aerospace programs received during the quarter and fiscal year ended January 31, 2008 following the strong order intake for both business and commercial aircraft leading to a book-to-bill ratio of 1.9 for each of these two periods.

For the fourth quarter ended January 31, 2009, the \$505-million cash outflow is mainly due to a decrease in advances on aerospace programs resulting from a lower net order intake.

For fiscal year 2009, the \$802-million cash outflow is mainly due to:

- an increase in finished product inventories resulting from increased deferrals and cancellations of deliveries for both business and commercial aircraft;
- an increase in pre-owned business aircraft inventories resulting from a softer market for pre-owned aircraft;
- an increase in aerospace program work-in-process inventories in the first three quarters as a result of production rate increases; and
- an increase in receivables resulting mainly from a higher level of wide-body business aircraft deliveries and delays in business aircraft customers obtaining financing.

Partially offset by:

- an increase in accounts payable and accrued liabilities, following the increase in inventories on aerospace programs.

The \$390-million and \$979-million cash inflows for the fourth quarter and fiscal year ended January 31, 2008 are mainly due to decreases in inventories and aircraft financing and an increase in advances on aerospace programs, partially offset by a decrease in accounts payable and accrued liabilities and discretionary pension fund contributions totalling \$249 million.



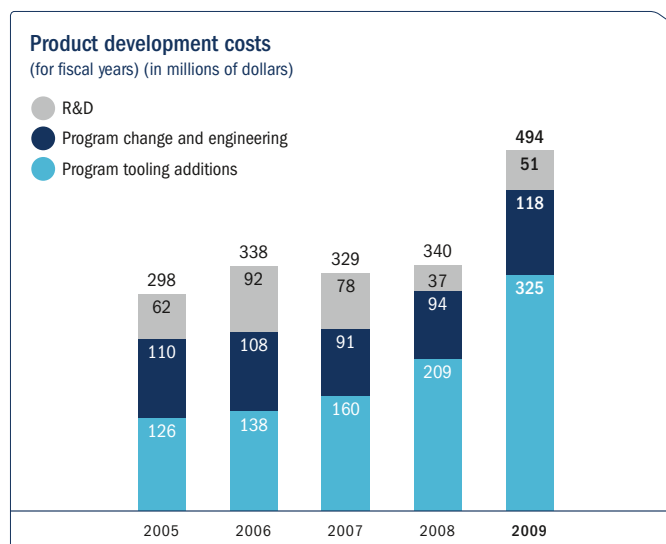
## Investing in our future

Product development costs				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008	2009	2008
Program tooling <sup>(1)</sup>	\$ 110	\$ 90	\$ 325	\$ 209
Program change and engineering <sup>(2)</sup>	28	21	118	94
Research and development	13	13	51	37
	\$ 151	\$ 124	\$ 494	\$ 340
As a percentage of manufacturing revenues	6.4%	5.3%	6.1%	4.5%

(1) Capitalized in program tooling as part of intangible assets.

(2) Included in cost of sales.

Investments in product developments amounted to \$494 million for fiscal year 2009. The increase in program tooling additions for the fourth quarter and fiscal year ended January 31, 2009 is mainly due to the development of the *CRJ1000 NextGen*, the *CSeries* family of aircraft, as well as the *Learjet 85* aircraft program. In July 2008, we started capitalizing development costs for the *CSeries* family of aircraft in program tooling.



Carrying amount of program tooling		
	January 31 2009	January 31 2008
<b>Business aircraft</b>		
<i>Learjet Series</i>	\$ 116	\$ 95
<i>Challenger Series</i>	313	390
<i>Global Series</i>	143	210
<b>Commercial aircraft</b>		
<i>CRJ Series</i>	471	432
<i>Q-Series</i>	60	69
<i>CSeries</i>	72	-
	\$ 1,175	\$ 1,196

## Similar 12-month aircraft deliveries, with a different mix

Business aircraft deliveries				
	Fourth quarters ended January 31		Fiscal years ended January 31	
(in units)	2009	2008	2009	2008
<b>Narrow-body business jets</b>				
<i>Learjet 40/40 XR/Learjet 45/45 XR</i>	6	17	43	60
<i>Learjet 60/60 XR</i>	5	9	27	21
<b>Wide-body business jets</b>				
<i>Challenger 300</i>	13	17	54	52
<i>Challenger 604/Challenger 605</i>	15	16	45	38
<i>Global 5000/Global Express XRS</i>	12	12	50	48
<i>Challenger 800 Series</i>	3	5	16	13
	<b>54</b>	<b>76</b>	<b>235</b>	<b>232</b>

The decrease for the fourth quarter is mainly due to fewer deliveries of narrow-body business jets. The current economic environment has led several customers to either defer or cancel their aircraft deliveries. There was also a decline in fractional aircraft shares sold to external customers by *Flexjet*, also as a result of the current economic environment.

Deliveries were slightly higher in fiscal year 2009 as compared to fiscal year 2008, mainly due to higher deliveries in wide-body business jets, partially offset by the above-mentioned decline in fractional aircraft shares sold to external customers by *Flexjet*.

Commercial aircraft deliveries				
	Fourth quarters ended January 31		Fiscal years ended January 31	
(in units)	2009	2008	2009	2008
<b>Regional jets</b>				
<i>CRJ700 NextGen</i>	2	-	4	5
<i>CRJ705 NextGen</i>	-	1	-	1
<i>CRJ900 NextGen</i>	17	18	52	56
<b>Turboprops</b>				
<i>Q200</i>	3	-	5	3
<i>Q300</i>	1	4	6	16
<i>Q400</i>	14	15	43	47
	<b>37</b>	<b>38</b>	<b>110</b>	<b>128</b>

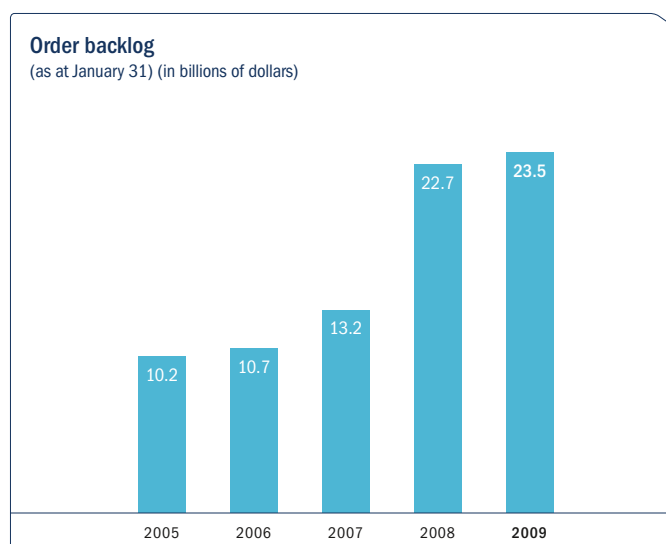
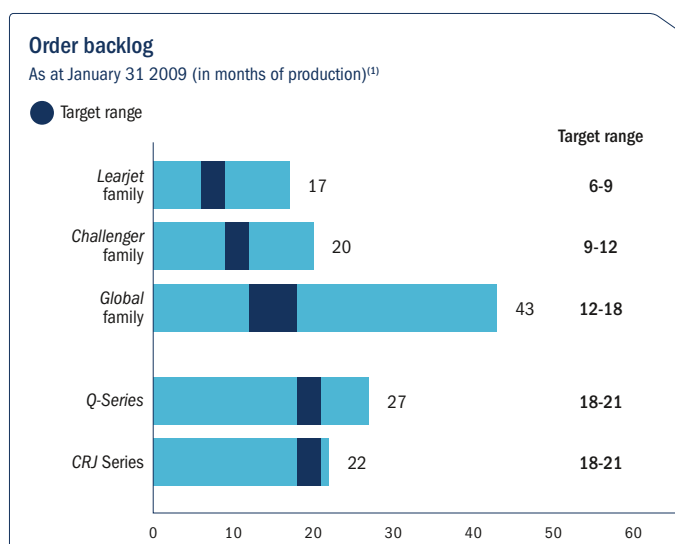
While commercial aircraft deliveries for the fourth quarter remained stable, the decrease for the fiscal year is mainly due to fewer turboprop deliveries due to the impact on production of the transition from the smaller *Q200* and *Q300* aircraft to the larger *Q400* aircraft. In addition,

there were fewer deliveries of regional aircraft, mainly due to some customers requesting deferral of deliveries to fiscal year 2010 as a result of the current economic environment.

## Good order intake for the year, but the momentum has shifted in the fourth quarter

Total order backlog			
(in billions of dollars)		January 31 2009	January 31 2008
Aircraft programs		\$ 22.7	\$ 21.7
MAT		0.8	1.0
		\$ 23.5	\$ 22.7

The increase in the order backlog is mainly attributable to business aircraft. We manage our order backlog by reviewing the production horizon of our products including the establishment of production rates and the assessment of our supply base capacity. We also perform regular reviews of our order backlog to align delivery schedules.



(1) The number of months in production is calculated by dividing the order backlog in units as at January 31, 2009 for each family of aircraft (excluding *Learjet 85*, *CRJ1000* and *Flexjet* orders), by the number of aircraft delivered during fiscal year 2009, converted into an equivalent number of months.

Our order backlog in months of production is currently above target range for all business and commercial aircraft families. Our order backlog in months of production provides insight on the depth of our order backlog based on the last 12-month production rates. This metric is not forward looking, and does not take into account the ability of our customers to take delivery of the aircraft and the timing of such delivery due to the present credit scarcity and its effect on financing availability.

Total aircraft net orders and book-to-bill ratio				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008	2009	2008
<b>Aircraft net orders (in units)</b>				
Business aircraft (including those of the fractional ownership program)	(19)	154	251	452
Commercial aircraft	25	51	114	238
Amphibious aircraft	-	8	2	8
	6	213	367	698
<b>Book-to-bill ratio<sup>(1)</sup></b>				
Business aircraft	(0.4)	2.0	1.1	1.9
Commercial aircraft	0.7	1.3	1.0	1.9
	0.1	1.9	1.1	1.9

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

### Business aircraft

There was a lower order intake during the three- and twelve-month periods ended January 31, 2009, which reflects the softening of demand for business aircraft in the second half of fiscal year 2009, given the current worldwide economic environment, and the fact that we received a record level of orders in fiscal year 2008. During the three-month period ended January 31, 2009, certain customers also cancelled their orders, which resulted in a net negative order intake. These order cancellations were at a higher rate than normal. Unfortunately, order cancellations and deferrals have continued in fiscal year 2010. As a result, we reduced the production rates for all our families of aircraft to align delivery schedules.

Nevertheless, we have a significant backlog and our business aircraft book-to-bill ratio for fiscal year 2009 was above 1.0 and reflects the positive impact of significant orders received (see below), as well as more than 55 orders for the recently launched *Learjet 85* aircraft.

In June 2008, Jet Republic Ltd. signed a purchase agreement for 110 *Learjet 60 XR* aircraft, of which 25 are firm and 85 are conditional. The total value of this order, if all conditional orders are confirmed, will be approximately \$1.5 billion, based on the 2008 list price for typically equipped aircraft.

### Commercial aircraft

Commercial aircraft net orders				
	Fourth quarters ended January 31		Fiscal years ended January 31	
(in units)	2009	2008	2009	2008
<b>Regional jets</b>				
<i>CRJ700 NextGen</i>	–	22	18	32
<i>CRJ900 NextGen</i>	–	9	23 <sup>(1)</sup>	70
<i>CRJ1000 NextGen</i>	–	1	6	39 <sup>(2)</sup>
<b>Turboprops</b>				
<i>Q200</i>	–	–	–	4
<i>Q300</i>	–	3	–	13
<i>Q400/Q400 NextGen</i>	25	16	67	80
	25	51	114	238

(1) During the three-month period ended July 31, 2008, a firm order for two *CRJ900 NextGen* aircraft was removed from the order backlog.

(2) Of the 39 orders received, 15 were swaps from *CRJ900 NextGen* aircraft.

There was a lower order intake during the three- and twelve-month periods ended January 31, 2009, which reflects the softening of demand for commercial aircraft given the current worldwide economic environment and the fact that we received a strong level of commercial aircraft orders in fiscal year 2008. Furthermore, in March 2008, we decided that the *Q200* and *Q300* aircraft would no longer be offered. During fiscal year 2008, several U.S. airlines emerged from bankruptcy protection or had restructuring plans in place, which resulted in the receipt of significant orders for the larger regional jets and turboprops.



In May 2008, VistaJet Holding SA signed a purchase agreement for 11 *Challenger 605* aircraft, 13 *Learjet 60 XR* aircraft and 11 *Learjet 85* aircraft, for a total of 35 firm orders, with options for an additional 25 aircraft. The total value of this order, if all options are exercised, will be approximately \$1.2 billion, based on the 2008 list price for typically equipped aircraft.

Significant orders were also received in fiscal year 2008 as a result of the launch of the *CRJ700/900/1000 NextGen* regional jets.

According to the International Air Transport Association Financial Forecast dated December 2008, airline business confidence declined in the calendar year 2008. This is mainly due to high fuel prices during the first half of the calendar year, which peaked in July 2008 but decreased afterwards, followed by a decrease in passenger demand due to the worldwide economic crisis that became more prevalent in the second half of the year. As a result, airlines are reviewing their fleets and working

to optimize the mix and number of aircraft, as well as planning capacity reductions. Some airlines are merging, as evidenced by the merger of Delta Air Lines and Northwest Airlines, which was completed on October 29, 2008. In this period of reorganization, we have received fewer orders for commercial aircraft compared to the same periods last fiscal year.

To date, there have been no cancellations of commercial aircraft orders other than an order for two *CRJ900 NextGen* aircraft, which were removed from the order backlog in the second quarter of fiscal year 2009 as a result of the customer filing for bankruptcy and ceasing operations.

Some customers have however asked to defer delivery of a portion of their orders and such requests have continued in fiscal year 2010.

The demand for the *Q400 NextGen* turboprop has remained steady (as evidenced by recent orders from Ethiopian Airlines and Colgan Air, Inc.), which has led us to increase the production rate of the *Q400* aircraft late in fiscal year 2009. However, the commercial airline industry has been impacted by a drop in passenger traffic, and therefore the production rate for the *CRJ NextGen* Series of regional jets will be reduced later during fiscal year 2010 to align with demand.

Commercial aircraft significant net orders	
(in units)	Fiscal year 2009
<b>CRJ700 NextGen</b>	
Felix Airways	8
GoJet Airlines L.L.C.	6
Undisclosed customer	4
<b>CRJ900 NextGen</b>	
SAS Scandinavian Airlines and Estonian Air <sup>(1)</sup>	15
Government of Iraq	10
<b>CRJ1000 NextGen</b>	
Brit Air	6
<b>Q400 NextGen</b>	
Colgan Air, Inc.	15
airBaltic	8
Ethiopian Airlines	8
Porter Airlines Inc.	8
Widerøe Flyveselskap AS <sup>(2)</sup>	6

- (1) Affiliated to SAS Scandinavian Airlines.  
(2) Subsidiary of SAS Scandinavian Airlines.

Commercial aircraft order backlog and options and conditional orders				
(in units)	January 31, 2009		January 31, 2008	
	Aircraft on firm order	Options and conditional orders	Aircraft on firm order	Options and conditional orders
<b>Regional jets</b>				
<i>CRJ200</i>	-	-	-	24
<i>CRJ700 NextGen</i>	46	38	32	72
<i>CRJ900 NextGen</i>	55 <sup>(1)</sup>	184	84 <sup>(2)</sup>	212
<i>CRJ1000 NextGen</i>	45	20	39	24
<b>Turboprops</b>				
<i>Q200</i>	-	-	5	-
<i>Q300</i>	6	-	12	4
<i>Q400/Q400 NextGen</i>	114	129	90 <sup>(2)</sup>	145
	266	371	262	481

- (1) Includes seven firm orders with conversion rights from the *CRJ900 NextGen* aircraft to the *CRJ1000 NextGen* aircraft.  
(2) Includes 19 firm orders with conversion rights from the *CRJ900 NextGen* aircraft to the *CRJ1000 NextGen* aircraft and three firm orders with conversion rights from the *Q400* turboprop to other commercial aircraft.

In March 2009, Lufthansa signed a firm purchase agreement for 30 CS100 aircraft (formerly known as the C110). Based on the list price, the value of this contract is approximately \$1.5 billion, and includes options for an additional 30 CSeries aircraft. These aircraft will be operated by Lufthansa's subsidiary, Swiss International Air Lines Ltd.

In March 2009, Lease Corporation signed a firm purchase agreement for 3 CS100 and 17 CS300 aircraft (formerly known as the C130). Based on the list price, the value of this contract is approximately \$1.4 billion, and includes an option for an additional 20 CSeries aircraft.

## Workforce aligned with production rates

Total number of employees		
	January 31 2009	January 31 2008
Employees		
Permanent	30,000	27,800
Contractual	2,500	300
	32,500	28,100
Percentage of permanent employees covered by collective agreements	55%	56%

The 16% increase in the total number of employees is mainly due to the launch of two new aircraft programs, the *Learjet 85* business jet and CSeries family of aircraft programs, as well as due to the ramp up in production of certain programs in the early part of fiscal year 2009. Our long-term human resources strategy is to hire contractual workers to provide increased flexibility in periods of fluctuation and thus ensure stability in our permanent workforce.

Subsequent to January 31, 2009, we announced a reduction in the production rates for all business aircraft and regional jets to reflect current market conditions. This is expected to result in a total workforce

reduction of approximately 4,400 employees, including the reduction announced on February 5, 2009, representing 14% of our workforce as at January 31, 2009. The severance costs associated with these layoffs are expected to be \$30 million and will be recorded in fiscal year 2010.

The workforce reductions, which will take place at all of our manufacturing sites, began in February 2009. The reduction of permanent employees includes unionized, salaried and management personnel.

Major collective agreements			
Location	Union	Approximate number of employees covered as at January 31, 2009	Expiration of current collective agreement
Montréal	IAMAW	5,600	November 28, 2014
Belfast	General Machinists & Boilermakers and Unite the Union	4,600	January 25, 2010
Toronto	Canadian Auto Workers	3,000	June 22, 2009
Wichita	IAMAW	1,200	October 5, 2009
Montréal <i>Global</i> aircraft completion centre	National Automobile, Aerospace, Transport and Other Workers of Canada (Canadian Auto Workers)	1,000	December 5, 2010
Querétaro	Sindicato Nacional de Trabajadores de la Industria Arnesera Eléctrica Automotriz y Aeronáutica de la República Mexicana - CTM	900	April 30, 2009

On July 6, 2008, approximately 5,300 employee-members of the IAMAW voted in favour of a new collective agreement contingent on the CSeries family of aircraft being manufactured in the Montréal area. As a result of the launch of the CSeries family of aircraft on July 13, 2008,

along with confirmation of the decision to manufacture the aircraft in the Montréal area, this agreement became effective November 29, 2008, on expiration of the previous collective agreement.



# TRANSPORTATION

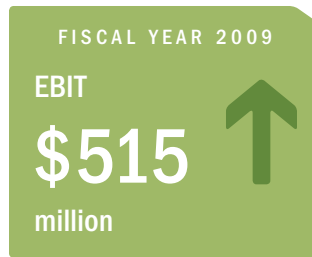
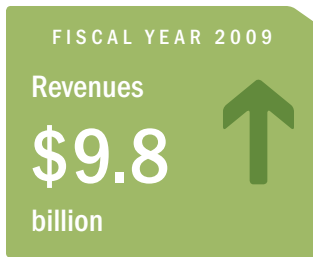
The data presented in this section of the MD&A is structured by market segment (rolling stock, services, system and signalling) and by geographic region (Europe, North America, Asia-Pacific and Other), which is reflective of our organizational structure.

<b>HIGHLIGHTS</b>	Highlights for the fourth quarter and fiscal year.	<b>93</b>
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# HIGHLIGHTS

## Another strong financial performance in fiscal year 2009



↑ Figure is higher than in fiscal year 2008.

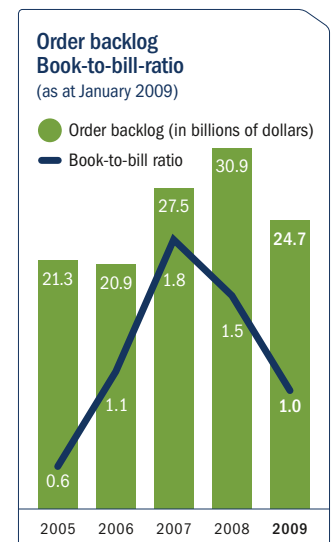
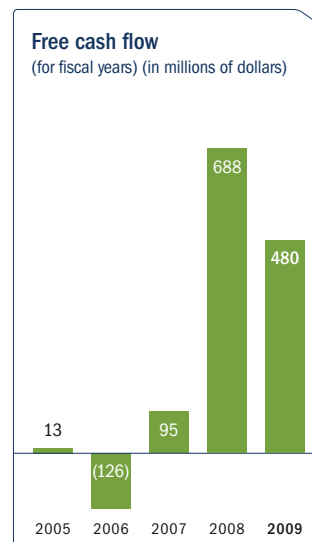
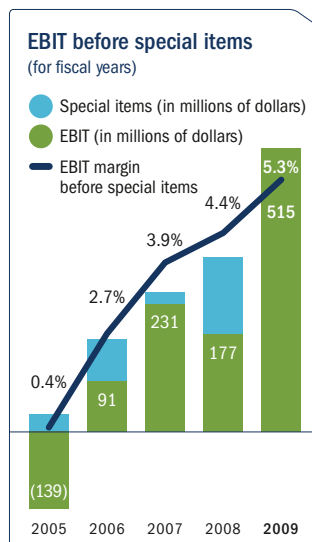
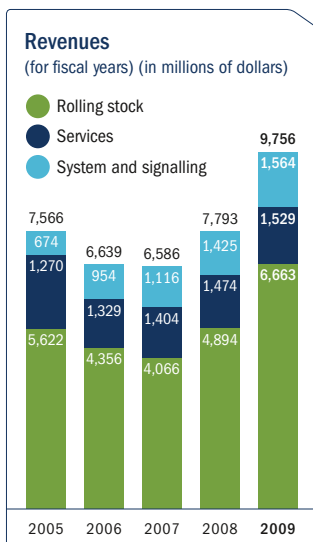
↓ Figure is lower than in fiscal year 2008 or lower than as at January 31, 2008.

### Fourth quarter

- Revenues of \$2.7 billion, an improvement of 12% compared to the same period last fiscal year.
- EBIT of \$164 million, or 6.2% of revenues, compared to \$109 million, or 4.6%, for the same period last fiscal year.
- Free cash flow of \$360 million, a decrease of \$165 million compared to the same period last fiscal year.
- \$2.6 billion in new orders (book-to-bill ratio of 1.0), compared to \$3.9 billion (book-to-bill ratio of 1.6) for the same period last fiscal year.

### Fiscal year

- Revenues of \$9.8 billion, an improvement of 25% compared to last fiscal year.
- EBIT of \$515 million, or 5.3% of revenues, compared to \$177 million, or 2.3% (EBIT before special item of \$339 million, or 4.4%) last fiscal year.
- Free cash flow of \$480 million for fiscal year 2009, in line with EBIT.
- \$9.8 billion in new orders (book-to-bill ratio of 1.0 in a context of high revenue growth), compared to \$11.3 billion (book-to-bill ratio of 1.5) last fiscal year.
- Order backlog of \$24.7 billion as at January 31, 2009, compared to \$30.9 billion as at January 31, 2008. This decrease is due to the weakening of foreign currencies, mainly the euro and the pound sterling, compared to the U.S. dollar (\$6.2 billion).



# KEY PERFORMANCE MEASURES AND METRICS

Incentive compensation is linked to the achievement of targeted results, based on EBIT and free cash flow (starting in fiscal year 2010, free cash flow will be replaced by average adjusted net segmented assets). We view special items as potentially distorting the analysis of trends,

and as such, they are excluded from the profitability metrics. The table below summarizes the most relevant key performance measures and related metrics.

Profitability	<ul style="list-style-type: none"> <li>EBIT before special items, as a measure of performance.</li> </ul>
Liquidity	<ul style="list-style-type: none"> <li>Free cash flow, as a measure of liquidity generation.</li> </ul>
Growth and competitive positioning	<ul style="list-style-type: none"> <li>Revenues, as a measure of growth.</li> <li>Order backlog, as a measure of future revenues.</li> <li>Book-to-bill ratio, as an indicator of future revenue growth. The ratio represents net orders over revenues, measured in dollars in a given period.</li> <li>Market share and scale, as measures of competitive positioning.</li> </ul>
Capital employed	<ul style="list-style-type: none"> <li>Average adjusted net segmented assets, as a measure of capital efficiency.</li> </ul>

	2009	2008	2007	2006	2005
<b>For fiscal years</b>					
Revenues					
Rolling stock	\$ 6,663	\$ 4,894	\$ 4,066	\$ 4,356	\$ 5,622
Services	1,529	1,474	1,404	1,329	1,270
System and signalling	1,564	1,425	1,116	954	674
	<b>\$ 9,756</b>	<b>\$ 7,793</b>	<b>\$ 6,586</b>	<b>\$ 6,639</b>	<b>\$ 7,566</b>
EBIT before special items	\$ 515	\$ 339	\$ 255	\$ 179	\$ 33
EBIT margin before special items	5.3%	4.4%	3.9%	2.7%	0.4%
Free cash flow	\$ 480	\$ 688	\$ 95	\$ (126)	\$ 13
Order intake (in billions)	\$ 9.8	\$ 11.3	\$ 11.8	\$ 7.3	\$ 4.4
Book-to-bill ratio	1.0	1.5	1.8	1.1	0.6
<b>As at January 31</b>					
Order backlog (in billions)	\$ 24.7	\$ 30.9	\$ 27.5	\$ 20.9	\$ 21.3
Total number of employees	34,200	31,500	29,100	28,600	31,600

## Forward-looking statements

Forward-looking statements<sup>(1)</sup> in this section of the MD&A are based on:

- current order backlog;
- upcoming tenders and market forecasts using market demand models consistent with latest available market information;
- market leadership in rolling stock, system and services;
- normal contract execution and continued deployment and execution of leading initiatives, especially those linked to cost reductions, including procurement and operational improvement initiatives;

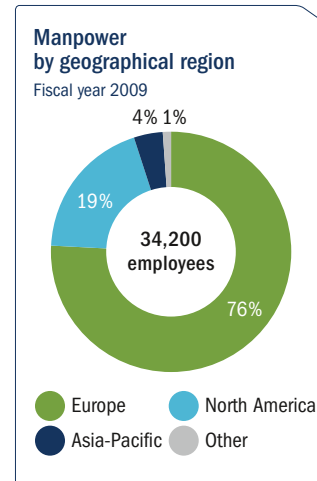
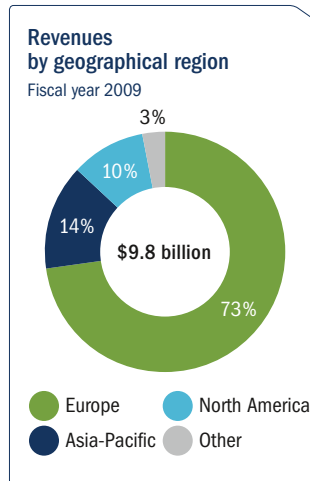
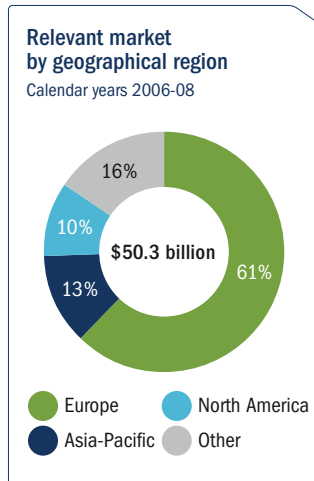
- recent industry trends based on main market drivers analysis as detailed in the Market and outlook section;
- a sustained level of public sector spending;
- ability of supply base to support the execution of our projects; and
- Canadian GAAP as currently applied by the Corporation.<sup>(2)</sup>

(1) See also the Forward-looking statements section in Overview.

(2) Before taking into account the changeover to IFRS (see the Accounting and reporting developments section in Other).

# PROFILE

## Bombardier Transportation – The global leader in the rail industry



### Global presence. Local roots

We are the global leader in the rail industry. Our revenues reached \$9.8 billion in fiscal year 2009, with Europe being our largest market. Our broad international capability is based on strong local roots: we have 50 production and engineering sites and 21 service centres in 24 countries. Additionally, we operate over 40 service centres at our customers' premises across the world. Our 34,200 employees—consisting of 75 nationalities and speaking 20 different languages—are employed in 35 countries.

A total of 85% of our business is with large, well-financed railway operators in the public sector, such as national railways and municipal transit authorities. These organizations rely on public involvement for infrastructure funding and operations financing. Most operate on a regional or national basis, but some are now focusing operations internationally along with emerging private trans-national operators. While deregulation is a factor in some markets, public-sector entities still dominate in most regions.

### Meeting the needs of our customers in 60 countries

Our customers compete with air- and road-based transport, making passenger comfort, travel times, efficiency, service reliability and capacity important competitive factors. Key factors in rail procurement tenders are compliance with customer specifications, product reliability, maintainability, availability, safety, price, energy efficiency and design. Local content in products is often an important criterion to public operators as well.

### Delivering the backbone of modern mobility

Widely recognized as the most sustainable mode of transportation today, rail is a climate-friendly alternative that reduces energy consumption, emissions, noise, congestion, travel times and other factors critical to the world's sustainable development objectives. We cover the full spectrum of railway solutions, ranging from complete trains to subsystems, maintenance services, system integration and signalling. Our installed rolling stock product base exceeds 100,000 rail cars and locomotives worldwide.

### A worldwide network of supplier expertise

We provide highly complex rail solutions that incorporate a wide range of high-tech sub-systems, parts and components. An effective global supply chain is therefore critical to our business. We are constantly assessing and streamlining our supplier base to ensure an efficient global supply chain and sustainable procurement processes. Our procurement system helps us to ensure that our supplier relationships add value to our supply chain. Today, our business utilizes highly qualified suppliers across 30 countries, with approximately 85% of our procurement spend focused on 400 preferred suppliers.

## Organized to deliver on our customer needs

We offer the broadest portfolio of products and services in the rail industry with an organizational structure designed to meet requirements of customers around the world. Our business is structured around six divisions and focuses on four key market segments: Rolling stock, Services, System and Signalling.

### PASSENGERS DIVISION (Market segment: Rolling stock)

Provides a diverse range of rail vehicles for multiple applications across global markets (except North America).



#### LIGHT RAIL VEHICLES

**APPLICATION:** Efficient transit in dense urban centres.

**MAJOR PRODUCT:** *FLEXITY*

**MAIN MARKET:** Europe

**KEY COMPETITIVE ADVANTAGES:** The world's most complete portfolio of light rail solutions ranging from 100% low-floor trams to high-capacity light rail vehicles, covering the diverse needs of cities around the world.



#### METRO CARS

**APPLICATION:** High-capacity mobility for inner-city transit.

**MAJOR PRODUCT:** *MOVIA*

**MAIN MARKETS:** Europe and Asia

**KEY COMPETITIVE ADVANTAGES:** Flexible product platform adaptable to current and future requirements of customers across diverse markets, with a track record for rapid, efficient and cost-effective operation.



#### COMMUTER AND REGIONAL TRAINS

**APPLICATION:** Suburban and regional rail transit for urban centres and outlying regions.

**MAJOR PRODUCTS:** *AGC, SPACIUM, TALENT, TALENT 2, ELECTROSTAR, TURBOSTAR*

**MAIN MARKET:** Europe

**KEY COMPETITIVE ADVANTAGES:** Broad product line featuring electrical, diesel and hybrid self-propelled vehicles, along with a wide range of locomotive-hauled coaches in both single and double-deck configurations. Modular platforms offer maximum flexibility to transit authorities and operators.



#### INTERCITY, HIGH-SPEED TRAINS AND VERY HIGH-SPEED TRAINS

**APPLICATION:** Equipment for medium- and long-distance operations.

**MAJOR PRODUCTS:** *AVE* power heads, *REGINA* and *ZEFIRO*

**MAIN MARKETS:** Europe and China

**KEY COMPETITIVE ADVANTAGES:** Solutions covering the full spectrum of speed requirements, including modular *ZEFIRO* technology: intercity (160-200 kph), high speed (200-250 kph) and very high speed (above 250 kph). We are a key player in this segment and have been involved in almost all major European very high-speed trains as well as other international high-speed projects.

## LOCOMOTIVES AND EQUIPMENT DIVISION (Market segment: Rolling Stock)

Provides an extensive line of locomotives and vehicle sub-systems for global markets.



### LOCOMOTIVES

**APPLICATION:** Locomotives for intercity, regional and freight rail service.

**MAJOR PRODUCTS:** TRAXX and dual-mode

**MAIN MARKET:** Worldwide

**KEY COMPETITIVE ADVANTAGES:** Industry-leading product family offering electric, diesel-electric, dual-mode and multi-system capabilities.



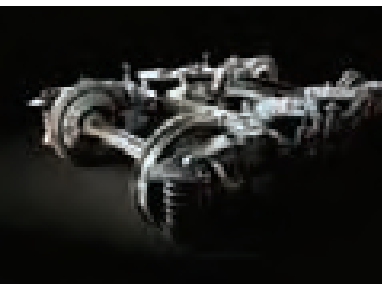
### PROPULSION AND CONTROLS

**APPLICATION:** Complete propulsion, train control and management systems for our rail vehicles and third-party customers.

**MAJOR PRODUCT:** MITRAC

**MAIN MARKET:** Worldwide

**KEY COMPETITIVE ADVANTAGES:** Leading-edge reliability, efficiency and energy-saving technologies covering the full spectrum of rolling stock applications.



### BOGIES

**APPLICATION:** Complete bogie solutions for our rail vehicles and third-party customers.

**MAJOR PRODUCT:** FLEXX

**MAIN MARKET:** Worldwide

**KEY COMPETITIVE ADVANTAGES:** Advanced product technology and complete aftermarket services covering the full spectrum of rolling stock applications.

## NORTH AMERICA DIVISION (Market segments: Rolling Stock and Services)

Provides a range of rail vehicles and services tailored specifically to the specialized requirements of North American markets.



### MASS TRANSIT

**APPLICATION:** High-capacity solutions for urban, suburban, regional and intercity transit.

**MAJOR PRODUCTS:** FLEXITY, metros and commuters, including BiLevel and Multilevel commuter cars.

**MAIN MARKET:** North America

**KEY COMPETITIVE ADVANTAGES:** Complete portfolio of products designed to North American specifications. Strong track record for high reliability in service.



### SERVICES

**APPLICATION:** Third-party fleet maintenance, operations, equipment overhaul as well as material and technology solutions supporting North American transit agencies.

**MAIN MARKET:** North America

**KEY COMPETITIVE ADVANTAGES:** Largest provider of third-party services with a full line of lifecycle-based solutions.

## SERVICES DIVISION (Market segment: Services)

Provides full portfolio of services supporting railway operators' efficiency and cost effectiveness (except North America).

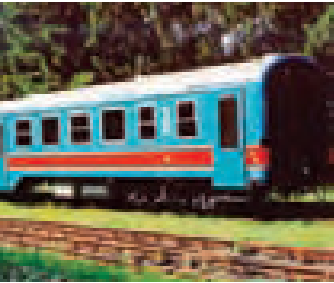


### FLEET MAINTENANCE

**APPLICATION:** Third-party fleet maintenance services for railway operators.

**MAIN MARKET:** Europe

**KEY COMPETITIVE ADVANTAGES:** Best-in-class engineering expertise, maintenance techniques and tools, such as the *ORBITA* predictive maintenance management solutions.



### REFURBISHMENT AND OVERHAUL

**APPLICATION:** Modernization, reengineering and overhaul of rail vehicles and components.

**MAIN MARKET:** Europe

**KEY COMPETITIVE ADVANTAGES:** Strong experience with more than 3,000 vehicles refurbished and more than 4,000 different types of components overhauled worldwide.



### MATERIAL SOLUTIONS

**APPLICATION:** Supply-chain management, spare parts inventory management and technical support services for railway operators.

**MAIN MARKET:** Europe

**KEY COMPETITIVE ADVANTAGES:** Global engineering and purchasing power through vast network of parts and components suppliers.

## SYSTEMS DIVISION (Market segment: System)

Develops, designs, builds, operates and maintains turnkey transportation systems.



### AUTOMATED PEOPLE MOVER (APM) SYSTEMS

**APPLICATION:** Development and delivery of urban and airport transit systems.

**MAJOR PRODUCTS:** *CX-100* and *INNOVIA*

**MAIN MARKET:** Worldwide

**KEY COMPETITIVE ADVANTAGES:** Successful, on-time delivery with strong track record for reliability and dependability across 20 complete systems around the world.



### MASS TRANSIT SYSTEMS

**APPLICATION:** Fully automated rapid transit, light rail, metro and intercity systems, as well as related products such as transit security, energy management and catenary-free solutions.

**MAIN MARKET:** Worldwide

**KEY COMPETITIVE ADVANTAGES:** Broad rolling stock portfolio that can be customized to provide a complete system solution. Proven experience in on-time project management, systems engineering and integration, and driverless or unattended operations.



### OPERATIONS AND MAINTENANCE

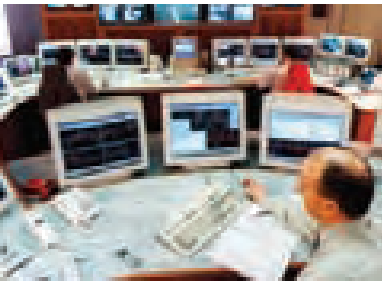
**APPLICATION:** Operations and maintenance (“O&M”) services for fully automated transit and people mover systems.

**MAIN MARKET:** Worldwide

**KEY COMPETITIVE ADVANTAGES:** Strong O&M experience in automated, driverless technologies, including rapid transit, light rail, monorail and people mover systems.

## RAIL CONTROL SOLUTIONS DIVISION (Market segment: Signalling)

Provides a comprehensive portfolio of onboard and wayside signalling solutions that increase speed, safety and track capacity on rail networks.



### MASS TRANSIT

**APPLICATION:** Rail control and signalling solutions for mass transit systems such as metros, light rail or people movers.

**MAJOR PRODUCT:** CITYFLO

**MAIN MARKET:** Worldwide

**KEY COMPETITIVE ADVANTAGES:** Complete portfolio of solutions ranging from manual applications to fully automated communication-based systems.



### MAINLINE

**APPLICATION:** Rail control and signalling solutions for mainline transit ranging from freight traffic to regional/commuter, intercity and high-speed services.

**MAJOR PRODUCTS:** EBI Cab, EBI Lock and INTERFLO

**MAIN MARKET:** Worldwide

**KEY COMPETITIVE ADVANTAGES:** Complete portfolio of conventional signalling systems. Market leader in European Rail Traffic Management System (ERTMS) technology.



# BUSINESS ENVIRONMENT

## The climate is right for trains

### Current socio-economic trends strongly support rail transport

Rail transportation is an eco-friendly and immediately available solution to address today's major challenges: climate change, population growth, urbanization, congestion and rising energy costs.

Transport activities are in general a major source of global warming, but more rail transportation would help limit this impact. We estimate that shifting one passenger-kilometre from road to rail transport would reduce the CO<sub>2</sub> emissions by 70% per kilometre.

It is estimated that 60% of the world's population will live in urban areas by calendar year 2025, and the number of cities with a population of ten million or more inhabitants—the so-called mega-cities—is expected to increase by almost 50%. As a result, transport demand will rise continuously within and between cities.

Public transport is an important cornerstone of urban planning, as it uses significantly less space than roads to transport the same number of people. A 3 to 5 metre-wide road allows transporting 2,000 people per hour by car, while a metro tunnel of the same width can transport 25 times more people per hour. Road congestion causes incremental travel delay, stress, vehicle operating costs and pollution that each additional vehicle imposes on other road users. According to Texas A&M University, in the U.S. alone, road congestion caused 4.2 billion hours of travel delay and 2.9 billion gallons of wasted fuel, amounting to an estimated cost of more than \$78 billion in calendar year 2005.

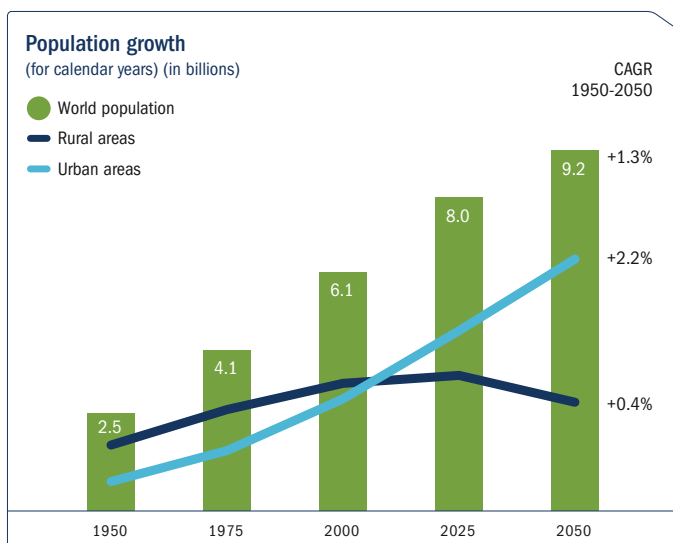
With a growing demand for fossil fuels, cost of transport based on oil and gas are expected to increase in the long term, favouring a change of customer behaviour towards rail transport.

As numerous political decision-makers have realized the benefits of rail transport, procurement processes for new, extended or rejuvenated infrastructure and rolling stock are being initiated.

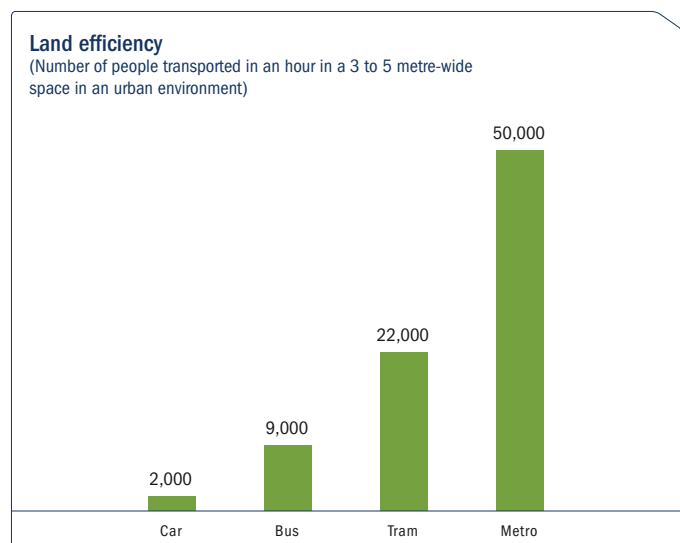
### Our products and services are the engine of sustainable mobility

As the global leader in the rail industry, we place environmental sustainability firmly at the top of our agenda and seek to create greater awareness of sustainable mobility as a step toward fighting global warming. By promoting the benefits of rail as a preferred mode of transport, we help to reduce congestion and pollution.

At InnoTrans 2008, the world's largest rail industry fair, we launched the *ECO4* portfolio of solutions, services, products and technologies, which maximizes total train performance for rail operators. Fulfilling our motto "*The climate is right for trains*", the *ECO4* portfolio offers state-of-the-art environmental performance and addresses the most critical concerns rail transit operators face today: reducing Energy consumption, improving Efficiency and protecting the Ecology, thereby improving the Economics for our customers.

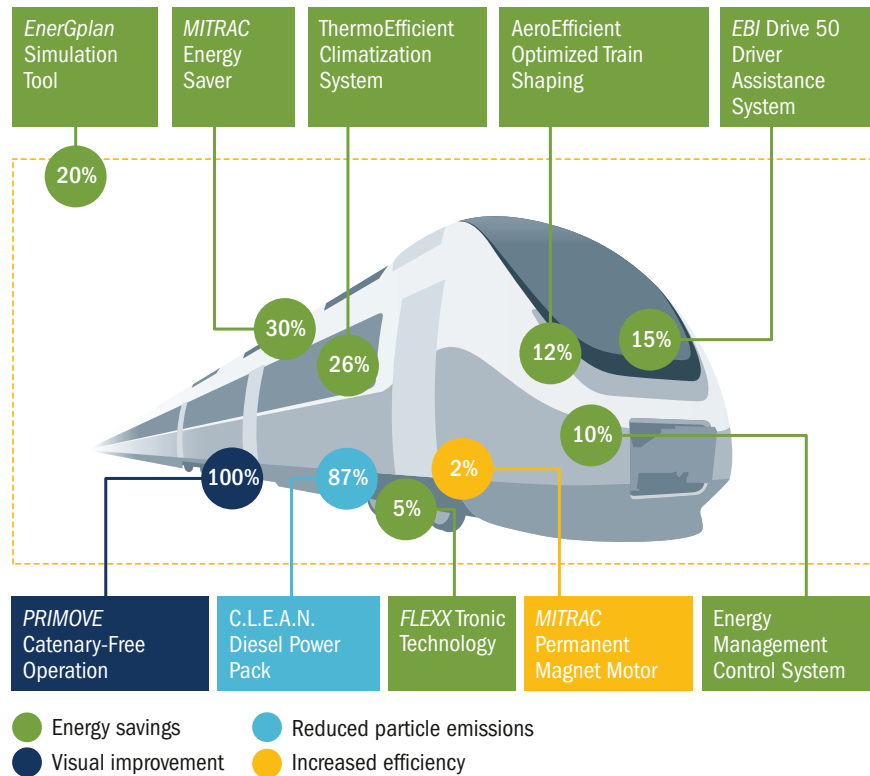


Source: United Nations Department of Economic and Social Affairs/Population Division: "World Urbanization Prospects: The 2007 Revision"



Source: International Association of Public Transport ("UITP").

## Our new *ECO4* technologies can create energy savings of up to 50%<sup>(1)</sup>



Our innovative *ECO4* technologies can generate energy savings of up to 50%, while covering all performance requirements. Many products in our *ECO4* portfolio were developed in close cooperation with our customers to enable perfect functionality in a wide variety of technical environments. The *ECO4* portfolio reflects a unique dynamic process in the rail industry and it will continue to evolve and become more diversified in future.

## The current recession should have a limited impact on the rail industry

The recession currently felt in most industrialized countries is not expected to have a major impact on the rail industry. The fundamentals of the industry are strong, and many of our customers are planning large replacement orders in the coming years that cannot be delayed too long for operational reasons, recession or not. Examples are high-speed and intercity trains in France and Germany, commuter and regional trains in the U.K. and metro vehicles in Canada.

On top of these replacement orders, many governments around the world have announced stimulus plans and infrastructure-funding programs, as a means to stimulate their domestic economies. We are monitoring major rail project developments from governments in Canada, China, France, the U.K. and the U.S. among others, and we could

potentially benefit from this increased infrastructure spending should it come through. The actual deployment of these plans may however be spread over many years, and so the positive impact on our order intake would be limited in the near term.

We are still monitoring market developments, and we have taken proactive action to assess the impact of the recession on our current and future orders, as well as on our key business partners. We enjoy a strong order backlog of \$24.7 billion as at January 31, 2009, representing an average of 2.5 years of revenues. With our current product and services portfolio, we have the right solutions for our customers and we will continue to ramp up our production to execute our order backlog.

(1) Compared to current products.

# STRATEGIES AND CAPABILITY TO DELIVER RESULTS

## Our vision: Leading the rail industry in customer satisfaction, innovation, execution and profitability

### We are ready to move into high gear

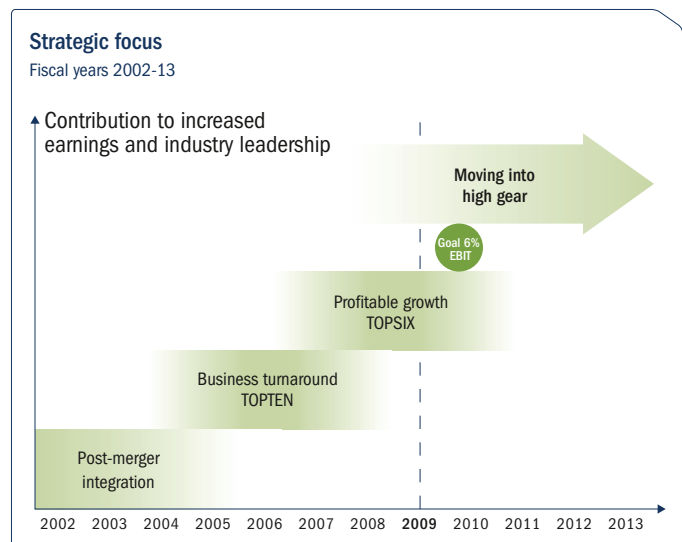
Following its acquisition in fiscal year 2002, we have successfully integrated Adtranz into Bombardier and created the #1 company in the rail industry. To turn around our business and improve our competitive position, in fiscal year 2005, we launched a BT-wide improvement program called TOPTEN, focusing on ten transversal initiatives across all our divisions, countries and projects.

As of fiscal year 2007, our organization was stabilized and we started on our path to profitable growth through six initiatives called TOPSIX: market leadership (LEAD), product portfolio (SUPRO), operational excellence (BOS), project management (PRO), procurement (CODE30+) and human resources (PEOPLE). As we are nearing accomplishment of the profitability goal set, these initiatives have become part of our DNA. We are now launching the next stage in our corporate development—“Moving into high gear”—to better leverage our capabilities, move closer to our customers and further increase our profitability.

In fiscal year 2009, we streamlined our organization around six divisions to better reflect market requirements and become more efficient in our decision-making and communication with employees and customers. The six new divisions (passengers, locomotives and equipment, North America, services, systems and rail control solutions) provide a better alignment between products and markets. The passengers division regroups the former mainline and metro cars, light rail vehicles and Australia divisions, while the locomotives and equipment division regroups the former locomotives, propulsion & controls and bogies divisions. The other four divisions remain mostly unchanged. Our stronger and simpler organization will help us move from profitable growth into high gear.

### Continuously improving our performance

All these efforts have resulted in a solid financial performance over the last few years. Since the launch of our turnaround program in fiscal year 2005, we have improved our profitability year after year, reaching 5.3% of EBIT margin in fiscal year 2009.

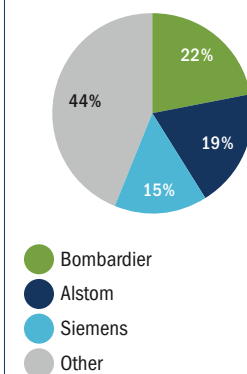


Over the last four fiscal years, we have achieved a consistent book-to-bill ratio of or above one. Our consistently high level of order intake has resulted in a strong order backlog of \$24.7 billion as at January 31, 2009. Our efforts to deliver on our orders have led to a double-digit revenue growth for a second consecutive year, with revenues of \$9.8 billion for fiscal year 2009.

For fiscal year 2010, we maintain our profitability goal of 6% EBIT margin<sup>(1)</sup>, through the effective management of operations and by focusing on efficient execution and increased focus. Our strong order backlog should enable us to continue growing revenues (in currency of origin) in the coming year, even if the book-to-bill ratio might temporarily be below one. Our free cash flow is also expected to remain in line with EBIT.

As a result of our comprehensive and innovative product portfolio, we remain the #1 in the rail industry with a global market share of 22% for calendar years 2006-08.

**Market shares –  
Bombardier-relevant market**  
Calendar years 2006-08

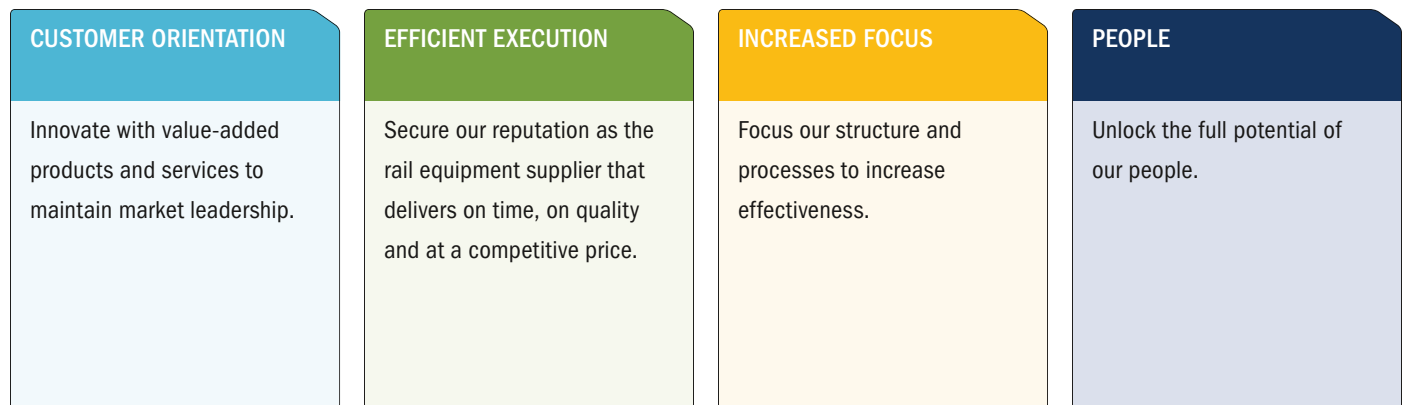


Source: Published information and internal market analysis.

(1) See Forward-looking statements section.

## Our strategy is structured around four cornerstones

We aspire to continuously grow our EBIT while keeping our market leadership position, to provide superior value and services to our customers, optimize the safety, efficiency and environmental performance of our products, and increase our employee engagement. Our strategy to deliver on that promise focuses on four strategic cornerstones:



### Never stop innovating for customers

Customer orientation is one of our main priorities. We are working closely with our customers around the world to develop solutions that meet their specific challenges, for example, cost efficiency, environmental performance, transport capacity and speed, as well as safety. We have launched, and we continue to introduce major innovations to the market to reinforce our product offering.

CUSTOMER ORIENTATION	
<b>Our goal</b>	Innovate with value-added products and services to maintain market leadership.
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>• We are working more closely with our main customers to further develop customer intimacy.</li> <li>• We are expanding our market presence by developing local roots in key markets, with a focus on the growing markets of Asia, the Middle East and Africa.</li> <li>• We are driving key product development projects, focusing on improving our performance and the environmental footprint of our products.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>• We leveraged our footprint in Asia, being the first company to build a fully foreign-owned rail production site in India, and to win with our joint venture in China a first export contract for Singapore.</li> <li>• We introduced our <i>ECO4</i> portfolio, comprising solutions that can easily be customized to any fleet, creating performance improvements and up to 50% in energy savings.</li> <li>• We completed a successful test of our <i>PRIMOVE</i> contact-less catenary-free operation, locating the power lines beneath the track instead of above the roof.</li> <li>• We won contracts in North America for the first dual-mode locomotives, which allow running on either diesel or electricity without interruption.</li> </ul>

## Delivering on our commitment through continuous improvement

Efficient execution of our contracts is the main customer satisfaction driver. Transit authorities, railway operators and passengers rely on the timely and qualitative execution of our commitments. Driven by

our TOPSIX program, continuous improvement of our operational performance has become part of our DNA. We have also put in place risk-mitigation strategies with defined processes for the bid approval, project start-up, design, realization and field support phases to help ensure we can continue to improve further.

EFFICIENT EXECUTION	
<b>Our goal</b>	Secure our reputation as the railway equipment supplier that delivers on time, on quality and at a competitive price.
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>After completing BOS baseline assessments at major sites, we are implementing improvement plans to achieve best practices and ultimately reach world-class standards for all plants.</li> <li>We are working jointly with suppliers to strongly improve performance, focusing on total cost of ownership and quality within our procurement optimization program CODE30+.</li> <li>We are working on design for manufacturing, quality, cost, and maintenance and are reducing the lead time between order and production start by improving our engineering processes.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>We ramped up our manufacturing capabilities on time to achieve double-digit revenue growth for a second consecutive year.</li> <li>We further increased the standardization of our components and considerably reduced design lead times. For instance, we are in the process of reducing the lead time by up to six months for our new <i>FLEXITY 2</i> platform.</li> <li>We launched over 100 total cost of ownership initiatives across all divisions to identify cost-reduction levers jointly with internal and external suppliers.</li> <li>We developed concrete improvement plans for our ten largest manufacturing sites to further increase productivity, reduce inventory levels and optimize costs.</li> </ul>

## Focusing on what matters

Increased focus helps us maximize the effectiveness of our organization. Our business turnaround is a good example of our ability to increase focus on what matters and this has led to significant improvements in our overall operations. We have now simplified our structure and are adjusting working processes to further increase focus and move into high gear.

INCREASED FOCUS	
<b>Our goal</b>	Focus our structure and processes to increase effectiveness.
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>We aim to be more selective in our bidding process by focusing on tenders with a high realization probability, an excellent product fit and good margin prospects.</li> <li>We want to further simplify our organization and working processes by leveraging the synergies from our recent reorganization into six divisions.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>We performed a detailed review of market opportunities in light of the current economic environment to focus our efforts on the most promising tenders.</li> <li>We streamlined our business around six divisions to simplify our organizational structure and better capture new market opportunities.</li> </ul>

## Our people are defining who we are

People are our most valuable asset. We depend on competent and motivated employees to drive innovation and execute our order backlog. As we ramp up major contracts throughout the world and develop our international presence in emerging markets, we need to continuously improve our capabilities to attract, support and develop our employees worldwide.

PEOPLE	
<b>Our goal</b>	Unlock the full potential of our people.
<b>Our leading initiatives</b>	<ul style="list-style-type: none"> <li>▪ We want to continuously increase employee engagement and measure it on a consistent basis, in order to become an employer of choice.</li> <li>▪ We want to provide an even safer working environment, with a long-term goal of zero injuries at all of our sites, by developing proactive measures to reduce the number of accidents and near misses.</li> <li>▪ We need to ramp up our resources, by proactively planning demand and further managing staff demography evolution, as well as by improving measures of talent acquisition, retention and development.</li> </ul>
<b>Our deliverables in fiscal year 2009</b>	<ul style="list-style-type: none"> <li>▪ We hired more than 2,000 new employees in operations, engineering, quality and project management to ramp up production to execute our large order backlog.</li> <li>▪ We launched a global graduate program to help recruit talented and passionate graduates, moving them through different functions in different countries across our organization, helping create a virtually boundary-less organization.</li> <li>▪ We increased our employee engagement by investing in training and development programs that challenge our employees and create opportunities for professional growth.</li> <li>▪ Between fiscal years 2004 and 2009, we made significant progress in reducing our accident frequency ratio from 1.6 accidents per 200,000 hours worked to 0.6, and our accident severity ratio from 25 workdays lost due to accidents per 200,000 hours worked to 11.</li> </ul>

In fiscal year 2010, we will continue to make significant progress around these four strategic cornerstones, which should result in a better competitive position and financial performance. Employees across all our divisions, countries and sites understand and apply these strategies. We are confident about reaching the strategic goals set for the coming years.

## We have the right capabilities to realize our opportunities and deliver results

Our capability to deliver results is based on the following attributes:

- we have a broad, leading-edge portfolio of flexible product platforms that can be customized to specific customer requirements;
- we have a global presence, serving customers in 60 countries through our local production and service network;
- we continuously improve our key business processes through our TOPSIX program;
- we negotiated a €3.75-billion letter of credit facility agreement in December 2008 to secure our bid-bonding capability (see the Liquidity and capital resources section in Overview for further details);
- we have a strong relationship with our key stakeholders, including customers, unions and suppliers;
- we have a large talent pool of well-trained and motivated employees; and
- we have an experienced management team, committed to the long-term success of the organization.

In addition, we continue to improve with our risk management practices to identify risks before they arise, and to proactively take action. A good example is the detailed analysis that we conducted in fiscal year 2009 in light of the recession, to proactively identify our critical suppliers and categorize them based on their financial health and the availability of alternative sources. As a result, we have put teams in place to monitor risks for our top 400 suppliers, representing approximately 85% of our procurement spending.

We are actively managing our exposure to key business risks within each function of our organization (see the Risks and uncertainties section in Other for further details on these risks). Our most significant risk is whether we can efficiently execute our order backlog on time, on quality and at a competitive cost.

We have put in place risk-mitigation strategies with defined processes.

- Bid approval process is managed by senior executives, with bids reviewed for compliance with internal policies and guidelines in various areas.
- Bid approval, project start-up and design phases include a technical risk assessment, legal review of contracts, development of long-term relationships with some suppliers, together with supplier evaluation and cost.
- A risk analysis and assessment of our exposure is done at the beginning of each project and on a continuing basis thereafter. Projects carried out through consortia or other partnership vehicles also normally provide counter-indemnities among the partners in order to limit exposure.
- Products are subject to a thorough peer review to leverage the knowledge acquired on other similar projects and increase the level of standardization of components. The quality of components and the end product are rigorously tested throughout the design and production process.
- Internal resources independent of the project management team perform periodic project management audits, assessing contracts both from a project management and a financial perspective. Those audits cover all key projects in terms of size and risk level, but also include selected smaller projects.
- Regular reviews are performed on all our projects, focusing on project improvement management, proactive risk and opportunity management and forecasts.
- All products are subject to product safety policies and processes on product safety, supported by our centres of competency.

Our attributes, combined with our risk management practices, will enable us to successfully deliver on our long-term strategy.



# MARKET AND OUTLOOK

The accessible market represents the worldwide rail market excluding the share of local contractors in emerging markets, maintenance performed in-house by operators, as well as the Japanese market, which are not accessible to open-bid competition. Unless otherwise stated, the market referred to in the MD&A represents the market in which we have a product offering (“relevant market”), defined as the accessible market

excluding freight locomotives in North America, worldwide freight cars, rail infrastructure and electrification. Due to the cyclical nature of the market and in line with common industry practice, our relevant market is stated as the average of a three-year period, based on published orders for rolling stock and system, and on revenues for the services and signalling.

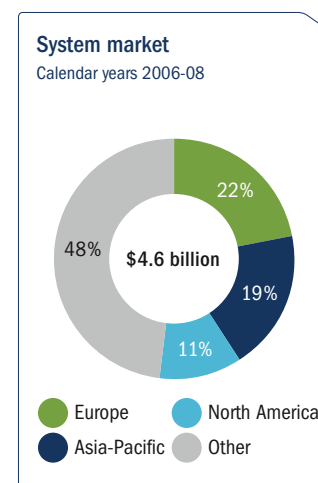
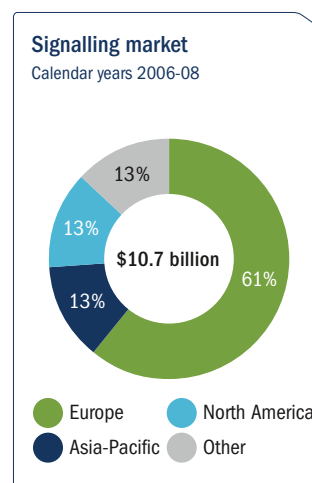
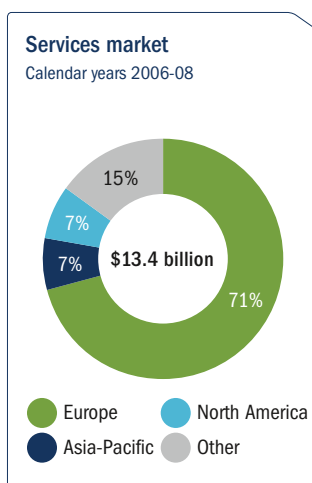
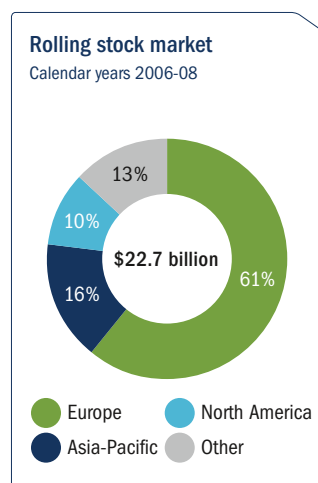
## Rail market remains strong

Relevant market				
(in billions of dollars)				
	Calendar years 2006-08		Calendar years 2005-07 <sup>(1)</sup>	
<b>By market segment</b>				
Rolling stock	\$ 22.7	45%	\$ 21.2	46%
Services	13.4	27%	12.3	27%
Signalling	10.7	21%	9.8	21%
System	4.6	9%	3.6	8%
Reallocation <sup>(2)</sup>	(1.1)	(2%)	(1.2)	(2%)
	\$ 50.3	100%	\$ 45.7	100%
<b>By geographical region</b>				
Europe	\$ 30.8	61%	\$ 27.9	61%
Asia-Pacific	6.5	13%	6.8	15%
North America	5.0	10%	4.8	10%
Other	8.0	16%	6.2	14%
	\$ 50.3	100%	\$ 45.7	100%

- (1) Restated from \$43.1 billion to \$45.7 billion, reflecting the “Worldwide rail market study – status quo and outlook 2016” published by the Association of the European Rail Industry in September 2008 (“2008 UNIFE study”) for signalling and services, and updated rolling stock and system calendar years 2005-07 market sizes.  
 (2) Relates to the rolling stock, services and signalling portion of the system market.

The market for calendar years 2006-08 showed a strong growth of 10% compared to calendar years 2005-07, supported mainly by Europe and Other regions. The growth in the European market is mainly due to a higher level of investments in rolling stock, mainly in the regional trains and metro car segments. The growth in the Other region market is mainly

due to increased rolling stock investments in Latin America and to large mass transit system projects in North Africa and the Middle East. The Asia-Pacific region saw significant investments in calendar year 2005 in the very high-speed and intercity, as well as in the diesel locomotive segment, leading to a slight decrease in calendar years 2006-08.



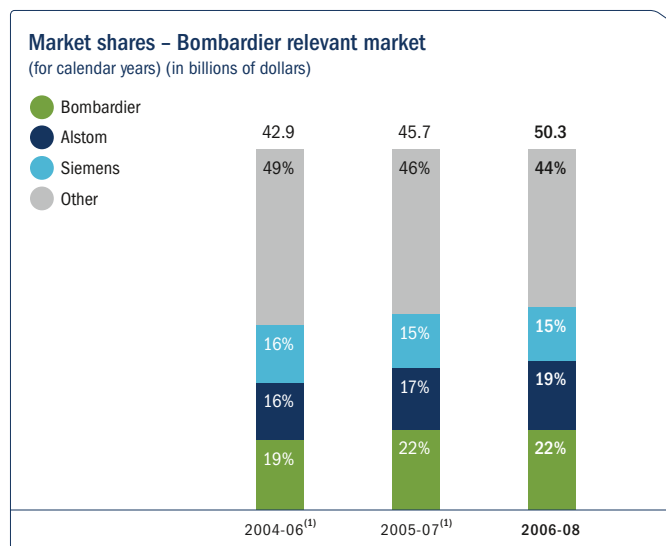
## We maintain our market leadership position and we are prepared to face increasing competition

Our major competitors are Alstom Transport ("Alstom"), a business unit of Alstom SA and Siemens Mobility ("Siemens"), a business unit of Siemens AG. Both are active in the same markets as we are.

The three largest OEMs account for 56% of the relevant market, and have increased their combined market shares over the years in a worldwide growing rail market. No other competitor in the relevant market holds more than 10% of total market share. Depending on the product segments, countries and regions, we face competition from specialized competitors. In the service segment, for example, competition mainly comes from railway operators, sub-system and component suppliers, as well as from third-party service providers.

Increasing competition is also coming from Asia, especially from Korean and Japanese competitors. These players are positioning themselves in the rolling stock segment, mainly in the Other and North America regions, and are increasingly present in deregulated markets like the U.K.

Based on a three-year average for calendar years 2006-08, we remain the market leader in the rail industry, with a stable market share of 22% of the relevant market, mainly due to a high order intake for passenger trains and electric locomotives.



(1) Our market share was restated from 20% to 19% for calendar years 2004-06 and from 23% to 22% for calendar years 2005-07 to reflect updated market size.

### Overview of main competitors<sup>(1)</sup>

	Rolling stock								Services	System	Signalling
	Light rail	Metros	Commuter	Regional	High speed & intercity	Electric locomotives <sup>(2)</sup>	Bogies	Propulsion & controls			
<b>BOMBARDIER</b>	#1	#1	#1	#1	#3	#1	#1	#1	#1	#1	#6 <sup>(3)</sup>
Alstom											
Siemens											
Stadler Rail AG											
CAF <sup>(4)</sup>											
Hyundai Rotem											
Ansaldo STS											
Thales											

(1) Shaded areas represent competitors with at least 10% market share in one segment.

(2) Including dual-mode locomotives.

(3) We hold a market share of 6%.

(4) Construcciones y Auxiliar de Ferrocarriles.

Source: BT market analysis

We are well positioned in all segments and rank #1 in 9 out of our 11 product segments.

### Our market share by market segment

	Calendar years 2006-08	Calendar years 2005-07
Rolling stock	28%	30%
Services	11%	11%
System	23%	23%
Signalling	6%	6%

In the rolling stock segment, we slightly reduced our market share, mainly in the regional and commuter segments in France and Germany. This is due to the fact that we have won large framework agreements in Germany and that framework agreements are not taken into account for the market share calculation until converted to firm orders.

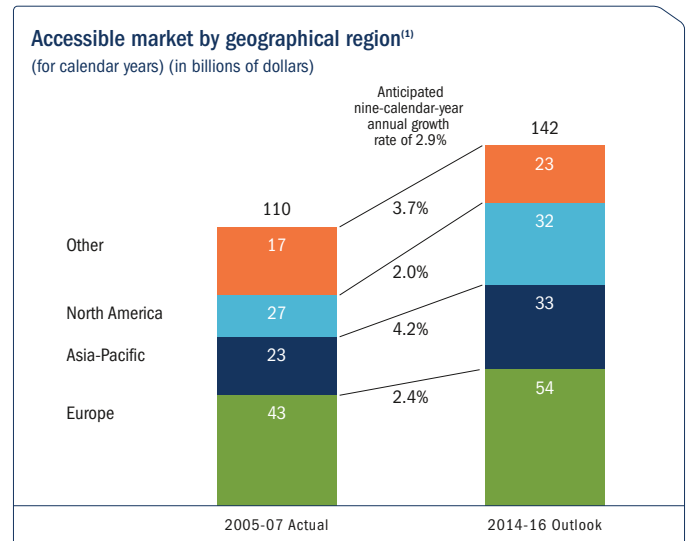
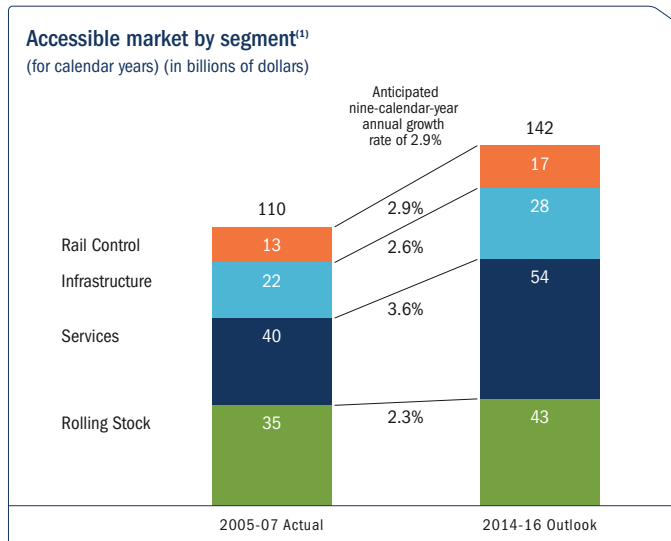
We are closely working with our main customers to continue our research on modular and flexible train platforms. This customer orientation has led us to be successful in winning a key framework agreement in Germany in the regional train segment. The framework agreement for double-deck coaches is the largest ever awarded to a single supplier by the German national operator.

We are continuously improving our product portfolio by investing in innovation and focusing on our customers' needs. In the U.S. and

Canada, we won large contracts with our new dual-mode passenger locomotives, providing a solution for North American cities with both electric and diesel power modes. We also developed *PRIMOVE*, the first contact-less catenary-free operation, locating the power lines beneath the track instead of above the roof. This new solution reduces lifecycle costs and works particularly well for trams operating in historic city centres.

We are leveraging our footprint in 24 countries through our own sites and established joint ventures, and we are expanding our presence by developing local roots in emerging markets, with a focus on Asia, the Middle East and Africa. We are continuously improving our execution, in order to secure our reputation as the railway equipment supplier who delivers on time, on quality and at a competitive price.

### The fundamentals of the rail industry are positive



(1) Values translated using a euro/USD foreign exchange rate of 1.2803.

Source: "Worldwide rail market study - status quo and outlook 2016" published by the Association of the European Rail Industry in September 2008 (2008 UNIFE Study)

According to the 2008 UNIFE Study, the accessible market, as defined earlier, will reach a volume of €111 billion (\$142 billion) for calendar years 2014-16, representing an average annual growth rate of 2.9% compared to calendar years 2005-07. The accessible market is forecasted to grow worldwide in every segment, with the main growth areas being in the Asia-Pacific and Other regions, mostly represented

by emerging countries. Europe is expected to remain the single most important accessible market, while Asia-Pacific is expected to become the second-largest accessible market by calendar year 2016, replacing North America. We expect our relevant market to follow the same long-term trend.

Market driver outlook					
Market drivers	Market segments	Geographical regions	Calendar years		Description
			2009-11 outlook	2012-16 outlook	
Urbanization and population growth	All	Asia-Pacific and Other	↑	↑	<p>According to the United Nations Department of Economic and Social Affairs, urban areas will account for 60% of the total world population by year 2025. This trend will create major challenges in urban planning and traffic management to keep congestion and pollution under control, with rail transport being a key part of the solution.</p> <p>Given the urbanization of the past years, this trend should already lead to additional rolling stock demand to increase transport capacity in the short term, in particular for mass transit in Asia-Pacific and the Middle East.</p>
Oil scarcity and energy price	Rolling stock, services and system	Worldwide	→	↑	<p>According to the Statistical Office of the European Communities, fuel prices have risen by 12% annually from calendar years 2002 to 2007 and should continue to rise in the future. Besides, a recent study from the International Association of Public Transport shows that public transport uses approximately 60% less energy per passenger-km than cars. As oil scarcity and rising fuel prices lead to a change in behaviour in the long run towards cheaper transport modes, this is expected to increase demand for new trains and green technologies.</p> <p>Given the current low energy prices, public and private investment choices might be allocated temporarily to less energy-efficient transportation modes in the short term.</p>
Environmental awareness	All	Worldwide	→	↑	<p>According to International Association of Public Transport, cars create CO<sub>2</sub> emissions per passengers-km nearly nine times higher than metros. As environmental awareness is increasing worldwide, this should lead to a change in behaviour in the long run toward cleaner rail transportation.</p> <p>Given the current economic situation, this trend is expected to have a neutral impact in the short term as stimulus plans may focus on this initiative but may not materialize in the near term.</p>

↑ Indicates a favourable trend in the market categories in which we compete.

→ Indicates a neutral trend in the market categories in which we compete.

Market driver outlook (cont'd)

Market drivers	Market segments	Geographical regions	Calendar years		Description
			2009-11 outlook	2012-16 outlook	
Replacement of aging rail equipment	Rolling stock, services and signalling	Europe and North America	↑	↑	<p>The average age of the existing rolling stock fleet is around 20 years, approaching the replacement threshold of 30 years. Increasing ridership and growing competition among operators, and higher comfort levels expected by passengers are all pushing operators to replace, update and/or modernize their rolling stock. To cope with the higher usage of the existing infrastructure, modernization of the signalling equipment is also key to improving both network safety and capacity.</p> <p>In the short term, a large number of tenders, mainly in Europe and North America, have been announced to replace rolling stock equipment, and infrastructure managers are investing in modernizing the signalling equipment.</p>
Liberalization of rail transport markets	Rolling stock and services	Europe	→	↑	<p>The creation of open market conditions for new railway operators has a positive effect on the demand for rolling stock and services for both passengers and freight transportation. The liberalization of transportation that has started in Europe will increase over time and open up new business opportunities, in particular in the field of services. Most public operators still perform the major portion of their maintenance services in-house, but some have started to outsource key maintenance processes, similar to private operators.</p> <p>As new franchises are being attributed gradually across Europe, the effect of liberalization remains moderate in the short term, but should grow over time. The current economic situation is limiting the ability of operators to outsource maintenance services.</p>

↑ Indicates a favourable trend in the market categories in which we compete.

→ Indicates a neutral trend in the market categories in which we compete.

Overall trends are positive for the rail industry, and are likely to induce changes in investment policies toward a more sustainable transport infrastructure and are driving operators to replace and/or modernize their fleets to cope with the increased transport demand, evolving passenger expectations and operational limitations.

## A large number of tenders have been announced for the coming three calendar years

Looking at the short term, we expect the market drivers to have a positive overall effect on our market. Large rolling stock replacement orders are planned throughout the world as our customers continue to invest in their transportation systems. As a result, we expect the current recession

to have only a limited impact on the rail market for the moment.

We expect the market for calendar years 2007-09 to remain at a high level, although at a level lower than in calendar years 2006-08, when the market experienced an extraordinary growth of 10% over calendar years 2005-07.

Project	Country	Segment	Potential number of cars <sup>(1)</sup>
China High Speed	China	High-speed trains	3,000
Thameslink, London	U.K.	Commuter and regional trains	1,300
TGV Next Generation	France	Very high-speed trains	1,200
Intercity Replacement	Germany	Intercity trains	1,100
Intercity Replacement	Switzerland	Intercity trains	750
Porteur Hyperdense	France	Intercity trains	650
Indian Metro	India	Metro cars	550
Porteur Polyvalent	France	Regional trains	550
Picadilly Lines, London	U.K.	Metro cars	550
Sochi	Russia	Commuter trains	350
Metro Montréal	Canada	Metro cars	340
Stockholm Metro	Sweden	Metro cars	240
Berlin Tram	Germany	Light rail vehicles	200
Toronto Light Rail	Canada	Light rail vehicles	200
Trenitalia Alta Velocità	Italy	Very high-speed trains	160
Trenitalia Locomotives	Italy	Locomotives	100

(1) Base contracts only, options are not included.

### Selection of main planned tenders

The realization of planned tenders depends on a sustained level of public-sector spending. We believe that investment in rail transportation will remain a priority in public spending, although financing in general will be scarcer. Over 80% of the above tenders are planned by large, well-financed public operators. Stimulus plans, which were announced by governments in Europe, Asia and North America, can be seen as an upside, potentially accelerating some of the projects. However, most of the announced investments will be spread over several years, with a limited positive short-term impact on our industry.

We believe that the majority of planned tenders for the next three calendar years still have high realization probabilities and that the impact of the recession should be limited to some delays. The actual market size will depend on the on-time realization of the planned tenders. To focus our efforts on the most promising tenders, we have performed a detailed review of market opportunities in light of the current economic environment and the best product fit.

We are confident that we are well positioned to benefit from the growing railway market: we have the right products to supply the demand for environmentally friendly transportation and the right capability to deliver on our order backlog and future orders.

# ANALYSIS OF RESULTS

## Record revenues and EBIT growth

We have improved our EBIT margin for the fourth consecutive year, reaching 5.3%, and achieved a double-digit revenue growth for a second year in a row. In this context, we have been able to maintain a book-to-bill ratio of 1.0. We enjoy a strong order backlog of \$24.7 billion, representing

an average of 2.5 years of revenues, which will be driving further revenue growth (in currencies of origin) in the coming year. We are taking proactive action to monitor the impact of the recession on our business and to further improve our cost structure and competitive position.

Results of operations <sup>(1)</sup>				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008 <sup>(2)</sup>	2009	2008 <sup>(2)</sup>
Revenues				
Rolling stock	\$ 1,922	\$ 1,545	\$ 6,663	\$ 4,894
Services	365	389	1,529	1,474
System and signalling <sup>(3)(4)</sup>	365	443	1,564	1,425
Total revenues	2,652	2,377	9,756	7,793
Cost of sales	2,193	2,004	8,173	6,508
Margin	459	373	1,583	1,285
Selling, general and administrative	207	210	843	739
Research and development	37	28	120	102
Other expense (income) <sup>(5)</sup>	21	(2)	(19)	(4)
EBITDA before special item	194	137	639	448
Amortization	30	28	124	109
EBIT before special item	164	109	515	339
Special item <sup>(6)</sup>	-	-	-	162
EBIT	\$ 164	\$ 109	\$ 515	\$ 177
(as a percentage of revenues)				
Margin	17.3%	15.7%	16.2%	16.5%
EBITDA	7.3%	5.8%	6.5%	3.7% <sup>(7)</sup>
EBIT	6.2%	4.6%	5.3%	2.3% <sup>(8)</sup>

- (1) The results of operations of entities using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other Western European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. The impact of higher exchange rates of the euro and other European currencies compared to the U.S. dollar positively affects revenues and negatively affects expenses, while lower exchange rates would have the opposite impact (defined as "positive currency impact" and "negative currency impact"). See Foreign exchange rates section in Other for the average exchange rates used to translate revenues and expenses.
- (2) Effective February 1, 2008, we changed our overhead allocation policy, whereby all G&A overhead costs are now expensed as incurred (see the Changes in accounting policies section in Other for further details). Comparative figures include reclassifications from cost of sales to SG&A of \$53 million and \$195 million respectively for the fourth quarter and fiscal year ended January 31, 2008.
- (3) The revenues of system and signalling are presented in the caption other revenues in the consolidated statements of income.
- (4) Excluding the rolling stock portion of system orders manufactured by our other divisions.
- (5) Includes net loss (gain) on certain financial instruments, foreign exchange losses (gains), severance and other involuntary termination costs (including changes in estimates), losses (gains) from equity accounted investees and losses (gains) on disposal of property, plant and equipment, and intangible assets.
- (6) The special item for fiscal year 2008 relates to the write-off of the carrying value of our investment in Metronet.
- (7) EBITDA of 5.7% before special item.
- (8) EBIT of 4.4% before special item.

Revenues by geographic region								
	Fourth quarters ended January 31				Fiscal years ended January 31			
	2009		2008		2009		2008	
Europe	\$ 1,930	73%	\$ 1,752	74%	\$ 7,383	76%	\$ 5,782	74%
Asia-Pacific	379	14%	257	11%	1,091	11%	919	12%
North America	272	10%	288	12%	1,003	10%	888	11%
Other	71	3%	80	3%	279	3%	204	3%
	\$ 2,652	100%	\$ 2,377	100%	\$ 9,756	100%	\$ 7,793	100%



### *Rolling stock revenues*

The \$377-million increase for the fourth quarter is mainly due to increased activity:

- in the regional train segment, mainly in the Netherlands, the U.K. and France (\$377 million); and
- in the locomotive segment, mainly in Germany and Spain (\$139 million).

The increase was partially offset by a negative currency impact (\$169 million).

The \$1.8-billion increase for the fiscal year is mainly due to increased activity:

- in the regional train segment, mainly in the Netherlands, France, the U.K., Germany and Sweden (\$966 million); and
- in the locomotive segment, mainly in Germany, Italy and Spain (\$396 million).

The increase also reflects a positive currency impact of \$145 million.

### *Service revenues*

The \$24-million decrease for the fourth quarter is mainly due to:

- a negative currency impact (\$68 million).

Partially offset by increased activity:

- in Europe (\$40 million), mainly in the U.K.; and
- in the North American region (\$14 million).

The \$55-million increase for the fiscal year is mainly due to:

- higher revenues in Europe (\$62 million), mainly due to increased activities in the U.K.; and
- increased activity in the North American region (\$37 million).

The increase was partially offset by a negative currency impact (\$35 million).

### *System and signalling revenues*

The \$78-million decrease for the fourth quarter is mainly due to:

- a negative currency impact (\$49 million); and
- the reduced scope of the Metronet Sub-Surface Lines signalling contract (\$39 million).

Partially offset by:

- the ramp-up of a system project in South Africa (\$25 million).

The \$139-million increase for the fiscal year is mainly due to:

- the payment of £95 million (\$189 million) to Westinghouse Rail Systems Limited ("WRSL") regarding the de-scoping of the Metronet Sub-Surface Lines signalling sub-contract, which under contract accounting led to an increase in costs and revenues by the same amount (no margin);
- an increase in activities in signalling (\$80 million); and
- the ramp-up of a system project in South Africa (\$60 million).

Partially offset by:

- the reduced scope of the Metronet Sub-Surface Lines signalling contract (\$141 million).

### *EBIT margin before special item*

The 1.6 percentage-point increase for the fourth quarter is mainly due to:

- better contract execution in services;
- better absorption of SG&A due to higher revenues; and
- a gain on the sale of properties.

Partially offset by:

- a capacity adjustment in the U.K.

The 0.9 percentage-point increase for the fiscal year is mainly due to:

- better contract execution in services;
- better absorption of SG&A due to higher revenues;
- a net gain related to foreign exchange fluctuations and certain financial instruments carried at fair value; and
- a gain on the sale of properties.

Partially offset by:

- a lower margin in rolling stock due to a large number of contracts in the start-up phase and to the settlement of an outstanding customer claim in North America; and
- a capacity adjustment in the U.K.

Free cash flow				
	Fourth quarters ended January 31		Fiscal years ended January 31	
	2009	2008	2009	2008
EBIT	\$ 164	\$ 109	\$ 515	\$ 177
Non-cash items:				
Amortization	30	28	124	109
Gain on disposals of property, plant and equipment	(11)	(1)	(32)	(3)
Stock-based compensation	7	8	26	17
Special item	-	-	-	162
Net change in non-cash balances related to operations	261	462	(12)	357
Net additions to property, plant and equipment and intangible assets	(91)	(81)	(141)	(131)
Free cash flow	\$ 360	\$ 525	\$ 480	\$ 688

The \$165-million decrease for the fourth quarter is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations (\$201 million) (see explanations below).

Partially offset by:

- higher profitability (\$55 million).

The \$208-million decrease for the fiscal year is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations (\$369 million) (see explanations below).

Partially offset by:

- higher profitability before the non-cash special item (\$176 million).

#### Net change in non-cash balances related to operations

The \$261-million cash inflow for the fourth quarter of fiscal year 2009 is mainly due to:

- the ramp-up in production of projects received in fiscal years 2007 and 2008, leading to an increase in accounts payable and accrued liabilities, partially offset by a decrease in advances and progress billings in excess of related long-term contract costs and an increase in inventories; and
- the above-mentioned settlement of an outstanding customer claim in North America, resulting in a decrease in receivables.

The \$12-million cash outflow for fiscal year 2009 is mainly due to:

- the above-mentioned settlement of £95 million (\$189 million) to WRSL;

Partially offset by:

- the ramp-up in production of projects received in fiscal years 2007 and 2008, leading to an increase in accounts payable and accrued liabilities, partially offset by a decrease in advances and progress billings in excess of related long-term contract costs and an increase in inventories; and
- the above-mentioned settlement of an outstanding customer claim in North America, resulting in a decrease in receivables.

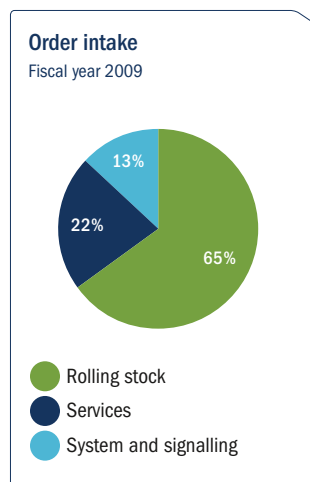
The \$462-million cash inflow for the fourth quarter of fiscal year 2008 was mainly due to an increase in advances and progress billings in excess of related long-term contract costs, and in accounts payable and accrued liabilities, partially offset by an increase in inventories and in receivables. The \$357-million cash inflow for fiscal year 2008 was mainly due to an increase in advances and progress billings in excess of related long-term contract costs and a decrease in inventories, partially offset by the payment of discretionary pension fund contributions (\$135 million), an increase in receivables and a decrease in accounts payable and accrued liabilities.

## Book-to-bill of one achieved in a context of high revenue growth

Order intake and book-to-bill ratio				
	Fourth quarters ended January 31		Fiscal years ended January 31	
(in billions of dollars)	2009	2008	2009	2008
Rolling stock	\$ 2.1	\$ 2.7	\$ 6.3	\$ 7.7
Services	0.2	0.9	2.2	2.4
System and signalling	0.3	0.3	1.3	1.2
	\$ 2.6	\$ 3.9	\$ 9.8	\$ 11.3
Book-to-bill ratio	1.0	1.6	1.0	1.5

For the fourth quarter of fiscal year 2009, we achieved a book-to-bill ratio of 1.0, in the context of a 12% increase in revenues over the same period last fiscal year. The decrease in order intake is mainly due to lower order intake in North America for rolling stock and services, in Europe for services, as well as a negative currency impact (\$268 million). The decrease in services for the fourth quarter is due to a timing difference as the order intake for fiscal year 2009 is essentially at the same level as in fiscal year 2008.

After two record years in terms of order intake above \$11.0 billion and a book-to-bill ratio above 1.5, we have achieved a lower, but still strong order intake of \$9.8 billion (book-to-bill ratio of 1.0 in the context of a 25% increase in revenues). The decrease in order intake is mainly due to lower levels in rolling stock in Europe and Asia.



We received the following major orders during fiscal year 2009.

Customer	Product	Number of cars	Rolling stock	Services	System
Land Transport Authority of Singapore (LTA), Singapore	MOVIA driverless metro cars	219	\$ 380	\$ -	\$ -
Swedish State Railway, SJ AB, Sweden	REGINA high-speed trains	80	349	-	-
Brussels transport company (STIB), Belgium	FLEXITY Outlook trams	87	285	-	-
Railpool, Germany	TRAXX locomotives	58	276	-	-
New Jersey Transit Corporation, U.S.	Dual-powered passenger locomotives	26	262	-	-
New Jersey Transit Corporation, U.S.	ALP-46A electric locomotives	27	229	-	-
Agence Métropolitaine de Transport, Canada	Dual-powered passenger locomotives, including spare parts	20	223	-	-
Brussels Regional Railway Network (RER), Belgium	Sub-contract for multiple-unit trains	-	214	-	-
Société Nationale des Chemins de fer Français (SNCF), France	TRAXX diesel electric locomotives	45	203	-	-
RENFE, Spain	14-year contract for the maintenance of 45 AVE S-130 high-speed trains	-	-	202 <sup>(1)</sup>	-
Bursa Metropolitan Municipality, Turkey	FLEXITY Swift light rail vehicles, including spare parts	30	138	-	-
Delhi Metro Rail Corporation Ltd., India	MOVIA metro cars	84	137	-	-
Danish State Railway, Denmark	CONTESSA trains	30	118	-	-
New Southern Railway, U.K.	ELECTROSTAR electric multiple units	44	107	-	-
City and County of San Francisco, U.S.	8-year operations and maintenance contract of the Automated People Mover system	-	-	-	101
Railpool, Germany	Double-deck coaches to be leased to Danish State Railway	45	101	-	-

(1) Contract includes consortium partner. Only the value of our share is stated.

We also received three significant orders in rolling stock and services from undisclosed customers, for a total value of \$343 million. During fiscal year 2009, we reached a significant milestone, leading to a contract extension on a service contract generating an order intake of \$166 million and we recorded the remaining portion of an existing 30-year maintenance contract agreement, generating an order intake of \$587 million.

In addition, Deutsche Bahn AG ("DB") signed a framework agreement for the supply of 800 double-deck coaches, valued at approximately €1.5 billion (\$2.1 billion), which is not included in the order backlog as at January 31, 2009. The new generation further improves the performance of DB's fleet by combining multiple-unit technology with a modern fleet of energy-saving double-deck coaches. As a consequence, DB improves its positioning to compete for regional transportation tenders.

Order backlog		
(in billions of dollars)	January 31 2009	January 31 2008
Rolling stock <sup>(1)</sup>	\$ 16.8	\$ 20.5
Services	5.4	6.6
System and signalling	2.5	3.8
	\$ 24.7	\$ 30.9

(1) Of which \$10.8 billion, or 64% of rolling stock order backlog, had a percentage of completion from 0% to 25% as at January 31, 2009 (\$14.8 billion, or 72%, as at January 31, 2008).

The decrease is due to the weakening of foreign currencies as at January 31, 2009 compared to January 31, 2008, mainly the euro and the pound sterling compared to the U.S. dollar (\$6.2 billion).

## Increasing workforce in line with higher revenues

	January 31 2009	January 31 2008
Total number of employees <sup>(1)</sup>	34,200	31,500
Percentage of employees covered by collective agreements	64%	56%

(1) Includes 4,800 and 3,600 contractual employees as at January 31, 2009 and January 31, 2008, respectively.

The 9% increase in the total number of employees is mainly due to the ramp-up of resources in Europe, mostly in Germany, Sweden, Switzerland and France, for new projects and the extension of existing projects, as well as in Asia as a result of the opening of the new manufacturing site in India. We added 2,700 new employees across the organization, mainly in operations, engineering and project management.

# OTHER

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# OFF-BALANCE SHEET ARRANGEMENTS

## Commitments and contingencies

Our commitments and contingencies are described in Note 26 – Commitments and contingencies to the Consolidated Financial Statements.

### Credit and residual value guarantees

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

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging within 1 to 17 years) under the relevant financing arrangements. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset is below the guaranteed value. In most cases, these are guarantees provided at the end of a financing arrangement, ranging within 1 to 17 years. The value of the underlying asset may be adversely affected by a number of factors. To mitigate our exposure, the financing arrangements generally require the collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically the first loss from a guaranteed level. A claim under the guarantee may typically be made only on the sale of the underlying asset to a third party.

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

### Financing commitments

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

As at January 31, 2009, we had outstanding financing commitments to four customers in relation to the future sale of aircraft scheduled for delivery through fiscal year 2013, amounting to \$0.8 billion. We mitigate our exposure to credit and interest rate risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from our commitment. Total customer financing arranged by us in fiscal year 2009 amounted to \$1.2 billion (\$2.0 billion in fiscal year 2008).

We anticipate that we will be able to satisfy our financing commitments to our customers through third-party financing. However, our ability to satisfy our financing commitments may be affected by financial difficulties in the commercial airline industry in general and of certain customers in particular, and by our current and future credit condition.

### Other commitments and contingencies

In connection with our contracts with Metronet for the modernization of the London Underground, we are committed to provide collateral (surety bonds and letters of credit) in support of our obligations. These commitments extend to calendar year 2018. As at January 31, 2009, £150 million (\$216 million) of surety bonds maturing in 2013 were outstanding. The period covered by the surety bonds must be extended by one year, every year. In the event that the bonds are not extended, we could have to provide, within one year, alternate collateral, which could reduce availability under the BT letter of credit facility.

## Government financial support

As at January 31, 2009, BA has invested \$3.8 billion in program tooling as well as other significant amounts in product development and capital assets. We receive government financial support related to the development of certain aircraft from various levels of government.

Certain of these financial-support programs require us to repay amounts to governments at the time of the delivery of products, contingent on a minimum agreed upon level of related product sales being achieved. If such minimum agreed upon level is not reached, no amount is repayable. We record the amount payable to governments at the time the product giving rise to such payment is delivered. In connection with our aerospace aircraft programs, we have received from Federal and Provincial Canadian governments cumulative contingently repayable government investment amounting to \$546 million Cdn as at January 31, 2009 (\$442 million translated at the closing balance sheet rate). In connection with such government support, the total repayments amounted to \$496 million Cdn as at January 31, 2009 (\$401 million translated at the closing balance sheet rate). The estimated remaining undiscounted maximum amount repayable under these programs, mostly based on future deliveries of aircraft, amounted to \$488 million Cdn (\$395 million) as at January 31, 2009.

In addition, we have received from the U.K. government contingently repayable investment in the amount of £20 million as at January 31, 2009 (\$29 million translated at the closing balance sheet rate), which is mainly repayable if certain conditions such as minimum employment levels are not maintained over certain periods.

In connection with the *C-Series* family of aircraft program, we have accepted offers for contingently repayable investment from the Governments of Canada and Québec as well as Northern Ireland and British government departments. No amount has been received yet.

## Litigations

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. District Court for the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others alleging 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 on behalf of a putative class 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. On August 1, 2006, the district court denied class certification and thereafter Teamsters sought and received permission to file an interlocutory appeal of that order to the United States Court of Appeals for the Second Circuit. On October 14, 2008, the Second Circuit affirmed the district court's decision denying class certification. On October 28, 2008, Teamsters filed a petition to the Second Circuit for Rehearing En Banc and Reconsideration of the Second Circuit opinion. On December 8, 2008, the Second Circuit entered an order denying Teamsters' petition for Rehearing En Banc and Reconsideration. The parties have, in February 2009, entered into a Settlement Agreement at no cost to us and consequently, a Stipulation and Order of Dismissal with Prejudice was filed with the District Court. Resolution of this litigation will be final upon the District Court's order.

We are 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. We intend to vigorously defend our position in these matters.

While we cannot predict the final outcome of legal proceedings pending as at January 31, 2009, based on information currently available, we believe that the resolution of these legal proceedings will not have a material adverse effect on our financial position.



## Variable interest entities

VIEs <sup>(1)</sup> in which we have a significant variable interest	January 31, 2009		January 31, 2008	
	Assets	Liabilities	Assets	Liabilities
<b>BA</b>				
Financing structures related to the sale of regional aircraft <sup>(2)</sup>	\$ 6,369	\$ 3,555	\$ 6,970	\$ 4,083
<b>BT</b>				
Partnership arrangements <sup>(3)</sup>	1,094	1,015	1,468	1,350
Sale support guarantee	352	337	579	587
Cash collateral accounts	59	59	82	82
	<b>7,874</b>	<b>4,966</b>	<b>9,099</b>	<b>6,102</b>
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	9	-	16	7
Cash collateral accounts	59	59	82	82
	<b>68</b>	<b>59</b>	<b>98</b>	<b>89</b>
Assets and liabilities of non-consolidated VIEs	<b>\$ 7,806</b>	<b>\$ 4,907</b>	<b>\$ 9,001</b>	<b>\$ 6,013</b>

(1) See also in Note 27 - Variable Interest Entities to the Consolidated Financial Statements.

(2) We have provided credit and/or residual value guarantees to certain special purpose entities created solely i) to purchase regional aircraft from us and to lease these aircraft to airline companies, and ii) to purchase financial assets related to the sale of regional aircraft.

(3) We are a party to partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long-term services, such as the operation and maintenance of rail equipment. Our involvement with these entities results mainly from investments in their equity and through manufacturing, selling and long-term service contracts.

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs

do not represent additional assets that could be used to satisfy claims against our general assets. The consolidation of debt resulting from the application of AcG-15 is generally excluded from the computation of our financial covenant ratios.

## Financial arrangements

In addition to the off-balance sheet lease obligations disclosed in the Liquidity and capital resources section in Overview, we entered into a \$150-million three-year sale and leaseback agreement with a third party in fiscal year 2008. Under this agreement, we can sell certain business aircraft and lease them back for a 24-month period. We have the right

to buy the aircraft back during the term of the lease for predetermined amounts. Aircraft amounting to \$52 million were sold and leased back as at January 31, 2009 (\$40 million as at January 31, 2008), with respect to this sale and leaseback agreement.

# RISKS AND UNCERTAINTIES

We operate in industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties described below are risks that could materially affect our business, financial condition and results of operations, but are not necessarily the only risks we face. Additional

risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely affect our business. To the extent possible, we apply risk assessment, mitigation and management practices to reduce the nature and extent of our exposure to these risks.

General economic risk	Potential loss due to unfavourable economic conditions, such as a macroeconomic downturn in important markets, could result in a lower order intake, order cancellation or deferral, curtailment of production activities, layoffs or the termination of employees, and may also have an adverse impact on our customers and suppliers. The impacts of the general economic risk on our business is discussed in the respective business environment sections of Overview, BA and BT.
Business environment risk	Potential loss due to external risk factors, more specifically the financial condition of the airline industry and major rail operators, government policies related to import and export restrictions, changing priorities and possible spending cuts by government agencies, government support to export sales, world trade policies, competition from other businesses, as well as scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates. In addition, acts of terrorism, global health risks and political instability, or the outbreak of war or continued hostilities in certain regions of the world, could result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of our products.
Operational risk	Potential loss due to risks related to developing new products and services, business partners, product performance warranty and casualty claim losses, regulatory and legal risks, environmental, health and safety risks, as well as dependence on customers, suppliers and human resources. In addition, large and complex projects are common in our businesses, including fixed-price contracts. We are also subject to risks related to problems with production and project execution, supply management, reliance on information systems, as well as the successful integration of new acquisitions.
Financing risk	Potential loss related to liquidity and access to capital markets, restrictive debt covenants, financing support provided for the benefit of certain customers, as well as government support.
Market risk	Potential loss due to adverse movements in market rates, including foreign currency fluctuations, changing interest rates, decreases in residual values and increases in commodity prices.

## Business environment risk

### Airline industry financial condition

Airline industry financial condition and viability influence the demand for BA's commercial aircraft. Continued cost pressure in the airline industry puts pressure on the price of BA's products. We are faced with the

challenge of finding ways to reduce costs and improve productivity to sustain a favourable market position at acceptable profit margins. The loss of any major commercial airline as a customer or the termination of a contract could significantly reduce our revenues.

## Operational risk

### Developing new products and services

The principal markets in which we operate experience change due to the introduction of new technologies. To meet our customers' needs, we must continuously design new products, update existing products and services, and invest and develop new technologies, which may require significant capital investments. Introducing new products requires a significant commitment to research and development, which may or may not be successful.

Our sales may be impacted if we invest in products that are not accepted in the marketplace, if customer demand or preferences change, if the products are not approved by regulatory authorities, or if the products are not brought to market in a timely manner or become obsolete. We are subject to stringent certification and approval requirements, which vary by country and can delay the certification of our products. Non-compliance with current or future regulatory requirements imposed by Transport Canada, the Federal Aviation Administration, the European Aviation Safety Agency, the Transport Safety Institute and national rail regulatory bodies or other regulatory authorities, could result in the service interruption of products we sold.

### Business partners

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

### Product performance warranty and casualty claim losses

The products that we manufacture are highly complex and sophisticated and may contain defects that are difficult to detect and correct. Our products are subject to stringent certification or approval requirements, as well as detailed specifications listed in the individual contracts with customers. Defects may be found in our products after they are delivered

to the customer. If discovered, we may not be able to correct them in a timely manner, or at all. The occurrence of defects and failures in our products could result in warranty claims, negatively affect our reputation and result in the loss of customers. Correcting such defects could require significant capital investment.

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

### Regulatory and legal risks

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

### Environmental risks

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

Environmental regulatory requirements, or enforcements thereof, may become more stringent in the future, and we may incur additional

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

### Customers and suppliers

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

Our manufacturing operations are also dependent on a limited number of suppliers for the delivery of materials, services and major systems, such as aluminum, titanium, engines, wings, nacelles and fuselages in BA, and raw materials (steel, aluminum) and major systems (brakes, doors, heating, ventilation and air conditioning) in BT. A failure to meet performance specifications, quality standards, and delivery schedules by one or more suppliers could adversely affect our ability to meet our commitments to customers. Some of these suppliers participate in the development of products such as aircraft or rolling stock platforms. They also participate in the subsequent delivery of materials and major components, and own some of the intellectual property on the key components they develop. Our contracts with these suppliers are therefore on a long-term basis. The replacement of suppliers could be costly and take a significant amount of time.

### Human resources (including collective agreements)

Human resources risk would arise if we were unable to recruit, retain, and motivate highly skilled employees, including the research and development activities that are essential to our success. In addition, we are party to several collective agreements that are due to expire at various times in the future. If we are unable to renew these collective agreements as they become subject to renegotiation from time to time, this could result in work stoppages or other labour disturbances.

### Fixed-price commitments and production and project execution

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

We are exposed to risks associated with these contracts, including unexpected technological problems, difficulties with our partners and subcontractors and logistical difficulties that could lead to cost overruns and late delivery penalties. In addition, long-term contract revenues and costs are based, in part, on estimates that are subject to a number of assumptions, such as forecasted costs of materials, inflation rates, foreign exchange rates, labour productivity, employment levels and salaries, and are influenced by the nature and complexity of the work to be performed, the impact of change orders and the impact of delayed delivery.

## Financing risk

### Liquidity and access to capital markets

We require continued access to capital markets to support our activities. To satisfy our financing needs, we rely on cash resources, debt and cash flow generated from operations. A decline in credit ratings, a significant reduction in the surety market global capacity, significant changes in market interest rates or general economic conditions, or an adverse perception in capital markets of our financial condition or prospects, could all significantly impede our ability to access capital markets. Credit ratings may be impacted by many external factors beyond our control and, accordingly, no assurance can be given that our credit ratings may not be reduced in the future.

### Restrictive debt covenants

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

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

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

In addition, we are subject to various financial covenants under our BA and BT letter of credit facilities, which must be met on a quarterly basis. The BA financial covenants require a minimum EBITDA to fixed charges ratio, as well as maximum debt to capital and debt to EBITDA ratios, all calculated based on consolidated data. The BT financial covenants require minimum equity and liquidity levels, as well as a maximum debt to EBITDA ratio, all calculated based on BT standalone data. These terms and ratios are defined in the respective agreements and do not correspond to our global leverage metrics or to the specific terms used in the MD&A.

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

### **Financing support provided for the benefit of certain customers**

From time to time, we provide aircraft financing support to regional aircraft customers. We may also provide interim financing (while a permanent financing solution is being arranged), which includes loans made to customers and, on a very limited basis, the leasing of aircraft to customers. We face the risk that certain customers, mainly regional aircraft customers, may not be able to obtain permanent financing.

### **Foreign currency fluctuations**

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

We may also provide, directly or indirectly, credit and residual value guarantees to airlines, to support financing for airlines or to support financings by certain SPEs created solely i) to purchase our regional aircraft and to lease those aircraft to airlines, and ii) to purchase financial assets related to regional aircraft we manufactured. Under these arrangements, we are obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make the lease or loan payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at an agreed-upon date, generally the expiry date of the related financing and lease arrangements. A substantial portion of these guarantees has been extended to support original debtors or lessees with less than investment grade credit.

### **Government support**

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

## **Market risk**

### **Interest rate risk**

We are exposed to fluctuation in our future cash flows arising from changes in interest rates through our variable-rate financial assets and liabilities, including long-term debt synthetically converted to variable interest rates, and through certain financing commitments and our off-balance sheet pension obligations. For these items, cash flows could be impacted by changes in benchmark rates such as Libor, Euribor or Banker's Acceptance. In addition, we are exposed to gains and losses arising from changes in interest rates, which include marketability risk, through our financial instruments carried at fair value, including certain commercial aircraft loans and lease receivables, investments in securities, invested collateral and certain derivatives.

## Residual value risk

We are exposed to residual value risks through residual value guarantees (“RVGs”) provided in support of regional aircraft sales. We may provide RVGs either directly to the customer or to the financing party that participates in the long-term financing associated with the sale of regional aircraft. RVGs are offered as a strip of the value of the aircraft

and are always capped. If the underlying aircraft is sold at the end of the financing period (or during this period in limited circumstances), the resale value is compared to the RVG. We are required to make payments under these RVGs when the resale value of the aircraft falls within the strip covered by the guarantee.

# ACCOUNTING AND REPORTING DEVELOPMENTS

## Changes in accounting policies

### Intangible assets

In February 2008, the AcSB issued Section 3064 “Goodwill and intangible assets”, which replaces Section 3062 “Goodwill and other intangible assets” and Section 3450 “Research and development costs”. Section 3064 establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including

internally generated intangible assets, are mostly aligned with IAS 38 “Intangible assets” under IFRS. Section 3064 is effective for our interim and annual financial statements beginning on February 1, 2009, but we elected to early-adopt this section as at January 31, 2009. The adoption of Section 3064 did not have an impact on our Consolidated Financial Statements, other than certain balance sheet reclassifications. The comparative figures have been reclassified as follows:

	Reported as at January 31 2008	Reclassi- fication	Reclassified as at January 31 2008
<b>Assets</b>			
Inventories	\$ 5,106 <sup>(1)</sup>	\$ (14) <sup>(2)</sup>	\$ 5,092
Property, plant and equipment	\$ 2,980	\$ (1,248) <sup>(3)</sup>	\$ 1,732
Intangible assets	\$ -	\$ 1,451	\$ 1,451
Other assets	\$ 1,163	\$ (189) <sup>(4)</sup>	\$ 974

(1) After the reclassification of \$1,558 million of aerospace programs’ customer advances.

(2) Comprised of BT developments costs.

(3) Comprised of aerospace program tooling (\$1,196 million) and computer software (\$52 million).

(4) Mostly licences, patents and trademarks (\$172 million).

### Fair value measurements

On January 20, 2009, the Emerging Issues Committee issued EIC-173 “Credit risk and the fair value of financial assets and financial liabilities”, which requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties’ credit risks for assets and our own credit risk for liabilities. This interpretation must be applied retrospectively without restatement of prior years. Our effective date of application for this interpretation is February 1, 2008.

Accordingly, we have remeasured certain financial instruments carried at fair value as at February 1, 2008, to take such risks into account. The resulting adjustments were recorded to retained earnings, except for derivative financial instruments in a fair value hedging relationship for which the resulting adjustment was recorded to the carrying value of the hedged item, and for derivative financial instruments in a net investment hedging relationship, for which the resulting adjustment was recorded in AOCI.

The impact of adopting the new fair value measurement method for financial instruments on our consolidated balance sheets was as follows as at February 1, 2008:

	Reported as at January 31 2008	Impact of EIC-173	Restated as at February 1 2008
<b>Assets</b>			
Aircraft financing	\$ 626	\$ (60) <sup>(1)</sup>	\$ 566
Derivative financial instruments	458	(1)	457
Deferred income taxes	935	3	938
	\$ 2,019	\$ (58)	\$ 1,961
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 6,919	\$ 9 <sup>(2)</sup>	\$ 6,928
Long-term debt	4,393	3 <sup>(3)</sup>	4,396
Derivative financial instruments	276	(11)	265
	\$ 11,588	\$ 1	\$ 11,589
<b>Shareholders' equity</b>	\$ 3,118	\$ (59)	\$ 3,059

- (1) Represents the adjustments recorded for commercial aircraft loans and lease receivables designated as HFT.  
(2) Represents the adjustments recorded to related liabilities in connection with the sale of aircraft designated as HFT.  
(3) Represents the adjustments to the carrying value of hedged items related to derivative financial instruments designated in fair value hedging relationships.

Details of shareholders' equity adjustments were as follows as at February 1, 2008:

Transition adjustment	Increase (decrease)	
	AOCI	Retained earnings
Derivative financial instruments designated as net investment hedges, net of tax of nil	\$ 7	n/a
HFT financial assets, net of tax of \$3 million	n/a	\$ (57)
HFT financial liabilities, net of tax of nil	n/a	(9)
	\$ 7	\$ (66)

n/a: Not applicable.

The impact of adopting the new fair value measurement method for financial instruments on our consolidated balance sheets was as follows for the first three quarters of fiscal year 2009:

	April 30, 2008		July 31, 2008		October 31, 2008	
	As reported	As restated	As reported	As restated	As reported	As restated
<b>Assets</b>						
Aircraft financing <sup>(1)</sup>	\$ 638	\$ 577	\$ 594	\$ 537	\$ 580	\$ 496
Derivative financial instruments	\$ 589	\$ 588	\$ 350	\$ 350	\$ 245	\$ 244
Deferred income taxes	\$ 1,025	\$ 1,028	\$ 1,038	\$ 1,041	\$ 1,187	\$ 1,190
<b>Liabilities</b>						
Accounts payable and accrued liabilities <sup>(2)</sup>	\$ 7,283	\$ 7,291	\$ 7,251	\$ 7,258	\$ 6,745	\$ 6,748
Long-term debt <sup>(3)</sup>	\$ 4,419	\$ 4,422	\$ 4,363	\$ 4,369	\$ 3,883	\$ 3,890
Derivative financial instruments	\$ 327	\$ 314	\$ 377	\$ 360	\$ 909	\$ 889
<b>Shareholders' equity<sup>(4)</sup></b>	\$ 3,201	\$ 3,144	\$ 3,292	\$ 3,242	\$ 2,426	\$ 2,354

- (1) Represents the adjustments recorded for commercial aircraft loans and lease receivables designated as HFT. The impact on the consolidated statement of income has been reported in other expense (income) and amounted to a net loss of \$1 million for the three-month period ended April 30, 2008, a net gain of \$4 million for the three-month period ended July 31, 2008 and a loss of \$27 million for the three-month period ended October 31, 2008.  
(2) Represents the adjustments recorded to related liabilities in connection with the sale of aircraft designated as HFT. The impact on the consolidated statement of income has been reported in cost of sales and amounted to a gain of \$1 million for the three-month periods ended April 30, 2008 and July 31, 2008, and a gain of \$4 million for the three-month period ended October 31, 2008.  
(3) Represents the adjustments to the carrying value of the hedged items related to derivative financial instruments designated in fair value hedging relationships.  
(4) Refer to the quarterly data table in the Selected financial information section for more details on the impact on net income.



Details of shareholders' equity adjustments were as follows for the first three quarters of fiscal year 2009:

Transition adjustment						
	April 30, 2008		July 31, 2008		October 31, 2008	
	AOCI	Retained earnings	AOCI	Retained earnings	AOCI	Retained earnings
Derivative financial instruments designated as hedges of net investments, net of tax of nil	\$ 9	n/a	\$ 11	n/a	\$ -	n/a
Derivative financial instruments designated as cash flow hedges, net of tax of nil	-	n/a	-	n/a	12	n/a
HFT financial assets, net of tax of \$3 million	n/a	\$ (58)	n/a	\$ (54)	n/a	\$ (81)
HFT financial liabilities, net of tax of nil	n/a	(8)	n/a	(7)	n/a	(3)
	\$ 9	\$ (66)	\$ 11	\$ (61)	\$ 12	\$ (84)

n/a: Not applicable.

The impact of the new fair value measurement method for financial instruments on the consolidated statements of income for the three-month period ended January 31, 2009, amounted to a net loss of \$25 million, of which a net loss of \$24 million was recorded in other expense, a gain of \$2 million was recorded in financing expense, and a loss of \$3 million was recorded in cost of sales. The income tax expense recorded on these adjustments was offset by the recognition of a valuation allowance.

The impact of the new fair value measurement method for financial instruments on the consolidated statements of income for fiscal year 2009 amounted to a net loss of \$43 million, of which a net loss of \$48 million was recorded in other income, a gain of \$2 million was recorded in financing expense, and a gain of \$3 million was recorded in cost of sales. The income tax expense recorded on these adjustments was offset by the recognition of a valuation allowance.

Prior to the issuance of EIC-173, we had opted to account for our credit and residual value guarantees related to the sales of aircraft as financial instruments designated as HFT using the fair value option. These guarantees were recorded at fair value measured under the settlement value method, which reflects payments we expect to make under these guarantees using the going concern assumption. As explained above, the fair value measurement for financial liabilities must now take into account our own credit risk. Such value would be less than what we expect to pay under these guarantees.

We believe that the current measurement method for credit and residual value guarantees provides a better assessment of our economic exposure under these guarantees. Accordingly, we have decided to change the applicable accounting standards for these guarantees from the financial instrument rules (Section 3855) to the contingency rules (Section 3290), as allowed under Canadian GAAP. Under the

contingency rules, we have decided to retain the fair value measurement under the settlement value method as the measurement basis for such guarantees. This change, therefore, has no impact on our Consolidated Financial Statements.

### Inventories

In June 2007, the AcSB released Section 3031 "Inventories", which replaces Section 3030 "Inventories". It provides the Canadian equivalent to IFRS IAS 2 "Inventories". We adopted this accounting standard effective February 1, 2008. The Section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies that are used to assign costs to inventories and describes additional disclosure requirements.

As a result, we adopted the unit cost method for our aerospace programs in replacement of the average cost method. The unit cost method is a prescribed cost method under which the actual production costs are charged to each unit produced and are recognized in income as the unit is delivered. The deferral of a portion of initial costs as EOAPC, embedded in the average cost method, is not allowed under the unit cost method. In addition, as a result of the more restrictive guidance on the determination of costs, we also changed our overhead allocation policy on our aerospace programs, whereby all G&A overhead costs are now expensed. In accordance with Section 3031, we have applied these changes in accounting policies by adjusting the opening retained earnings as at February 1, 2008 (prior fiscal years have not been restated).

As part of the adoption of Section 3031, customer advance payments received on account of work performed and previously deducted from aerospace program inventories have been reclassified to liabilities as advances on aerospace programs.

Also, effective February 1, 2008, we changed our G&A overhead cost allocation policy on our long-term contracts and aerospace

program tooling to conform with the method applicable to our aerospace programs. We believe that this new overhead allocation policy results in more relevant information.

As at February 1, 2008, the effect of these accounting changes as well as of the reclassification of certain aerospace program customer advances on our consolidated balance sheet was as follows:

	Reported as at January 31 2008	Impact of accounting changes	Reclassification of certain aerospace program customer advances	Restated as at February 1 2008
<b>Assets</b>				
Inventories	\$ 3,548	\$ (318) <sup>(1)</sup>	\$ 1,558	\$ 4,788 <sup>(2)</sup>
Aerospace program tooling	1,196	(23) <sup>(3)</sup>	-	1,173 <sup>(2)</sup>
Deferred income taxes	935	113	-	1,048 <sup>(2)</sup>
	\$ 5,679	\$ (228)	\$ 1,558	\$ 7,009
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 6,919	\$ 29	\$ -	\$ 6,948 <sup>(2)</sup>
Advances and progress billings in excess of related long-term contract costs	2,791	11	-	2,802
Advances on aerospace programs	1,368	-	1,558	2,926
	\$ 11,078	\$ 40	\$ 1,558	\$ 12,676
<b>Shareholders' equity</b>	\$ 3,118	\$ (268)	\$ -	\$ 2,850 <sup>(2)</sup>

(1) Represents a write-off of \$277 million relating to EOAPC and \$41 million relating to G&A overhead costs included in inventories.

(2) The restated amount as at February 1, 2008, after considering the change in accounting policies for intangible assets, fair value measurements and inventories, is \$4,774 million for inventories, \$1,428 million for intangible assets, \$1,051 million for deferred income taxes, \$6,957 million for accounts payable and accrued liabilities, and \$2,791 million for shareholders' equity.

(3) Relates to G&A overhead costs.

In addition, \$312 million of G&A overhead costs have been reclassified from cost of sales to SG&A expenses for fiscal year 2008, to conform to the presentation adopted in fiscal year 2009.

### Capital disclosures

In December 2006, the AcSB issued Section 1535 "Capital disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. We adopted this accounting standard effective February 1, 2008 (see Note 28 - Capital management to the Consolidated Financial Statements).

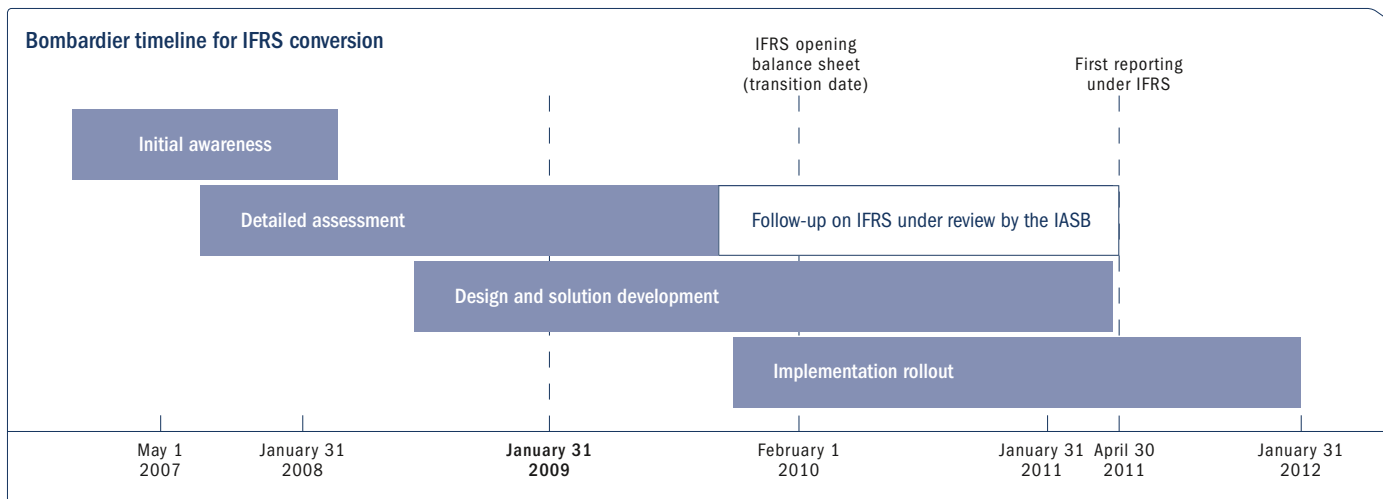
## Future changes in accounting policies

### IFRS

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB is expected to

continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date.

The changeover to IFRS will be required for our interim and annual financial statements beginning February 1, 2011. We have developed a changeover plan anchored around four phases.



Phase	Key activities	Status
Initial awareness	Develop an initial project plan.	Completed
	Obtain management buy-in and tone-at-the-top.	
	Establish project structure, including Steering Committee and core and extended teams.	
	Raise awareness across the organization.	
	Train core project team.	
Detailed assessment	Perform a detailed analysis of current IFRS, compare to our accounting policies and document the results and differences.	Analysis is advanced, subject to the impact of those IFRS under review by the IASB
	Identify required changes and policy choices, conduct a high-level preliminary assessment of their impact and make accounting policy choices, including those under IFRS 1 "First Time Adoption of IFRS".	
	Train extended project teams on specific topics.	In progress
	Identify required changes in reporting processes and systems.	In progress
Design and solution development	Update accounting policy database.	In progress
	Design tools to prepare IFRS comparative information.	In progress
	Design and develop financial reporting processes, business-related processes and operational systems.	In progress
	Prepare a model of our IFRS financial statements.	In progress
	Provide selected training to employees across the organization.	To be provided later during fiscal year 2010
Implementation rollout	Test rollout processes and systems.	To be started later during fiscal year 2010
	Perform data gathering and prepare IFRS opening balance sheet and comparative financial statements.	During fiscal year 2011
	Communicate impact and new policies to external stakeholders.	Annual report disclosure information session to be provided later in the process
	Prepare IFRS financial statements.	During fiscal year 2012

The following are some of our key preliminary conclusions with respect to the recognition and measurement of certain balance sheet items, based on current IFRS. Other key analyses are progressing well, but preliminary conclusions have not yet been reached and as such were not reported in this table. The impact of some of the analyses not reported below could be significant, and will be reported once conclusions are reached.

Standards	Preliminary conclusions	Potential impact
Long-term contracts	Our accounting for long-term contracts is mainly similar to IFRS, except that more contracts will be combined and accounted for as a single contract under IFRS.	Not expected to have a significant impact based on our current contracts.
Financial instruments	Our accounting for financial instruments, including the conditions to qualify for hedge accounting, is mainly similar to IFRS.	The impact on the recognition and measurement of financial instruments is not expected to be significant, except for the potential reclassification of certain financial instruments, which would change their measurement basis.
Government assistance	Our accounting for government assistance is aligned with IFRS, except that assistance refundable based on performance criteria should be recognized as a liability under IFRS.	Most of the government assistance received to date, as well as the government repayable investment to be received for the CSeries family of aircraft, will be recorded as a liability under IFRS.
Property, plant and equipment	Our accounting for property, plant and equipment is mainly aligned with IFRS, except that major components should be amortized separately.	Not expected to have a significant impact on us.

Our approach in selecting accounting policies under IFRS is to base our choices on policies that will improve the overall usefulness of our Consolidated Financial Statements and comparability with our peers. We have prioritized the detailed assessment of standards that have a high likelihood of impacting the Consolidated Financial Statements, where significant choices are available or where significant process or system changes are anticipated.

IFRS 1 requires that first-time adopters select accounting policies that comply with each IFRS effective at the end of its first IFRS reporting period (January 31, 2012 for the Corporation), and apply those policies to all periods presented in its first IFRS financial statements. IFRS 1 also provides certain optional exemptions to the full retrospective application. The following are our preliminary conclusions with respect to the key IFRS 1 optional exemptions.

- Business combinations – We will apply the new standard only to business combinations that have occurred after the transition date, without restatement of prior business combinations.
- Long-lived assets – We will use the historical cost method for our property, plant and equipment and intangible assets.
- Employee benefits – We will recognize the cumulative net unrecognized actuarial gains and losses on our opening balance sheet by adjusting retained earnings at the transition date.
- CTA – We will eliminate our CTA balance by adjusting retained earnings at the transition date (no impact on shareholders' equity).

It is however difficult to predict the IFRS that will be effective at the end of our first IFRS reporting period, as the IASB work plan anticipates the completion of several projects in 2010 and 2011.

The following are some of the key standards being revised by the IASB.

Standards	Key Elements <sup>(1)</sup>	Potential impact	Forecasted final issuance in calendar year <sup>(1)</sup>
Joint ventures	Elimination of the proportionate consolidation method in favour of the equity method.	Reduction in revenues, costs and order backlog, but no impact on net income.	Second quarter of 2009
Liabilities	New model for the recognition and measurement of provisions, as well as contingent assets and liabilities.	Liabilities with low likelihood of occurrence would have to be recognized. Potential difference in measurement of liabilities not currently carried at fair value.	Second half of 2009
Consolidation	New definition of control, including special purpose entities.	Not expected to have a significant impact on us.	Second half of 2009
Fair value measurement	Comprehensive standard providing guidance for all fair value measurements.	IASB has not yet issued a detailed guidance on this topic.	First half of 2010
Leases	Recognition of all leases on the balance sheet by the lessee.	Will gross up our assets and liabilities.	2011
Employee benefits	Elimination of deferred recognition and smoothing features for actuarial gains and losses.	Actuarial gains and losses may have to be recognized as they arise in shareholders' equity or net income.	2011
Revenue recognition	Comprehensive model for revenue recognition, which contemplates recording revenues at the time of satisfaction of performance obligations.	Could affect BT accounting for long-term contracts. Impact on BA is still unclear.	2011

(1) Based on information provided on the IASB Web site, as interpreted by us.

## Consolidated financial statements and non-controlling interests

In January 2009, the AcSB also released Section 1601 "Consolidated financial statements" and Section 1602 "Non-controlling interest", which replace Section 1600 "Consolidated financial statements". Section 1601 establishes standards for the preparation of the consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IFRS IAS 27, "Consolidated and separate financial statements".

These sections apply to our interim and annual consolidated financial statements relating to fiscal years beginning on or after February 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. If we apply these sections before February 1, 2011, we must concurrently apply Section 1582 "Business combinations".

## Business combinations

In January 2009, the AcSB released Section 1582, which replaces Section 1581 "Business combinations". It provides the Canadian equivalent to IFRS 3 "Business combinations". This section applies prospectively to business combinations for which the acquisition is subsequent to fiscal year 2011. Earlier application is permitted. If we apply Section 1582 before February 1, 2011, we must concurrently apply Section 1601 and Section 1602.

# FINANCIAL INSTRUMENTS

An important portion of our consolidated balance sheets is composed of financial instruments. Our financial assets include cash and cash equivalents, invested collateral, trade receivables, commercial aircraft loans and leases receivables, prepayment under an exchange agreement, investment in securities, restricted cash and derivative financial instruments with a positive fair value. Our financial liabilities include trade account payables, accrued liabilities, related liabilities in connection with the sale of aircraft, certain payroll-related liabilities, long-term debt and derivative financial instruments with a negative fair value. Derivative financial instruments are mainly used to manage our exposure to foreign exchange and interest rate risks. They consist mostly

of forward foreign exchange contracts, interest rate swap agreements, cross-currency interest rate swap agreements and interest rate cap agreements. The classification of our financial instruments as well as the revenues, expenses, gains and losses associated with these instruments is provided in Note 2 – Summary of significant accounting policies and in Note 3 – Financial instruments to the Consolidated Financial Statements.

The use of financial instruments exposes the Corporation primarily to credit, liquidity and market risks, including foreign exchange and interest rate. A description on how we manage these risks is included in Note 24 – Financial risk management to the Consolidated Financial Statements and in Overview.

## CRITICAL ACCOUNTING ESTIMATES

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

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

### Fair value of financial instruments

All financial instruments are required to be recognized at their fair value on initial recognition. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as HFT or available for sale are carried at fair value.

Fair value amounts disclosed in the Consolidated Financial Statements represent our estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent

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

A detailed description of the methods and assumptions used to measure the fair value of our financial instruments are discussed in Note 23 – Fair value of financial instruments to the Consolidated Financial Statements.

### Sensitivity analysis

Our main exposures to changes in fair value of financial instruments are related to foreign exchange and interest rate derivative financial instruments and certain loans and lease receivables. These financial instruments are all measured at fair value in our Consolidated Financial Statements.

### Derivative financial instruments

Derivative financial instruments are mostly exposed to changes in foreign exchange rates and interest rates. For derivative financial instruments exposed to foreign currency movements, an appreciation of 1% in the following currencies would have had the following impact on income and other comprehensive income ("OCI"), excluding CTA, before income taxes, as at January 31, 2009:

Gain (loss)	CAD/USD	GBP/USD	USD/Euro	Other	Total
Impact on income before income taxes	\$ 1	\$ -	\$ 11	\$ 13	\$ 25
Impact on OCI before income taxes	\$ (25)	\$ (9)	\$ 5	\$ 2	\$ (27)

Since the majority of our interest rate derivative financial instruments are designated in a fair value hedge relationship, a shift of 100 basis points in the yield curves as at January 31, 2009, would have had no significant impact on net income.

### Loans and lease receivables

Changes in the fair value of these financial instruments are mostly affected by changes in interest rates. Assuming a 100-basis point increase in interest rates as of January 31, 2009, income before income taxes would have been negatively impacted by \$22 million for fiscal year 2009.

### Credit guarantees and RVGs

We have issued credit and residual value guarantees in connection with the sale of regional aircraft. Guarantees are initially recognized at fair value on the date the guarantees are unconditionally given. These guarantees are subsequently remeasured at fair value using the settlement-value method. The settlement value represents an estimate of what we expect to pay under these guarantees, so it does not take into consideration our own credit risk in establishing the fair value.

We use an internal valuation model based on stochastic simulations to estimate the fair value of these credit guarantees and RVGs. The fair value is calculated using current market assumptions for interest rates, published credit ratings when available and default probabilities from rating agencies. We also perform internal credit assessments to determine the credit risk of customers without a published credit rating. In addition, we use aircraft residual value curves obtained from independent appraisers adjusted to reflect the specific factors of the current aircraft market.

### Sensitivity analysis

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

Assuming an adverse change of 1% in the residual value curves as at January 31, 2009, the income before income taxes would have been negatively impacted by \$18 million for fiscal year 2009.

Assuming a 100-basis point increase in interest rate as of January 31, 2009, income before income taxes would have been positively impacted by \$24 million for fiscal year 2009.

### Aerospace program tooling

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



## Long-term contracts

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

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

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

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

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

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

## Sensitivity analysis

A 1% increase in the estimated future costs to complete all ongoing contracts accounted for under the percentage-of-completion method in BT would have decreased margin by approximately \$74 million for fiscal year 2009.

## Goodwill

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

Future cash flows are forecasted based on our best estimate of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, collective agreements and general market conditions, and are subject to review and approval by our senior management.

## Variable interest entities

We consolidate VIEs for which we assume a majority of the risk of losses, or for which we are entitled to receive a majority of the residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the variable interest holder became the primary beneficiary. See Note 27 – Variable interest entities to the Consolidated Financial Statements, for additional information on VIEs. We revise our initial determination of the accounting for VIEs when certain events occur, such as changes in related governing documents or contractual arrangements.

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

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

### Product warranties

We issue warranties for products sold related to systems, accessories, equipment, parts and software that we develop. A provision for warranty cost is recorded when revenue for the underlying product is recognized. The cost is estimated based on a number of factors, including historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of the products sold and the counter-warranty coverage available from our suppliers.

We review our product warranty provisions quarterly, and any adjustment is recognized to income. Warranty expense is recorded as a component of cost of sales.

### Employee future benefits

Pension and other employee benefit costs and obligations are dependent on assumptions used in calculating such amounts. The discount rate,

the expected long-term rate of return on plan assets and the rate of compensation increase are important elements of cost and obligation measurement. Other assumptions include the inflation rate and the health-care cost trend rate, as well as demographic factors such as retirement, mortality and turnover rates. Economic assumptions are reviewed on an annual basis and demographic assumptions every three years.

The discount rate is used to determine the present value of the estimated future benefit payments on the measurement date. We have little discretion in selecting the discount rate, as it must represent the market rates for high-quality fixed income investments available for the period to maturity of the benefits. A lower discount rate increases the benefit obligation and generally increases benefit cost.

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

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

Sensitivity analysis		
	Impact of a 0.25% increase on:	
Increase (decrease)	Pension cost for fiscal year 2010	Pension deficit as at December 31 2008
Discount rate	\$ (24)	\$ (227)
Expected return on plan assets	\$ (12)	n/a
Rate of compensation increase	\$ 13	\$ 67

n/a: Not applicable.

### Income taxes

We recognize deferred income tax assets resulting from operating losses carry-forward and deductible temporary differences. We assess the realization of these deferred tax assets regularly to determine whether a valuation allowance is required. Based on evidence, both positive and negative, we determine whether it is more likely than not

that all or a portion of the deferred income tax assets will be realized. The factors considered include estimated future earnings based on internal forecasts, cumulative losses in recent years, history of losses carry-forward and other tax assets expiring unused, as well as prudent and feasible tax planning strategies.

# CONTROLS AND PROCEDURES

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

## Disclosure controls and procedures

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

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

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

## Internal controls over financial reporting

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

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

## Changes in internal controls over financial reporting

No changes were made to our internal controls over financial reporting that occurred during the fourth quarter of fiscal year 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

# FOREIGN EXCHANGE RATES

We are subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of our self-sustaining foreign operations using a functional currency 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 year-end exchange rates used to translate assets and liabilities were as follows as at January 31:

	2009	2008	Decrease
Euro	1.2803	1.4840	(14%)
Canadian dollar	0.8088	0.9978	(19%)
Pound sterling	1.4411	1.9894	(28%)

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

	2009	2008	Decrease
Euro	1.3160	1.4650	(10%)
Canadian dollar	0.8156	1.0070	(19%)
Pound sterling	1.4904	2.0197	(26%)

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

	2009	2008	Increase (decrease)
Euro	1.4583	1.3853	5%
Canadian dollar	0.9294	0.9465	(2%)
Pound sterling	1.8097	2.0029	(10%)

# INVESTOR INFORMATION

## Authorized, issued and outstanding share data as at January 31, 2009

	Authorized	Issued and outstanding
Class A Shares (Multiple Voting) <sup>(1)</sup>	1,892,000,000	316,582,537
Class B Shares (Subordinate Voting) <sup>(2)</sup>	1,892,000,000	1,413,866,601 <sup>(3)</sup>
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,464,920
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,535,080
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

(1) Ten votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).

(2) Convertible at the option of the holder into one Class A Share (Multiple Voting) only under certain conditions (see Note 14 - Share capital to the Consolidated Financial Statements).

(3) Net of 23,653,759 Class B Shares (Subordinate Voting) purchased and held in trust in connection with the PSU plan.

## Share option and PSU data as at January 31, 2009

Options issued and outstanding under share option plans	44,305,821
PSUs issued and outstanding under the PSU plan	15,006,293
Class B Shares held in trust to satisfy PSU obligations	23,653,759

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

First Quarterly Report, for the period ended April 30, 2009	June 3, 2009
Second Quarterly Report, for the period ended July 31, 2009	September 2, 2009
Third Quarterly Report, for the period ended October 31, 2009	December 3, 2009
Annual Report, for the fiscal year ended January 31, 2010	April 1, 2010

# SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from and should be read in conjunction with the Consolidated Financial Statements for fiscal years 2007 to 2009.

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

(in millions of U.S. dollars, except per share amounts)	2009	2008	2007
<b>For fiscal years</b>			
Revenues	\$ 19,721	\$ 17,506	\$ 14,882
EBIT from continuing operations before special items	\$ 1,411	\$ 902	\$ 577
EBIT from continuing operations	\$ 1,411	\$ 740	\$ 553
EBT from continuing operations before special items	\$ 1,273	\$ 601	\$ 359
EBT from continuing operations	\$ 1,273	\$ 439	\$ 335
Income from continuing operations	\$ 1,008	\$ 317	\$ 243
Income from discontinued operations, net of tax	-	-	25
Net income	\$ 1,008	\$ 317	\$ 268
Basic EPS (in dollars):			
From continuing operations	\$ 0.57	\$ 0.17	\$ 0.12
Net income	\$ 0.57	\$ 0.17	\$ 0.14
Diluted EPS (in dollars):			
From continuing operations	\$ 0.56	\$ 0.16	\$ 0.12
Net income	\$ 0.56	\$ 0.16	\$ 0.14
Cash dividends declared per share (in Cdn dollars):			
Class A Shares (Multiple Voting)	\$ 0.08	-	-
Class B Shares (Subordinate Voting)	\$ 0.08	-	-
Series 2 Preferred Shares	\$ 1.15	\$ 1.52	\$ 1.46
Series 3 Preferred Shares	\$ 1.32	\$ 1.34	\$ 1.37
Series 4 Preferred Shares	\$ 1.56	\$ 1.56	\$ 1.56
<b>As at January 31</b>			
Total assets	\$ 21,306	\$ 22,120	\$ 19,891
Long-term debt	\$ 3,952	\$ 4,393	\$ 5,080

The table presenting the quarterly data is shown hereafter.

April 1, 2009

# QUARTERLY DATA

## (UNAUDITED)

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

For the fiscal years ended January 31	2009	2009
	Total	Fourth quarter
<b>Revenues<sup>(2)</sup></b>		
BA	\$ 9,965	\$ 2,777
BT	9,756	2,652
	\$ 19,721	\$ 5,429
<b>Income before special item, financing income and expense and income taxes<sup>(2)</sup></b>		
BA	\$ 896	\$ 271
BT	515	164
	1,411	435
<b>Special item</b>		
BT	-	-
<b>Income (loss) before financing income and expense and income taxes</b>		
BA	896	271
BT	515	164
	1,411	435
Financing income	(270)	(47)
Financing expense	408	103
Income (loss) before income taxes	1,273	379
Income tax expense (recovery)	265	70
<b>Net income (loss)</b>	\$ 1,008	\$ 309
<b>Earnings (loss) per share (in dollars):</b>		
Basic	\$ 0.57	\$ 0.17
Diluted	\$ 0.56	\$ 0.17
<b>Market price range of Class B Shares (in Cdn dollars)</b>		
High	\$ 8.97	\$ 5.48
Low	\$ 3.17	\$ 3.50

(1) Restated following change in accounting policy related to a new accounting principle on fair value measurements (see the Accounting and reporting developments section in Other for more details).

(2) The fourth quarter has historically been the strongest in terms of revenues and profitability.

	Restated <sup>(1)</sup> 2009	Restated <sup>(1)</sup> 2009	Restated <sup>(1)</sup> 2009	2008	2008	2008	2008	2008
	Third quarter	Second quarter	First quarter	Total	Fourth quarter	Third quarter	Second quarter	First quarter
	\$ 2,292	\$ 2,516	\$ 2,380	\$ 9,713	\$ 2,893	\$ 2,350	\$ 2,210	\$ 2,260
	2,279	2,416	2,409	7,793	2,377	1,878	1,831	1,707
	\$ 4,571	\$ 4,932	\$ 4,789	\$ 17,506	\$ 5,270	\$ 4,228	\$ 4,041	\$ 3,967
	\$ 176	\$ 243	\$ 206	\$ 563	\$ 196	\$ 122	\$ 133	\$ 112
	116	120	115	339	109	79	80	71
	292	363	321	902	305	201	213	183
	-	-	-	162	-	-	162	-
	176	243	206	563	196	122	133	112
	116	120	115	177	109	79	(82)	71
	292	363	321	740	305	201	51	183
	(80)	(82)	(61)	(225)	(69)	(50)	(55)	(51)
	105	118	82	526	161	118	127	120
	267	327	300	439	213	133	(21)	114
	45	76	74	122	(5)	42	50	35
	\$ 222	\$ 251	\$ 226	\$ 317	\$ 218	\$ 91	\$ (71)	\$ 79
	\$ 0.12	\$ 0.14	\$ 0.13	\$ 0.17	\$ 0.12	\$ 0.05	\$ (0.05)	\$ 0.04
	\$ 0.12	\$ 0.14	\$ 0.12	\$ 0.16	\$ 0.12	\$ 0.05	\$ (0.05)	\$ 0.04
	\$ 8.50	\$ 8.97	\$ 6.88	\$ 6.97	\$ 6.35	\$ 6.50	\$ 6.97	\$ 4.87
	\$ 3.17	\$ 6.38	\$ 4.64	\$ 4.06	\$ 4.06	\$ 4.75	\$ 4.60	\$ 4.36



# HISTORICAL FINANCIAL SUMMARY

## CONSOLIDATED BALANCE SHEETS

(In millions of U.S. dollars)

As at January 31	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>	2005 <sup>(1)</sup>
<b>Assets</b>					
Cash and cash equivalents	\$ 3,470	\$ 3,602	\$ 2,648	\$ 2,917	\$ 2,344
Invested collateral	777	1,295	1,129	-	-
Receivables	1,981	1,998	1,789	1,684	1,513
Aircraft financing	418	626	1,042	1,457	1,791
Inventories	5,522	5,092	5,275	4,715	4,824
Property, plant and equipment	1,568	1,732	1,602	1,616	1,772
Intangible assets	1,399	1,451	1,492	1,646	1,850
Fractional ownership deferred costs	444	500	390	270	142
Deferred income taxes	1,216	935	813	653	522
Accrued benefit assets	926	924	461	384	353
Derivative financial instruments	626	458	39	42	211
Goodwill	2,010	2,533	2,286	2,142	2,357
Assets held for sale	-	-	-	237	2,582
Other assets	949	974	925	635	689
	<b>\$ 21,306</b>	<b>\$ 22,120</b>	<b>\$ 19,891</b>	<b>\$ 18,398</b>	<b>\$ 20,950</b>
<b>Liabilities and shareholders' equity</b>					
Accounts payable and accrued liabilities	\$ 6,988	\$ 6,919	\$ 6,826	\$ 6,849	\$ 7,074
Advances and progress billings in excess of related long-term contract costs	2,072	2,791	1,882	1,640	1,770
Advances on aerospace programs	2,991	2,926	1,875	1,467	1,409
Fractional ownership deferred revenues	573	631	487	325	163
Deferred income taxes	-	-	-	9	41
Long-term debt	3,952	4,393	5,080	4,747	5,716
Accrued benefit liabilities	992	1,066	995	877	897
Derivative financial instruments	1,194	276	13	17	11
Liabilities related to assets held for sale	-	-	-	42	1,571
Preferred shares	347	347	347	347	347
Common shareholders' equity	2,197	2,771	2,386	2,078	1,951
	<b>\$ 21,306</b>	<b>\$ 22,120</b>	<b>\$ 19,891</b>	<b>\$ 18,398</b>	<b>\$ 20,950</b>

(1) Includes reclassifications of intangible assets and advances on aerospace programs to separate line items on the balance sheet. See also the Accounting and reporting developments section in Other for more details on the impact as at January 31, 2009 and 2008.

# HISTORICAL FINANCIAL SUMMARY

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

For the fiscal years ended January 31	2009	2008	2007	2006	2005
<b>Revenues</b>					
BA	\$ 9,965	\$ 9,713	\$ 8,296	\$ 8,142	\$ 8,019
BT	9,756	7,793	6,586	6,639	7,566
	\$ 19,721	\$ 17,506	\$ 14,882	\$ 14,781	\$ 15,585
<b>Income from continuing operations before special items, financing income and expense and income taxes</b>					
BA	\$ 896	\$ 563	\$ 322	\$ 266	\$ 203
BT	515	339	255	179	33
	1,411	902	577	445	236
<b>Special items</b>					
BT	-	162	24	88	172
<b>Income (loss) from continuing operations before financing income and expense and income taxes</b>					
BA	896	563	322	266	203
BT	515	177	231	91	(139)
	1,411	740	553	357	64
Financing income	(270)	(225)	(157)	(156)	(104)
Financing expense	408	526	375	363	328
Income (loss) from continuing operations before income taxes	1,273	439	335	150	(160)
Income tax expense (recovery)	265	122	92	15	(38)
Income (loss) from continuing operations	1,008	317	243	135	(122)
Income from discontinued operations, net of tax	-	-	25	114	37
<b>Net income (loss)</b>	\$ 1,008	\$ 317	\$ 268	\$ 249	\$ (85)
<b>Earnings (loss) per share (in dollars):</b>					
Basic					
From continuing operations	\$ 0.57	\$ 0.17	\$ 0.12	\$ 0.06	\$ (0.08)
Net income (loss)	\$ 0.57	\$ 0.17	\$ 0.14	\$ 0.13	\$ (0.06)
Diluted					
From continuing operations	\$ 0.56	\$ 0.16	\$ 0.12	\$ 0.06	\$ (0.08)
Net income (loss)	\$ 0.56	\$ 0.16	\$ 0.14	\$ 0.13	\$ (0.06)
<b>General information for continuing operations</b>					
Export revenues from Canada	\$ 7,002	\$ 6,670	\$ 5,715	\$ 5,271	\$ 5,430
Additions to property, plant and equipment and intangible assets	\$ 621	\$ 472	\$ 344	\$ 331	\$ 306
Amortization	\$ 555	\$ 512	\$ 518	\$ 545	\$ 549
Dividend per common share (in Cdn dollars)					
Class A	\$ 0.08	\$ -	\$ -	\$ -	\$ 0.09
Class B	\$ 0.08	\$ -	\$ -	\$ -	\$ 0.09
Dividend per preferred share (in Cdn dollars)					
Series 2	\$ 1.15	\$ 1.52	\$ 1.46	\$ 1.12	\$ 1.00
Series 3	\$ 1.32	\$ 1.34	\$ 1.37	\$ 1.37	\$ 1.37
Series 4	\$ 1.56	\$ 1.56	\$ 1.56	\$ 1.56	\$ 1.56
Number of common shares (in millions)	1,730	1,731	1,739	1,745	1,750
Book value per common share (in dollars)	\$ 1.27	\$ 1.60	\$ 1.37	\$ 1.19	\$ 1.11
Shareholders of record	13,540	13,843	13,539	13,600	13,008
<b>Market price ranges (in Cdn dollars)</b>					
<b>Class A</b>					
High	\$ 9.00	\$ 7.00	\$ 4.61	\$ 3.69	\$ 7.11
Low	\$ 3.25	\$ 4.10	\$ 2.69	\$ 2.34	\$ 2.01
Close	\$ 3.85	\$ 4.96	\$ 4.48	\$ 3.02	\$ 2.80
<b>Class B</b>					
High	\$ 8.97	\$ 6.97	\$ 4.62	\$ 3.66	\$ 7.13
Low	\$ 3.17	\$ 4.06	\$ 2.68	\$ 2.28	\$ 1.87
Close	\$ 3.80	\$ 4.95	\$ 4.45	\$ 2.98	\$ 2.62

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and MD&A of Bombardier Inc. and all other information in this Annual Report are the responsibility of management and have been reviewed and approved by the Board of Directors.

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


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

Bombardier's CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures as of the end of fiscal year 2009. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control - Integrated Framework. In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of fiscal year 2009. In compliance with NI 52-109, Bombardier's CEO and CFO have provided a certification related to Bombardier's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

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

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

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



Pierre Beaudoin  
President and Chief Executive Officer



Pierre Alary, CA  
Senior Vice President and  
Chief Financial Officer

April 1, 2009

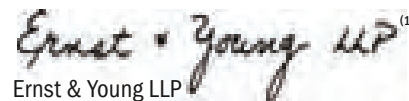
## AUDITORS' REPORT

TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the consolidated balance sheets of Bombardier Inc. as at January 31, 2009 and 2008 and the consolidated statements of shareholders' equity, income, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP  
Chartered Accountants  
Montréal, Canada

April 1, 2009

(1) CA auditor permit no. 9859

# CONSOLIDATED BALANCE SHEETS

(In millions of U.S. dollars)

As at January 31		2009 <sup>(1)</sup>	2008 <sup>(1)</sup>
<b>Assets</b>			
Cash and cash equivalents		\$ 3,470	\$ 3,602
Invested collateral	Note 11	777	1,295
Receivables	Note 4	1,981	1,998
Aircraft financing	Note 5	418	626
Inventories	Note 6	5,522	5,092
Property, plant and equipment	Note 7	1,568	1,732
Intangible assets	Note 8	1,399	1,451
Fractional ownership deferred costs		444	500
Deferred income taxes	Note 20	1,216	935
Accrued benefit assets	Note 25	926	924
Derivative financial instruments	Note 3	626	458
Goodwill	Note 9	2,010	2,533
Other assets	Note 10	949	974
		\$ 21,306	\$ 22,120
<b>Liabilities</b>			
Accounts payable and accrued liabilities	Note 12	\$ 6,988	\$ 6,919
Advances and progress billings in excess of related long-term contract costs		2,072	2,791
Advances on aerospace programs		2,991	2,926
Fractional ownership deferred revenues		573	631
Long-term debt	Note 13	3,952	4,393
Accrued benefit liabilities	Note 25	992	1,066
Derivative financial instruments	Note 3	1,194	276
		18,762	19,002
<b>Shareholders' equity</b>			
		2,544	3,118
		\$ 21,306	\$ 22,120
Commitments and contingencies	Note 26		

(1) Refer to Note 1 for the impact of new accounting policies.

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the Board of Directors,



Laurent Beaudoin  
Director



L. Denis Desautels  
Director

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

For the fiscal years ended January 31		2009		2008	
		Number (in thousands)	Amount	Number (in thousands)	Amount
<b>SHARE CAPITAL</b>					
	<i>Note 14</i>				
<b>Preferred shares</b>					
Series 2		9,465	\$ 159	9,465	\$ 159
Series 3		2,535	40	2,535	40
Series 4		9,400	148	9,400	148
		<b>21,400</b>	<b>347</b>	<b>21,400</b>	<b>347</b>
<b>Common shares</b>					
<b>Class A Shares (Multiple Voting)</b>					
Balance at beginning of year		316,962	29	317,044	29
Converted to Class B		(379)	-	(82)	-
Balance at end of year		<b>316,583</b>	<b>29</b>	<b>316,962</b>	<b>29</b>
<b>Class B Shares (Subordinate Voting)</b>					
Balance at beginning of year		1,434,974	1,419	1,433,423	1,413
Issuance of shares		2,167	9	1,469	6
Converted from Class A		379	-	82	-
		<b>1,437,520</b>	<b>1,428</b>	<b>1,434,974</b>	<b>1,419</b>
<b>Held in trust under the performance share unit plan</b>					
	<i>Note 14</i>				
Balance at beginning of year		(21,273)	(89)	(11,847)	(34)
Purchased		(6,942)	(54)	(9,426)	(55)
Distributed		4,561	13	-	-
Balance at end of year		<b>(23,654)</b>	<b>(130)</b>	<b>(21,273)</b>	<b>(89)</b>
Balance at end of year		<b>1,413,866</b>	<b>1,298</b>	<b>1,413,701</b>	<b>1,330</b>
<b>Balance at end of year - common shares</b>		<b>1,730,449</b>	<b>1,327</b>	<b>1,730,663</b>	<b>1,359</b>
<b>Total - share capital</b>			<b>\$ 1,674</b>		<b>\$ 1,706</b>
<b>CONTRIBUTED SURPLUS</b>					
Balance at beginning of year			\$ 68		\$ 35
Stock-based compensation	<i>Note 15</i>		51		34
Options exercised and shares distributed under the performance share unit plan			(15)		(1)
Balance at end of year			<b>\$ 104</b>		<b>\$ 68</b>
<b>RETAINED EARNINGS</b>					
Balance at beginning of year			\$ 1,040		\$ 753
Change in accounting policy - Inventories	<i>Note 1</i>		(268)		-
Fair value measurement	<i>Note 1</i>		(66)		-
Net income			1,008		317
Dividends:					
Common shares			(120)		-
Preferred shares			(27)		(30)
Balance at end of year			<b>\$ 1,567</b>		<b>\$ 1,040</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX</b>					
	<i>Note 16</i>				
Balance at beginning of year			\$ 304		\$ 174
Fair value measurement	<i>Note 1</i>		7		-
Other comprehensive income			(1,112)		130
Balance at end of year			<b>\$ (801)</b>		<b>\$ 304</b>
<b>Total - shareholders' equity</b>			<b>\$ 2,544</b>		<b>\$ 3,118</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF INCOME

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

For the fiscal years ended January 31		2009	2008
<b>Revenues</b>			
Manufacturing		\$ 14,779	\$ 12,508
Services		3,117	3,016
Other		1,825	1,982
		<b>19,721</b>	<b>17,506</b>
Cost of sales	<i>Notes 1, 6</i>	16,049	14,607
Selling, general and administrative	<i>Note 1</i>	1,558	1,408
Research and development		171	139
Other income	<i>Notes 1, 17</i>	(23)	(62)
Amortization		555	512
Special item	<i>Note 18</i>	-	162
		<b>18,310</b>	<b>16,766</b>
Income before the following:		1,411	740
Financing income	<i>Note 19</i>	(270)	(225)
Financing expense	<i>Notes 1, 19</i>	408	526
Income before income taxes		1,273	439
Income taxes	<i>Note 20</i>	265	122
<b>Net income</b>		<b>\$ 1,008</b>	<b>\$ 317</b>
<b>Earnings per share (in dollars):</b>	<i>Note 21</i>		
Basic		\$ 0.57	\$ 0.17
Diluted		\$ 0.56	\$ 0.16

The accompanying notes are an integral part of these Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of U.S. dollars)

For the fiscal years ended January 31	2009	2008
<b>Net income</b>	<b>\$ 1,008</b>	<b>\$ 317</b>
<b>Other comprehensive income</b>		
Net unrealized loss on financial assets available for sale, net of tax	(20)	(1)
Net change in cash flow hedges:		
Foreign exchange re-evaluation	(9)	(1)
Net gain (loss) on derivative financial instruments designated as cash flow hedges	(865)	394
Reclassification to income or to the related non financial asset	33	(212)
Income tax recovery (expense)	275	(62)
	(566)	119
Cumulative translation adjustment:		
Net investments in self-sustaining foreign operations	(812)	364
Net gain (loss) on related hedging items <sup>(1)</sup>	286	(352)
	(526)	12
<b>Total Other comprehensive income</b>	<b>(1,112)</b>	<b>130</b>
<b>Total Comprehensive income</b>	<b>\$ (104)</b>	<b>\$ 447</b>

(1) Net of income taxes of \$2 million as at January 31, 2009 (\$25 million as at January 31, 2008).

The accompanying notes are an integral part of these Consolidated Financial Statements.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of U.S. dollars)

For the fiscal years ended January 31	2009	2008
<b>Operating activities</b>		
Net income	\$ 1,008	\$ 317
Non-cash items:		
Amortization	555	512
Deferred income taxes	Note 20 69	(25)
Gain on disposals of property, plant and equipment	(28)	(3)
Stock-based compensation	Note 15 51	34
Special item	Note 18 -	162
Net change in non-cash balances related to operations	Note 22 (746)	1,383
Cash flows from operating activities	909	2,380
<b>Investing activities</b>		
Additions to property, plant and equipment and intangible assets	(621)	(472)
Disposals of property, plant and equipment	54	55
Invested collateral	390	-
Other	(4)	(117)
Cash flows from investing activities	(181)	(534)
<b>Financing activities</b>		
Repayments of long-term debt	(166)	(1,076)
Purchase of Class B shares – held in trust under the performance share unit plan	Note 14 (54)	(55)
Issuance of shares, net of related costs	7	5
Dividends paid	(147)	(30)
Other	(6)	-
Cash flows from financing activities	(366)	(1,156)
Effect of exchange rate changes on cash and cash equivalents	(494)	264
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(132)</b>	<b>954</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>3,602</b>	<b>2,648</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,470</b>	<b>\$ 3,602</b>
<b>Supplemental information</b>		
Cash paid for:		
Interest	\$ 413	\$ 559
Income taxes	\$ 98	\$ 108

The accompanying notes are an integral part of these Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended January 31, 2009 and January 31, 2008  
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

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Bombardier Inc. (the “Corporation”) is incorporated under the laws of Canada and is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services.

# 1 BASIS OF PRESENTATION

The Consolidated Financial Statements are expressed in U.S. dollars and have been prepared in accordance with Canadian GAAP.

The Corporation and its subsidiaries carry out their operations in two distinct segments, the aerospace segment (“BA”) and the transportation segment (“BT”), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified.

## Changes in accounting policies

### Intangible assets

In February 2008, the AcSB issued Section 3064 “Goodwill and intangible assets”, which replaces Section 3062 “Goodwill and other intangible assets” and Section 3450 “Research and development costs”. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are mostly consistent with IAS 38 “Intangible assets” under IFRS. For the Corporation, this Section is effective for interim and annual financial statements beginning on February 1, 2009. However, the Corporation elected to early adopt this section as at January 31, 2009. The adoption of Section 3064 did not have an impact on the Corporation’s Financial Statements, other than certain balance sheet reclassifications. The comparative figures have been reclassified as follows:

	Reported as at		Reclassified as at
	January 31 2008	Reclassification	January 31 2008
<b>Assets</b>			
Inventories	\$ 5,106 <sup>(1)</sup>	\$ (14) <sup>(2)</sup>	\$ 5,092
Property, plant and equipment	\$ 2,980	\$ (1,248) <sup>(3)</sup>	\$ 1,732
Intangible assets	\$ -	\$ 1,451	\$ 1,451
Other assets	\$ 1,163	\$ (189) <sup>(4)</sup>	\$ 974

(1) After the reclassification of \$1,558 million of aerospace programs’ customer advances.

(2) Comprised of BT development costs.

(3) Comprised of aerospace program tooling (\$1,196 million) and computer software (\$52 million).

(4) Mostly licences, patents and trademarks (\$172 million).

### Fair value measurements

On January 20, 2009, the Emerging Issues Committee issued EIC-173 “Credit risk and the fair value of financial assets and financial liabilities” which requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties’ credit risks for assets and the Corporation’s credit risk for liabilities. This interpretation must be applied retrospectively without restatement of prior years. The effective date of application for the Corporation is February 1, 2008.

Accordingly, the Corporation has remeasured certain financial instruments carried at fair value as at February 1, 2008, to take such risks into account. The resulting adjustments were recorded to retained earnings, except for derivative financial instruments in a fair value hedging relationship for which the resulting adjustment was recorded to the carrying value of the hedged item, and for derivative financial instruments in a net investment hedging relationship, for which the resulting adjustment was recorded in AOCI.

## 1 BASIS OF PRESENTATION (cont'd)

The impact of adopting the new fair value measurement method for financial instruments on the Corporation's consolidated balance sheets was as follows as at February 1, 2008:

	Reported as at January 31 2008	Impact of EIC-173	Restated as at February 1 2008
<b>Assets</b>			
Aircraft financing	\$ 626	\$ (60) <sup>(1)</sup>	\$ 566
Derivative financial instruments	458	(1)	457
Deferred income taxes	935	3	938
	\$ 2,019	\$ (58)	\$ 1,961
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 6,919	\$ 9 <sup>(2)</sup>	\$ 6,928
Long-term debt	4,393	3 <sup>(3)</sup>	4,396
Derivative financial instruments	276	(11)	265
	\$ 11,588	\$ 1	\$ 11,589
<b>Shareholders' equity</b>	\$ 3,118	\$ (59)	\$ 3,059

(1) Represents the adjustments recorded for commercial aircraft loans and lease receivables designated as HFT.

(2) Represents the adjustments recorded to related liabilities in connection with the sale of aircraft designated as HFT.

(3) Represents the adjustments to the carrying value of the hedged items related to derivative financial instruments designated in fair value hedge relationships.

Details of shareholders' equity adjustments were as follows as at February 1, 2008:

	Increase (decrease)	
	AOCI	Retained earnings
Derivative financial instruments designated as net investment hedges, net of tax of nil	\$ 7	n/a
HFT financial assets, net of tax of \$3 million	n/a	\$ (57)
HFT financial liabilities, net of tax of nil	n/a	(9)
	\$ 7	\$ (66)

n/a: Not applicable.

The impact of the new fair value measurement method for financial instruments on the Consolidated statements of income for fiscal year 2009 amounted to a net loss of \$43 million, of which a net loss of \$48 million was recorded in other income, a gain of \$2 million was recorded in financing expense, and a gain of \$3 million was recorded in cost of sales. The income tax expense recorded on these adjustments was offset by the recognition of a valuation allowance.

Prior to the issuance of EIC-173, the Corporation had opted to account for its credit guarantees and RVGs related to the sales of aircraft as financial instruments designated as HFT using the fair value option. These guarantees were recorded at fair value measured under the settlement value method, which reflects payments expected to be made by the Corporation under these guarantees using the going concern assumption. As explained above, the fair value measurement for financial liabilities must now take into account the Corporation's credit risk. Such value would be less than what the Corporation expects to pay under these guarantees.

The Corporation believes that the current measurement method for credit guarantees and RVGs provides a better assessment of its economic exposure under these guarantees. Accordingly, the Corporation has decided to change the applicable accounting standards for these guarantees from the financial instruments rules (Section 3855) to the contingencies rules (Section 3290), as allowed under Canadian GAAP. Under the contingency rules, the Corporation has decided to retain fair value measurement under the settlement value method as the measurement basis for such guarantees. This change has therefore no impact on the Corporation's Consolidated Financial Statements.

### Inventories

In June 2007, the AcSB released Section 3031 "Inventories", which replaces Section 3030 "Inventories". It provides the Canadian equivalent to IAS 2 "Inventories" under IFRS. This accounting standard was adopted by the Corporation effective February 1, 2008. The Section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies that are used to assign costs to inventories and describes additional disclosure requirements.

## 1 BASIS OF PRESENTATION (cont'd)

As a result, the Corporation adopted the unit cost method for its aerospace programs in replacement of the average cost method. The unit cost method is a prescribed cost method under which the actual production costs are charged to each unit produced and are recognized in income as the unit is delivered. The deferral of a portion of initial costs as EOAPC, embedded in the average cost method, is not allowed under the unit cost method. In addition, as a result of the more restrictive guidance on the determination of costs, the Corporation also changed its overhead allocation policy on its aerospace programs, whereby all G&A overhead costs are now expensed. In accordance with Section 3031, the Corporation has applied these changes in accounting policies by adjusting the opening retained earnings as at February 1, 2008 (prior fiscal years have not been restated).

As part of the adoption of Section 3031, customer advance payments received on account of work performed and previously deducted from aerospace program inventories have been reclassified to liabilities as advances on aerospace programs.

Also, effective February 1, 2008, the Corporation changed its G&A overhead cost allocation policy for its long-term contracts and aerospace program tooling to conform with the method applicable to its aerospace programs. Management believes that this new overhead allocation policy results in more relevant information.

As at February 1, 2008, the effect of these accounting changes as well as of the reclassification of certain aerospace program customer advances on the Corporation's consolidated balance sheet was as follows:

	Reported as at January 31 2008	Impact of accounting changes	Reclassification of certain aerospace programs' customer advances	Restated as at February 1 2008
<b>Assets</b>				
Inventories	\$ 3,548	\$ (318) <sup>(1)</sup>	\$ 1,558	\$ 4,788 <sup>(2)</sup>
Aerospace program tooling	1,196	(23) <sup>(3)</sup>	-	1,173 <sup>(2)</sup>
Deferred income taxes	935	113	-	1,048 <sup>(2)</sup>
	\$ 5,679	\$ (228)	\$ 1,558	\$ 7,009
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 6,919	\$ 29	\$ -	\$ 6,948 <sup>(2)</sup>
Advances and progress billings in excess of related long-term contract costs	2,791	11	-	2,802
Advances on aerospace programs	1,368	-	1,558	2,926
	\$ 11,078	\$ 40	\$ 1,558	\$ 12,676
<b>Shareholders' equity</b>	\$ 3,118	\$ (268)	\$ -	\$ 2,850 <sup>(2)</sup>

(1) Represents a write-off of \$277 million relating to EOAPC and \$41 million relating to G&A overhead costs included in inventories.

(2) The restated amount as at February 1, 2008 after considering the changes in accounting policies for intangible assets, fair value measurements and inventories is \$4,774 million for inventories, \$1,428 million for intangible assets, \$1,051 million for deferred income taxes, \$6,957 million for accounts payable and accrued liabilities, and \$2,791 million for shareholders' equity.

(3) Relates to G&A overhead costs.

In addition, \$312 million of G&A overhead costs have been reclassified from cost of sales to SG&A expenses for fiscal year 2008, to conform to the presentation adopted in fiscal year 2009.

### Capital disclosures

In December 2006, the AcSB issued Section 1535 "Capital disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. This accounting standard was adopted by the Corporation effective February 1, 2008 (see Note 28 - Capital Management).

## 1 BASIS OF PRESENTATION (cont'd)

### Future changes in accounting policies

#### IFRS

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB is expected to continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The IASB will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Corporation's Consolidated Financial Statements will only be measured once all the IFRS applicable at the conversion date are known.

For the Corporation, the changeover to IFRS will be required for interim and annual financial statements beginning on February 1, 2011. As a result, the Corporation has developed a plan to convert its Consolidated Financial Statements to IFRS. The Corporation has also set up IFRS-dedicated teams at all levels of the organization. The Corporation continues to provide training to key employees and is monitoring the impact of the transition on its business practices, systems and internal controls over financial reporting.

A detailed analysis of the differences between IFRS and the Corporation's accounting policies as well as an assessment of the impact of various alternatives are in progress. Changes in accounting policies are likely and should materially impact the Corporation's Consolidated Financial Statements.

#### Consolidated financial statements and non-controlling interests

In January 2009, the AcSB also released Section 1601 "Consolidated financial statements" and Section 1602 "Non-controlling interest", which replace Section 1600 "Consolidated Financial statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, "Consolidated and Separate Financial Statements".

For the Corporation, these sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after February 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. These sections must be applied together with Section 1582 "Business Combinations" if they are implemented for a fiscal year beginning before February 1, 2011.

#### Business combinations

In January 2009, the AcSB released Section 1582, which replaces Section 1581 "Business Combinations". It provides the Canadian equivalent to IFRS 3 "Business Combinations". For the Corporation, this section applies prospectively to business combinations for which the acquisition is subsequent to fiscal year 2011. Earlier application is permitted. Section 1582 must be applied together with Section 1601 and Section 1602 if it is implemented for a fiscal year beginning before February 1, 2011.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The Consolidated Financial Statements include:

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

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

Subsidiary	Location
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Learjet Inc.	U.S.
Bombardier Transportation GmbH	Germany
Bombardier Transport France S.A.S.	France

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**VIEs** – AcG-15 “Consolidation of Variable Interest Entities” (“AcG-15”) requires the consolidation of VIEs if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE’s activities, is entitled to receive a majority of the VIE’s residual returns (if no party is exposed to a majority of the VIE’s losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary must initially record all of the VIE’s assets, liabilities and non-controlling interests at fair value at the date the variable interest holder becomes the primary beneficiary. See Note 27 – Variable interest entities, for additional information on VIEs. The Corporation revises its determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

### Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, particularly as they relate to long-term contracts, fair value measurement of financial instruments, provision for credit guarantees and RVGs related to the sales of aircraft, revenue recognition for wide-body business aircraft, valuation of pre-owned aircraft, actuarial and economic assumptions used in determining employee future benefits, useful lives of long-lived assets, recovery of goodwill, variable interest entities, accrual of product warranties and income taxes. Management’s best estimates are based on the facts and circumstances available at the time estimates are made, historical experience, general economic conditions and trends, and management assessment of probable future outcomes of these matters. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates, and such differences could be material.

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

### Translation of foreign currencies

The Corporation’s functional currencies are mainly the U.S. dollar in BA, and the euro, various other Western European currencies and the U.S. dollar in BT. All significant foreign operations are classified as self-sustaining foreign operations.

**Self-sustaining foreign operations** – All assets and liabilities are translated using the exchange rates in effect at year end. Revenues and expenses are translated using the average exchange rates for the period. Translation gains or losses are included in other comprehensive income (“OCI”).

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

**Hedging items designated as hedges of net investments in self-sustaining foreign operations** – Translation gains or losses, net of tax, related to the hedging items designated as hedges of the Corporation’s net investments in self-sustaining foreign operations are included in OCI.

### Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, invested collateral, trade receivables, commercial aircraft loans and lease receivables, prepayment under an exchange agreement, investment in securities, restricted cash and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade account payables, certain accrued liabilities, related liabilities in connection with the sale of commercial aircraft, interest, certain payroll-related liabilities, long-term debt and derivative financial instruments with a negative fair value.

Financial instruments are recognized on the balance sheet when the Corporation becomes a party to the contractual obligations of the instrument. Initially, financial instruments are recognized at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are recognized in determining the carrying value of financial assets and financial liabilities not classified as HFT. Subsequently, financial assets and financial liabilities are measured according to the category to which they are assigned AFS financial assets, L&R, other than HFT financial liabilities or financial assets and liabilities classified as HFT. See Note 3 – Financial instruments, for their classifications. Financial assets and financial liabilities are subsequently measured at amortized cost, unless they are classified as AFS or HFT, in which case they are subsequently measured at fair value.

### Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions, with maturities of three months or less from the date of acquisition. Cash and cash equivalents are classified as HFT and measured at fair value.



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Invested collateral

Invested collateral consist mainly of bonds (corporate bonds and asset-backed bonds), commercial paper and certificates of deposit, held with a custodian. The weighted-average maturity of the securities in the portfolios is not to exceed one year and should have a minimum average rating of A. These investments serve as collateral for the €3.75-billion (\$4.8-billion) BT letter of credit facility ("BT facility") and for the \$840 million BA letter of credit facility ("BA facility") (see Note 11 – Letter of credit facilities). The weighted average credit rating of the securities in the portfolios is rated AA+. These investments include a portion that is invested in asset-backed and mortgage-backed securities of the highest credit quality (i.e. AAA). The invested collateral is designated as HFT using the fair value option and measured at fair value. Gains and losses arising on the re-evaluation of the invested collateral are recorded in financing income.

### Sales of receivables

Transfers of loans and receivables are recognized as sales when control over these assets has been surrendered and consideration other than beneficial interests in the transferred assets was received. Retained interests are accounted for as loans or lease receivables in accordance with their substance.

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

### Loans and lease receivables

Aircraft leased under terms which transfer substantially all of the benefits and risks of ownership to customers are accounted for as sales-type leases and are presented in aircraft financing.

Loans and lease receivables presented in aircraft financing are classified as L&R unless they have been designated as HFT using the fair value option. Loans and lease receivables classified as L&R are carried at amortized cost.

Loans and lease receivables designated as HFT are measured at fair value. Gains and losses arising on the re-evaluation of loans and lease receivables classified as HFT are recorded in other expense (income), except for the interest portion of the gains and losses, which is recorded in financing income.

### Assets under operating leases (lessor)

Assets under operating leases are recorded at cost. Amortization is computed under the straight-line method over periods representing their estimated useful lives. Assets under operating leases related to aircraft, most of which are pre-owned, are presented in aircraft financing.

### Long-term investments

Investments in entities over which the Corporation exercises significant influence are accounted for under the equity method and are presented in other assets. Investments in financing structures are classified as L&R, carried at amortized cost and presented in aircraft financing. Investment in securities are classified as AFS, carried at fair value and presented in other assets. All other long-term investments are designated as HFT using the fair value option (measured at fair value) and presented in other assets.

### Impairment of financial assets

**Allowance for doubtful accounts** – Trade receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is a reasonable doubt that credit-related losses are expected to be incurred taking into consideration all circumstances known at the date of review.

**Allowance for credit losses** – Loans and lease receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of a portion of principal and interest, generally when contractually due payments are 90 days in arrears or customers have filed for bankruptcy.

The Corporation maintains an allowance for credit losses in an amount sufficient to absorb expected losses. The level of allowance is based on management's assessment of the risks associated with each of the Corporation's portfolios, including delinquencies, loss and recovery experience, collateral-specific factors, including age and type of aircraft, risk of individual customer credit, published historical default rates for different credit rating categories, commercial airline industry performance, and the impact of current and projected economic conditions.

**Other-than-temporary impairment for investment in securities** – When there is objective evidence that a decline in fair value of an AFS financial asset is other than temporary, the cumulative loss equal to the difference between the acquisition cost of the investments and its current fair value, less any impairment loss on that financial asset previously recognized in net income, is removed from AOCI and recognized in net income. Impairment losses recognized in net income for financial instruments classified as AFS cannot be reversed.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Inventory valuation

**Aerospace programs** – Inventory determined under the unit cost method is recorded at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. Cost of inventories includes materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition.

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

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

**Finished products** – Finished product inventories, which include spare parts and new and pre-owned aircraft, are mainly determined under the unit cost and moving average method, and are valued at the lower of cost or net realizable value. The cost of finished products includes the cost of materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (the reversal is limited to the amount of the original write-down).

The Corporation estimates net realizable value by using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

**Payments, advances and progress billings** – Payments received on account of work performed for long-term contracts are deducted from related costs in inventories. Advances received and progress billings in excess of related costs are shown as liabilities.

### Property, plant and equipment

Property, plant and equipment are recorded at cost and include certain leased equipment.

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

Buildings	10 to 40 years
Equipment	2 to 15 years
Other	3 to 20 years

Amortization of assets under construction begins when they are ready for their intended use.

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

### Intangible assets

Intangible assets are recorded at cost and are comprised of certain development costs, as well as costs related to licenses, patents and trademarks and other intangible assets. The Corporation does not have indefinite-lived intangible assets, other than goodwill.

**Aerospace program tooling** – Development costs, including prototype design, testing costs and interest charges during the development, are capitalized when certain criteria for deferral are met, such as proven technical feasibility and official program launch. Amortization begins at the date of delivery of the first aircraft of the program.

**Licenses, patents and trademarks** – Represents mainly intangible assets acquired from third parties.

**Other intangible assets** – These costs are mainly related to application software and certain BT development costs. Internally modified application software and BT development costs are capitalized when certain criteria for deferral are met, such as proven technical feasibility. Application software are treated as intangible assets as they are not integral to the operation of a related hardware. Amortization begins when the asset is ready for its intended use.

Amortization is computed under the following methods and estimated useful lives:

Aerospace program tooling	Straight-line	10 years
Licenses, patents and trademarks	Straight-line	3 to 20 years
Other intangible assets	Straight-line and unit of delivery	3 to 5 years and expected number of units

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Impairment of long-lived assets

**Impairment** – Long-lived assets include aircraft under operating leases, property, plant and equipment and finite-life intangible assets. Long-lived assets are tested for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The first step in the recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. If the carrying value exceeds the undiscounted cash flows, the amount of the impairment is measured as the difference between the carrying value and the fair value of the impaired assets and is recorded in amortization.

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

### Goodwill

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

Goodwill is reviewed for impairment annually, or more frequently if events or circumstances, such as significant declines in expected sales, earnings or cash flows, indicate that it is more likely than not that the asset might be impaired.

The Corporation evaluates the recoverability of goodwill using a two-step test approach at the segment level ("reporting unit"). Under the first step, the fair value of the reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income.

### Guarantees

The Corporation has issued credit guarantees, RVGs, trade-in commitment and performance guarantees. Guarantees are initially recognized at fair value on the date the guarantees are unconditionally given.

Credit guarantees and RVGs related to the sale of aircraft are subsequently remeasured at fair value using the settlement value method. Subsequent changes in the fair value of these guarantees are recorded in cost of sales, except for the interest portion, which is recorded in financing expense.

Subsequent to initial recognition, adverse changes in the fair value of the trade-in aircraft are recorded in cost of sales as they occur.

Other guarantees are subsequently remeasured when a loss becomes probable.

### Derivative financial instruments

Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest-rate market risks. They consist of forward foreign exchange contracts, interest rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements. Derivative financial instruments are measured at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts.

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Hedge accounting

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

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

- **Fair value hedges** – The Corporation has designated certain interest-rate swap and forward foreign exchange contracts as fair value hedges. In a fair value hedge relationship, gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income.
- **Cash flow hedges** – The Corporation has designated forward foreign exchange contracts and interest-rate swap agreements as cash flow hedges. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income. However, when an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized in OCI are reclassified in the initial carrying amount of the related asset.
- **Hedge of net investments in self-sustaining foreign operations** – The Corporation has designated certain cross-currency interest-rate swap agreements, long-term debt and inter-company loans as hedges of its net investments in self-sustaining foreign operations. The portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified to net income when corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recorded in net income.

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

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

### Stock-based compensation and other stock-based payments

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

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Revenue recognition

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

Wide-body business aircraft (*Challenger* and *Global Series*) contracts are segmented between green aircraft (i.e. before exterior painting and installation of customer-selected interiors and optional avionics) and completion. Revenues are recognized based on green aircraft deliveries (when certain conditions are met), and upon final acceptance of interiors and optional avionics by customers. Revenues for green aircraft delivery and completion are presented in manufacturing revenues.

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

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

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

Revenues from other long-term service contracts are generally recognized as services are rendered and are presented in services revenues.

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

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

**Other** – Revenues from the sale of pre-owned aircraft and spare parts are recognized upon delivery. Pre-owned aircraft revenues are presented in other revenues and spare parts revenues are included in services revenues. Operating lease income, mainly from pre-owned aircraft, is recognized on a straight-line basis over the term of the lease and is included in other revenues. Interest income related to aircraft financing is recognized over the terms of the applicable loans or leases using the effective interest method and is included in financing income.

### Sales incentives

In connection with the sale of new aircraft, the Corporation may provide sales incentives in the form of credit guarantees, RVGs, financing rate commitment, trade-in commitments, conditional repurchase obligations and free related product and services.

Credit guarantees and RVGs related to the sale of aircraft and trade-in commitments are discussed in the guarantees section and financing rate commitment are discussed in the derivative financial instruments section.

Conditional repurchase obligations are accounted for as trade-in commitments from the time the Corporation enters into an agreement for the sale of a new aircraft and the customer exercises its right to partially pay for the new aircraft by trading in its pre-owned aircraft. No provision is recorded for conditional repurchase obligations until they become trade-in commitments.

Other sales incentives, such as free training and spare parts, are recorded at their estimated cost as a reduction of manufacturing revenues or included in cost of sales at the time of the sale.

### Government assistance

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

### Product warranties

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

The Corporation reviews its recorded product warranty provisions quarterly and any adjustment is recorded in cost of sales.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Income taxes

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

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

### Earnings per share

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

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

### Employee future benefits

The defined benefit plans are accounted for as follows:

- Plan assets are measured at fair value.
- With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values.
- The net actuarial gains and losses, based on the market-related value of plan assets, over 10% of the greater of the projected benefit obligation and the market-related value of plan assets as well as past service costs are amortized over the estimated weighted-average remaining service life of plan participants of approximately 14 years.
- Plan obligations are determined based on expected future benefit payments discounted using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.
- When an event, such as the sale of a segment, gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's obligation by the Corporation.
- The cost of pension and other benefits earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of expected plan investment performance, salary escalation, retirement ages, mortality and health care costs.
- Benefit cost is capitalized as part of labour costs and included in inventories and aerospace program tooling, or is recognized directly through income.
- The Corporation uses a December 31 measurement date.

### Environmental obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated.

Environmental costs that are not legal asset retirement obligations are expensed or capitalized, as appropriate. Environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate, or prevent environmental contamination that has yet to occur, are included in property, plant and equipment and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.



## 3

## FINANCIAL INSTRUMENTS

The classification of financial instruments as HFT, AFS, L&R and other than HFT, as well as their carrying amounts and fair values, were as follows:

January 31, 2009				
Carrying value				
	HFT	AFS	Amortized cost <sup>(1)</sup>	Total <sup>(2)</sup>
<b>Financial assets</b>				
Cash and cash equivalents	\$ 3,470	\$ -	\$ -	\$ 3,470
Invested collateral	777 <sup>(3)</sup>	-	-	777
Receivables	-	-	1,905 <sup>(4)</sup>	1,905
Aircraft financing	240 <sup>(3)(5)</sup>	-	104 <sup>(6)</sup>	344 <sup>(13)</sup>
Derivative financial instruments	179 <sup>(7)</sup>	-	-	179
Other assets	231 <sup>(3)(8)</sup>	203 <sup>(9)</sup>	160 <sup>(10)</sup>	594
	\$ 4,897	\$ 203	\$ 2,169	\$ 7,269
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 192 <sup>(3)(11)</sup>	n/a	\$ 3,675 <sup>(12)</sup>	\$ 3,867
Long-term debt	-	n/a	3,952	3,952 <sup>(14)</sup>
Derivative financial instruments	163 <sup>(7)</sup>	n/a	-	163
	\$ 355	n/a	\$ 7,627	\$ 7,982

January 31, 2008				
Carrying value				
	HFT	AFS	Amortized cost <sup>(1)</sup>	Total <sup>(2)</sup>
<b>Financial assets</b>				
Cash and cash equivalents	\$ 3,602	\$ -	\$ -	\$ 3,602
Invested collateral	1,295 <sup>(3)</sup>	-	-	1,295
Receivables	-	-	1,855 <sup>(4)</sup>	1,855
Aircraft financing	398 <sup>(3)(5)</sup>	-	119 <sup>(6)</sup>	517 <sup>(13)</sup>
Derivative financial instruments	97 <sup>(7)</sup>	-	-	97
Other assets	249 <sup>(3)(8)</sup>	207 <sup>(9)</sup>	181 <sup>(10)</sup>	637
	\$ 5,641	\$ 207	\$ 2,155	\$ 8,003
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 268 <sup>(3)(11)</sup>	n/a	\$ 3,515 <sup>(12)</sup>	\$ 3,783
Long-term debt	-	n/a	4,393	4,393 <sup>(14)</sup>
Derivative financial instruments	34 <sup>(7)</sup>	n/a	-	34
	\$ 302	n/a	\$ 7,908	\$ 8,210

(1) Financial assets are classified as L&R and financial liabilities as other than HFT.

(2) Represents only the carrying value of financial instruments included in the corresponding balance sheet caption.

(3) The Corporation has chosen to designate these financial instruments as HFT under the fair value option.

(4) Represents trade receivables and certain other receivables.

(5) Represents certain commercial aircraft loans and lease receivables.

(6) Represents certain commercial aircraft loans and lease receivables, investment in financing structures and business aircraft loans.

(7) Represents derivative financial instruments not designated in a hedging relationship but that are economic hedges, and embedded derivatives accounted for separately.

(8) Includes a prepayment under an exchange agreement and servicing fees.

(9) Represents investment in securities.

(10) Includes restricted cash.

(11) Represents related liabilities in connection with the sale of commercial aircraft.

(12) Includes trade accounts payable, interest, as well as certain accrued liabilities and payroll-related liabilities.

(13) The fair value is \$335 million as at January 31, 2009 (\$548 million as at January 31, 2008).

(14) The fair value is \$2,965 million as at January 31, 2009 (\$4,266 million as at January 31, 2008).

n/a: Not applicable



### 3 FINANCIAL INSTRUMENTS (cont'd)

The methods and assumptions used to measure the fair value of financial instruments are described in Note 23 – Fair value of financial instruments.

Net gains (losses) on financial instruments recognized in income were as follows for fiscal year:

	2009	2008
<b>Financial instruments measured at amortized cost</b>		
L&R	\$ (13)	\$ (15)
Other than HFT	\$ 22 <sup>(1)</sup>	\$ (21) <sup>(1)</sup>
<b>Financial instruments measured at fair value</b>		
Designated as HFT	\$ (13) <sup>(2)</sup>	\$ 1 <sup>(2)</sup>
Required to be classified as HFT	\$ (18) <sup>(3)(4)</sup>	\$ (58) <sup>(3)(4)</sup>

(1) Including net financing gains on long-term debt repayment of \$22 million for fiscal year 2009 (financing losses on long-term debt repayment of \$22 million for fiscal year 2008).

(2) Excluding the interest income portion related to the prepayment under an exchange agreement and invested collateral of \$56 million for fiscal year 2009 (\$58 million for fiscal year 2008).

(3) Excluding the interest income portion related to cash and cash equivalents of \$143 million for fiscal year 2009 (\$96 million for fiscal year 2008).

(4) A net loss of \$62 million, included in this amount, was incurred in connection with economic hedges not designated in hedging relationships for fiscal year 2009 (\$75 million for fiscal year 2008).

Net gains (losses) on L&R contain changes in valuation allowance. Fees revenues (expenses) represent financing gain (costs) on long-term debt repayment. Net gains (losses) on financial assets and financial liabilities HFT consist of changes in fair value, excluding interest income and interest expense for those designated as HFT. For the amounts of unrealized gains or losses on AFS financial assets recognized directly in OCI and the amounts removed from OCI and recognized in net income during the fiscal year 2009 and 2008, if any, see the consolidated statements of comprehensive income.

### 3 FINANCIAL INSTRUMENTS (cont'd)

#### Derivative and certain non-derivative financial instruments

The carrying amounts of all derivative financial instruments and certain non-derivative financial instruments in a hedge relationship were as follows:

	January 31, 2009		January 31, 2008	
	Assets	Liabilities	Assets	Liabilities
<b>Derivative financial instruments designated as fair value hedges</b>				
Interest-rate swap agreements	\$ 169	\$ 3	\$ 73	\$ 40
<b>Derivative financial instruments designated as cash flow hedges</b>				
Forward foreign exchange contracts <sup>(1)(2)</sup>	278	1,018	288	135
<b>Derivative financial instruments designated as hedges of net investment</b>				
Cross-currency interest-rate swap agreements	-	10	-	67
<b>Derivative financial instruments classified as HFT<sup>(3)</sup></b>				
Forward foreign exchange contracts	96	133	59	12
Interest-rate cap agreements	1	1	4	4
Interest-rate swap agreements	-	4	-	2
Cross-currency interest-rate swap agreements	9	-	3	-
Embedded derivative financial instruments:				
Call options on long-term debt	-	-	8	-
Foreign exchange	73	25	23	9
Financing rate commitments	-	-	-	7
	179	163	97	34
<b>Total derivative financial instruments</b>	<b>\$ 626</b>	<b>\$ 1,194</b>	<b>\$ 458</b>	<b>\$ 276</b>
<b>Non-derivative financial instruments designated as hedges of net investment</b>				
Long-term debt	\$ -	\$ 908	\$ -	\$ 1,191
Inter-company loans	-	29	-	687
<b>Total non-derivative financial instruments designated in a hedge relationship</b>	<b>\$ -</b>	<b>\$ 937</b>	<b>\$ -</b>	<b>\$ 1,878</b>

(1) The net loss representing the component of the hedging item's gain or loss excluded from the assessment of effectiveness amounted to \$20 million for fiscal year 2009 (\$21 million for fiscal year 2008).

(2) The maximum length of time of the derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 42 months.

(3) Held as economic hedges, except for embedded derivative financial instruments.

### 3 FINANCIAL INSTRUMENTS (cont'd)

**Maturity analysis** – The following table presents the maturity analysis of derivative financial instruments. The amounts presented in the table below are the undiscounted cash flows (amounts denominated in foreign currency are translated at the closing balance sheet rate).

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows as at January 31, 2009:

	Nominal value (USD equivalent)	Undiscounted cash flows					Total
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	
<b>Derivative financial assets</b>							
Forward foreign exchange contracts	\$ 4,499						
Gross settlement							
Outflow		\$ (75)	\$ (80)	\$ -	\$ -	\$ -	\$ (155)
Inflow		64	81	-	-	-	145
Net settlement		302	73	4	-	-	379
Interest-rate derivatives	2,850						
Net settlement		50	59	70	19	(13)	185
	\$ 7,349	\$ 341	\$ 133	\$ 74	\$ 19	\$ (13)	\$ 554
<b>Derivative financial liabilities</b>							
Forward foreign exchanges contracts	\$ 10,828						
Gross settlement							
Outflow		\$ (3,739)	\$ (2,316)	\$ (36)	\$ -	\$ -	\$ (6,091)
Inflow		3,350	2,038	34	-	-	5,422
Net settlement		(279)	(61)	(14)	-	-	(354)
Interest-rate derivatives	434						
Gross settlement							
Outflow		-	-	-	(415)	-	(415)
Inflow		-	-	-	411	-	411
Net settlement		(9)	(5)	(9)	-	(1)	(24)
	\$ 11,262	\$ (677)	\$ (344)	\$ (25)	\$ (4)	\$ (1)	\$ (1,051)

### 3 FINANCIAL INSTRUMENTS (cont'd)

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows as at January 31, 2008:

	Nominal value (USD equivalent)	Undiscounted cash flows					Total
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	
<b>Derivative financial assets</b>							
Forward foreign exchanges contracts	\$ 4,248						
Gross settlement							
Outflow		\$ (1,573)	\$ (985)	\$ -	\$ -	\$ -	\$ (2,558)
Inflows		1,721	1,043	-	-	-	2,764
Net settlement		2	31	2	-	-	35
Interest-rate derivatives	1,765						
Net settlement		20	29	32	16	-	97
	\$ 6,013	\$ 170	\$ 118	\$ 34	\$ 16	\$ -	\$ 338
<b>Derivative financial liabilities</b>							
Forward foreign exchanges contracts	\$ 3,707						
Gross settlement							
Outflow		\$ (858)	\$ (739)	\$ -	\$ -	\$ -	\$ (1,597)
Inflows		879	739	-	-	-	1,618
Net settlement		(42)	(74)	(9)	-	-	(125)
Interest-rate derivatives	1,611						
Gross settlement							
Outflow		-	-	-	-	(459)	(459)
Inflows		-	-	-	-	404	404
Net settlement		(17)	(7)	(15)	(17)	(30)	(86)
	\$ 5,318	\$ (38)	\$ (81)	\$ (24)	\$ (17)	\$ (85)	\$ (245)

## 4

## RECEIVABLES

Receivables were as follows as at January 31:

	2009	2008
Trade receivables <sup>(1)</sup>		
<b>BA</b>		
U.S. dollar	\$ 917	\$ 641
Other currencies	20	25
<b>BT</b>		
Euro	456	402
U.S. dollar	181	298
Sterling pound	55	188
Various other Western European currencies	50	82
Other currencies	143	139
Sales tax	1,822	1,775
Other	61	97
	168	201
	2,051	2,073
Allowance for doubtful accounts	(70)	(75)
	\$ 1,981	\$ 1,998

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

**Allowance for doubtful accounts** – Changes in the allowance for doubtful accounts were as follows as at January 31:

	2009	2008
Balance at beginning of year	\$ (75)	\$ (79)
Provision for doubtful accounts	(17)	(14)
Amounts charged off, net of recoveries	12	29
Effect of foreign currency exchange rate changes	10	(11)
Balance at end of year	\$ (70)	\$ (75)

**Receivables that are past due but not impaired** – Trade receivables that are past due but not impaired for BA amounted to \$106 million as at January 31, 2009, of which \$25 million were more than 90 days past due (\$118 million as at January 31, 2008, of which \$29 million were more than 90 days past due).

In addition, \$358 million of trade receivables related to BT long-term contracts is past due and had no specific bad debt provision as at January 31, 2009, of which \$169 million were more than 90 days past due (\$474 million as at January 31, 2008, of which \$251 million were more than 90 days past due). BT assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole. Accordingly, the Corporation has not recorded specific bad debt provisions for these receivables but has recorded contract provisions as part of its normal risk management practices for long-term contracts covering the collection risk associated to these receivables.

**Receivables that are impaired** – The Corporation has determined that a gross amount of \$36 million of trade receivables is individually determined to be impaired as of January 31, 2009 (\$53 million as at January 31, 2008). The factors the Corporation consider are as follows: the customer is in bankruptcy or under administration or payments are in dispute.

# 5

## AIRCRAFT FINANCING

Aircraft financing was as follows as at January 31:

	2009				2008			
	Total	Weighted average		Fixed/ variable rate <sup>(1)</sup>	Total	Weighted average		Fixed/ variable rate <sup>(1)</sup>
		Maturity (in months)	Rate <sup>(1)</sup> (in %)			Maturity (in months)	Rate <sup>(1)</sup> (in %)	
Commercial aircraft								
Loans	\$ 194	117	13.1	Fix./var.	\$ 280	129	8.1	Fix./var.
Lease receivables <sup>(2)</sup>	82	80	8.3	Fix./var.	170	64	6.4	Fix./var.
	276				450			
Business aircraft loans <sup>(3)</sup>	23	18	6.7	Fix./var.	32	26	7.9	Fix./var.
Total loans and lease receivables	299				482			
Allowance for credit losses	(10)				(15)			
	289				467			
Assets under operating leases	74				109			
Investment in financing structures	55				50			
	\$ 418				\$ 626			

(1) Interest rates are before giving effect to the related hedging derivative financial instruments.

(2) Includes \$9 million of lease receivables related to consolidated VIEs as at January 31, 2009 (\$16 million as at January 31, 2008).

(3) This portfolio is being wound down.

**Loans and lease receivables** – Financing with three airlines represents approximately 35% of the total loans and lease receivables as at January 31, 2009 (three airlines represented 38% as at January 31, 2008). Loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors. The value of the collateral also fluctuates with economic cycles.

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

	2009	2008
Total minimum lease payments	\$ 79	\$ 200
Unearned income	(22)	(60)
Unguaranteed residual value	25	30
	\$ 82	\$ 170

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

	2009	2008
Balance at beginning of year	\$ (15)	\$ (111)
Reclassification to long-term financing – loans <sup>(1)</sup>	-	96
Recovery of credit losses	5	-
Balance at end of year	\$ (10)	\$ (15)

(1) As part of the fair value adjustment upon adoption of the new accounting standards on financial instruments effective February 1, 2007.

## 5 AIRCRAFT FINANCING (cont'd)

**Loans and lease receivables that are impaired** – The Corporation has determined that a gross amount of \$2 million of loans and leases receivables are individually determined to be impaired as of January 31, 2009 (\$5 million as at January 31, 2008). The factors the Corporation considers are that the counterparty is in bankruptcy or under administration or payments are in arrears for over 90 days.

**Loans and lease receivables that are past due but not impaired** – Loans and lease receivables that are past due but not impaired amounted to nil as at January 31, 2009 (\$21 million as at January 31, 2008, were past due for 60 days). Generally, the Corporation holds collateral for loans and lease receivables that mainly consist of aircraft. The fair value of aircraft held as collateral for loans and lease receivables that are past due but not impaired was nil as at January 31, 2009 (\$17 million as at January 31, 2008).

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

	2009		2008	
	Cost	Net book value	Cost	Net book value
Pre-owned regional aircraft	\$ 49	\$ 28	\$ 78	\$ 57
Pre-owned business aircraft	50	46	54	52
	\$ 99	\$ 74	\$ 132	\$ 109

Rental income from operating leases and amortization of assets under operating leases amounted to \$9 million and \$15 million respectively for fiscal year 2009 (\$7 million and \$13 million respectively for fiscal year 2008).

## 6

## INVENTORIES

Inventories were as follows as at January 31:

	2009	2008
Long-term contracts		
Costs incurred and recorded margins	\$ 4,503	\$ 4,192
Less: advances and progress billings	(3,308)	(2,633)
	1,195	1,559
Aerospace programs <sup>(1)</sup>	2,850	2,668
Finished products <sup>(2)</sup>	1,477	865
	\$ 5,522	\$ 5,092

(1) Includes no EOAPC as at January 31, 2009 (\$277 million as at January 31, 2008).

(2) Finished products include 19 new aircraft not associated with a firm order and 29 pre-owned aircraft, totalling \$448 million as at January 31, 2009 (nil new aircraft and 13 pre-owned aircraft, totalling \$90 million as at January 31, 2008).

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

**Inventory recognized as cost of sales** – The amount of inventory recognized as cost of sales was as follows for fiscal year:

	2009
Long-term contracts	\$ 8,487
Aerospace programs	5,563
Finished products	957 <sup>(1)</sup>
	\$ 15,007

(1) Includes \$51 million of write-down of inventories for fiscal year 2009.



# 7

## PROPERTY, PLANT AND EQUIPMENT

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

	2009		2008	
	Cost	Net book value	Cost	Net book value
Land	\$ 93	\$ 93	\$ 120	\$ 120
Buildings	1,772	837	1,978	939
Equipment	1,085	462	1,150	522
Other	183	176	154	151
	\$ 3,133	\$ 1,568	\$ 3,402	\$ 1,732

Included in the above table are assets under capital lease with a cost and net book value amounting to \$143 million and \$81 million respectively as at January 31, 2009 (\$168 million and \$109 million respectively as at January 31, 2008).

Also included in the above table are assets under construction and development amounting to \$100 million as at January 31, 2009 (\$94 million as at January 31, 2008).

Amortization of property, plant and equipment amounted to \$180 million for fiscal year 2009 (\$163 million for fiscal year 2008).

# 8

## INTANGIBLE ASSETS

Intangible assets were as follows as at January 31:

	2009		2008	
	Cost	Net book value	Cost	Net book value
Aerospace program tooling				
Business aircraft	\$ 2,074	\$ 572	\$ 2,013	\$ 695
Commercial aircraft	1,682	603	1,459	501
Licenses, patents and trademarks	281	121	331	172
Other	428	103	394	83
	\$ 4,465	\$ 1,399	\$ 4,197	\$ 1,451

Intangible assets capitalized during fiscal year 2009 amounted to \$376 million (\$275 million for fiscal year 2008), of which \$325 million (\$209 million for fiscal year 2008) were capitalized in aerospace program tooling.

Amortization of intangible assets was as follows for fiscal years:

	2009	2008
Aerospace program tooling	\$ 310	\$ 289
Other	50	47
	\$ 360	\$ 336

## 9

## GOODWILL

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

	2009	2008
Balance at beginning of year	\$ 2,533	\$ 2,286
Recognition of previously unrecognized tax losses	-	(7)
Resolution of a tax uncertainty	(41)	-
Effect of foreign currency exchange rate changes	(482)	254
Balance at end of year	\$ 2,010	\$ 2,533

The Corporation completed the required annual impairment review during the fourth quarter of fiscal year 2009 and did not identify any impairment.

## 10

## OTHER ASSETS

Other assets were as follows as at January 31:

	2009	2008
Prepaid expenses	\$ 257	\$ 240
Investment in securities <sup>(1)</sup>	203	207
Prepayment under an exchange agreement	150	150
Restricted cash <sup>(2)</sup>	85	107
Deferred financing charges	65	39
Servicing fees	54	56
Investment in companies subject to significant influence <sup>(3)</sup>	30	48
Other	105	127
	\$ 949	\$ 974

(1) Includes \$64 million of securities held as collateral for guarantees issued in connection with the sale of aircraft as at January 31, 2009 (\$59 million as at January 31, 2008).

(2) Includes \$59 million related to consolidated VIEs as at January 31, 2009 (\$82 million as at January 31, 2008).

(3) The Corporation has pledged shares in investees subject to significant influence, with a carrying value of \$20 million as at January 31, 2009 (\$37 million as at January 2008), including \$8 million of loans as at January 31, 2009 (\$12 million as at January 31, 2008), mostly related to BT.

# 11

## LETTER OF CREDIT FACILITIES

The letter of credit facilities and their maturities were as follows as at:

	Amount committed	Letters of credit issued	Amount available	Maturity (fiscal year)
<b>January 31, 2009</b>				
BT facility	\$ 4,801 <sup>(1)</sup>	\$ 4,446	\$ 355	2014 <sup>(2)</sup>
BA facility	840	655	185	2012 <sup>(3)</sup>
PSG facility	250	30	220	2010 <sup>(4)</sup>
	\$ 5,891	\$ 5,131	\$ 760	
<b>January 31, 2008</b>	\$ 6,381 <sup>(5)</sup>	\$ 5,488	\$ 893	2012 <sup>(3)</sup>

(1) €3,750 million.

(2) In December 2011, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature up to December 2013.

(3) In December 2009, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature up to December 2011.

(4) The performance security guarantee facility ("PSG facility") is renewed and extended annually if mutually agreed. In December 2009, if the facility is not extended, the letters of credits issued under this facility will amortize over their maturity.

(5) €4,300 million.

A €3.75-billion letter of credit facility agreement was negotiated on December 17, 2008, with a syndicate of international financial institutions for the issuance of letters of credit by BT. Simultaneously, the Corporation reduced from €4.3 billion to \$840 million its existing syndicated letter of credit facility dedicated to support BA operations and the Corporation's general needs. This amended letter of credit facility is now subscribed principally by North American banks.

Under the BA and BT facilities, the Corporation must maintain certain financial covenants, including a requirement to maintain a minimum BT liquidity of €600 million at the end of each calendar quarter (see Note 28 - Capital management). In addition, the Corporation must maintain €446 million (\$571 million) of invested collateral under the BT facility, and \$202 million of invested collateral under the BA facility. These conditions were all met as at January 31, 2009.

In addition, BT entered into a PSG facility in December 2008, available for the issuance of letters of credit for the benefit of BT. Letters of credit issued by commercial banks in support of BT's operations under this facility are guaranteed by Export Development Canada ("EDC").

Under the previous letter of credit facility (prior to its amendment in December 2008), the Corporation had to maintain certain financial covenants (see Note 28 - Capital management). In addition, the Corporation had to maintain €869 million (\$1,290 million) of invested collateral. These conditions were all met as at January 31, 2008.

In addition to the outstanding letters of credit shown in the above table, letters of credit of \$257 million were outstanding under various bilateral agreements as at January 31, 2009 (\$467 million as at January 31, 2008).

# 12

## ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2009	2008
Trade accounts payable	\$ 2,243	\$ 2,079
Accrued liabilities	1,048	1,251
Sales incentives <sup>(1)</sup>	1,001	1,011
Product warranties	931	1,041
Payroll-related liabilities	438	496
Income and other taxes	113	213
Non-controlling interest	66	66
Interest	61	77
Provision for repurchase obligations	59	82
Severance and other involuntary termination costs	43	37
Other	985	566
	<b>\$ 6,988</b>	<b>\$ 6,919</b>

(1) Comprised of provision for credit guarantees and RVGs and trade-in commitments, as well as other related provisions and liabilities in connection with the sale of aircraft (see Note 26 - Commitments and contingencies). The carrying value of related liabilities in connection with the sale of aircraft is \$190 million as at January 31, 2009 (\$268 million as at January 31, 2008). The amount contractually required to be paid for these liabilities is \$232 million as at January 31, 2009 (\$318 million as at January 31, 2008).

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

Changes in the product warranty provision were as follows for fiscal years 2009 and 2008:

	BA	BT	Total
Balance as at January 31, 2007	\$ 291	\$ 694	\$ 985
Current expense	107	335	442
Changes in estimates	(28)	(69)	(97)
Cash paid	(85)	(287)	(372)
Effect of foreign currency exchange rate changes	-	83	83
Balance as at January 31, 2008	285	756	1,041
Current expense	95	279	374
Changes in estimates	-	(63)	(63)
Cash paid	(100)	(202)	(302)
Effect of foreign currency exchange rate changes	-	(119)	(119)
<b>Balance as at January 31, 2009</b>	<b>\$ 280</b>	<b>\$ 651</b>	<b>\$ 931</b>

# 13

## LONG-TERM DEBT

During Fiscal year 2009, the nominal value of debt repayment made by the Corporation amounted to €111 million (\$149 million) of the Senior note due in November 2013 and €15 million (\$19 million) of the Senior note due in November 2016.

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

	Amount in currency of origin 2009/2008	Currency	Interest rate				Maturity	2009	2008
			Fixed/ Variable <sup>(1)</sup>	Contractual <sup>(1)</sup> 2009/2008	After effect of fair value hedges	Amount		Amount	
Senior notes	679/790	EUR	Variable	7.74%/7.33%	-	Nov. 2013	\$ 858	\$ 1,159	
	385	USD	Fixed	8.00%	3-month Libor + 2.91	Nov. 2014	430	412	
	785/800	EUR	Fixed	7.25%	6-month Euribor + 3.36	Nov. 2016	1,028	1,154	
Notes	550	USD	Fixed	6.75%	3-month Libor + 2.28	May 2012	587	565	
	500	USD	Fixed	6.30%	3-month Libor + 1.60	May 2014	551	520	
	250	USD	Fixed	7.45%	-	May 2034	247	247	
Debentures	150	CAD	Fixed	7.35%	-	Dec. 2026	120	150	
Other <sup>(2)</sup>	131/187 <sup>(3)</sup>	Various	Fix./var	7.21%/6.99%	-	2010-2027	131	186	
							\$ 3,952	\$ 4,393	

(1) For variable-rate debt, the interest rate represents the average rate for the fiscal year. All interests on long-term debt are payable semi-annually, except for the Senior note due in November 2013, for which they are payable quarterly, and for the other debts for which the timing of interest payments is variable.

(2) Includes \$66 million relating to obligations under capital leases as at January 31, 2009 (\$102 million as at January 31, 2008).

(3) Amounts are expressed in U.S. dollars.

All long-term debt items rank *pari-passu* and are unsecured.

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

	Debt	Capital leases	Total
2010	\$ 3	\$ 6	\$ 9
2011	3	6	9
2012	3	8	11
2013	593	8	601
2014	861	2	863
Thereafter	2,423	36	2,459
	\$ 3,886	\$ 66	\$ 3,952

# 14

## SHARE CAPITAL

### Preferred shares

An unlimited number of non-voting preferred shares, without nominal or par value, issuable in series are authorized. The following series have been issued as at January 31, 2009 and 2008:

<b>12,000,000 Series 2 Cumulative Redeemable Preferred Shares</b>	
Redemption:	Redeemable, at the Corporation's option, at \$25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012, and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Additionally, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than \$24.90 Cdn per share or more than \$25.10 Cdn per share.

<b>12,000,000 Series 3 Cumulative Redeemable Preferred Shares</b>	
Redemption:	Redeemable, at the Corporation's option, at \$25.00 Cdn per share on August 1, 2012 and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Additionally, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2007 and including July 31, 2012, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.267% or \$1.31675 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.32919 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

## 14 SHARE CAPITAL (cont'd)

<b>9,400,000 Series 4 Cumulative Redeemable Preferred Shares</b>	
Redemption:	The Corporation may, subject to certain provisions, on not less than 30 nor more than 60 days' notice, redeem for cash the Series 4 Cumulative Redeemable Preferred Shares at: \$25.75 Cdn if redeemed on or after March 31, 2008 but prior to March 31, 2009; \$25.50 Cdn if redeemed on or after March 31, 2009 but prior to March 31, 2010; \$25.25 Cdn if redeemed on or after March 31, 2010 but prior to March 31, 2011; and \$25.00 Cdn if redeemed on or after March 31, 2011.
Conversion:	The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of \$2.00 Cdn and 95% of the weighted-average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or \$1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.390625 Cdn per share.

### Common shares

The following classes of common shares, without nominal or par value, were authorized as at January 31, 2009 and 2008:

<b>1,892,000,000 Class A Shares (Multiple Voting)</b>	
Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

<b>1,892,000,000 Class B Shares (Subordinate Voting)</b>	
Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.
Dividend:	Annual non-cumulative preferential dividend of \$0.0015625 Cdn per share, in priority to the Class A Shares (Multiple Voting), payable quarterly on the last day of January, May, July and October of each year at a rate of \$0.000390625 Cdn per share, if declared.

On June 3, 2008, the Board of Directors of the Corporation authorized the reinstatement of the payment of a quarterly dividend on each Class A Shares (Multiple Voting) and each Class B Shares (Subordinate Voting) of the Corporation. As a result, if and when declared payable by the Board of Directors, holders of these shares are entitled to a quarterly dividend of \$0.025 Cdn per share.

In connection with the conversion privilege for holders of the Corporation's Series 2 Cumulative Redeemable Preferred Shares ("Series 2") and Series 3 Cumulative Redeemable Preferred Shares ("Series 3"), 6,949,749 Series 3 were converted into Series 2 and 82,736 Series 2 were converted into Series 3 in August 2007.

In connection with the performance share unit plan, the Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase 6,942,000 Class B Shares (Subordinate Voting) of the Corporation in the open market for \$54 million during fiscal year 2009 (9,426,000 Class B Shares for \$55 million during fiscal year 2008) (see Note 15 – Share-based plans).

# 15

## SHARE-BASED PLANS

### Share option plans

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 57,196,596 were available for issuance under these share option plans as at January 31, 2009.

**Current performance share option plan** – Effective May 27, 2003, the Corporation amended prospectively the share option plan for key employees. This plan was further amended prospectively on March 30, 2004, on May 29, 2007 and on November 27, 2007. The significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted.
- The options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective.
- As at January 31, 2009, target prices ranged between \$4 Cdn and \$11 Cdn.
- The options terminate no later than seven years after the grant date.

The summarized information on the performance share option plan is as follows as at January 31, 2009:

Exercise price range (Cdn\$)	Issued and outstanding				Exercisable	
	Number of options	Weighted-average target price (Cdn\$)	Weighted-average remaining life (years)	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
2 to 4	13,012,671	5.88	3.26	3.18	5,226,984	2.99
4 to 6	14,501,650	9.04	3.52	4.79	1,333,900	5.50
6 to 8	449,000	9.60	2.94	7.05	89,750	6.83
8 to 10	5,854,000	8.00	6.36	8.53	-	-
	33,817,321				6,650,634	

The number of options has varied as follows for fiscal years:

	2009		2008	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	31,698,625	3.99	29,353,000	3.59
Granted	6,090,000	8.48	6,199,000	5.49
Exercised	(2,167,304)	3.03	(1,468,625)	2.84
Cancelled	(1,604,000)	4.26	(2,384,750)	3.71
Expired	(200,000)	4.16	-	-
Balance at end of year	33,817,321	4.85	31,698,625	3.99
Options exercisable at end of year	6,650,634	3.54	4,529,625	3.13

**Prior share option plans** – For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options vest at 25% per year during a period beginning two years following the grant date, except for 25,000 outstanding options granted to directors, which vest at 20% per year beginning on the grant date. The options terminate no later than 10 years after the grant date.



## 15 SHARE-BASED PLANS (cont'd)

The summarized information on these options is as follows as at January 31, 2009:

Exercise price range (Cdn\$)	Issued, outstanding and exercisable		
	Number of options	Weighted-average remaining life (years)	Weighted-average exercise price (Cdn\$)
10 to 12	4,674,500	0.23	10.77
12 to 15	2,333,000	3.04	14.49
15 to 25	3,481,000	1.67	20.25
	10,488,500		

The number of options has varied as follows for fiscal years:

	2009		2008	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	11,696,500	14.59	15,256,150	13.25
Cancelled	(506,000)	15.01	(2,210,250)	10.03
Expired	(702,000)	11.93	(1,349,400)	6.94
Balance at end of year	10,488,500	14.75	11,696,500	14.59
Options exercisable at end of year	10,488,500	14.75	11,696,500	14.59

### Stock-based compensation expense for options

The weighted-average grant date fair value of stock options granted during fiscal year 2009 was \$3.11 per option (\$2.88 per option for fiscal year 2008). The fair value of each option granted was determined using a modified Black-Scholes option pricing model, which incorporates target prices related to the performance share option plan in the fair value calculation, the share price at the grant date and the following weighted-average assumptions for fiscal years:

	2009	2008
Risk-free interest rate	3.57%	4.57%
Expected life	5 years	5 years
Expected volatility in market price of shares	48.03%	51.56%
Expected dividend yield	1.66%	nil

A compensation expense of \$14 million was recorded during fiscal year 2009 with respect to share option plans (\$11 million during fiscal year 2008).

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. Therefore no compensation expense is recorded to income for these awards.

## 15 SHARE-BASED PLANS (cont'd)

### Performance share unit plan

During fiscal year 2006, the Board of Directors of the Corporation approved a PSU plan under which PSUs may be granted to executives and other designated employees ("beneficiaries"). During fiscal year 2009, a total of 6,265,000 PSUs were authorized for issuance (6,750,000 PSUs during fiscal year 2008). The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting).

The number of PSUs has varied as follows for fiscal years:

	2009	2008
Balance at beginning of year	13,696,996	8,040,386
Granted	5,695,000	6,202,000
Vested	(3,591,526)	-
Cancelled	(794,177)	(545,390)
Balance at end of year	15,006,293	13,696,996

- The PSUs granted during fiscal year 2009 vest on June 10, 2011 if a financial performance threshold is met. The conversion ratio for vested PSUs ranges from 70% to 150%.
- The PSUs granted during fiscal year 2008 vest on June 4, 2010, if a financial performance threshold is met. The conversion ratio for vested PSUs ranges from 70% to 150%.
- The PSUs granted during fiscal year 2007 vest on June 7, 2009, if a financial performance threshold is met. The conversion ratio for vested PSUs ranges from 70% to 150%.

The Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (Subordinate Voting) of the Corporation in the open market (see Note 14 – Share capital). These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of the purchase has been deducted from share capital.

A compensation expense of \$37 million was recorded during fiscal year 2009 with respect to the PSUs plan (\$23 million during fiscal year 2008).

### Employee share purchase plan

Under the employee share purchase plan, employees of the Corporation are eligible to purchase the Corporation's Class B Shares (Subordinate Voting) up to a maximum of 20% of their base salary to a yearly maximum of \$30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to \$5 million for fiscal year 2009 (\$4 million for fiscal year 2008). Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

## 16 ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in AOCI were as follows for fiscal years 2009 and 2008:

	AFS financial assets	Cash flow hedges	CTA	Total
Balance as at January 31, 2007	\$ 4	\$ (8)	\$ 178	\$ 174
Change during the year	(1)	119	12	130
Balance as at January 31, 2008	3	111	190	304
Change in accounting policy – Fair value measurement <sup>(1)</sup>	-	-	7	7
Change during the year	(20)	(566)	(526)	(1,112)
Balance as at January 31, 2009	\$ (17)	\$ (455)	\$ (329)	\$ (801)

(1) Refer to Note 1 – Basis of presentation for more details on the fair value measurement adjustment related to the implementation of the EIC-173.

# 17

## OTHER INCOME

Other income was as follows for fiscal years:

	2009	2008
Foreign exchange losses (gains)	\$ (75)	\$ 5
Severance and other involuntary termination costs (including changes in estimates)	46	3
Settlement of claims	(28)	(21)
Gain on disposal of property, plant and equipment	(26)	(3)
Loss related to disposal of businesses	23	-
Non-controlling interest	18	8
Net loss (gain) on financial instruments <sup>(1)</sup>	6	(58)
Loss from equity accounted investees	2	6
Other	11	(2)
	\$ (23)	\$ (62)

(1) Net loss (gain) on certain financial instruments classified as HFT, including foreign exchange embedded derivatives and financing rate commitments.

# 18

## SPECIAL ITEM

The special item for fiscal year 2008 relates to the write-off of the investment in Metronet, in which the Corporation was a 20% shareholder. Metronet was responsible for maintaining and upgrading approximately 75% of the London Underground's rail system as part of a public private partnership ("PPP") under a service contract signed with London Underground Ltd. ("LUL") in April 2003.

As a result of significant cost overruns related to Metronet's capital programs and the lack of financial resources to meet such cost overruns, a PPP Administrator was appointed on July 18, 2007. Following these events, the Corporation wrote-off the \$162 million carrying value of its investment in Metronet, and is no longer a shareholder.

Since Metronet entered into administration, LUL has negotiated with the PPP Administrator and the current contractors (including BT) the basis upon which the Metronet undertaking can be transferred to a LUL nominee company. As a result of these negotiations:

- There was no change in the BT's scope of work for the Bakerloo, Central and Victoria Lines ("BCV") capital works program, consisting of the upgrade of the Victoria Line with new rolling stock and the supply of new signalling by its subcontractor Westinghouse Rail Systems Limited ("WRSL").
- The Sub-Surface Lines ("SSL") upgrade program, which is less advanced in its implementation than the BCV program, was de-scoped with regard to the signalling portion predominantly sub-contracted to WRSL. As a result, BT made a payment of £95 million (\$189 million) to WRSL, in full and final settlement of its obligations towards WRSL under the current contract. The de-scoping of the signalling elements and the revision of the contract from an integration- and performance-based contract to a conventional product approach, more typical of the rolling stock industry, has resulted in a significant reduction of BT's technical and execution risks. The results of operations have not been impacted by this payment as the reduction of related contingency reserves, following the reduction of risks, fully offset the payment made to WRSL.
- BT continues to supply new rolling stock, with a small increase in the scope of the SSL program.
- The original BCV and SSL maintenance contracts were amended so that the maintenance remains with Metronet, while BT has retained a Technical Support and Spares Supply Agreement (TSSSA). These changes were made at the request of Metronet to assist with the resolution of the industrial relation issues arising from the proposed transfer of staff to BT.

The net impact on the order backlog has been reflected as at January 31, 2008, resulting in a reduction of the BT total order backlog from \$33.5 billion to \$30.9 billion. The reduction of the backlog was as follows:

- A reduction of £950 million (\$1.9 billion) for the signalling de-scoping of the SSL program, which represents predominantly the sub-contracted WRSL signalling and integration and project management activities for BT.
- A reduction of £400 million (\$0.8 billion) for the maintenance portion of the BCV and SSL programs.
- An increase of £50 million (\$0.1 billion) for additional work requested by Metronet for the Rolling Stock portion of the SSL program.

# 19

## FINANCING INCOME AND FINANCING EXPENSE

Financing income and financing expense were as follows for fiscal years:

	2009	2008
<b>Financing income</b>		
Cash and cash equivalents	\$ (143)	\$ (96)
Invested collateral	(51)	(50)
Loans and lease receivables – after effect of hedges	(43)	(64)
Net financing gains on long-term debt repayments	(22)	-
Other	(11)	(15)
	<b>\$ (270)<sup>(1)</sup></b>	<b>\$ (225)<sup>(1)</sup></b>
<b>Financing expense</b>		
Interest on long-term debt – after effect of hedges	\$ 307	\$ 383
Accretion expense on certain sales incentives	45	47
Net loss on financial instruments <sup>(2)</sup>	27	41
Financing losses on long-term debt repayments	-	22
Write-off of deferred costs <sup>(3)</sup>	20	-
Other	9	33
	<b>\$ 408<sup>(4)</sup></b>	<b>\$ 526<sup>(4)</sup></b>

(1) Of which \$22 million for fiscal year 2009 represents the interest income calculated using the effective interest method for financial assets classified as L&R (\$45 million for fiscal year 2008).

(2) Net loss on certain financial instruments required to be classified as HFT, including certain call options on long-term debt.

(3) Related to the former letter of credit facility.

(4) Of which \$339 million for fiscal year 2009 represents the interest expense calculated using the effective interest method for financial liabilities classified as other than HFT (\$440 million for fiscal year 2008).

## 20 INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred income tax asset were as follows as at January 31:

	2009	2008
Operating losses carried forward	\$ 1,049	\$ 1,640
Inventories	851	751
Warranty and other provisions	504	470
Property, plant and equipment	(267)	(309)
Intangible assets	41	49
Derivative financial instruments, net	165	(48)
Accrued benefit liabilities	18	43
Other	1	9
	2,362	2,605
Valuation allowance	(1,146)	(1,670)
Net amount	\$ 1,216	\$ 935

Details of income tax expense were as follows for fiscal years:

	2009	2008
Current income taxes		
Canada	\$ 88	\$ 56
Foreign	108	91
	196	147
Deferred income taxes		
Recognition of previously unrecognized tax benefits	(264)	(380)
Write-down of deferred income tax assets	19	81
Non-recognition of tax benefits and temporary differences	306	224
Effect of substantively enacted income tax rate changes	8	50
	69	(25)
Income tax expense	\$ 265	\$ 122

The reconciliation of income taxes computed at the Canadian statutory rates of 31.54% in fiscal years 2009 and 2008 to income tax expense was as follows for fiscal years:

	2009	2008
Income tax expense at statutory rate	\$ 402	\$ 144
Increase (decrease) resulting from:		
Recognition of previously unrecognized tax benefits	(264)	(380)
Write-down of deferred income tax assets	19	81
Non-recognition of tax benefits related to losses and temporary differences	110	239
Effect of substantively enacted income tax rate changes	8	50
Permanent differences	41	4
Income tax rates differential of foreign investees	(53)	(24)
Foreign exchange revaluation of deferred income tax	2	4
Other	-	4
Income tax expense	\$ 265	\$ 122

## 20 INCOME TAXES (cont'd)

The net operating losses carried forward and temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which a valuation allowance has been recognized, as well as the period in which they can be exercised, are as follows as at January 31, 2009:

Less than 1 year	\$ -
From 1 to 5 years	4
From 5 to 10 years	264
No expiration date	3,877
	\$ 4,145

Approximately \$1.5 billion of the above net operating losses carried forward and temporary differences relate to business acquisitions. Any subsequent recognition of these future tax benefits will be recorded as a reduction of the goodwill related to these acquisitions.

Approximately \$1.7 billion of the above operating losses carried forward relate to the Corporation's operations in Germany, where a minimum income tax is payable on 40% of taxable income.

In addition, the Corporation has approximately \$271 million of available net capital losses, most of which can be carried forward indefinitely. Net capital losses can only be used against future taxable capital gains, and therefore no deferred tax benefit has been recognized.

Undistributed earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for income taxes has been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

## 21 EARNINGS PER SHARE

Basic and diluted EPS were computed as follows for fiscal years:

(Number of shares, stock options and PSUs, in thousands)	2009	2008
Net income	\$ 1,008	\$ 317
Preferred share dividends, net of tax	(27)	(30)
Net income attributable to common shareholders	\$ 981	\$ 287
Weighted-average basic number of common shares outstanding	1,730,545	1,733,163
Net effect of stock options and PSUs	23,897	23,198
Weighted-average diluted number of common shares outstanding	1,754,442	1,756,361
EPS (in dollars):		
Basic	\$ 0.57	\$ 0.17
Diluted	\$ 0.56	\$ 0.16

The effect of the exercise of stock options was included in the calculation of diluted EPS in the above table, except for 25,247,192 stock options for fiscal year 2009 (24,297,692 for fiscal year 2008) either since the average market value of the underlying shares was lower than the exercise price or because the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) had not been met. The effect of the exercise of PSUs was included in the calculation of diluted EPS in the above table, except for 2,172,219 PSUs for fiscal year 2009 (nil for fiscal year 2008) because the predetermined financial performance targets had not been met.

## 22

## NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

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

	2009	2008
Receivables	\$ (249)	\$ (151)
Aircraft financing	125	392
Inventories	(1,211)	220
Fractional ownership deferred costs	56	(110)
Derivative financial instruments, net	71	(11)
Accounts payable and accrued liabilities	796	(237)
Advances and progress billings in excess of related long-term contract costs	(263)	652
Advances on aerospace programs	88	1,051
Fractional ownership deferred revenues	(63)	145
Accrued benefit liabilities, net	(85)	(467)
Other	(11)	(101)
	\$ (746)	\$ 1,383

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## FAIR VALUE OF FINANCIAL INSTRUMENTS

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

#### Methods and assumptions

The methods and assumptions used to measure the fair value are as follows:

- **Financial instruments whose carrying value approximates fair value** – The fair values of receivables, commercial aircraft loans and lease receivables, business aircraft loans, restricted cash, trade account payables and accrued liabilities, interest and certain payroll-related liabilities, measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments or because the terms and conditions of loans or lease receivables are comparable to current market terms and conditions for similar items.
- **Invested collateral and prepayment under an exchange agreement** – The fair value is determined using external quotations when available. When not available, discounted cash flow analyses are used based on both market data and internal assumptions. The market data used for the discounted cash flow analysis relate to yield curves and credit spreads.
- **Commercial aircraft loans and lease receivables designated as HFT** – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate the fair value. The fair value is calculated using market data for interest rates,

## 23 FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

published credit ratings when available, yield curves and default probabilities. The Corporation uses market data to determine the marketability adjustments and also uses internal assumption to take into account factors that market participants would consider when pricing these financial assets, when relevant. The Corporation also uses internal assumptions to determine the credit risk of customers without a published credit rating. In addition, the Corporation uses aircraft residual value curves obtained from independent appraisers adjusted to reflect the specific factors of the current aircraft market.

- **Related liabilities in connection with the sale of aircraft** – The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of related liabilities incurred in connection with the sale of commercial aircraft. The fair value is calculated using market data for interest rates, published credit ratings when available, default probabilities from rating agencies and the Corporation's credit spread. The Corporation also uses internal assumptions to determine the credit risk of customers without a published credit rating.
- **Derivative financial instruments** – The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive to sell favourable contracts, i.e., taking into consideration the counterparty credit risk, or pay to transfer unfavourable contracts, i.e., taking into consideration the Corporation's credit risk, at the reporting dates. The Corporation uses discounted cash flows analysis and public quotations to estimate the fair value of forward agreements and interest rate swap agreements. The fair value is calculated using market data such as interest rates, credit spreads and foreign exchange spot rates.

The Corporation uses an option-pricing model adjusted for aircraft financing specific factors to estimate the fair value of financing rate commitments. The fair value is calculated using market data such as interest rates, credit spreads, published credit ratings, when available, and default probabilities. The Corporation also uses internal assumptions to determine the credit risk of customers without a published credit rating.

The Corporation uses an option-adjusted spread model to estimate the fair value of call feature on long-term debt, using market data such as interest rate swap curves and external quotations.

- **Long-term debt** – The fair value of long-term debt is estimated using public quotations or discounted cash flow analyses, based on the current corresponding borrowing rate for similar types of borrowing arrangements.

### Sensitivity to selected changes of assumptions

When measuring financial instruments at fair value using valuation techniques, some assumptions may not be derived from current market transactions. Changing one or more of these assumptions to other reasonably possible alternative assumptions would not change their fair value significantly.

## 24 FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

Credit risk	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Liquidity risk	Risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.
Market risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to the following market risks: <ul style="list-style-type: none"> <li>▪ Foreign exchange risk</li> <li>▪ Interest rate risk</li> </ul>

### Credit risk

The Corporation is exposed to credit risk through its normal treasury activities on its derivative instruments, invested collateral and other investing activities. The Corporation is also exposed to credit risk through its trade receivable arising from its normal commercial activities. Credit exposures arising from lending activities relate primarily to loans and lease receivables provided to BA customers in connection with the sale of aircraft. In addition, credit exposures arising from indirect financing support primarily relate to credit guarantees provided to customers in connection with the sale of aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from the treasury activities are managed by a central treasury function in accordance with the Corporate Investment Management Policy ("Policy"). The objective of the policy is to minimize the Corporation's exposure to credit risk from its treasury activities by ensuring that the Corporation transacts strictly with investment-grade financial institutions based on pre-established limits per financial institution.



## 24 FINANCIAL RISK MANAGEMENT (cont'd)

Credit risks arising from the Corporation's normal commercial activities, lending activities and indirect financing support are managed and controlled by the two manufacturing segments. The main credit exposure managed by the segments arises from customer credit risk. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and the Corporation's experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

These customer credit risk assessment and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collateral to reduce the Corporation's exposure to losses. Specific governance is in place to ensure that financial risks arising from large transactions are analyzed and approved by the appropriate management level before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure. Various accounting and reporting systems are used to monitor trade receivables, lease receivables and other direct financings.

**Maximum exposure to credit risk** – The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in Note 3 – Financial instruments.

**Credit quality** – The credit quality, using external and internal credit rating system, of financial assets that are neither past due nor impaired is usually investment grade, except for BA receivables and aircraft financing. BA receivables are not externally or internally quoted, however the credit quality of customers are dynamically reviewed and are based on the Corporation's own experience with the customers and payment behaviour. The Corporation usually holds underlying assets or security deposits as collateral or letters of credit for the receivables. The Corporation's customers for aircraft financing are mainly regional airlines with a credit rating below investment grade. The credit quality of the Corporation's aircraft financing portfolio is strongly correlated to the credit quality of the regional airline industry. The financed aircraft is used as collateral to reduce the Corporation's exposure to credit risk.

Refer to Note 26 – Commitment and contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

### Liquidity risk

The Corporation manages this risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows, which is achieved through a detailed forecast of the Corporation's consolidated liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, the maturity profile of indebtedness (including off-balance sheet indebtedness), access to capital market, the level of customer advances and progress billings in excess of related long-term contract costs, working capital requirements and the funding of product developments. The Corporation also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility.

**Maturity analysis** – The following table presents the maturity analysis of financial liabilities, excluding derivatives. The amounts presented in the table below are the undiscounted cash flows before giving effect to the related hedging instruments. The maturity analysis of financial liabilities, excluding derivatives, was as follows as at January 31, 2009:

	Carrying amount	Undiscounted cash flows						
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	Total
Accounts payable and accrued liabilities	\$ 3,867	\$ 3,466	\$ 131	\$ 80	\$ 86	\$ 32	\$ 154	\$ 3,949
Long-term debt								
Principal	3,952	7	16	1,434	1,924	431	–	3,812
Interest	–	260	756	385	334	319	–	2,054
	\$ 7,819	\$ 3,733	\$ 903	\$ 1,899	\$ 2,344	\$ 782	\$ 154	\$ 9,815

## 24 FINANCIAL RISK MANAGEMENT (cont'd)

The maturity analysis of financial liabilities, excluding derivatives, was as follows as at January 31, 2008:

	Carrying amount	Undiscounted cash flows						Total
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	
Accounts payable and accrued liabilities	\$ 3,783	\$ 3,578	\$ 109	\$ 34	\$ 73	\$ 43	\$ 40	\$ 3,877
Long-term debt								
Principal	4,393	9	20	578	3,293	483	-	4,383
Interest	-	317	836	529	510	367	-	2,559
	\$ 8,176	\$ 3,904	\$ 965	\$ 1,141	\$ 3,876	\$ 893	\$ 40	\$ 10,819

The maturity analysis of derivative financial instruments is presented in Note 3 – Financial instruments.

### Market risk

#### Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks, in the ordinary course of business, through its international operations in particular to the Canadian dollar, pound sterling and euro. The Corporation employs various strategies, including the use of derivative financial instruments and asset/liability management techniques, to mitigate these exposures.

The Corporation's main exposures to foreign currencies are managed by the segments and covered by a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's Foreign Exchange Risk Management Policy (the "FX Policy"). The objective of the FX Policy is to mitigate the impact of foreign exchange movements on the Corporation's Consolidated Financial Statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed pre-set limits. Potential loss is defined as the maximum expected loss that could occur if an unhedged foreign currency exposure was exposed to an adverse change of foreign exchange rates over a one quarter period. The FX Policy also strictly prohibits any unauthorized speculative foreign exchange transactions.

Under the FX Policy, it is the responsibility of the segments to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, who has the responsibility to execute the hedge transactions in accordance with the policy requirements.

In order to properly manage their exposures, the segments maintain long-term currency forecasts. BA has adopted a progressive hedging strategy while BT hedges all its identified foreign exchange exposures to limit the effect of currency movements on their results. The segments are also mitigating foreign currency risks by maximizing transactions in their functional currency such as material procurement, sale contracts and financing activities.

In addition, the central treasury function manages balance sheet exposures to foreign currency movements through an asset/liability management technique. This program consists mainly in matching the long-term debt in foreign currency with assets of the same currency.

The Corporation mainly uses forward foreign exchange contracts to manage the Corporation's exposure from transactions in foreign currencies and to synthetically modify the currency of exposure of certain balance sheet items. The Corporation applies hedge accounting for a significant portion of anticipated transactions and firm commitments denominated in foreign currencies, designated as cash flow hedges. Notably, the Corporation enters into forward foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments.

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

#### Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments recorded on its balance sheet. The following impact on Income is before giving effect to hedge relationships.

Gain (loss)	Effect on pre-tax income					
	Variation	CAD/USD	GBP/USD	EUR/USD	USD/EUR	Other
As at January 31, 2009	+1%	\$ 1	\$ 1	\$ 7	\$ 11	\$ 3
	-1%	\$ (1)	\$ (1)	\$ (7)	\$ (11)	\$ 1
As at January 31, 2008	+1%	\$ 5	\$ (1)	\$ (14)	\$ 2	\$ 10
	-1%	\$ (5)	\$ 1	\$ 14	\$ (2)	\$ (10)

## 24 FINANCIAL RISK MANAGEMENT (cont'd)

The following impact on OCI is for derivatives designated in a cash flow hedge relationship. For derivatives that qualify for hedge accounting, any change in fair value is mostly offset by the re-measurement of the underlying exposure.

Gain (loss)	Effect on OCI before income taxes					
	Variation	CAD/USD	GBP/USD	EUR/USD	USD/EUR	Other
As at January 31, 2009	+1%	\$ (25)	\$ (9)	\$ -	\$ 5	\$ 2
	-1%	\$ 25	\$ 9	\$ -	\$ (5)	\$ (1)
As at January 31, 2008	+1%	\$ 31	\$ 7	\$ -	\$ -	\$ -
	-1%	\$ (31)	\$ (7)	\$ -	\$ -	\$ -

### Interest rate risk

The Corporation is exposed to fluctuation in its future cash flows arising from changes in interest rates through its variable rate financial assets and liabilities including long-term debt synthetically converted to variable interest rate (see Note 13 – Long-term debt). The Corporation is also exposed to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are managed by a central treasury function as part of an overall risk management policy, using asset/liability management techniques, including the use of financial instruments, such as interest rate swap agreements, to align asset/liability exposures. Derivative financial instruments used to synthetically convert interest rate exposures consist mainly of interest rate swap agreements, cross currency interest rate swap agreements and interest rate cap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its financial instruments carried at fair value. These financial instruments include certain commercial aircraft loans and lease receivables, investments in securities, invested collateral and certain derivative financial instruments.

The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity to ensure proper assets/liabilities management matching, consistent with the objective to reduce risks arising from interest rates movements.

### Sensitivity analysis

The interest rate risk primarily related to financial instruments carried at fair value such as certain aircraft loans and lease receivables, investment in securities and invested collateral. Assuming a 100-basis point increase in interest rates, as of January 31, 2009, the impact on income before income taxes for these financial instruments would have been a negative adjustment of \$40 million as at January 31, 2009 (\$38 million as at January 31, 2008).

For interest-rate derivative financial instruments not designated in a hedge relationship, a shift of 100-basis point in interest rates, as of January 31, 2009 and as of January 31, 2008, would have had no significant impact on net income.

# 25

## EMPLOYEE FUTURE BENEFITS

**Defined benefit pension plans** – The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering a majority of its employees. Salaried employees' defined benefit pension plans are generally based on salary and years of service. Some of the hourly employees' defined benefit pension plans provide benefits based on stated amounts for each year of service.

The most recent actuarial valuations for funding purposes of the Corporation's funded pension plans, excluding the United Kingdom ("U.K.") plans, were prepared with an effective date of December 31, 2007. In the U.K., the most recent actuarial valuations for funding purposes were prepared with an effective date ranging between December 2006 and December 2007.

**Benefits other than pension** – The Corporation provides post-employment and post-retirement benefit plans. These benefit plans consist essentially of self-insured long-term disability plans in Canada and post-retirement health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the accrued benefit assets and liabilities recognized in the consolidated balance sheets as at January 31:

Amounts recognized						
	2009			2008		
	Canada	Foreign	Total	Canada	Foreign	Total
<b>Accrued benefit assets</b>						
Pension plans	\$ 476	\$ 450	\$ 926	\$ 426	\$ 498	\$ 924
<b>Accrued benefit liabilities</b>						
Pension plans	\$ (60)	\$ (595)	\$ (655)	\$ (42)	\$ (684)	\$ (726)
Benefits other than pension	(290)	(47)	(337)	(287)	(53)	(340)
	\$ (350)	\$ (642)	\$ (992)	\$ (329)	\$ (737)	\$ (1,066)

The significant actuarial assumptions adopted to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December 31 measurement date preceding the fiscal year end):

Actuarial assumptions								
	2009				2008			
	Pension benefit			Other benefit	Pension benefit			Other benefit
(in percentage)	Canada	Foreign	Total		Canada	Foreign	Total	
<b>Projected benefit obligation</b>								
Discount rate	6.60	5.62	6.01	6.50	5.20	5.57	5.39	5.30
Rate of compensation increase	3.72	3.92	3.85	3.69	3.73	3.92	3.84	3.75
<b>Benefit cost</b>								
Discount rate	5.20	5.57	5.39	5.30	5.00	4.99	4.99	5.08
Expected long-term rate of return on plan assets	7.22	7.41	7.33	n/a	7.18	7.60	7.42	n/a
Rate of compensation increase	3.73	3.92	3.84	3.75	3.50	3.72	3.64	3.62

n/a: Not applicable.

As at December 31, 2008, the health care cost trend rate for benefits other than pension, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 9% and to decrease to 5% by fiscal year 2018 and then remain at that level for all participants. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	One percentage-point increase	One percentage-point decrease
Effect on projected benefit obligation	\$ 30	\$ (26)
Effect on the annual benefit cost recognized	\$ 4	\$ (4)

**25 EMPLOYEE FUTURE BENEFITS (cont'd)**

The following table presents the changes in the projected benefit obligation for the 12-month period ended December 31, and its allocation by major countries as at the December 31 measurement date preceding the fiscal year-end:

Projected benefit obligation								
	2009				2008			
	Pension benefit			Other benefit	Pension benefit			Other benefit
	Canada	Foreign	Total		Canada	Foreign	Total	
Obligation at beginning of the year	\$ 3,103	\$ 4,078	\$ 7,181	\$ 436	\$ 2,529	\$ 3,959	\$ 6,488	\$ 387
Interest cost	154	219	373	20	145	207	352	21
Current service cost	100	118	218	12	98	117	215	15
Plan participants' contributions	23	17	40	-	25	22	47	-
Plan amendments	34	-	34	1	50	-	50	(20)
Actuarial gain	(594)	(52)	(646)	(76)	(63)	(247)	(310)	(5)
Benefits paid	(124)	(155)	(279)	(21)	(135)	(130)	(265)	(22)
Other	(5)	-	(5)	-	(2)	-	(2)	-
Effect of exchange rate changes	(550)	(990)	(1,540)	(73)	456	150	606	60
Obligation at end of the year	\$ 2,141	\$ 3,235	\$ 5,376	\$ 299	\$ 3,103	\$ 4,078	\$ 7,181	\$ 436
Canada			\$ 2,141	\$ 256			\$ 3,103	\$ 382
U.K.			1,975	8			2,830	13
U.S.			515	30			461	34
Germany			358	-			409	-
Switzerland			214	-			193	-
Other			173	5			185	7
			\$ 5,376	\$ 299			\$ 7,181	\$ 436

## 25 EMPLOYEE FUTURE BENEFITS (cont'd)

The following table presents the changes in fair value of plan assets for defined benefit pension plans for the 12-month period ended December 31, and its allocation by major countries as at the December 31 measurement date preceding the fiscal year-end:

Pension plan assets	2009			2008		
	Canada	Foreign	Total	Canada	Foreign	Total
Fair value at beginning of the year	\$ 2,644	\$ 3,357	\$ 6,001	\$ 2,083	\$ 2,631	\$ 4,714
Employer contributions	154	178	332	233	593	826
Plan participants' contributions	23	17	40	25	22	47
Actual return on plan assets	(416)	(647)	(1,063)	79	176	255
Benefits paid	(124)	(155)	(279)	(135)	(130)	(265)
Transfers	-	-	-	(25)	-	(25)
Other	(5)	-	(5)	-	-	-
Effect of exchange rate changes	(470)	(723)	(1,193)	384	65	449
Fair value at end of the year	\$ 1,806	\$ 2,027	\$ 3,833	\$ 2,644	\$ 3,357	\$ 6,001
Canada			\$ 1,806			\$ 2,644
U.K.			1,497			2,679
U.S.			358			464
Switzerland			146			182
Other			26			32
			\$ 3,833			\$ 6,001

The reconciliation of the funded status of the pension plans and of benefit plans other than pensions to the amounts recorded on the consolidated balance sheets was as follows as at January 31:

Funded status	2009				2008			
	Pension benefit			Other benefit	Pension benefit			Other benefit
	Canada	Foreign	Total		Canada	Foreign	Total	
Fair value of plan assets	\$ 1,806	\$ 2,027	\$ 3,833	\$ -	\$ 2,644	\$ 3,357	\$ 6,001	\$ -
Projected benefit obligation	(2,141)	(3,235)	(5,376)	(299)	(3,103)	(4,078)	(7,181)	(436)
Funded status - deficit	(335)	(1,208)	(1,543)	(299)	(459)	(721)	(1,180)	(436)
Unamortized net actuarial loss	570	1,187	1,757	12	681	673	1,354	151
Unamortized past service costs	175	(134)	41	(50)	156	(143)	13	(56)
Contributions paid in January	6	10	16	-	7	4	11	1
Accrued benefit assets (liabilities)	\$ 416	\$ (145)	\$ 271	\$ (337)	\$ 385	\$ (187)	\$ 198	\$ (340)

## 25 EMPLOYEE FUTURE BENEFITS (cont'd)

Included in the previous table are plans with projected benefit obligation in excess of plan assets as follows:

Projected benefit obligation in excess of plan assets						
	2009			2008		
	Canada	Foreign	Total	Canada	Foreign	Total
Fair value of plan assets	\$ 1,047	\$ 2,023	\$ 3,070	\$ 1,584	\$ 2,507	\$ 4,091
Projected benefit obligation	(1,505)	(3,233)	(4,738)	(2,169)	(3,276)	(5,445)
	\$ (458)	\$ (1,210)	\$ (1,668)	\$ (585)	\$ (769)	\$ (1,354)

Plan assets are held in trust and their weighted-average allocations were as follows as at the December 31 measurement date:

Plan assets			
	Target allocation		Actual allocation
Asset category	2009	2008	2007
Cash and cash equivalents	2%	4%	4%
Publicly traded equity securities	57%	56%	56%
Publicly traded fixed income securities	36%	36%	36%
Global infrastructure and real estate assets	5%	4%	4%

## 25 EMPLOYEE FUTURE BENEFITS (cont'd)

As at December 31, 2008 and 2007, the publicly traded equity securities did not include any of the Corporation's shares.

The following table provides the components of the benefit cost for fiscal years:

Benefit cost	2009				2008			
	Pension benefit			Other benefit	Pension benefit			Other benefit
	Canada	Foreign	Total		Canada	Foreign	Total	
Current service cost	\$ 100	\$ 118	\$ 218	\$ 12	\$ 98	\$ 117	\$ 215	\$ 15
Interest cost	154	219	373	20	145	207	352	21
Actual return on plan assets	416	647	1,063	-	(79)	(176)	(255)	-
Actuarial gain	(594)	(52)	(646)	(76)	(63)	(247)	(310)	(5)
Plan amendments	34	-	34	1	50	-	50	(20)
Other	1	-	1	-	1	-	1	-
Benefit cost before adjustments to recognize the long-term nature of the plans	111	932	1,043	(43)	152	(99)	53	11
Difference between actual and expected return on plan assets	(596)	(879)	(1,475)	-	(84)	(35)	(119)	-
Difference between actual actuarial loss and the amount recognized	621	89	710	76	96	301	397	24
Difference between plan amendments and amounts recognized	(20)	(10)	(30)	(6)	(40)	(9)	(49)	17
Benefit cost recognized	\$ 116	\$ 132	\$ 248	\$ 27	\$ 124	\$ 158	\$ 282	\$ 52

### Defined contribution pension plans

The Corporation also offers Canadian and foreign defined contribution pension plans covering a portion of its employees, mainly in BA. Defined contribution plan formulas are based on a percentage of salary.

Cash contributions to the defined contribution pension plans, which correspond to the benefit cost recognized, amounted to \$38 million for fiscal year 2009 (\$30 million for fiscal year 2008).



In relation to the sale of regional aircraft and related financing commitments, the Corporation enters into various sale support arrangements including credit guarantees, RVGs and financing rate commitments. The Corporation is also subject to other off-balance sheet risks described in the following table, in addition to the commitments and contingencies described elsewhere in these Consolidated Financial Statements. Some of these off-balance sheet risks are also included in Note 27 – Variable interest entities. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

The table below presents the maximum potential exposure for each major group of exposure, as at January 31:

	2009	2008
<b>Aircraft sales</b>		
Credit (a)	\$ 1,572	\$ 1,589
Residual value (a)	2,606	2,674
Mutually exclusive exposure <sup>(1)</sup>	(954)	(952)
Total credit and residual value exposure	\$ 3,224	\$ 3,311
Trade-in commitments (b)	1,095	1,039
Conditional repurchase obligations (c)	698	931
Other <sup>(2)</sup>		
Credit and residual value (f)	150	186
Repurchase obligations (g)	134	185
Performance guarantees (h)	60	112

(1) Some of the RVGs 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.

(2) The Corporation has also provided other guarantees (see section i) below).

The Corporation's maximum exposure in connection with credit guarantees and RVGs related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to \$538 million as at January 31, 2009 (\$504 million as at January 31, 2008), 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, and the anticipated proceeds from other assets covering such exposures. In addition, related liabilities, which would be extinguished in the event of credit default by certain customers, amounted to \$190 million as at January 31, 2009 (\$268 million as at January 31, 2008). The anticipated proceeds from the underlying aircraft are expected to cover the Corporation's total credit and residual value exposure, after taking into account provisions for anticipated losses and related liabilities.

### Aircraft sales

**a) Credit guarantees and RVGs** – The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2026. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 64% of the total maximum credit risk as at January 31, 2009.

In addition, the Corporation may provide a guarantee for the residual value of aircraft at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. The arrangements generally include operating restrictions such as maximum usage and minimum maintenance requirements. The guarantee provides for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under such guarantees may be made only upon resale of the underlying aircraft to a third party.

The following table summarizes the outstanding RVGs, at the earliest exercisable date, as at January 31, 2009, and the period in which they can be exercised:

Less than 1 year	\$ 26
From 1 to 5 years	618
From 5 to 10 years	1,272
From 10 to 15 years	659
Thereafter	31
	\$ 2,606

## 26 COMMITMENTS AND CONTINGENCIES (cont'd)

**b) Trade-in commitments** – In connection with the signing of firm orders for the sale of new aircraft, the Corporation enters into specified-price trade-in commitments with certain customers. These commitments give customers the right to trade in their pre-owned aircraft as partial payment for the new aircraft purchased.

The Corporation's trade-in commitments were as follows as at January 31, 2009:

Less than 1 year	\$	256
From 1 to 3 years		839
	\$	1,095

**c) Conditional repurchase obligations** – In connection with the sale of new aircraft, the Corporation enters into conditional repurchase obligations with certain customers. Under these obligations, the Corporation agrees to repurchase the initial aircraft at predetermined prices, during predetermined periods or at predetermined dates, conditional upon mutually acceptable agreement for the sale of a new aircraft. At the time the Corporation enters into an agreement for the sale of a subsequent aircraft and the customer exercises its right to partially pay for the subsequent aircraft by trading in the initial aircraft to the Corporation, a conditional repurchase obligation is accounted for as a trade-in commitment as described above.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows as at January 31, 2009:

Less than 1 year	\$	469
From 1 to 3 years		53
Thereafter		176
	\$	698

**d) 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 \$813 million as at January 31, 2009 (\$909 million as at January 31, 2008). 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.

**e) Financing commitments** – The Corporation is committed to provide financing, in relation to the future sale of aircraft scheduled for delivery through fiscal year 2013. The Corporation's total financing commitment amounted to \$0.8 billion as at January 31, 2009 (\$1.8 billion as at January 31, 2008). 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.

### Other guarantees

**f) Credit guarantees and RVGs** – In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to \$47 million as at January 31, 2009 (\$46 million as at January 31, 2008). This guarantee matures in 2025. In addition, the Corporation has provided RVGs at the expiry date of certain financing and other agreements, amounting to \$103 million as at January 31, 2009 (\$140 million as at January 31, 2008), in BT. These guarantees are mainly exercisable in 2013.

**g) Repurchase obligations** – In BT, 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 \$134 million as at January 31, 2009 (\$185 million as at January 31, 2008), relates to two agreements whereby the Corporation may be required to repurchase the equipment, beginning in fiscal year 2010, upon customer default on payments to the financing providers. In addition, on two separate dates, beginning in fiscal year 2015, 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.

**h) Performance guarantees** – In certain projects carried out through consortia or other partnership vehicles in BT, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for a default by the other 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 net exposure to projects for which the exposure of the Corporation is capped, amounted to \$39 million as at January 31, 2009 (\$51 million as at January 31, 2008), assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's net exposure would amount to \$21 million as at January 31, 2009 (\$61 million as at January 31, 2008), assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

**i) 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.

## 26 COMMITMENTS AND CONTINGENCIES (cont'd)

### Operating leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. In addition, the Corporation concluded third-party sale and leaseback transactions relating to pre-owned aircraft and other equipment. The related minimum lease payments for the next five fiscal years and thereafter are as follows:

	Buildings and equipment	Aircraft	RVGs	Total
2010	\$ 75	\$ 13	\$ -	\$ 88
2011	69	7	12	88
2012	55	2	-	57
2013	40	-	-	40
2014	46	-	-	46
Thereafter	221	-	45	266
	\$ 506	\$ 22	\$ 57	\$ 585

Total minimum lease payments include \$21 million and \$18 million for the sale and leaseback of pre-owned aircraft and equipment, respectively. Rent expense was \$116 million for fiscal year 2009 (\$125 million for fiscal year 2008).

### Other commitments

The Corporation has commitments under agreements to outsource a significant portion of its information technology function, as well as the logistics for the centrally located spare parts warehouses in BA. The related minimum payments for the next five fiscal years and thereafter are as follows:

2010	\$ 198
2011	180
2012	160
2013	154
2014	150
Thereafter	218
	\$ 1,060

The Corporation receives government financial support from various levels of government related to the development of aircraft. Certain of these financial support programs require the Corporation to pay amounts to governments at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. The estimated remaining undiscounted maximum amount repayable under these programs, mostly based on future deliveries of aircraft, amounted to \$424 million as at January 31, 2009 (\$392 million as at January 31, 2008).

### Litigations

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. District Court for the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others alleging 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 on behalf of a putative class 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. On August 1, 2006, the district court denied class certification and thereafter Teamsters sought and received permission to file an interlocutory appeal of that order to the United States Court of Appeals for the Second Circuit. On October 14, 2008, the Second Circuit affirmed the district court's decision denying class certification. On October 28, 2008, Teamsters filed a petition to the Second Circuit for Rehearing En Banc and Reconsideration of the Second Circuit opinion. On December 8, 2008, the Second Circuit entered an order denying Teamsters' petition for Rehearing En Banc and Reconsideration. The parties have, in February 2009, entered into a Settlement Agreement at no cost to Bombardier and consequently, a Stipulation and Order of Dismissal with Prejudice was filed with the District Court. Resolution of this litigation will be final upon the District Court's order.

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 January 31, 2009, 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.

# 27

## VARIABLE INTEREST ENTITIES

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

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
<b>BA</b>				
Financing structures related to the sale of regional aircraft	\$ 6,369	\$ 3,555	\$ 6,970	\$ 4,083
<b>BT</b>				
Partnership arrangements	1,094	1,015	1,468	1,350
Sale support guarantee	352	337	579	587
Cash collateral accounts	59	59	82	82
	7,874	4,966	9,099	6,102
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	9	-	16	7
Cash collateral accounts	59	59	82	82
	68	59	98	89
Assets and liabilities of non-consolidated VIEs	\$ 7,806	\$ 4,907	\$ 9,001	\$ 6,013

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. The consolidation of debt resulting from the application of AcG-15 is generally excluded from the computation of the Corporation's financial covenant ratios.

### BA

**Financing structures related to the sale of regional aircraft** – The Corporation has provided credit and/or RVGs to certain SPEs created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies, and ii) to purchase financial assets related to the sale of regional aircraft.

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

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only one of them, which was consolidated. For all other SPEs, consolidation is not appropriate under AcG-15. The Corporation's maximum potential exposure relating to the non-consolidated SPEs was \$2.2 billion, of which \$584 million of provisions and liabilities were available to cover the Corporation's exposure as at January 31, 2009 (\$2.2 billion and \$507 million respectively as at January 31, 2008). The Corporation's maximum exposure under these guarantees is presented in Note 26 – Commitments and contingencies.

### BT

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

The Corporation's involvement with these entities results mainly from investments in their equity and/or in subordinated loans and through manufacturing, selling and long-term service contracts. The Corporation concluded that some of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement.

**Sale support guarantee** – In August 1998, the Corporation provided RVGs on diesel-electric multiple unit trains sold to Lombard Leasing Contracts Limited ("Lombard"). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its RVGs for an amount of \$103 million as at January 31, 2009 (\$140 million as at January 31, 2008). The Corporation's maximum exposure under these guarantees is presented in Note 26 – Commitments and contingencies.

## 27 VARIABLE INTEREST ENTITIES (cont'd)

**Cash collateral accounts** – In connection with the sale of certain rail equipment by Adtranz prior to its acquisition by the Corporation in May 2001, the purchasers have been provided with the right, under certain conditions, to sell back the equipment to the Corporation at predetermined prices on two separate dates, beginning in fiscal year 2015. In addition, the Corporation may be required to repurchase the equipment, beginning in fiscal year 2010, upon customer default on payments to the financing providers.

As a result of these commitments, cash was deposited in a cash collateral account by the lessee of the equipment. This cash, together with accumulated interest, is expected to entirely cover the Corporation's exposure. The Corporation concluded that these SPEs are VIEs and the Corporation is their primary beneficiary; accordingly, these SPEs were consolidated. Their assets, consisting of restricted cash, are presented in other assets, and their liabilities, consisting of provisions in connection with the Corporation's repurchase obligations, are included in the provision and liabilities disclosed in Note 26 – Commitments and contingencies.

## 28 CAPITAL MANAGEMENT

The Corporation's capital management strategy is designed to maintain strong liquidity and to optimize its capital structure in order to reduce costs and improve its ability to seize strategic opportunities.

The capital structure provides the Corporation with the ability to meet its liquidity needs as well as support its longer-term strategic investments. The Corporation analyzes its capital structure using global leverage metrics, which are based on a broad economic view of the Corporation. The Corporation's adjusted total capitalization consists of adjusted debt and adjusted shareholders' equity (see definitions in table hereafter).

In the near term, the Corporation will closely monitor the capital structure in order to limit the Corporation needs for external financing and to ensure the liquidity objectives are met.

Upon return to a more normalized credit environment and economic conditions, the Corporation's primary objective in managing capital will continue to focus on reducing adjusted debt in order to improve global leverage metrics by:

- continuing to deleverage the balance sheet with strategic long-term debt repayments, in line with active management of consolidated liquidity, weighted-average cost of capital and term structure; and
- proactively managing opportunities to improve pension deficit, including an assessment for discretionary pension contributions to further enhance capital structure and the security of benefits.

**Global leverage metrics** – The following global leverage metrics do not represent the calculations required for bank covenants. Details of the methods for calculating global leverage metrics is provided in the Non-GAAP financial measures section of the MD&A for the fiscal years ended January 31, 2009 and 2008. The only change in the method for calculating the global leverage metrics from fiscal year 2008 is that the amount in AOCI relating to cash flow hedges has been excluded from the adjusted total capitalization, effective the first quarter of fiscal year 2009. The January 31, 2008 figures have been restated accordingly.

Global leverage metrics	Target	January 31 2009	January 31 2008
Adjusted EBIT <sup>(1)</sup>		\$ 1,517	\$ 1,013
Adjusted net interest <sup>(2)</sup>		\$ 244	\$ 412
<b>Adjusted EBIT to adjusted net interest ratio</b>	Greater than 5.0	<b>6.2</b>	2.5
Adjusted debt <sup>(3)</sup>		\$ 5,841 <sup>(4)</sup>	\$ 6,091
Adjusted EBITDA <sup>(5)</sup>		\$ 2,111	\$ 1,583
<b>Adjusted debt to adjusted EBITDA ratio</b>	Lower than 2.5	<b>2.8</b>	3.8
Adjusted debt <sup>(3)</sup>		\$ 5,841 <sup>(3)</sup>	\$ 6,091
Adjusted total capitalization <sup>(6)</sup>		\$ 8,840	\$ 9,098
<b>Adjusted debt to adjusted total capitalization ratio</b>	Lower than 55%	<b>66%</b>	67%

(1) Represents earnings (losses) before financing income, financing expense and income taxes before special item, plus adjustment for pension deficit and operating leases.

(2) Represents financing income and financing expense, plus adjustment for pension deficit and operating leases.

(3) Represents long-term debt (including the value of the related derivative hedging financial instruments), the total pension deficit (including the off-balance sheet portion) and the net present value of operating lease obligations.

(4) Computed using the total pension deficit as at December 31, 2008.

(5) Represents earnings (losses) before financing income, financing expense, income taxes, depreciation and amortization before special item, plus amortization adjustment for operating leases and adjustment for pension deficit and operating leases.

(6) Consists of adjusted shareholders' equity (represents all components of shareholder's equity less the amount in AOCI relating to cash flow hedges) and adjusted debt.

## 28 CAPITAL MANAGEMENT (cont'd)

In order to adjust its capital structure, the Corporation may issue or reduce long-term debt, make discretionary contributions to pension funds, repurchase or issue share capital, or vary the amount of dividends paid to shareholders.

**Bank covenants** – The Corporation is subject to various financial covenants under its BA and BT facilities, which must be met on a quarterly basis. The BA financial covenants require a minimum EBITDA to fixed charges ratio, as well as maximum debt to capital and debt to EBITDA ratios, all calculated based on consolidated data. The BT financial covenants require minimum equity and liquidity levels, as well as a maximum debt to EBITDA ratio, all calculated based on BT standalone data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global leverage metrics or to the specific terms used in the MD&A.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met. In addition, the Corporation must maintain €446 million (\$571 million) of invested collateral under the BT facility and \$202 million under the BA facility. These conditions were all met as at January 31, 2009.

## 29 SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT. Each reportable segment offers different products and services and requires different technology and marketing strategies.

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

The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies. 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, invested collateral and deferred income taxes, and are net of accounts payable and accrued liabilities (excluding interest and income taxes payable), advances and progress billings in excess of related long-term contract costs, advances on aerospace programs, fractional ownership deferred revenues, accrued benefit liabilities and derivative financial instruments.

The tables containing the detailed segmented data are shown hereafter.

## 30 RECLASSIFICATIONS

Certain comparative figures have been reclassified to conform to the presentation adopted in the current fiscal year, including the changes discussed in Note 1 – Basis of Presentation, related to the reclassification of aerospace programs' customer advances from inventories to advances on aerospace programs, and in the reclassification of G&A overhead costs from cost of sales to SG&A expenses. In addition, the Corporation has reclassified intangible assets from property, plant and equipment, other assets and inventories to a separate line item on the balance sheet.

## SEGMENTED INFORMATION

Industry segments	Bombardier Inc. consolidated		BA		BT	
	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>
Revenues						
Manufacturing	\$ 14,779	\$ 12,508	\$ 8,116	\$ 7,614	\$ 6,663	\$ 4,894
Services	3,117	3,016	1,588	1,542	1,529	1,474
Other	1,825	1,982	261	557	1,564	1,425
	<b>19,721</b>	<b>17,506</b>	<b>9,965</b>	<b>9,713</b>	<b>9,756</b>	<b>7,793</b>
Cost of sales	16,049	14,607	7,876	8,099	8,173	6,508
Selling, general and administrative	1,558	1,408	715	669	843	739
Research and development	171	139	51	37	120	102
Other income	(23)	(62)	(4)	(58)	(19)	(4)
Amortization	555	512	431	403	124	109
Special item	-	162	-	-	-	162
	<b>18,310</b>	<b>16,766</b>	<b>9,069</b>	<b>9,150</b>	<b>9,241</b>	<b>7,616</b>
<b>Income before financing income and expense and income taxes</b>	<b>\$ 1,411</b>	<b>\$ 740</b>	<b>\$ 896</b>	<b>\$ 563</b>	<b>\$ 515</b>	<b>\$ 177</b>
<b>Additions to property, plant and equipment and intangible assets</b>	<b>\$ 621</b>	<b>\$ 472</b>	<b>\$ 430</b>	<b>\$ 315</b>	<b>\$ 191</b>	<b>\$ 157</b>
<b>Net segmented assets</b>	<b>\$ 1,164</b>	<b>\$ 1,869</b>	<b>\$ 1,287</b>	<b>\$ 1,838</b>	<b>\$ (123)</b>	<b>\$ 31</b>
Liabilities allocated to segments:						
Accounts payable and accrued liabilities <sup>(2)</sup>	6,857	6,729				
Advances and progress billings in excess of related long-term contract costs	2,072	2,791				
Advances on aerospace programs	2,991	2,926				
Fractional ownership deferred revenues	573	631				
Accrued benefit liabilities	992	1,066				
Derivative financial instruments	1,194	276				
Assets not allocated to segments:						
Cash and cash equivalents	3,470	3,602				
Invested collateral	777	1,295				
Deferred income taxes	1,216	935				
<b>Total consolidated assets</b>	<b>\$ 21,306</b>	<b>\$ 22,120</b>				

(1) Refer to Note 1 for impact of new accounting policies.

(2) Excluding interest and income taxes payable amounting to \$61 million and \$70 million respectively as at January 31, 2009 (\$77 million and \$113 million as at January 31, 2008), which were not allocated to segments.



## SEGMENTED INFORMATION

Geographic information	Revenues <sup>(1)</sup>		Property, plant and equipment, intangible assets and goodwill <sup>(2)</sup>	
	2009	2008	2009 <sup>(3)</sup>	2008 <sup>(3)</sup>
United States	\$ 5,451	\$ 5,560	\$ 413	\$ 402
United Kingdom	2,264	1,950	658	846
Germany	1,429	1,235	1,351	1,578
France	1,421	1,183	44	45
Canada	807	668	1,477	1,610
Switzerland	774	532	301	314
Spain	567	466	8	9
Netherlands	540	145	-	-
China	517	342	34	55
Italy	497	507	133	154
Austria	435	400	11	17
Sweden	416	290	374	517
Other – Europe	1,712	1,180	113	135
Other – Asia	1,306	1,055	22	4
Other – Americas	665	1,142	22	21
Other – Africa	518	530	9	-
Other – Oceania	402	321	7	9
	\$ 19,721	\$ 17,506	\$ 4,977	\$ 5,716

(1) Revenues are attributed to countries based on the location of the customer.

(2) Property, plant and equipment and intangible assets are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.

(3) Refer to Note 1 for impact of new accounting policies.



# MAIN BUSINESS LOCATIONS

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### Learjet Inc.

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### El Marques Site

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## BOMBARDIER TRANSPORTATION

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### Systems

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Fax: +46 8 681 5100

# BOARD OF DIRECTORS, COMMITTEES OF THE BOARD AND CORPORATE MANAGEMENT

## BOARD OF DIRECTORS

**Laurent Beaudoin, C.C., FCA**  
Chairman of the Board of Directors  
Bombardier Inc.

**Pierre Beaudoin**  
President and  
Chief Executive Officer  
Bombardier Inc.

**André Bérard**  
Corporate Director  
**Lead Director**

**J.R. André Bombardier**  
Vice Chairman of the  
Board of Directors  
Bombardier Inc.

**Janine Bombardier**  
President and Governor  
J. Armand Bombardier  
Foundation

**L. Denis Desautels**  
Corporate Director

**Thierry Desmarest**  
Chairman of the  
Board of Directors  
Total

**Jean-Louis Fontaine**  
Vice Chairman of the  
Board of Directors  
Bombardier Inc.

**Daniel Johnson**  
Counsel  
McCarthy Tétrault LLP

**Jean C. Monty**  
Corporate Director

**Carlos E. Represas**  
Chairman of the Board  
Nestlé Group México

**Jean-Pierre Rosso**  
Chairman  
World Economic Forum USA Inc.

**Heinrich Weiss**  
Chairman and  
Chief Executive Officer  
SMS GmbH

## COMMITTEES OF THE BOARD

**Audit Committee**  
*Chair:* L. Denis Desautels  
*Members:* André Bérard,  
Daniel Johnson, Jean-Pierre Rosso

**Human Resources and  
Compensation Committee**  
*Chair:* Jean C. Monty  
*Members:* André Bérard,  
Carlos E. Represas, Heinrich Weiss

**Corporate Governance  
and Nominating Committee**  
*Chair:* Jean-Pierre Rosso  
*Members:* Jean C. Monty,  
Heinrich Weiss

**Finance and Risk  
Management Committee**  
*Chair:* André Bérard  
*Members:* L. Denis Desautels,  
Daniel Johnson, Carlos E. Represas

## CORPORATE MANAGEMENT

**Laurent Beaudoin, C.C., FCA**  
Chairman of the Board of Directors  
Bombardier Inc.

**Pierre Beaudoin**  
President and Chief Executive Officer  
Bombardier Inc.

**Guy C. Hachey**  
President and Chief Operating Officer  
Bombardier Aerospace

**André Navarri**  
President and Chief Operating Officer  
Bombardier Transportation

**J.R. André Bombardier**  
Vice Chairman of the  
Board of Directors

**Jean-Louis Fontaine**  
Vice Chairman of the  
Board of Directors

**Pierre Alary**  
Senior Vice President and  
Chief Financial Officer

**Richard C. Bradeen**  
Senior Vice President  
Strategy and Corporate Audit  
Services and Risk Assessment

**Daniel Desjardins**  
Senior Vice President  
General Counsel

**John Paul Macdonald**  
Senior Vice President  
Human Resources  
and Public Affairs

**Robert Proulx**  
Corporate Chief  
Information Officer

**Roger Carle**  
Corporate Secretary

# INVESTOR INFORMATION

## STOCK EXCHANGE LISTINGS

Common shares, Class A and Class B	Toronto (Canada)
Preferred shares, Series 2, Series 3 and Series 4	Toronto (Canada)
Stock listing ticker	BBD (Toronto)

## SHARE CAPITAL

Authorized, issued and outstanding as at January 31, 2009

	Authorized	Issued and outstanding
Common shares, Class A	1,892,000,000	316,582,537
Common shares, Class B	1,892,000,000	1,437,520,360 <sup>(1)</sup>
Preferred shares, Series 2	12,000,000	9,464,920
Preferred shares, Series 3	12,000,000	2,535,080
Preferred shares, Series 4	9,400,000	9,400,000

### Shareholders

If you wish to obtain a copy of this annual report, or other corporate documents, we encourage you to download them from the Corporation's Web site at [www.bombardier.com](http://www.bombardier.com), providing a practical, timely and environmentally friendly access. You can, however, order paper copies from the Corporation's Web site by going to Investor Relations, then Contacts, or make a request at the following address:

#### Bombardier Inc.

##### Public Affairs

800 René-Lévesque Blvd. West  
Montréal, Québec  
Canada H3B 1Y8

Telephone: +1 514-861-9481  
extension 3390

Fax: +1 514-861-2420

### Investors

#### Bombardier Inc.

##### Investor Relations

800 René-Lévesque Blvd. West  
Montréal, Québec  
Canada H3B 1Y8

Telephone: +1 514-861-9481  
extension 3273

Fax: +1 514-861-2420

##### E-mail:

[investors@bombardier.com](mailto:investors@bombardier.com)

### Transfer Agent and Registrar

Shareholders with inquiries concerning their shares should contact:

#### Computershare

##### Investor Services Inc.

100 University Avenue, 9th Floor  
Toronto, Ontario  
Canada M5J 2Y1

1500 University Street, Suite 700

Montréal, Québec  
Canada H3A 3S8

Telephone: +1 514-982-7555 or  
+1 800-564-6253

(toll-free, North America only)

Fax: +1 416-263-9394 or

+1 888-453-0330

(toll-free, North America only)

##### E-mail:

[service@computershare.com](mailto:service@computershare.com)

### Incorporation

The Corporation was incorporated on June 19, 1902, by letters patent and prorogated June 23, 1978, under the Canadian Business Corporations Act.

### Auditors

#### Ernst & Young LLP

800 René-Lévesque Blvd. West  
Montréal, Québec  
Canada H3B 1X9

### Annual Meeting

The annual meeting of shareholders will be held on Wednesday, June 3, 2009, at 9:30 a.m. at the following address:

Centre Mont-Royal  
Auditorium - Level 1  
2200 Mansfield Street  
Montréal, Québec  
Canada H3A 3R8

**Duplication:** Although Bombardier strives to ensure that registered shareholders receive only one copy of corporate documents, duplication is unavoidable if securities are registered under different names and addresses. If this is the case, please call one of the following numbers: +1 514-982-7555 or +1 800-564-6253 (toll-free, North America only) or send an e-mail to [service@computershare.com](mailto:service@computershare.com).

- (1) Including 23,653,759 shares purchased and held in trust for the performance stock unit plan

## COMMON DIVIDENDS PAYMENT DATES

For fiscal year 2010 - Payment subject to approval by the Board of Directors

Class A		Class B	
Record date	Payment date	Record date	Payment date
2009-05-15	2009-05-31	2009-05-15	2009-05-31
2009-07-17	2009-07-31	2009-07-17	2009-07-31
2009-10-16	2009-10-31	2009-10-16	2009-10-31
2010-01-15	2010-01-31	2010-01-15	2010-01-31

## PREFERRED DIVIDENDS PAYMENT DATES

For fiscal year 2010 - Payment subject to approval by the Board of Directors

Series 2 <sup>(2)</sup>			
Record date	Payment date	Record date	Payment date
2009-01-30	2009-02-15	2009-07-31	2009-08-15
2009-02-27	2009-03-15	2009-08-31	2009-09-15
2009-03-31	2009-04-15	2009-09-30	2009-10-15
2009-04-30	2009-05-15	2009-10-30	2009-11-15
2009-05-29	2009-06-15	2009-11-30	2009-12-15
2009-06-30	2009-07-15	2009-12-31	2010-01-15

- (2) Convertible on August 1, 2012, into Series 3 Cumulative Redeemable Preferred Shares (See note on Share Capital in the Consolidated Financial Statements)

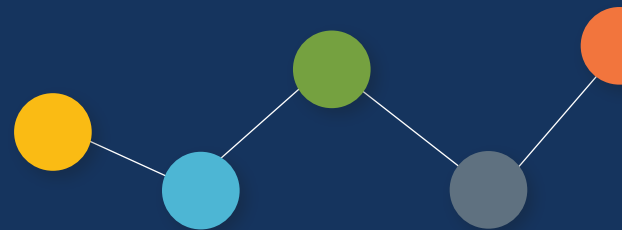
## PREFERRED DIVIDENDS PAYMENT DATES

For fiscal year 2010 - Payment subject to approval by the Board of Directors

Series 3 <sup>(3)</sup>		Series 4	
Record date	Payment date	Record date	Payment date
2009-04-17	2009-04-30	2009-04-17	2009-04-30
2009-07-17	2009-07-31	2009-07-17	2009-07-31
2009-10-16	2009-10-31	2009-10-16	2009-10-31
2010-01-15	2010-01-31	2010-01-15	2010-01-31

- (3) Convertible on August 1, 2012, into Series 2 Cumulative Redeemable Preferred Shares (See note on Share Capital in the Consolidated Financial Statements)

We take pride in our employees' engagement. We sincerely thank all of our employees who agreed to participate in this annual report.



*BiLevel, Bombardier, Bombardier 415, Challenger, Challenger 300, Challenger 604, Challenger 605, Challenger 800, CL-215, CONTESSA, CRJ, CRJ200, CRJ700, CRJ705, CRJ900, CRJ1000, CS100, CS300, CSeries, CITYFLO, CX-100, EBI, ECO4, ELECTROSTAR, EnerGplan, FLEXITY, Flexjet, FLEXX, Global, Global 5000, Global Express, Global Vision, INNOVIA, INTERFLO, Learjet, Learjet 40, Learjet 45, Learjet 60, Learjet 85, MITRAC, MOVIA, NextGen, ORBITA, PartsExpress, PRIMOVE, Q200, Q300, Q400, Q-Series, REGINA, Skyjet, Skyjet International, Smart Services, SPACIUM, TALENT, The climate is right for trains, TRAXX, TURBOSTAR, XR, XRS and ZEFIRO are trademarks of Bombardier Inc. or its subsidiaries.*

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