
# FIRST QUARTERLY REPORT

Three-month period ended April 30, 2011

## GLOSSARY

The following table shows the abbreviations used in this report.

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

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

**Materiality for disclosures**

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

**Proposed change of year-end**

We intend to request approval from our Board of Directors in December 2011 to change our financial year-end from January 31 to December 31. This change would align the financial year-ends of BA and BT, simplifying internal processes as all business units would use the same reporting periods. Furthermore, the change would align BA's year-end with most of its competitors, and BA's aircraft delivery reports would be aligned with industry reports. If approved, this change of year-end reporting date would be effective in December 2011, and the fourth quarter ending December 31, 2011 would include two months of BA's results and the annual period ending December 31, 2011 would contain 11 months of BA's results. As BT currently reports using a December 31 year-end, the proposed change would have no impact on BT, the fourth quarter and annual period ending December 31, 2011 still containing three months and 12 months, respectively.

## 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.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry and major rail operators), operational risks (such as risks related to developing new products and services; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; to the environment; dependence on certain customers and suppliers; human resources; fixed-price commitments and production and project execution), financing risks (such as risks related to liquidity and access to capital markets, certain restrictive debt covenants, financing support provided for the benefit of certain customers and reliance on government support) and market risks (such as risks related to foreign currency fluctuations, changing interest rates, decreases in residual value and increases in commodity prices). For more details, see the Risks and uncertainties section in Other in the MD&A of the Corporation's annual report for fiscal year 2011. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this MD&A and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

## FIRST REPORTING UNDER IFRS

This quarterly report represents our first interim reporting under IFRS. This MD&A should be read in conjunction with our interim consolidated financial statements for the three-month period ended April 30, 2011, prepared in accordance with IAS 34, *Interim financial reporting*, and IFRS 1, *First-time adoption of IFRS*, as issued by the IASB. The comparative figures as at January 31, 2011 and for the three-month period ended April 30, 2010 have been restated to comply with IFRS. For details on the most significant adjustments to the statements of financial position, income, comprehensive income and cash flows, see note 18 – Adoption of IFRS to the interim consolidated financial statements, as well as the Bombardier's website at www.bombardier.com and SEDAR at www.sedar.com.

# OVERVIEW

## HIGHLIGHTS

- Revenues of $4.7 billion, an increase of 9% compared to the same period last fiscal year.
- EBIT of $312 million, or 6.7% of revenues, compared to $279 million, or 6.5%, for the same period last fiscal year.
- Net income of $220 million (diluted EPS of $0.12), compared to $195 million (diluted EPS of $0.11) for the same period last fiscal year.
- Free cash flow usage of $409 million, compared to a usage of $217 million for the same period last fiscal year.
- Cash position of $3.9 billion as at April 30, 2011, compared to $4.2 billion as at January 31, 2011.
- Order backlog of $55.1 billion as at April 30, 2011, compared to $52.7 billion as at January 31, 2011.
- Subsequent to the end of the first quarter, we renewed our BT letter of credit facility for a committed amount of €3.4 billion ($4.9 billion). The new facility matures in 2016 and will not require any invested collateral, which will enable us to release the collateral related to the previous BT facility, amounting to €404 million ($577 million).

# CONSOLIDATED ANALYSIS OF RESULTS

## Results of operations

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| Revenues | **$ 4,661** | $ 4,264 |
| Cost of sales | **3,925** | 3,573 |
| Margin | **736** | 691 |
| SG&A | **363** | 349 |
| R&D | **64** | 77 |
| Other income | **(3)** | (14) |
| EBIT | **312** | 279 |
| Financing expense | **177** | 164 |
| Financing income | **(141)** | (121) |
| EBT | **276** | 236 |
| Income taxes | **56** | 41 |
| Net income | **$ 220** | $ 195 |
| Attributable to: | | |
| Equity holders of Bombardier Inc. | **$ 220** | $ 194 |
| NCI | **$ -** | $ 1 |
| Basic and diluted EPS (in dollars) | **$ 0.12** | $ 0.11 |

## Supplemental information

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| EBIT | **$ 312** | $ 279 |
| Add back: Amortization | **87** | 92 |
| EBITDA | **$ 399** | $ 371 |

## Revenues and EBIT margin

| | Three-month periods ended April 30 | | |
|---|---|---|---|
| | **2011** | 2010 | Increase (decrease) |
| **Revenues** | | | |
| BA | **$ 2,188** | $ 1,957 | 12% |
| BT | **$ 2,473** | $ 2,307 | 7% |
| Consolidated | **$ 4,661** | $ 4,264 | 9% |
| **EBIT margin** | | | Percentage points |
| BA | **6.4%** | 6.8% | (0.4) |
| BT | **6.9%** | 6.3% | 0.6 |
| Consolidated | **6.7%** | 6.5% | 0.2 |

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

**Net financing expense**
Net financing expense amounted to $36 million for the three-month period ended April 30, 2011, compared to $43 million for the same period last fiscal year.

The $7-million decrease is mainly due to:

- lower net financing expense related to pension plans (11 million); and
- higher interest income on cash and cash equivalents ($6 million).

Partially offset by:

- a gain on repurchase of long-term debt in March 2010 ($5 million).

**Income taxes**
The effective income tax rate was 20.3% for the three-month period ended April 30, 2011, compared to the statutory income tax rate of 28.4% (17.4% and 30.0% respectively for the same period last fiscal year). The lower effective tax rates are mainly due to the positive impact of the recognition of income tax benefits related to operating losses and temporary differences, partially offset by permanent differences.

# LIQUIDITY AND CAPITAL RESOURCES

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

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| Segmented free cash flow | | |
| BA | **$ (168)** | $ (205) |
| BT | **(168)** | (34) |
| Segmented free cash flow | **(336)** | (239) |
| Net income taxes and net interest paid (received)[1] | **(73)** | 22 |
| Free cash flow | **(409)** | (217) |
| Add back: Net additions to PP&E and intangible assets | **301** | 246 |
| Cash flows from operating activities | **$ (108)** | $ 29 |

[1] Not allocated to segments.

**Variation in cash and cash equivalents**

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| Balance as at beginning of period | **$ 4,195** | $ 3,372 |
| Free cash flow | **(409)** | (217) |
| Effect of exchange rate changes on cash and cash equivalents | **110** | (18) |
| Proceeds from issuance of long-term debt | **63** | 1,476 |
| Purchase of NCI | **(53)** | - |
| Dividends paid on preferred shares | **(5)** | (5) |
| Repayments of long-term debt | **(3)** | (1,053) |
| Repurchase of Class B shares | **-** | (16) |
| Other | **(42)** | (8) |
| Balance as at end of period | **$ 3,856** | $ 3,531 |

**Available short-term capital resources**

| | Cash and cash equivalents | Available credit facility | Available short-term capital resources |
|---|---|---|---|
| **April 30, 2011** | **$ 3,856** | **$ 500** | **$ 4,356** |
| January 31, 2011 | $ 4,195 | $ 500 | $ 4,695 |

Our available short-term capital resources include cash and cash equivalents and the amount available under our revolving credit facility (undrawn since its inception in September 2009). The revolving credit facility is unsecured and is available for cash drawing for the general needs of the Corporation. Under this facility, we must maintain the same financial covenants as for our BA letter of credit facility.

We consider that our available short-term capital resources of $4.4 billion as at April 30, 2011 combined with our expected cash flows from operating activities will enable the development of new products to enhance our competitiveness and support our growth, will allow the payment of dividends, if and when declared by the Board of Directors, and will enable us to meet all other expected financial requirements in the near term.

## Other off-balance sheet facilities

In the normal course of our business, BT has set up factoring facilities in Europe, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €373 million ($554 million) were outstanding under such facilities as at April 30, 2011 (€248 million ($340 million) as at January 31, 2011). Trade receivables of €154 million ($216 million) were sold to these facilities during the three-month period ended April 30, 2011 (€120 million ($163 million) during the three-month period ended April 30, 2010).

# FINANCIAL POSITION

| | April 30 2011 | January 31 2011 | Increase (decrease) Foreign exchange impact | Increase (decrease) Variance excluding foreign exchange | Explanation of major variances other than foreign exchange impact | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | **$ 3,856** | $ 4,195 | $ 110 | $ (449) | | See the Variation in cash and cash equivalents table for details |
| Trade and other receivables | **1,501** | 1,377 | 62 | 62 | $ 61 | Higher level in BA |
| Gross inventories | **12,424** | 11,355 | 406 | 663 | $ 573 | Mainly due to the ramp up in several BT contracts |
| | | | | | 95 | Higher level in BA |
| Advances and progress billings related to long-term contracts | **(7,168)** | (6,469) | 416 | 283 | | Mainly due to higher advances and milestone payments received on new orders and existing contracts |
| Advances on aerospace programs | **(4,267)** | (4,182) | - | 85 | | Mainly due to higher order intake than deliveries for large business aircraft |
| Invested collateral | **723** | 676 | 47 | - | | No variance |
| PP&E | **1,938** | 1,878 | 65 | (5) | $ 58 | Additions |
| | | | | | (46) | Amortization |
| Aerospace program tooling | **2,321** | 2,088 | - | 233 | $ 258 | Additions |
| | | | | | (25) | Amortization |
| Goodwill | **2,524** | 2,358 | 166 | - | | No variance |
| Deferred income tax asset | **1,278** | 1,294 | 45 | (61) | | Mainly resulting from net gain on cash flow hedge derivatives recorded in OCI |
| Other financial assets | **1,983** | 1,809 | 24 | 150 | $ 141 | Increase in derivatives |
| Other assets | **1,111** | 1,110 | 24 | (23) | | No significant variance |
| Trade and other payables | **(3,350)** | (3,246) | 109 | (5) | $ (81) | High level of BT activities in the fourth quarter of fiscal year 2011 |
| | | | | | 28 | Higher level in BA |
| Provisions | **(1,806)** | (1,812) | 71 | (77) | | Mainly resulting from the settlement of credit and residual value guarantees |
| Non current portion of long-term debt | **(4,892)** | (4,645) | 192 | 55 | $ 63 | Issuance of long-term debt |
| Retirement benefits liabilities | **(2,159)** | (1,975) | 58 | 126 | | See the Variation in net retirement benefit liability table for details |
| Other financial liabilities | **(1,285)** | (1,392) | 35 | (142) | $ 125 | Decrease in derivatives |
| Other liabilities | **(2,981)** | (2,898) | 94 | (11) | | No significant variance |
| Equity | **(1,751)** | (1,521) | n/a | 230 | $ 220 | Net income |
| | | | | | (52) | Dividends declared |
| | | | | | 130 | OCI |
| | | | | | (81) | Purchase of the remaining NCI of a BT subsidiary in Poland |

n/a: Not applicable.

# CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation. Upon conversion to IFRS, we adjusted our global metrics to reflect the new IFRS figures, including the fact that the net retirement benefit deficit is now fully recognized on the statement of financial position. We also redefined adjusted net interest to reflect certain new accretions under IFRS, and the capitalization metric is no longer monitored.

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

Our objective with regard to the global metrics is to manage and monitor them such that we can achieve an investment-grade profile, which among other considerations typically requires meeting the following ratios:

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

**Global metrics**[(1)]

| | **April 30 2011** | January 31 2011 | **Explanation of major variances** |
|---|---|---|---|
| **Interest coverage** | | | Improved due to increased profitability in both manufacturing segments. |
| Adjusted EBIT | **$ 1,260** | $ 1,226 | |
| Adjusted net interest | **$ 255** | $ 259 | |
| Adjusted EBIT to adjusted net interest ratio | **4.9** | 4.7 | |
| **Financial leverage** | | | Deteriorated due to an increase in adjusted debt, partially offset by improved profitability in both manufacturing segments. |
| Adjusted debt | **$ 7,666** | $ 7,276 | |
| Adjusted EBITDA | **$ 1,679** | $ 1,647 | |
| Adjusted debt to adjusted EBITDA ratio | **4.6** | 4.4 | |

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

The increase in adjusted debt is mainly due to the impact of negative variations in foreign exchange rates on long-term debt ($192 million) and on the net retirement benefit liability ($114 million), as well as to the negative impact of variations in discount rates on the net retirement benefit liability ($149 million). Our net retirement benefit liability was as follows as at:

**Variation in net retirement benefit liability**

| | | |
|---|---|---|
| Balance as at January 31, 2011 | $ | 1,946 |
| Service costs | | 55 |
| Employer contributions | | (58) |
| Losses due to changes in discount rates[(1)] | | 149 |
| Excess of actual return over expected return on pension plan assets[(1)] | | (48) |
| Effect of changes in foreign exchange rates[(1)] | | 114 |
| Other net actuarial gains[(1)] | | (49) |
| **Balance as at April 30, 2011** | **$** | **2,109** |

(1) Recognized in OCI.

# NON-GAAP FINANCIAL MEASURES

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

**Non-GAAP financial measures**

| | |
|---|---|
| EBITDA | Earnings before financing expense, financing income, income taxes and amortization. |
| Free cash flow | Cash flows from operating activities less net additions to PP&E and intangible assets. |
| Adjusted debt | Long-term debt plus net retirement benefit liability, sale and leaseback obligations and the net present value of operating lease obligations. |
| Adjusted EBIT | EBIT plus interest adjustment for operating leases. |
| Adjusted EBITDA | EBITDA plus amortization and interest adjustments for operating leases. |
| Adjusted net interest | Interest paid less interest received, as per the supplemental information provided in the consolidated statements of cash flows (adjusted, if needed, for the settlement of derivatives before their contractual maturities), plus accretion expense on sale and leaseback obligations, expected return on pension plan assets, accretion expense on retirement benefit obligations and interest adjustment for operating leases. |

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

A reconciliation to the most comparable IFRS financial measures is provided in the table hereafter except for the following reconciliations:

- EBITDA to EBIT – see the respective Results of operations table in BA and BT; and
- free cash flow to cash flows from operating activities – see the Reconciliation of segmented free cash flow to cash flows from operating activities table before.

**Reconciliation of adjusted debt to long-term debt**

| | **April 30, 2011** | January 31, 2011 |
|---|---|---|
| Long-term debt | **$ 4,920** | $ 4,662 |
| Net retirement benefit liability | **2,109** | 1,946 |
| Sale and leaseback obligations | **161** | 216 |
| Operating lease obligations[1] | **476** | 452 |
| Adjusted debt | **$ 7,666** | $ 7,276 |

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

**Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT**

| | **Four-quarter trailing periods ended** | |
|---|---|---|
| | **April 30, 2011** | January 31, 2011 |
| EBIT | **$ 1,238** | $ 1,205 |
| Interest adjustment for operating leases[1] | **22** | 21 |
| Adjusted EBIT | **1,260** | 1,226 |
| Amortization adjustment for operating leases[2] | **53** | 50 |
| Amortization | **366** | 371 |
| Adjusted EBITDA | **$ 1,679** | $ 1,647 |

[1] Represents the interest cost of a debt equivalent to the amount included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related twelve months, given our credit rating for the corresponding periods.
[2] Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

**Reconciliation of adjusted net interest to net interest paid**

| | Four-quarter trailing periods ended | |
|---|---|---|
| | **April 30, 2011** | January 31, 2011 |
| Interest paid | **$ 226** | $ 224 |
| Interest received | **(98)** | (169) |
| Adjustment for the settlement of derivatives before their contractual maturity date | **65** | 133 |
| | **193** | 188 |
| Accretion expense on sale and leaseback obligations | **7** | 6 |
| Expected return on pension plan assets | **(384)** | (373) |
| Accretion expense on retirement benefit obligations | **417** | 417 |
| Interest adjustment for operating leases[1] | **22** | 21 |
| Adjusted net interest | **$ 255** | $ 259 |

[1] Represents the interest cost on a debt equivalent to the amount included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related twelve months, given our credit rating for the corresponding periods.

# AEROSPACE

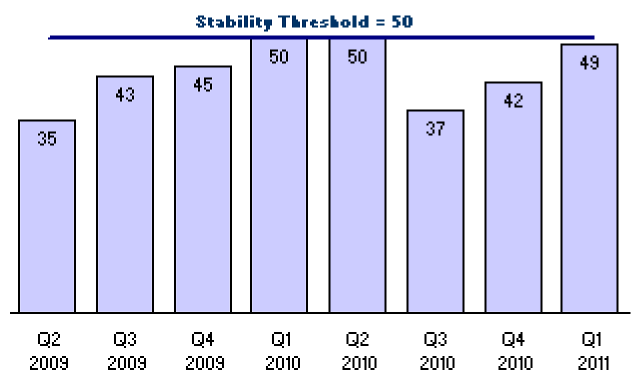
## HIGHLIGHTS

- Revenues of $2.2 billion, compared to $2.0 billion for the same period last fiscal year.
- EBIT of $141 million, or 6.4% of revenues, compared to $133 million, or 6.8%, for the same period last fiscal year.
- Free cash flow usage of $168 million, compared to a usage of $205 million for the same period last fiscal year.
- Net additions to PP&E and intangible assets of $290 million, compared to $232 million for the same period last fiscal year.
- 61 aircraft deliveries, compared to 56 for the same period last fiscal year.
- 86 net orders, compared to 61 for the same period last fiscal year.
- Order backlog of $21.1 billion as at April 30, 2011, compared to $19.2 billion as at January 31, 2011.
- In March 2011, NetJets Inc. placed a firm order for 50 aircraft of the *Global* family, with options for an additional 70 *Global* aircraft. Based on the list price, the value of the firm order is $2.8 billion, and could increase to $6.7 billion if all options are exercised.

## BUSINESS ENVIRONMENT

Business jet indicators are mixed but are generally showing a positive trend. The UBS Business Jet Market Index, which measures the industry confidence, has increased over the last two quarters and stood just under the threshold of market stability for the first quarter of calendar year 2011. The number of pre-owned aircraft available for sale as a percentage of the total in-service fleet decreased from a peak of 17.8% in June 2009, to 14.4% in March 2011, with pre-owned aircraft inventory levels decreasing in all categories but still remaining high in the light category. Business jet utilization in the U.S. had increased over the previous six quarters, but has declined in the first quarter of calendar year 2011 compared to the fourth quarter of calendar year 2010. Overall, based on delivery data submitted to the General Aviation Manufacturers Association ("GAMA"), in the business aircraft market categories in which we compete, there has been a 4.4% decrease in business aircraft shipments and a 13.4% decrease in total billings for the three-month period ended March 31, 2011 compared to the same period last year. Although we see some encouraging signs in the U.S. economy, the European economy still has challenges.

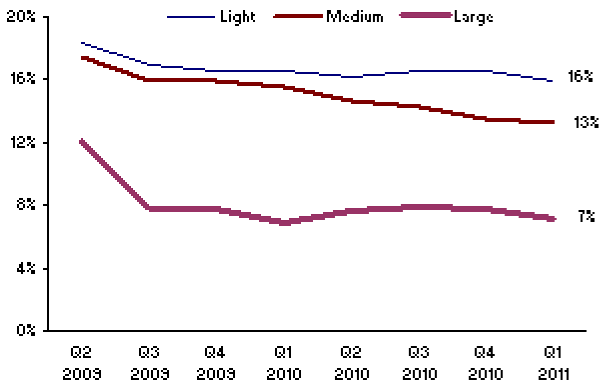
**UBS BUSINESS JET MARKET INDEX** [(1)]
(calendar quarters) (average, on a 100-point scale)




Source: UBS

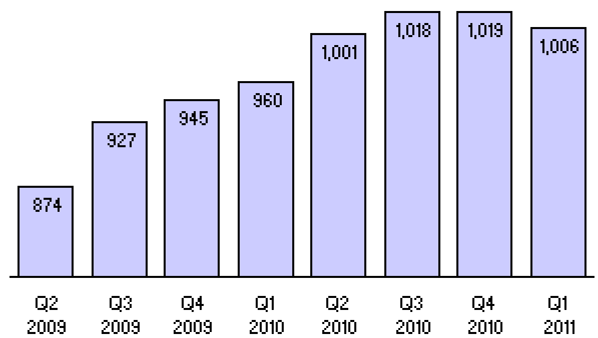
(1) The UBS Business Jet Market Index is a measure of market confidence from industry professionals, gathered through bi-monthly surveys of brokers, dealers, manufacturers, fractional providers, financiers and others.

**PRE-OWNED BUSINESS JET INVENTORY**
(in percentage of business jet fleet, excluding very light jets)




Source: JETNET and Ascend Online

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

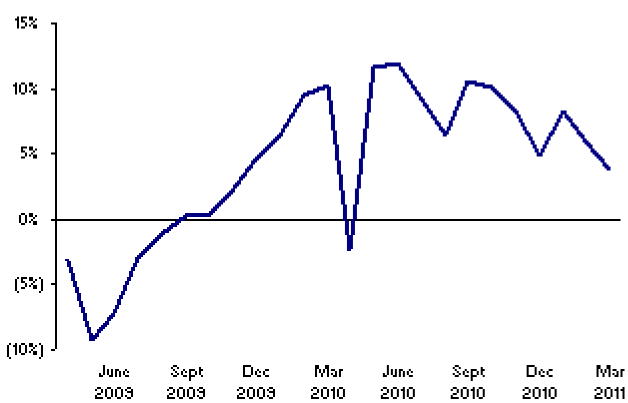



Source: Federal Aviation Administration (FAA) website

On May 18, 2011, we communicated our Bombardier Business Aircraft Market Forecast for the 20-year period from calendar years 2011 to 2030. This forecast confirms the strong growth for business aviation presented in our Annual Report for fiscal year 2011. In the next 20 years, business jet manufacturers are expected to deliver 24,000 business jets in the market categories in which we compete, which represents total revenues of $626 billion for the industry. While industry deliveries are not expected to improve significantly in calendar year 2011, key indicators are showing an upward trend, and it is expected that business aircraft deliveries will continue to grow in 2012.

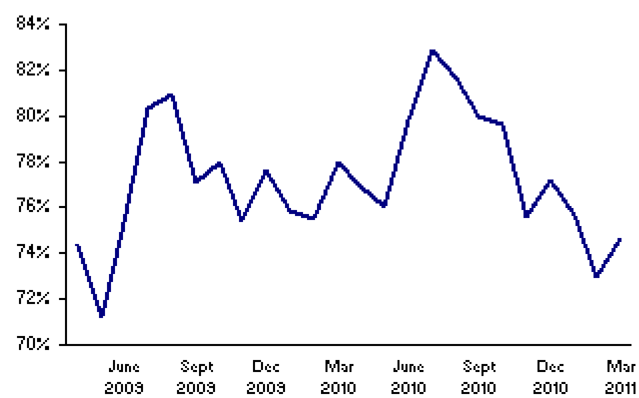
For the commercial aircraft market, the March 2011 Air Transport Market Analysis report issued by the International Air Transport Association ("IATA") indicates that air travel markets shrank for a second consecutive month in March, impacted by the earthquake and tsunami in Japan, the social unrest in the Middle East and North Africa, as well as by high fuel prices. Other regions such as Latin America were less affected by the disruptions, where growth continued to show the strong upward momentum evident in emerging economies. Scheduled international air travel, measured by revenue-passenger kilometres (RPK), were 3.8% higher in March 2011 than in the same month a year ago. The worldwide passenger load factor was 74.6% in March 2011, lower than the 78.0% level experienced in March 2010 and in line with the recent decrease in the air travel market.

**REVENUE–PASSENGER KILOMETERS**
(growth as compared to same month in previous year, in percentage)




Source: IATA

**PASSENGER LOAD FACTOR**
(percentage of available seat kilometres)




Source: IATA

Even with oil prices at $120 a barrel, the IATA reported that most economists are still forecasting robust economic growth in most regions this year, albeit at a slower pace than last year. We believe that an area of concern in the industry continues to be the rising cost and volatility of oil prices, which creates uncertainty in the planning activities of many airlines. However, in the long term, the price of oil is expected to drive airlines to accelerate the retirement of older, less efficient aircraft, increasing the demand for new-technology, more fuel-efficient aircraft. Overall, there has been a recovery for mainline airlines, but the recovery for regional airlines is slower. We continue to closely monitor the indicators that impact the commercial aircraft market. As these indicators continue to improve, we believe that the market will continue to strengthen at a moderate pace.

On May 18, 2011, we communicated our Bombardier Commercial Aircraft Market Forecast for 20- to 149-seat commercial aircraft for the 20-year period from calendar years 2011 to 2030. The forecast predicts 13,100 new aircraft deliveries, an increase of 300 units compared to the forecast presented in our Annual Report for fiscal year 2011. The forecasted delivery demand is valued at $639 billion, including 7,000 new aircraft valued at $423.7 billion in the 100- to 149-seat category.

# ANALYSIS OF RESULTS

**Results of operations**

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| Revenues | | |
| Manufacturing | | |
| Business aircraft | **$ 1,031** | $ 998 |
| Commercial aircraft | **493** | 338 |
| Other | **126** | 134 |
| Total manufacturing revenues | **1,650** | 1,470 |
| Services[1] | **422** | 368 |
| Other[2] | **116** | 119 |
| Total revenues | **2,188** | 1,957 |
| Cost of sales | **1,857** | 1,641 |
| Margin | **331** | 316 |
| SG&A | **160** | 153 |
| R&D | **33** | 44 |
| Other income[3] | **(3)** | (14) |
| **EBIT** | **$ 141** | $ 133 |
| Add back: Amortization[4] | **55** | 60 |
| **EBITDA** | **$ 196** | $ 193 |
| (as a percentage of total revenues) | | |
| Margin | **15.1%** | 16.1% |
| EBIT | **6.4%** | 6.8% |
| EBITDA | **9.0%** | 9.9% |

(1) Includes revenues from parts logistics, aircraft fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.
(2) Includes mainly sales of pre-owned aircraft.
(3) Includes net gain on certain financial instruments measured at fair value and changes in estimates related to certain provisions, excluding the loss (gain) arising from a change in interest rates; severance and other involuntary termination costs (including changes in estimates); and gains on disposal of PP&E.
(4) Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying functions.

**Total aircraft deliveries**

| | Three-month periods ended April 30 | |
|---|---|---|
| (in units) | **2011** | 2010 |
| Business aircraft [1] | **37** | 39 |
| Commercial aircraft | **23** | 16 |
| Amphibious aircraft | **1** | 1 |
| | **61** | 56 |

[1] An aircraft delivery is included in the above table when the equivalent of 100% of the fractional shares of an aircraft model has been sold to external customers through *Flexjet*, or when a whole aircraft has been sold to external customers through the *Flexjet* One program. There were no such deliveries in the three-month periods ended April 30, 2011 and 2010.

**Manufacturing revenues**
The $180-million increase is mainly due to higher deliveries of commercial aircraft and a favourable mix in business aircraft.

**Services revenues**
The $54-million increase is mainly due to:
- higher sales of spare parts, mainly due to higher volume ($26 million); and
- higher aircraft maintenance revenues due to higher activities for business and commercial aircraft ($12 million).

**EBIT margin**
The 0.4 percentage-point decrease is mainly due to:
- lower liquidated damage payments from customers upon cancellation of orders; and
- the mix between business and commercial aircraft deliveries.

Partially offset by:
- lower R&D expenses, mainly due to lower amortization of program tooling as a result of the change from a straight-line amortization method to a method based on units produced;
- higher absorption of SG&A expenses; and
- a favourable mix of business aircraft deliveries.

## FREE CASH FLOW

**Free cash flow**

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| EBIT | **$ 141** | $ 133 |
| Amortization | **55** | 60 |
| EBITDA | **196** | 193 |
| Other non-cash items: | | |
| Gain on disposals of PP&E | **-** | (7) |
| Share-based expense | **4** | 6 |
| Net change in non-cash balances related to operations | **(78)** | (165) |
| Net additions to PP&E and intangible assets | **(290)** | (232) |
| Free cash flow | **$ (168)** | $ (205) |

The $37-million increase is mainly due to:
- a positive period-over-period variation in net change in non-cash balances related to operations ($87 million) (see explanation below).

Partially offset by:
- higher net additions to PP&E and intangible assets ($58 million), due to our significant investments in new products.

**Net change in non-cash balances related to operations**
For the three-month period ended April 30, 2011, the $78-million cash outflow is mainly due to:

- an increase in inventories mainly due to an increase in pre-owned business aircraft; and
- an increase in trade and other receivables.

Partially offset by:

- an increase in advances on aerospace programs, resulting from higher order intake than deliveries for large business aircraft.

For the three-month period ended April 30, 2010, the $165-million cash outflow was mainly due to:

- a decrease in advances on aerospace programs, resulting mainly from higher deliveries than orders received for business aircraft; and
- an increase in inventories, mainly for commercial aircraft due to the delivery profile of these aircraft in fiscal year 2011.

Partially offset by:

- an increase in trade and other payables.

## PRODUCT DEVELOPMENT

**Investment in product development**

| | | Three-month periods ended April 30 | | |
|---|---|---|---|---|
| | | **2011** | | 2010 |
| Program tooling additions(1) | **$** | **258** | $ | 209 |
| R&D expense(2) | | **8** | | 12 |
| | **$** | **266** | $ | 221 |
| As a percentage of manufacturing revenues | | **16.1%** | | 15.0% |

(1) Capitalized in aerospace program tooling.
(2) Excluding amortization of aerospace program tooling of $25 million for the three-month period ended April 30, 2011 ($32 million for the three-month period ended April 30, 2010), as the related costs are already included in program tooling additions.

Our product development capital expenditures essentially relate to the development of the *CSeries* family of aircraft, the *Learjet 85* aircraft, the *Global Vision* program, as well as the *Global 7000* and *Global 8000* aircraft program.

**Commercial aircraft**

***CSeries*** – The program is in the detailed design phase.

The first systems are now being developed and tested at partners and vendors in Canada, the U.S. and Europe prior to delivery to our Complete Integrated Aircraft Systems Test Area (“CIASTA”). The CIASTA is the first site at the Mirabel plant developed for the *CSeries* aircraft program. Installation of system rigs is currently underway, with some parts, including the engine accessory gearbox and flight deck controls, already at the CIASTA.

At the Saint-Laurent components plant, more than 9,000 sq. m. (100,000 sq. ft.) have been upgraded to support production of the program’s major components. The assembly process will include a fully automated moving line using the latest lean manufacturing principles, and the upgrades include new machinery, equipment and tooling. The aft fuselage (in advanced carbon fibre) was successfully completed in the plant.

To reduce the cycle time required to assemble a larger and more complex aircraft, we are introducing advanced processes to ensure that high quality parts are received at the plant on time. Aligned with this strategy, our teams started rolling out the advanced quality logistics planning methodology to suppliers in fiscal year 2011, and the system has now been deployed to 26 tier-one suppliers at 46 manufacturing sites.

**Business aircraft**

***Learjet 85*** – The program is in the product definition release stage, and parts manufacturing is underway at our Querétaro and Belfast sites and with our suppliers. Construction of the Wichita final assembly site is progressing well.

Formal integration testing on aircraft systems for reliability and functionality on the static representation of the cockpit is underway. The Integrated Product Development Teams (IPDTs) have completed all of the Critical Design Reviews (CDRs) and are driving the suppliers to commission and start testing the 44 test rigs worldwide. The Belfast site is responsible for detail design and fabrication of the wing planks and spar structures (main structural member of the wing), and has successfully manufactured the first production wing spars.

The Querétaro facility, in which fabrication of the major composite structures will take place, has started the production of parts. A series of destructive test articles are underway at the facility to validate the manufacturing process for each large composite article.

***Global 7000* and *Global 8000* aircraft** – In May 2011, we announced suppliers for two major structural packages and six systems. We also confirmed that we will design and manufacture the forward fuselage, aft fuselage and empennage internally for these two aircraft.

***Global Vision* Flight Deck** – The program completed its initial certification phase flight test program. Certification activities to demonstrate that the aircraft complies with the original design requirements and all regulatory airworthiness standards are well advanced, with certification from the authorities expected shortly. In May 2011, we announced that the *Global Express XRS Vision* aircraft will be renamed the *Global 6000* aircraft.

**Carrying amount of program tooling**

| | | **April 30, 2011** | | January 31, 2011 |
|---|---|---|---|---|
| **Business aircraft** | | | | |
| *Learjet Series* | **$** | **566** | $ | 486 |
| *Challenger Series* | | **157** | | 165 |
| *Global Series* | | **209** | | 188 |
| **Commercial aircraft** | | | | |
| *CRJ Series* | | **499** | | 503 |
| *CSeries* | | **890** | | 746 |
| | **$** | **2,321** | $ | 2,088 |

## AIRCRAFT DELIVERIES

**Business aircraft deliveries**

| | **Three-month periods ended April 30** | |
|---|---|---|
| (in units) | **2011** | 2010 |
| **Light business jets** | | |
| *Learjet 40/40 XR/Learjet 45/45 XR* | **3** | 6 |
| *Learjet 60 XR* | **3** | 2 |
| **Medium business jets** | | |
| *Challenger 300* | **8** | 7 |
| *Challenger 605* | **7** | 10 |
| *Challenger 800 Series* | **1** | 3 |
| **Large business jets** | | |
| *Global 5000/Global Express XRS* | **15** | 11 |
| | **37** | 39 |

According to the latest GAMA report dated May 10, 2011, we continue to be the business aircraft industry leader in terms of revenues and units delivered in the business aircraft market categories in which we compete for the first quarter of calendar year 2011. Based on delivery data submitted to GAMA for these market categories, our business aircraft market share in units delivered and in revenues remained unchanged at 39% and 40% respectively for the three-month periods ended March 31, 2011 and 2010.

**Commercial aircraft deliveries**

| | Three-month periods ended April 30 | |
|---|---|---|
| (in units) | **2011** | 2010 |
| **Regional jets** | | |
| *CRJ700 NextGen* | **5** | - |
| *CRJ900 NextGen* | **2** | 4 |
| *CRJ1000 NextGen* | **3** | - |
| **Turboprops** | | |
| *Q400/Q400 NextGen* | **13** | 12 |
| | **23** | 16 |

The increase in commercial aircraft deliveries is mainly due to higher deliveries of regional jets, which was also improved by the entry-into-service of the *CRJ1000 NextGen* regional jet during the fourth quarter of fiscal year 2011.

## ORDERS AND BACKLOG

**Total aircraft net orders**

| | Three-month periods ended April 30 | | | | | |
|---|---|---|---|---|---|---|
| | | | **2011** | | | 2010 |
| | **Gross orders** | **Cancellations** | **Net orders** | Gross orders | Cancellations | Net orders |
| Business aircraft (including those of the fractional ownership program) | **85** | **(8)** | **77** | 22 | (16) | 6 |
| Commercial aircraft | **5** | **-** | **5** | 58 | (3) | 55 |
| Amphibious aircraft | **4** | **-** | **4** | - | - | - |
| | **94** | **(8)** | **86** | 80 | (19) | 61 |

### Business aircraft

In the three-month period ended April 30, 2011, we continued to experience an increasing level of business aircraft orders, with 77 net orders, compared to 6 for the same period last fiscal year. Over the same period, the number of order cancellations decreased.

In March 2011, we signed a firm order with NetJets Inc. for 30 *Global 5000* and *Global 6000* aircraft and 20 *Global 7000* and *Global 8000* aircraft, with options for an additional 70 aircraft of the *Global* family. Based on list price, the value of the firm order is $2.8 billion, which could increase to $6.7 billion if all options are exercised. This is the largest business aircraft order in our history.

In April 2011, we signed a firm order for three *Challenger* and three *Global* jets with an undisclosed customer. Based on list prices, the value of the firm order is $255 million.

## Commercial aircraft

### Commercial aircraft net orders

| | Three-month periods ended April 30 | |
|---|---|---|
| (in units) | **2011** | 2010 |
| **Regional jets** | | |
| *CRJ900 NextGen* | **3** | - |
| **Commercial jets** | | |
| *CS300* | **-** | 40 |
| **Turboprops** | | |
| *Q400 NextGen* | **2** | 15 |
| | **5** | 55 |

Orders for new regional aircraft from the U.S. airline industry are slower to recover than orders for new mainline aircraft.

### Book-to-bill ratio(1)

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| Business aircraft | **2.1** | 0.2 |
| Commercial aircraft | **0.2** | 3.4 |
| Total | **1.4** | 1.1 |

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

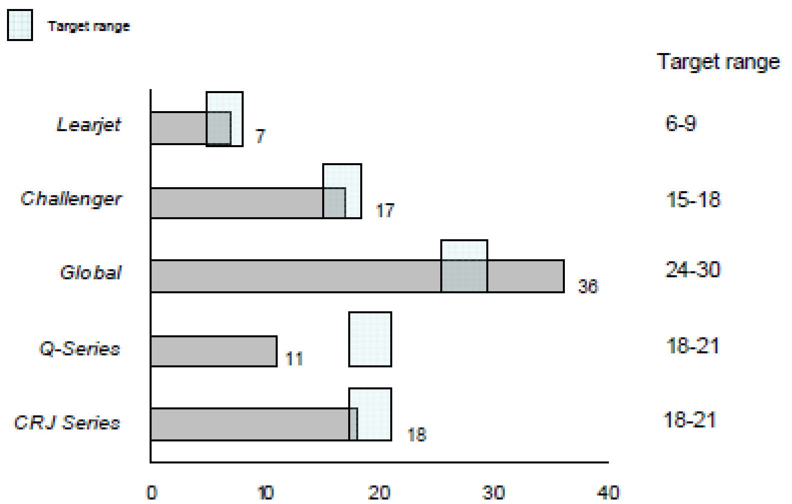
The increase in book-to-bill ratio for business aircraft is mainly due to significant orders received for large business aircraft. Excluding the orders received for the *CSeries* family of aircraft program, the book-to-bill ratio for commercial aircraft for the three-month period ended April 30, 2010 would have been 0.9.

### Total order backlog

| (in billions of dollars) | | **April 30, 2011** | | January 31, 2011 |
|---|---|---|---|---|
| Aircraft programs | **$** | **20.4** | $ | 18.4 |
| Military Aviation Training | | **0.7** | | 0.8 |
| | **$** | **21.1** | $ | 19.2 |

The order backlog as at April 30, 2011 increased by 10% compared to January 31, 2011. This is mainly due to an increase in large business aircraft orders, partially offset by a lower order backlog for regional aircraft. We continue to closely monitor our order backlog, including our production horizon for our programs, and to align our production rates to reflect market demand.

**ORDER BACKLOG IN MONTHS OF PRODUCTION**
(as at April 30, 2011)




The number of months in production is calculated by dividing the order backlog in units as at April 30, 2011 for each family of aircraft (excluding orders for the *Learjet 85, Global 7000 and Global 8000* aircraft as well as orders received by Flexjet) by the number of aircraft delivered in the previous 12 months, converted into an equivalent number of months.

Our order backlog in months of production provides insight on the depth of our order backlog based on the last 12-month production rates. This metric is not forward looking, and does not take into account the ability of our customers to take delivery of the aircraft and the timing of such delivery.

**Commercial aircraft order backlog, options and conditional orders**

| | **April 30, 2011** | | January 31, 2011 | |
|---|---|---|---|---|
| | **Firm orders** | **Options and conditional orders** | Firm orders | Options and conditional orders |
| **Regional jets** | | | | |
| *CRJ700 NextGen* | **14** | **2** | 19 | 2 |
| *CRJ900 NextGen* | **19** | **90** | 18 | 93 |
| *CRJ1000 NextGen* | **37** | **4** | 40 | 4 |
| **Commercial jets** | | | | |
| *CS100* | **33** [(1)] | **33** | 33 [(1)] | 33 |
| *CS300* | **57** [(1)] | **57** | 57 [(1)] | 57 |
| **Turboprops** | | | | |
| *Q400/Q400 NextGen* | **51** | **125** | 62 | 124 |
| | **211** | **311** | 229 | 313 |

(1) Total of 90 orders includes 60 firm orders with conversion rights to the other *CSeries* aircraft model.

# TRANSPORTATION

## HIGHLIGHTS

- Revenues of $2.5 billion, compared to $2.3 billion for the same period last fiscal year.
- EBIT of $171 million, or 6.9% of revenues, compared to $146 million, or 6.3%, for the same period last fiscal year.
- Free cash flow usage of $168 million, compared to a usage of $34 million for the same period last fiscal year.
- $1.2 billion in new orders (book-to-bill[1] ratio of 0.5), compared to $2.9 billion (book-to-bill ratio of 1.2) for the same period last fiscal year.
- Order backlog of $34.0 billion as at April 30, 2011, compared to $33.5 billion as at January 31, 2011.
- Subsequent to the end of the first quarter, we signed a framework agreement with Siemens AG, Germany, to be a partner to develop and supply important components for up to 300 ICx high speed trains for Deutsche Bahn AG (“DB”). A firm order for 130 trains valued at $1.8 billion for Bombardier was obtained under this framework agreement.
- Subsequent to the end of the first quarter, we also signed a framework agreement with Deutsche Bahn Regio AG, Germany, for 200 *TRAXX* diesel locomotives, estimated at $867 million. A firm order for 20 locomotives valued at $90 million was obtained under this framework agreement.

(1) Ratio of new orders over revenues.

## BUSINESS ENVIRONMENT

The global economic situation is improving. Some countries in Europe such as Germany not only continue to grow their GDP, but their strong economic activity is also reflected in lower unemployment. However, economic disparities remain high in Europe, with government debt remaining a key concern in some countries.

The emerging markets also show an increased level of activity. The economies of India and China have returned to pre-crisis growth levels. The situation in Brazil and Russia is less clear, as year-over-year GDP growth rates are positive but mixed over the last quarters.

# ANALYSIS OF RESULTS

### Results of operations[1]

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| Revenues | | |
| Rolling stock[2] | **$ 1,792** | $ 1,667 |
| Services[3] | **325** | 328 |
| System and signalling[4] | **356** | 312 |
| Total revenues | **2,473** | 2,307 |
| Cost of sales | **2,068** | 1,932 |
| Margin | **405** | 375 |
| SG&A | **203** | 196 |
| R&D | **31** | 33 |
| **EBIT** | **$ 171** | $ 146 |
| Add back: Amortization[5] | **32** | 32 |
| **EBITDA** | **$ 203** | $ 178 |
| (as a percentage of total revenues) | | |
| Margin | **16.4%** | 16.3% |
| EBIT | **6.9%** | 6.3% |
| EBITDA | **8.2%** | 7.7% |

(1) The results of operations of entities using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other Western European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. The impact of lower exchange rates of the euro and other European currencies compared to the U.S. dollar negatively affects revenues and positively affects expenses, while higher exchange rates would have the opposite impact (defined as "negative currency impact" and "positive currency impact"). See the Foreign exchange rates section in Other for the average exchange rates used to translate revenues and expenses.
(2) Comprised of light rail vehicles, metro cars, commuter and regional trains, intercity trains, high speed and very high trains, locomotives, propulsion and controls, as well as bogies revenues.
(3) Comprised of fleet maintenance, refurbishment and overhaul, as well as material solutions revenues.
(4) Excluding the rolling stock portion of system orders manufactured by our other divisions.
(5) Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying functions.

### Revenues by geographic region

| | Three-month periods ended April 30 | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| Europe | **$ 1,585** [1] | **64%** | $ 1,572 | 68% |
| Asia-Pacific | **519** [1] | **21%** | 341 | 15% |
| North America | **332** | **13%** | 324 | 14% |
| Other | **37** | **2%** | 70 | 3% |
| | **$ 2,473** | **100%** | $ 2,307 | 100% |

(1) Amounts include a positive currency impact of $85 million in Europe and $20 million in Asia-Pacific.

**Rolling stock revenues**
The $125-million increase is mainly due to higher activities:

- in metro cars in Europe due to a ramp-up of production on existing contracts ($117 million);
- in intercity, high speed and very high speed trains in Asia and Europe due to a ramp-up of production on new contracts ($88 million); and
- in propulsion and controls, mainly in China ($16 million).

Partially offset by lower activities due to phasing out of existing contracts ahead of ramping-up production on new contracts:

- in locomotives in Europe ($73 million);
- in light rail vehicles in Europe ($60 million); and
- in mass transit in North America ($20 million).

The increase also reflects a positive currency impact ($76 million).

**Services revenues**
The $3-million decrease is mainly due to:

- lower activities, mainly in Europe ($20 million).

Partially offset by:

- a positive currency impact ($17 million).

**System and signalling revenues**
The $44-million increase is mainly due to higher activities:

- in systems in Asia and North America ($36 million); and
- in signalling in Asia and region Other ($16 million).

Partially offset by lower activities:

- in systems in Europe and region Other ($17 million); and
- in signalling in Europe ($5 million).

The increase also reflects a positive currency impact ($16 million).

**EBIT margin**
The 0.6 percentage-point increase is mainly due to:

- better overall contract execution; and
- higher absorption of SG&A and R&D expenses.

Partially offset by:

- net losses related to foreign exchange fluctuations and certain financial instruments carried at fair value.

## FREE CASH FLOW

### Free cash flow

| | Three-month periods ended April 30 | |
|---|---|---|
| | **2011** | 2010 |
| EBIT | **$ 171** | $ 146 |
| Amortization | **32** | 32 |
| EBITDA | **203** | 178 |
| Other non-cash items: | | |
| Gain on disposals of PP&E | **-** | (2) |
| Share-based expense | **5** | 6 |
| Net change in non-cash balances related to operations | **(365)** | (202) |
| Net additions to PP&E and intangible assets | **(11)** | (14) |
| Free cash flow | **$ (168)** | $ (34) |

The $134-million decrease is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations ($163 million) (see explanations below).

Partially offset by:

- a higher EBITDA ($25 million).

**Net change in non-cash balances related to operations**
For the three-month period ended April 30, 2011, the $365-million cash outflow is mainly due to:

- ramp up of several contracts resulting in an increase in inventories; and
- lower trade and other payables as a result of the high level of activities in the fourth quarter of fiscal year 2011.

Partially offset by:

- higher advances and milestone payments received on new orders and existing contracts.

For the three-month period ended April 30, 2010, the $202-million cash outflow was mainly due to:

- lower customer advances received on new orders.

Partially offset by:

- a decrease in inventories resulting from our inventory optimization program.

## ORDERS AND BACKLOG

### Order intake and book-to-bill ratio

| | Three-month periods ended April 30 | |
|---|---|---|
| Order intake (in billions of dollars) | **2011** | 2010 |
| Rolling stock | **$ 0.7** | $ 2.4 |
| Services | **0.3** | 0.2 |
| System and signalling | **0.2** | 0.3 |
| | **$ 1.2** | $ 2.9 |
| Book-to-bill ratio | **0.5** | 1.2 |

The decrease in order intake is mainly due to:

- lower order intake in rolling stock in Europe.

Partially offset by:

- higher order intake in rolling stock in Asia-Pacific; and
- a positive currency impact ($67 million).

We received the following significant orders during the first quarter of fiscal year ending December 31, 2011[(1)]:

| Customer | Country | Product or service | Number of cars | Market segment | | Value |
|---|---|---|---|---|---|---|
| Government of South Australia | Australia | Supply and maintenance of 25kV electric trains | 66 | Rolling stock | $ | 278 |
| Metrolinx | Canada | *BiLevel* commuter cars | 50 | Rolling stock | $ | 128 |
| Västtrafik | Sweden | *REGINA* high-speed trains | 18 | Rolling stock | $ | 101 |

(1) Subject to the approval of our proposed change of financial year-end from January 31 to December 31 by our Board of Directors in December 2011.

Subsequent to the end of the first quarter, we signed the following agreements:

- A framework agreement with Siemens AG, Germany, to be a partner to develop and supply important components for up to 300 ICx high speed trains for DB. A firm order for a total of up to 130 trains valued at $1.8 billion for Bombardier, which is not included in the order backlog as at April 30, 2011, was obtained under this framework agreement. DB is planning to place an additional order with Siemens AG for a further 90 trains. The combined order volume of 220 trains would be worth $3 billion to Bombardier. The remaining 80 trains can be ordered at any time until 2030.
- A nine-year framework agreement with Deutsche Bahn Regio AG, Germany, for 200 *TRAXX* diesel locomotives with multi-engine propulsion, estimated at $867 million. A firm order for a total of 20 locomotives valued at $90 million, which is not included in the order backlog as at April 30, 2011, was obtained under this framework agreement.

**Order backlog**

| (in billions of dollars) | | **April 30, 2011** | | January 31, 2011 |
|---|---|---|---|---|
| Rolling stock | **$** | **24.1** | $ | 23.9 |
| Services | | **6.5** | | 6.2 |
| System and signalling | | **3.4** | | 3.4 |
| | **$** | **34.0** | $ | 33.5 |

The $0.5 billion increase is due to:

- the strengthening of most foreign currencies versus the U.S. dollar as at April 30, 2011 compared to January 31, 2011, mainly the euro and pound sterling ($1.8 billion).

Partially offset by:

- higher revenues recorded than order intake ($1.3 billion).

# OTHER

## RISKS AND UNCERTAINTIES

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

There was no significant change to these risks and uncertainties during the three-month period ended April 30, 2011 other than those described elsewhere in this MD&A.

## FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, requirements for measuring a financial liability at fair value have changed, as the portion of the changes in fair value related to the entity's own credit risk must be presented in OCI rather than in the statement of income. IFRS 9 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

**Consolidation**
In May 2011, the IASB released IFRS 10, *Consolidated financial statements*, which replaces SIC-12, *Consolidation—special purpose entities*, and parts of IAS 27, *Consolidated and separate financial statements*. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

**Joint Arrangements**
In May 2011, the IASB released IFRS 11, *Joint arrangements*, which supersedes IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities—non-monetary contributions by venturers*. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in jointly controlled entities. IFRS 11 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We currently use proportionate consolidation to account for interests in joint ventures, but must apply the equity method under IFRS 11. Under the equity method, our share of net assets, net income and OCI of joint ventures will be presented as one-line items on the statement of financial position, the statement of income and the statement of comprehensive income, respectively.

**Disclosure of Interests in Other Entities**
In May 2011, the IASB released IFRS 12, *Disclosure of interests in other entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

**Fair value measurement**
In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

## CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the three-month period ended April 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## FOREIGN EXCHANGE RATES

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

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

| | **April 30, 2011** | January 31, 2011 | Increase |
|---|---|---|---|
| Euro | **1.4860** | 1.3715 | 8% |
| Canadian dollar | **1.0538** | 0.9978 | 6% |
| Pound sterling | **1.6665** | 1.6040 | 4% |

The average exchange rates used to translate revenues and expenses were as follows for the three-month periods ended April 30:

| | **2011** | 2010 | Increase |
|---|---|---|---|
| Euro | **1.4030** | 1.3552 | 4% |
| Canadian dollar | **1.0266** | 0.9730 | 6% |
| Pound sterling | **1.6212** | 1.5337 | 6% |

## SELECTED FINANCIAL INFORMATION

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

| Fiscal years | C2011 [1] | | | | F2011 | | | F2010 |
|---|---|---|---|---|---|---|---|---|
| | **IFRS** | IFRS | IFRS | IFRS | IFRS | Previous Canadian GAAP | | |
| | **First** | Fourth | Third | Second | First | Fourth | Third | Second |
| Revenues | **$ 4,661** | $ 5,586 | $ 3,997 | $ 4,045 | $ 4,264 | $ 5,352 | $ 4,597 | $ 4,946 |
| Net income | **$ 220** | $ 295 | $ 147 | $ 138 | $ 195 | $ 179 | $ 168 | $ 202 |
| EPS (in dollars): | | | | | | | | |
| Basic and diluted | **$ 0.12** | $ 0.16 | $ 0.08 | $ 0.07 | $ 0.11 | $ 0.10 | $ 0.09 | $ 0.11 |

(1) Refer to the fiscal year ending December 31, 2011, subject to the approval of our proposed change of financial year-end from January 31 to December 31 by our Board of Directors in December 2011.

# INVESTOR INFORMATION

### Authorized, issued and outstanding share data as at May 30, 2011

| | Authorized | Issued and outstanding |
|---|---|---|
| Class A Shares (Multiple Voting)[1] | 1,892,000,000 | 314,584,537 |
| Class B Shares (Subordinate Voting)[2] | 1,892,000,000 | 1,412,446,882 [3] |
| Series 2 Cumulative Redeemable Preferred Shares | 12,000,000 | 9,464,920 |
| Series 3 Cumulative Redeemable Preferred Shares | 12,000,000 | 2,535,080 |
| Series 4 Cumulative Redeemable Preferred Shares | 9,400,000 | 9,400,000 |

(1) 10 votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).
(2) Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions.
(3) Net of 27,459,674 Class B Shares (Subordinate Voting) purchased and held in trust in connection with the PSU plan.

### Normal course issuer bid

Our Board of Directors authorized the repurchase for cancellation, in the normal course of our activities from April 9, 2010 to April 8, 2011, of up to 3,000,000 Class B Shares (Subordinate Voting) and up to 660,000 Class A Shares (Multiple Voting) in connection with the new DSU plan (see note 15 – Share-based plans to the interim consolidated financial statements). No Class A Shares (Multiple Voting) and no Class B Shares (Subordinate Voting) were repurchased and cancelled during the three-month period ended April 30, 2011 (3,000,000 Class B Shares (Subordinate Voting) were repurchased and cancelled for a total amount of $16 million during the three-month period ended April 30, 2010).

Shareholders may obtain a free copy of the documents filed with the Toronto Stock Exchange concerning this normal course issuer bid by writing to our Corporate Secretary.

### Share option, PSU and DSU data as at April 30, 2011

| | |
|---|---|
| Options issued and outstanding under the share option plans | 33,789,784 |
| PSUs and DSUs issued and outstanding under the PSU and DSU plans | 21,027,419 |
| Class B Shares held in trust to satisfy PSU obligations | 27,459,674 |

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

| | |
|---|---|
| Second Quarterly Report, for the period ending July 31, 2011 | August 31, 2011 |
| Third Quarterly Report, for the period ending October 31, 2011 | December 1, 2011 |
| Annual Report, for the fiscal year ending December 31, 2011 [1] | March 1, 2012 |
| First Quarterly Report, for the period ending March 31, 2012 [1] | May 10, 2012 |

(1) Subject to the approval of our proposed change of financial year-end from January 31 to December 31 by our Board of Directors in December 2011.

**Information**

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**May 31, 2011**

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



The printed version of this annual report uses Rolland Enviro 100 paper, containing 100% post-consumer fibres, certified Eco-Logo, processed chlorine free and FSC recycled. Using this paper, instead of virgin paper, saves the equivalent of 31 mature trees, 1,755 kg of solid waste, 4,562 kg of atmospheric emissions (equivalent to 2 cars per year) and 115,873 litres of water.

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

**BOMBARDIER INC.**
**CONSOLIDATED STATEMENTS OF INCOME**
(Unaudited)
(In millions of U.S. dollars, except per share amounts)
For the three-month periods ended April 30

| | Notes | | **2011** | | 2010 |
|---|---|---|---|---|---|
| Revenues | 4 | **$** | **4,661** | $ | 4,264 |
| Cost of sales | | | **3,925** | | 3,573 |
| Gross margin | | | **736** | | 691 |
| SG&A | | | **363** | | 349 |
| R&D | 5 | | **64** | | 77 |
| Other income | 6 | | **(3)** | | (14) |
| EBIT | | | **312** | | 279 |
| Financing expense | 7 | | **177** | | 164 |
| Financing income | 7 | | **(141)** | | (121) |
| EBT | | | **276** | | 236 |
| Income taxes | | | **56** | | 41 |
| **Net income** | | **$** | **220** | $ | 195 |
| **Attributable to:** | | | | | |
| Equity holders of Bombardier Inc. | | **$** | **220** | $ | 194 |
| NCI | | | **-** | | 1 |
| | | **$** | **220** | $ | 195 |
| **EPS (in dollars):** | 8 | | | | |
| Basic and diluted | | **$** | **0.12** | $ | 0.11 |

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

**BOMBARDIER INC.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(Unaudited)
(In millions of U.S. dollars)
For the three-month periods ended April 30

| | | 2011 | | 2010 |
|---|---|---|---|---|
| **Net income** | **$** | **220** | $ | 195 |
| **OCI** | | | | |
| **Items that will be reclassified to net income** | | | | |
| **Net change in cash flow hedges:** | | | | |
| Foreign exchange re-evaluation | | **(21)** | | 5 |
| Net gain on derivative financial instruments designated as cash flow hedges | | **360** | | 51 |
| Reclassification to income or to the related non-financial asset | | **(145)** | | 8 |
| Income taxes | | **(73)** | | (18) |
| | | **121** | | 46 |
| **Net unrealized gain on AFS financial assets, net of income tax** | | **17** | | 2 |
| **CCTD:** | | | | |
| Net investments in foreign operations | | **343** | | (98) |
| Net gain (loss) on related hedging items | | **(264)** | | 95 |
| | | **79** | | (3) |
| **Items that are never reclassified to net income** | | | | |
| **Retirement benefits:** | | | | |
| Net actuarial losses | | **(107)** | | (94) |
| Income taxes | | **20** | | (3) |
| | | **(87)** | | (97) |
| **Total OCI** | | **130** | | (52) |
| **Total Comprehensive income** | **$** | **350** | $ | 143 |
| **Attributable to:** | | | | |
| Equity holders of Bombardier Inc. | **$** | **346** | $ | 140 |
| NCI | | **4** | | 3 |
| | **$** | **350** | $ | 143 |

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

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

| | Notes | April 30, 2011 | January 31, 2011 | February 1, 2010 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | **$ 3,856** | $ 4,195 | $ 3,372 |
| Trade and other receivables | | **1,501** | 1,377 | 1,141 |
| Inventories | 9 | **7,850** | 7,307 | 7,630 |
| Other financial assets | 10 | **797** | 705 | 537 |
| Other assets | 11 | **627** | 648 | 519 |
| **Current assets** | | **14,631** | 14,232 | 13,199 |
| Invested collateral | | **723** | 676 | 682 |
| PP&E | | **1,938** | 1,878 | 1,674 |
| Aerospace program tooling | | **2,321** | 2,088 | 1,385 |
| Goodwill | | **2,524** | 2,358 | 2,247 |
| Deferred income taxes | | **1,278** | 1,294 | 1,373 |
| Other financial assets | 10 | **1,186** | 1,104 | 1,003 |
| Other assets | 11 | **484** | 462 | 557 |
| **Non-current assets** | | **10,454** | 9,860 | 8,921 |
| | | **$ 25,085** | $ 24,092 | $ 22,120 |
| **Liabilities** | | | | |
| Trade and other payables | | **$ 3,350** | $ 3,246 | $ 3,199 |
| Provisions | 12 | **1,201** | 1,198 | 1,140 |
| Advances and progress billings in excess of long-term contract inventories | | **2,594** | 2,421 | 1,899 |
| Advances on aerospace programs | | **3,126** | 2,989 | 3,055 |
| Other financial liabilities | 13 | **752** | 860 | 537 |
| Other liabilities | 14 | **2,090** | 1,990 | 1,833 |
| **Current liabilities** | | **13,113** | 12,704 | 11,663 |
| Provisions | 12 | **605** | 614 | 675 |
| Advances on aerospace programs | | **1,141** | 1,193 | 1,373 |
| Non-current portion of long-term debt | | **4,892** | 4,645 | 4,134 |
| Retirement benefits | | **2,159** | 1,975 | 2,181 |
| Other financial liabilities | 13 | **533** | 532 | 558 |
| Other liabilities | 14 | **891** | 908 | 576 |
| **Non-current liabilities** | | **10,221** | 9,867 | 9,497 |
| | | **23,334** | 22,571 | 21,160 |
| **Equity** | | | | |
| Attributable to equity holders of Bombardier Inc. | | **1,711** | 1,454 | 902 |
| Attributable to NCI | | **40** | 67 | 58 |
| | | **1,751** | 1,521 | 960 |
| | | **$ 25,085** | $ 24,092 | $ 22,120 |

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

**BOMBARDIER INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
(Unaudited)
(In millions of U.S. dollars)
For the three-month periods ended April 30

| | Attributable to equity holders of Bombardier Inc. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | | | | Accumulated OCI | | | | | |
| | Preferred shares | Common shares | Deficit | Contributed surplus | AFS financial assets | Cash flow hedges | CCTD | Total | NCI | Total equity |
| As at January 31, 2011 | $ 347 | $ 1,324 | $ (276) | $ 131 | $ 10 | $ (218) | $ 136 | $ 1,454 | $ 67 | 1,521 |
| Total comprehensive income | | | | | | | | | | |
| Net income | - | - | 220 | - | - | - | - | 220 | - | 220 |
| OCI | - | - | (87) | - | 17 | 121 | 75 | 126 | 4 | 130 |
| | - | - | 133 | - | 17 | 121 | 75 | 346 | 4 | 350 |
| Dividends | - | - | (52) | - | - | - | - | (52) | - | (52) |
| Options exercised and shares distributed under the PSU plans | - | 4 | - | - | - | - | - | 4 | - | 4 |
| Share-based expense | - | - | - | 9 | - | - | - | 9 | - | 9 |
| Purchase of NCI | - | - | (50) | - | - | - | - | (50) | (31) | (81) |
| | - | 4 | (102) | 9 | - | - | - | (89) | (31) | (120) |
| **As at April 30, 2011** | **$ 347** | **$ 1,328** | **$ (245)** | **$ 140** | **$ 27** | **$ (97)** | **$ 211** | **$ 1,711** | **$ 40** | **$ 1,751** |
| As at February 1, 2010[(1)] | $ 347 | $ 1,324 | $ (823) | $ 132 | $ 3 | $ (81) | $ - | $ 902 | $ 58 | $ 960 |
| Total comprehensive income | | | | | | | | | | |
| Net income | - | - | 194 | - | - | - | - | 194 | 1 | 195 |
| OCI | - | - | (97) | - | 2 | 46 | (5) | (54) | 2 | (52) |
| | - | - | 97 | - | 2 | 46 | (5) | 140 | 3 | 143 |
| Issuance of share capital | - | 1 | - | - | - | - | - | 1 | - | 1 |
| Repurchase of share capital | - | (3) | (13) | - | - | - | - | (16) | - | (16) |
| Dividends | - | - | (49) | - | - | - | - | (49) | - | (49) |
| Share-based expense | - | - | - | 12 | - | - | - | 12 | - | 12 |
| | - | (2) | (62) | 12 | - | - | - | (52) | - | (52) |
| As at April 30, 2010 | $ 347 | $ 1,322 | $ (788) | $ 144 | $ 5 | $ (35) | $ (5) | $ 990 | $ 61 | $ 1,051 |

(1) Given effect to all changes in accounting policies upon adoption of IFRS (see note 18 – Adoption of IFRS).

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

**BOMBARDIER INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)
(In millions of U.S. dollars)
For the three-month periods ended April 30

| | Notes | | 2011 | | 2010 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net income | | **$** | **220** | $ | 195 |
| Non-cash items: | | | | | |
| Amortization | | | **87** | | 92 |
| Deferred income taxes | | | **10** | | 18 |
| Gain on disposals of PP&E | 6 | | **-** | | (9) |
| Share-based expense | 15 | | **9** | | 12 |
| Gain on repurchase of long-term debt | 7 | | **-** | | (5) |
| Net change in non-cash balances related to operations | 16 | | **(434)** | | (274) |
| Cash flows from operating activities | | | **(108)** | | 29 |
| **Investing activities** | | | | | |
| Additions to PP&E and intangible assets | | | **(302)** | | (258) |
| Disposals of PP&E and intangible assets | | | **1** | | 12 |
| Other | | | **9** | | (5) |
| Cash flows from investing activities | | | **(292)** | | (251) |
| **Financing activities** | | | | | |
| Proceeds from issuance of long-term debt | | | **63** | | 1,476 |
| Repayments of long-term debt | | | **(3)** | | (1,053) |
| Dividends paid[1] | | | **(5)** | | (5) |
| Repurchase of Class B shares | | | **-** | | (16) |
| Purchase of NCI | | | **(53)** | | - |
| Other | | | **(51)** | | (3) |
| Cash flows from financing activities | | | **(49)** | | 399 |
| Effect of exchange rate on cash and cash equivalents | | | **110** | | (18) |
| **Net increase (decrease) in cash and cash equivalents** | | | **(339)** | | 159 |
| **Cash and cash equivalents at beginning of period** | | | **4,195** | | 3,372 |
| **Cash and cash equivalents at end of period** | | **$** | **3,856** | $ | 3,531 |
| **Supplemental information** [2] [3] | | | | | |
| Cash paid for: | | | | | |
| Interest | | **$** | **39** | $ | 37 |
| Income taxes | | **$** | **44** | $ | 22 |
| Cash received for: | | | | | |
| Interest | | **$** | **9** | $ | 80 |
| Income taxes | | **$** | **1** | $ | 1 |

(1) Dividends paid relate to preferred shares.
(2) Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.
(3) Interest paid comprises only interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, invested collateral and loans and lease receivable, after the effect of hedges, if any.

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

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the three-month period ended April 30, 2011**
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

# 1. BASIS OF PREPARATION

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

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IAS 34, *Interim financial reporting*, and IFRS 1, *First-time adoption of IFRS*, as issued by the IASB. The interim consolidated financial statements have been prepared in accordance with the accounting policies the Corporation expects to adopt in its annual Consolidated Financial Statements for the year ending December 31, 2011 (subject to the approval of the proposed change of financial year-end from January 31 to December 31 by the Corporation’s Board of Directors in December 2011), which are described in note 2 – Summary of significant accounting policies.

The interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto prepared under previous Canadian GAAP included in the Corporation’s Annual Report for the year ended January 31, 2011. Note 18 – Adoption of IFRS explains how the transition from previous Canadian GAAP to IFRS affected the Corporation’s reported financial position as at February 1, 2010 and January 31, 2011, as well as the financial performance and cash flows for the year ended January 31, 2011 and the three-month period ended April 30, 2010. In addition, note 19 – Additional annual disclosures provides certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS.

These interim consolidated financial statements for the three-month period ended April 30, 2011 were authorized for issuance by the Board of directors on May 31, 2011.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full fiscal year. The fourth quarter has historically been the strongest in terms of revenues and profitability.

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 transactions or events occur during the one-month lag period, the Corporation’s interim consolidated financial statements are adjusted accordingly.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements unless otherwise stated.

## Basis of consolidation

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

The Corporation consolidates SPEs when, based on the evaluation of the substance of the relationship with the Corporation, it concludes that it controls the SPE. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of the entity so that the Corporation obtains benefits from its activities, whether it holds shares or not.

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

| Subsidiary | Location |
|---|---|
| Bombardier Transportation GmbH | Germany |
| Bombardier Transport France S.A.S. | France |
| Bombardier Transportation (Holdings) UK Ltd. | U.K. |
| Bombardier Aerospace Corporation | U.S. |
| Learjet Inc. | U.S. |

***Joint ventures*** – Joint ventures are those entities over which the Corporation exercises joint control, established by contractual agreement and requiring unanimous consent of the parties sharing control for strategic financial and operating decision making. The Corporation recognizes its interest in joint ventures using the proportionate method of consolidation.

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

## Foreign currency translation

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

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

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

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

| | | | **Exchange rates as at** | **Average exchange rates for the three-month periods ended April 30** | |
|---|---|---|---|---|---|
| | **April 30, 2011** | January 31, 2011 | February 1, 2010 | **2011** | 2010 |
| Euro | **1.4860** | 1.3715 | 1.3870 | **1.4030** | 1.3552 |
| Canadian dollar | **1.0538** | 0.9978 | 0.9390 | **1.0266** | 0.9730 |
| Pound sterling | **1.6665** | 1.6040 | 1.6008 | **1.6212** | 1.5337 |

## Revenue recognition

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

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

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

Sales of aircraft fractional shares are considered together with the related service agreement for purpose of revenue recognition. Accordingly, revenues from such sale are recognized over the period during which the related services are rendered to the customer, generally five years. At the time of sale, the proceeds from the sale are recorded in other liabilities, under fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to other assets, under 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. Revenues from the sale of pre-owned aircraft and spare parts are recognized when the aircraft has been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

### Government assistance and refundable advances

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

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

### Income taxes

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

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

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

## Earnings per share

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

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

## Financial instruments

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

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

**a) Financial instruments classified as HFT**

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

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

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

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

**b) Financial instruments designated as FVTP&L**

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

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

**c) AFS financial assets**

Investments in securities are usually classified as AFS. They are accounted for at fair value if reliably measurable, with unrealized gains and losses included in OCI. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

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

**d) L&R**

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

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

**e) Other than HFT financial liabilities**

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

## Hedge accounting

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

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

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

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

***Hedge of net investments in foreign operations*** – The Corporation designates certain cross-currency interest-rate swap agreements and long-term debt as hedges of its net investments in 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 in net income when corresponding exchange gains or losses arising from the translation of the foreign operations are recorded in net income.

The portion of gains or losses on the hedging 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 hedges are recorded in cost of sales or financing expense or financing income for the interest component of the derivatives or when the derivatives were entered into for interest rate management purposes.

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

### Leases

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

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

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

## Inventory valuation

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

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

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

## Retirement and other long term employee benefits

***Retirement benefits*** – Retirement benefit plans are classified as either defined benefit plans or defined contribution plans. Contributions to defined contribution plans are recognized in net income when they are due. Defined benefit plans are accounted for as follows:

- The cost of pension and other benefits earned by employees is actuarially determined for each plan using the projected unit credit method, and management’s best estimate of long-term rate of return on plan assets, salary escalation, retirement ages, life expectancy and health care costs.
- The defined benefit obligation is determined based on expected future benefit payments discounted using market interest rates at the end of the reporting period.
- Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. These assets are measured at fair value at the end of the reporting period, which is based on published market price information in the case of quoted securities. The value of any plan asset recognized is restricted to the sum of any unrecognized past service costs and the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (“asset ceiling test”).
- A minimum liability is recorded when legal minimum funding requirements for past services exceed economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
- The actuarial gains and losses (including the foreign exchange impact) arising on the plan assets and defined benefit obligation and the effect of any asset ceiling and minimum liability are recognized directly in OCI in the period in which they occur.
- Past service costs (credits) are recognized on a straight line basis over the average vesting period. Past service costs (credits) relating to benefits already vested are expensed immediately.

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

In the case of funded benefit plans, the fair value of plan assets is offset against the benefit obligation. The net amount, determined on a plan-by-plan basis after adjusting for the effects of unrecognized past service costs (credits) and any asset ceiling, is included in retirement benefit liabilities or retirement benefit assets. In the case of unfunded benefit plans, the benefit obligation, after adjusting for the effects of unrecognized past service costs (credits), is included in retirement benefit liabilities.

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

## Property, plant and equipment

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

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

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

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

## Intangible assets

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

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

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

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

| | Method | Estimated useful life |
|---|---|---|
| Aerospace program tooling | Unit of production [1] | Expected number of aircraft to be produced |
| Other intangible assets | | |
| Licenses, patent and trademarks | Straight-line | 3 to 20 years |
| Other | Straight-line and unit of production | 3 to 5 years and expected number of units to be produced |

[1] As of February 1, 2011, the Corporation changed its amortization method prospectively for aerospace program tooling. Before this date, the straight-line method over 10 years was used. Had the Corporation used the straight-line method, the amortization would have been $35 million instead of $25 million for the three-month period ended April 30, 2011.

The amortization methods and estimated useful lives are reviewed on a regular basis and changes are accounted for prospectively. The amortization expense is recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying assets.

The Corporation does not have indefinite-lived intangible assets, other than goodwill. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

**Borrowing costs**

Borrowing costs consist of interest on long-term debt and other costs that the Corporation incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset and are deducted from the financing expense to which they relate. All other borrowing costs are expensed in the period they occur.

The Corporation began the capitalization of borrowing costs to qualifying assets on February 19, 2007.

## Impairment of PP&E and intangible assets

The Corporation assesses at each reporting date whether there is an indication that a PP&E or intangible asset may be impaired. If any indication exists, the Corporation estimates the recoverable amount of the individual asset, when possible.

When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the CGU level. Most of the Corporation’s non-financial assets are tested for impairment at the CGU level. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

- The fair value less costs to sell reflects the amount the Corporation could obtain from the asset’s disposal in an arm’s length transaction between knowledgeable, willing parties, after deducting the costs of disposal. If there is no binding sales agreement or active market for the asset, the fair value is assessed by using appropriate valuation models dependent on the nature of the asset, such as the discounted cash flow models.
- The value in use is calculated using estimated net cash flows, with detailed projections generally over a three-year period and subsequent years being extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

When the recoverable amount is less than the carrying value of the related asset or CGU, the related assets are written down to their recoverable amount and an impairment loss is recognized in net income.

For PP&E and intangible assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. The reversal of impairment losses is limited to the amount that would bring the carrying value of the asset or CGU to the amount that would have been recorded, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years. Such reversal is recognized in the consolidated statements of income in the same line item where the original impairment was recognized.

Goodwill and intangible assets not yet available for use are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset might be impaired. Impairment losses relating to goodwill are not reversed in future periods.

## Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at their present value.

***Product warranties*** – A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. The interest component associated with product warranties, when applicable, is recorded in financing expense. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and in service and counter-warranty coverage available from the Corporation's suppliers. Claims for reimbursement from third parties are recorded if their realization is virtually certain. Product warranties typically range from one to five years, except for aircraft structural and bogies warranties that extend up to 20 years.

***Credit and residual value guarantees*** – Credit and residual value guarantees related to the sale of aircraft are recorded at the amount the Corporation expects to pay under these guarantees when the revenue for the related product is recognized. Subsequent to initial recognition, changes in the value of these guarantees are recorded in other expense (income), except for the changes in interest rates, which is recorded in financing expense or financing income.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from 1 to 16 years) under the relevant financing arrangements.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value. In most cases, these guarantees (ranging from 1 to 15 years) are provided as part of a financing arrangement.

***Onerous contracts*** – If it is more likely than not that the unavoidable costs of meeting the obligations under a contract, other than a long-term contract, exceed the economic benefits expected to be received under it, a provision for onerous contracts is recorded in cost of sales, except for the interest component, which is recorded in financing expense. Unavoidable costs include anticipated cost overruns, as well as expected costs associated with late delivery penalties and technological problems. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

***Termination benefits*** – Termination benefits are usually paid when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes termination benefits when it is demonstrably committed, through a detailed formal plan without possibility of withdrawal, to either terminate the employment of current employees before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits are included in provisions.

***Environmental costs*** – A provision for environmental cost is recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Legal asset retirement obligations and environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate, or prevent environmental contamination that has yet to occur, are included in PP&E and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.

### Share-based payments

***Equity-settled share-based payment plans*** – Equity-settled share-based payments are measured at fair value at the grant date. For the PSUs and DSUs, the value of the compensation is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and is based on the PSUs and DSUs that are expected to vest. For share option plans, the value of the compensation is measured using a Black-Scholes option pricing model, modified to incorporate target prices related to the performance share option plan for options granted before June 1, 2009. The effect of any change in the number of options, PSUs and DSUs that are expected to vest is accounted for in the period in which the estimate is revised. Compensation expense is recognized on a straight-line basis over the vesting period, with a corresponding increase in contributed surplus. Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

***Employee share purchase plan*** – The Corporation's contributions to the employee share purchase plan are measured at cost and accounted for in the same manner as the related employee payroll costs. The value of the compensation is recorded at the time of the employee contribution.

## 3. FUTURE CHANGES IN ACCOUNTING POLICIES

### Financial instruments

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

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, requirements for measuring a financial liability at fair value have changed, as the portion of the changes in fair value related to the entity's own credit risk must be presented in OCI rather than in the statement of income. IFRS 9 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

### Consolidation

In May 2011, the IASB released IFRS 10, *Consolidated Financial Statements*, which replaces SIC-12, *Consolidation - Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

### Joint Arrangements

In May 2011, the IASB released IFRS 11, *Joint Arrangements*, which supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in jointly controlled entities. IFRS 11 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation currently uses proportionate consolidation to account for interests in joint ventures, but must apply the equity method under IFRS 11. Under the equity method, the Corporation's share of net assets, net income and OCI of joint ventures will be presented as one-line items on the statement of financial position, the statement of income and the statement of comprehensive income, respectively.

**Disclosure of Interests in Other Entities**
In May 2011, the IASB released IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

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

## 4. SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT. Each reportable segment offers different products and services and requires different technology and marketing strategies.

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

The segmented information is prepared using the accounting policies described in note 2 – Summary of significant accounting policies.

Management assesses segment performance based on EBIT. Corporate charges are allocated to segments mostly based on each segment's revenues. The segmented results of operations and other information are as follows for the three-month periods ended April 30:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **BA** | **BT** | **Total** | BA | BT | Total |
| **Results of operations** | | | | | | |
| Revenues | **$ 2,188** | **$ 2,473** | **$ 4,661** | $ 1,957 | $ 2,307 | $ 4,264 |
| Cost of sales | **1,857** | **2,068** | **3,925** | 1,641 | 1,932 | 3,573 |
| Gross margin | **331** | **405** | **736** | 316 | 375 | 691 |
| SG&A | **160** | **203** | **363** | 153 | 196 | 349 |
| R&D | **33** | **31** | **64** | 44 | 33 | 77 |
| Other income | **(3)** | **-** | **(3)** | (14) | - | (14) |
| EBIT | **$ 141** | **$ 171** | **312** | $ 133 | $ 146 | 279 |
| Financing expense | | | **177** | | | 164 |
| Financing income | | | **(141)** | | | (121) |
| EBT | | | **276** | | | 236 |
| Income taxes | | | **56** | | | 41 |
| Net income | | | **$ 220** | | | $ 195 |
| **Other information** | | | | | | |
| Additions to PP&E and intangible assets | **$ 290** | **$ 12** | **$ 302** | $ 241 | $ 17 | $ 258 |
| Amortization | **$ 55** | **$ 32** | **$ 87** | $ 60 | $ 32 | $ 92 |

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

| | **April 30, 2011** | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| **Assets** | | | |
| Segmented assets | **$ 19,228** | $ 17,927 | $ 16,693 |
| Assets not allocated to segments: | | | |
| Cash and cash equivalents | **3,856** | 4,195 | 3,372 |
| Invested collateral | **723** | 676 | 682 |
| Deferred income taxes | **1,278** | 1,294 | 1,373 |
| Total assets | **25,085** | 24,092 | 22,120 |
| **Liabilities** | | | |
| Segmented liabilities | **18,142** | 17,674 | 16,797 |
| Liabilities not allocated to segments: | | | |
| Interest payable[(1)] | **114** | 89 | 56 |
| Income taxes payable[(2)] | **105** | 93 | 97 |
| Long-term debt | **4,920** | 4,662 | 4,145 |
| Deferred income taxes | **53** | 53 | 65 |
| Total liabilities | **23,334** | 22,571 | 21,160 |
| **Net assets** | **$ 1,751** | $ 1,521 | $ 960 |
| **Net segmented assets** | | | |
| BA | **$ 1,492** | $ 1,171 | $ 545 |
| BT | **$ (406)** | $ (918) | $ (649) |

(1) Included in trade and other payables in the consolidated statements of financial position.
(2) Included in other liabilities in the consolidated statements of financial position.

The Corporation’s revenues by major product or service are as follows for the three-month periods ended April 30:

| | 2011 | 2010 |
|---|---|---|
| **BA** | | |
| Manufacturing | | |
| Business aircraft | **$ 1,031** | $ 998 |
| Commercial aircraft | **493** | 338 |
| Other | **126** | 134 |
| Total manufacturing | **1,650** | 1,470 |
| Services[1] | **422** | 368 |
| Other[2] | **116** | 119 |
| | **2,188** | 1,957 |
| **BT** | | |
| Rolling stock[3] | **1,792** | 1,667 |
| Services[4] | **325** | 328 |
| Systems and signalling | **356** | 312 |
| | **2,473** | 2,307 |
| | **$ 4,661** | $ 4,264 |

[1] Includes revenues from parts logistics, aircraft fractional ownership and hourly flight entitlement programs’ service activities, product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.
[2] Includes mainly sales of pre-owned aircraft.
[3] Comprised of light rail vehicles, metro cars, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls, as well as bogies revenues.
[4] Comprised of fleet maintenance, refurbishment and overhaul, as well as material solutions revenues.

## 5. RESEARCH AND DEVELOPMENT

R&D expense, net of government assistance, was as follows for the three-month periods ended April 30:

| | 2011 | 2010 |
|---|---|---|
| R&D expenditures | **$ 297** | $ 254 |
| Less: development expenditures capitalized to aerospace program tooling | **(258)** | (209) |
| | **39** | 45 |
| Add: amortization of aerospace program tooling | **25** | 32 |
| | **$ 64** | $ 77 |

## 6. OTHER INCOME

Other income was as follows for the three-month periods ended April 30:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Changes in estimates and fair value[1] | **$** | **(3)** | $ | (4) |
| Gain on disposals of PP&E | | **-** | | (9) |
| Severance and other involuntary termination costs (including changes in estimates) | | **-** | | (3) |
| Other | | **-** | | 2 |
| | **$** | **(3)** | $ | (14) |

[1] Net gain on certain financial instruments measured at fair value and changes in estimates related to certain provisions, excluding the loss (gain) arising from a change in interest rates.

## 7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows for the three-month periods ended April 30:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| **Financing expense** | | | | |
| Accretion on retirement benefit obligations | **$** | **112** | $ | 105 |
| Amortization of letter of credit facility costs | | **13** | | 8 |
| Accretion on other financial liabilities | | **7** | | 8 |
| Accretion on provisions | | **6** | | 6 |
| Changes in discount rates of provisions | | **3** | | - |
| Other | | **4** | | 3 |
| | | **145** | | 130 |
| Interest on long-term debt – after effect of hedges | | **32** | | 34 |
| | **$** | **177** | $ | 164 |
| **Financing income** | | | | |
| Expected return on pension plan assets | **$** | **(110)** | $ | (92) |
| Net gain on certain financial instruments[1] | | **(7)** | | (7) |
| Gain on repurchase of long-term debt | | **-** | | (5) |
| Changes in discount rates of provisions | | **-** | | (3) |
| Other | | **(4)** | | - |
| | | **(121)** | | (107) |
| Interest on loans and lease receivables – after effect of hedges | | **(9)** | | (8) |
| Interest on cash and cash equivalents | | **(9)** | | (3) |
| Interest on invested collateral | | **(2)** | | (3) |
| | | **(20)** | | (14) |
| | **$** | **(141)** | $ | (121) |

[1] Net gain on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.

Borrowing costs capitalized to PP&E and intangible assets totalled $20 million for the three-month period ended April 30, 2011, using an average capitalization rate of 5.34% ($13 million using 5.22% for the three-month period ended April 30, 2010). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

## 8. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows for the three-month periods ended April 30:

| (Number of shares, stock options, PSUs and DSUs, in thousands) | 2011 | 2010 |
|---|---|---|
| Net income attributable to equity holders of Bombardier Inc. | $ 220 | $ 194 |
| Preferred share dividends, including taxes | (6) | (5) |
| Net income attributable to common equity holders of Bombardier Inc. | $ 214 | $ 189 |
| | | |
| Weighted-average number of common shares outstanding | 1,732,401 | 1,729,008 |
| Net effect of stock options, PSUs and DSUs | 17,597 | 21,569 |
| Weighted-average diluted number of common shares | 1,749,998 | 1,750,577 |
| EPS (in dollars): | | |
| Basic and diluted | $ 0.12 | $ 0.11 |

The effect of the exercise of stock options, PSUs and DSUs was included in the calculation of diluted EPS in the above table, except for 16,581,000 stock options for the three-month period ended April 30, 2011 (20,845,633 for the three-month period ended April 30, 2010) 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.

## 9. INVENTORIES

Inventories were as follows as at:

| | April 30, 2011 | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| Aerospace programs | $ 4,183 | $ 4,146 | $ 4,748 |
| Long-term contracts | | | |
| Production contracts | | | |
| Cost incurred and recorded margins | 6,409 | 5,452 | 5,190 |
| Less: advances and progress billings | (4,503) | (3,975) | (4,070) |
| | 1,906 | 1,477 | 1,120 |
| Service contracts | | | |
| Cost incurred and recorded margins | 537 | 512 | 616 |
| Less: advances and progress billings | (71) | (73) | (85) |
| | 466 | 439 | 531 |
| Finished products [(1)] | 1,295 | 1,245 | 1,231 |
| | $ 7,850 | $ 7,307 | $ 7,630 |

(1) Finished products include 8 new aircraft not associated with a firm aircraft order and 74 pre-owned aircraft, totalling $587 million as at April 30, 2011 (8 new aircraft and 68 pre-owned aircraft, totalling $542 million as at January 31, 2011 and 5 new aircraft and 55 pre-owned aircraft, totalling $524 million as at February 1, 2010).

Finished products as at April 30, 2011 include $153 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities, which are accounted for as sale and leaseback obligations ($209 million as at January 31, 2011 and $167 million as at February 1, 2010).

The amount of inventories recognized as cost of sales totalled $3,629 million for the three-month period ended April 30, 2011 ($3,265 million for the three-month period ended April 30, 2010). These amounts include $15 million of write-down for the three-month period ended April 30, 2011 ($9 million for the three-month period ended April 30, 2010).

## 10. OTHER FINANCIAL ASSETS

Other financial assets were as follows as at:

| | April 30, 2011 | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| Derivative financial instruments | **$ 698** | $ 557 | $ 496 |
| Aircraft loans and lease receivables | **447** | 432 | 312 |
| Investments in securities[1] | **434** | 415 | 328 |
| Investments in financing structures | **238** | 242 | 233 |
| Restricted cash | **61** | 58 | 40 |
| Servicing fees | **49** | 49 | 48 |
| Other | **56** | 56 | 83 |
| | **$ 1,983** | $ 1,809 | $ 1,540 |
| Of which current | **$ 797** | $ 705 | $ 537 |
| Of which non-current | **1,186** | 1,104 | 1,003 |
| | **$ 1,983** | $ 1,809 | $ 1,540 |

[1] Includes $151 million of securities held as collateral for guarantees issued in connection with the sale of aircraft as at April 30, 2011 ($152 million as at January 31, 2011 and $148 million as at February 1, 2010).

## 11. OTHER ASSETS

Other assets were as follows as at:

| | April 30, 2011 | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| Prepaid expenses | **$ 354** | $ 327 | $ 226 |
| Intangible assets other than aerospace program tooling and goodwill | **247** | 243 | 256 |
| Sales tax and other taxes | **178** | 183 | 137 |
| Fractional ownership deferred costs | **151** | 156 | 227 |
| Retirement benefits | **50** | 29 | 44 |
| Investments in associates | **48** | 57 | 40 |
| Deferred financing charges | **47** | 65 | 99 |
| Other | **36** | 50 | 47 |
| | **$ 1,111** | $ 1,110 | $ 1,076 |
| Of which current | **$ 627** | $ 648 | $ 519 |
| Of which non current | **484** | 462 | 557 |
| | **$ 1,111** | $ 1,110 | $ 1,076 |

## 12. PROVISIONS

Changes in provisions were as follows for the three-month periods ended April 30:

| | Product warranties | Credit and residual value guarantees | Restructuring | Other [1] | Total |
|---|---|---|---|---|---|
| **Balance as at January 31, 2011** | **$ 1,120** | **$ 493** | **$ 70** | **$ 129** | **$ 1,812** |
| **Additions** | **95** | **-** | **-** | **4** | **99** |
| **Utilization** | **(81)** | **(46)** | **(15)** | **(5)** | **(147)** |
| **Reversals** | **(27)** | **(9)** | **(1)** | **(1)** | **(38)** |
| **Accretion expense** | **1** | **5** | **-** | **-** | **6** |
| **Effect of changes in discount rates** | **-** | **3** | **-** | **-** | **3** |
| **Effect of foreign currency exchange rate changes** | **60** | **-** | **5** | **6** | **71** |
| **Balance as at April 30, 2011** | **$ 1,168** | **$ 446** | **$ 59** | **$ 133** | **$ 1,806** |
| **Of which current** | **$ 1,024** | **$ 62** | **$ 52** | **$ 63** | **$ 1,201** |
| **Of which non current** | **144** | **384** | **7** | **70** | **605** |
| | **$ 1,168** | **$ 446** | **$ 59** | **$ 133** | **$ 1,806** |

| | Product warranties | Credit and residual value guarantees | Restructuring | Other [1] | Total |
|---|---|---|---|---|---|
| Balance as at February 1, 2010 | $ 1,009 | $ 536 | $ 82 | $ 188 | $ 1,815 |
| Additions | 74 | 6 | 1 | 11 | 92 |
| Utilization | (65) | (1) | (15) | (35) | (116) |
| Reversals | (17) | (5) | (3) | - | (25) |
| Accretion expense | - | 6 | - | - | 6 |
| Effect of changes in discount rates | - | (3) | - | - | (3) |
| Effect of foreign currency exchange rate changes | 10 | - | 1 | 1 | 12 |
| Balance as at April 30, 2010 | $ 1,011 | $ 539 | $ 66 | $ 165 | $ 1,781 |
| Of which current | $ 877 | $ 76 | $ 55 | $ 116 | $ 1,124 |
| Of which non current | 134 | 463 | 11 | 49 | 657 |
| | $ 1,011 | $ 539 | $ 66 | $ 165 | $ 1,781 |

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

## 13. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows as at:

| | April 30, 2011 | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| Derivative financial instruments | **$ 552** | $ 677 | $ 441 |
| Government refundable advances | **292** | 284 | 238 |
| Sale and leaseback obligations | **161** | 216 | 179 |
| Lease subsidies | **152** | 161 | 196 |
| Current portion of long-term debt | **28** | 17 | 11 |
| Vendor non-recurring costs | **16** | 15 | 9 |
| Other | **84** | 22 | 21 |
| | **$ 1,285** | $ 1,392 | $ 1,095 |
| Of which current | **$ 752** | $ 860 | $ 537 |
| Of which non current | **533** | 532 | 558 |
| | **$ 1,285** | $ 1,392 | $ 1,095 |

## 14. OTHER LIABILITIES

Other liabilities were as follows as at:

| | April 30, 2011 | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| Accruals for long-term contract costs | **$ 876** | $ 796 | $ 675 |
| Employee benefits[1] | **779** | 714 | 544 |
| Supplier contributions to aerospace programs | **313** | 314 | 150 |
| Fractional ownership deferred revenues | **184** | 196 | 306 |
| Income and other taxes payable | **146** | 166 | 203 |
| Deferred income taxes | **53** | 53 | 65 |
| Other | **630** | 659 | 466 |
| | **$ 2,981** | $ 2,898 | $ 2,409 |
| Of which current | **$ 2,090** | $ 1,990 | $ 1,833 |
| Of which non current | **891** | 908 | 576 |
| | **$ 2,981** | $ 2,898 | $ 2,409 |

[1] Comprised of all employee benefits excluding those related to retirement benefits, which are reported separately.

## 15. SHARE-BASED PLANS

**PSU and DSU plans**

The number of PSUs and DSUs has varied as follows for the three-month periods ended April 30:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **PSU** | **DSU** | PSU | DSU |
| Balance at beginning of period | **18,225,184** | **2,966,000** | 15,888,267 | 1,124,000 |
| Granted | **-** | **-** | 97,000 | 32,000 |
| Cancelled | **(163,765)** | **-** | (64,362) | - |
| Balance at end of period | **18,061,419** | **2,966,000** | 15,920,905 | 1,156,000 |

A compensation expense of $7 million was recorded during the three-month period ended April 30, 2011 with respect to the PSU and DSU plans ($10 million during the three-month period ended April 30, 2010).

**Share option plans**

The number of options issued and outstanding to purchase class B Shares (Subordinate Voting) has varied as follows for the three-month periods ended April 30:

| | **2011** | 2010 |
|---|---|---|
| Balance at beginning of period | **35,911,189** | 39,001,075 |
| Granted | **-** | 45,000 |
| Exercised | **(1,176,974)** | (381,575) |
| Cancelled | **(272,931)** | (42,500) |
| Expired | **(671,500)** | (1,491,000) |
| Balance at end of period | **33,789,784** | 37,131,000 |

A compensation expense of $2 million was recorded during the three-month periods ended April 30, 2011 and 2010 with respect to share option plans.

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

Net change in non-cash balances related to operations was as follows for the three-month periods ended April 30:

| | **2011** | 2010 |
|---|---|---|
| Trade and other receivables | **$ (61)** | $ (128) |
| Inventories | **(428)** | (183) |
| Other financial assets and liabilities, net | **32** | 77 |
| Other assets | **9** | (41) |
| Trade and other payables | **(50)** | 82 |
| Provisions | **(77)** | (10) |
| Advances and progress billings in excess of related long-term contract costs | **43** | (19) |
| Advances on aerospace programs | **85** | (280) |
| Retirement benefit liability | **36** | 11 |
| Other liabilities | **(23)** | 217 |
| | **$ (434)** | $ (274) |

## 17. COMMITMENTS AND CONTINGENCIES

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

| | **April 30, 2011** | January 31, 2011 | February 1, 2010 |
|---|---|---|---|
| **Aircraft sales** | | | |
| Credit | **$ 1,422** | $ 1,453 | $ 1,524 |
| Residual value | **2,177** | 2,239 | 2,425 |
| Mutually exclusive exposure[1] | **(786)** | (806) | (894) |
| Total credit and residual value exposure | **$ 2,813** | $ 2,886 | $ 3,055 |
| Trade-in commitments | **1,453** | 1,214 | 761 |
| Conditional repurchase obligations | **593** | 594 | 599 |
| **Other** | | | |
| Credit and residual value | **165** | 159 | 157 |
| Performance guarantees | **38** | 34 | 44 |

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

Provisions for anticipated losses amounted to $446 million as at April 30, 2011 ($493 million as at January 31, 2011 and $536 million as at February 1, 2010). In addition, lease subsidy liabilities, which would be extinguished in the event of credit default by certain customers, amounted to $152 million as at April 30, 2011 ($161 million as at January 31, 2011 and $196 million as at February 1, 2010).

**Litigation**

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

While the Corporation cannot predict the final outcome of legal proceedings pending as at April 30, 2011, 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.

## 18. ADOPTION OF IFRS

The Corporation has adopted IFRS effective for its interim and annual financial statements beginning February 1, 2011. We also intend to request approval from our Board of Directors in December 2011 to change our financial year-end from January 31 to December 31. If approved, this change of year-end reporting date would be effective in December 2011, and the fourth quarter ending December 31, 2011 would include two months of BA's results and the annual period ending December 31, 2011 would contain 11 months of BA's results. As BT currently reports using a December 31 year-end, the proposed change would have no impact on BT and the fourth quarter and annual period ending December 31, 2011 would contain three months and 12 months of BT results, respectively.

The Corporation's financial statements for the fiscal year ending December 31, 2011 will be the first annual financial statements prepared in accordance with IFRS. As required by IFRS 1, the Corporation is expected to make an explicit and unreserved statement of compliance with IFRS in its financial statements for the fiscal year ending December 31, 2011. For all periods up to and including the year ended January 31, 2011, the Corporation prepared its financial statements in accordance with previous Canadian GAAP. This note explains how the transition from previous Canadian GAAP to IFRS affected the Corporation's reported financial position as at February 1, 2010 and January 31, 2011, as well as comprehensive income and cash flows for the year ended January 31, 2011 and the three-month period ended April 30, 2010. References to Canadian GAAP in this note refer to Canadian GAAP applicable to the Corporation for reporting periods up to and including the year ended January 31, 2011.

IFRS 1 requires a first-time adopter to retrospectively apply all IFRS effective as at the end of its first annual reporting period (December 31, 2011 for the Corporation). IFRS 1 also provides a first-time adopter certain optional exemptions and requires certain mandatory exemptions from full retrospective application of IFRS. Most of these exemptions, if elected or mandatory, must be applied as at the beginning of the required comparative period (the transition date). The Corporation's transition date to IFRS is February 1, 2010.

Amounts in the consolidated statements of income, comprehensive income, financial position, changes in equity and cash flows for the comparative period to be included in our first annual financial statements to be prepared under IFRS for the fiscal year ending December 31, 2011 may differ from the restated figures presented in this note, if new standards are adopted prior to December 31, 2011 or if the Corporation modifies the choices made with regard to its accounting policies under IFRS.

**Exemptions from full retrospective application of IFRS**

Under IFRS 1, the Corporation elected to apply the following optional exemptions in preparing its opening statement of financial position as at the transition date.

***1. Business combinations –*** The Corporation elected to apply IFRS prospectively for business combinations from the date of transition to IFRS. Accordingly, the Corporation has not restated the accounting for acquisitions of subsidiaries, interests in joint ventures or associates that occurred before February 1, 2010.

***2. CCTD –*** At the transition date, the Corporation transferred all cumulative foreign exchange losses, amounting to $117 million, from CCTD to retained earnings. There was no impact on equity as at February 1, 2010 as a result of this election.

***3. Borrowing costs –*** The Corporation elected to begin capitalization of borrowing costs to qualifying assets under IFRS effective February 19, 2007, the launch date of the *CRJ1000 NextGen* aircraft program. Borrowing costs of $32 million, capitalized under Canadian GAAP prior to that date, were derecognized and applied against retained earnings at the transition date.

***4. Share-based compensation –*** The Corporation did not apply IFRS 2, *Share-based payment*, to equity instruments granted prior to November 7, 2002 and those that have vested before February 1, 2010. At transition date, there was no adjustment related to these instruments as a result of this election.

***5. Retirement benefits –*** The Corporation elected to disclose the defined benefit obligations, plan assets, deficit and experience adjustments on retirement benefit liabilities and assets prospectively from the date of transition, progressively building the data to present the four years of comparative information required under IFRS.

In accordance with the mandatory exemptions from retrospective application of IFRS, the consolidated statement of financial position as at February 1, 2010 does not reflect any hedge relationships which did not satisfy the hedge accounting criteria in IAS 39, *Financial Instruments: Recognition and Measurement*, as of the transition date.

**Reconciliations of equity and net income from Canadian GAAP to IFRS**

The following reconciliations illustrate the measurement and recognition differences in restating equity and net income reported under Canadian GAAP to IFRS for the dates and periods indicated.

**Reconciliation of equity**

| | Item | **January 31, 2011** | April 30, 2010 | February 1, 2010 |
|---|---|---|---|---|
| **Equity under Canadian GAAP (as reported)** | | **$ 4,352** | **$ 3,869** | **$ 3,769** |
| Measurement and recognition differences: | | | | |
| Retirement benefits | A | (2,110) | (2,286) | (2,198) |
| Revenues | B | (552) | (543) | (554) |
| Aerospace program tooling | C | (195) | (232) | (246) |
| Sale and leaseback obligations | D | (1) | 3 | (6) |
| Other | | (92) | 34 | (12) |
| | | (2,950) | (3,024) | (3,016) |
| Income tax impact of all restatements | E | 119 | 206 | 207 |
| Total restatements | | (2,831) | (2,818) | (2,809) |
| **Equity under IFRS** | | **$ 1,521** | **$ 1,051** | **$ 960** |

**Reconciliation of EBIT, net income and diluted EPS**

| | Item | BA | BT | EBIT | Net financing expense | Net income |
|---|---|---|---|---|---|---|
| | | | | | | **Year ended January 31, 2011** |
| **As reported under Canadian GAAP** | | **$ 448** | **$ 602** | **$ 1,050** | **$ (119)** | **$ 769** [(1)] |
| Reclassifications | | 1 | | 1 | (1) | - |
| Restatements to income before income taxes | | | | | | |
| Retirement benefits | A | 31 | 66 | 97 | (44) | 53 |
| Revenues | B | 24 | (15) | 9 | (7) | 2 |
| Aerospace program tooling | C | 55 | | 55 | (4) | 51 |
| Sale and leaseback obligations | D | 10 | | 10 | (5) | 5 |
| Other | | (15) | (2) | (17) | (28) | (45) |
| | | 105 | 49 | 154 | (88) | 66 |
| Income tax impact of all restatements | E | | | | | (60) |
| Total restatements | | 105 | 49 | 154 | (88) | 6 |
| **As restated under IFRS** | | **$ 554** | **$ 651** | **$ 1,205** | **$ (208)** | **$ 775** |
| **Diluted EPS under Canadian GAAP (as reported)** | | | | | | **$ 0.42** |
| Impact of IFRS restatements to net income | | | | | | - |
| **Diluted EPS under IFRS** | | | | | | **$ 0.42** |

(1) Net of income taxes of $162 million

| | Item | BA | BT | EBIT | Net financing expense | Net income |
|---|---|---|---|---|---|---|
| | | | | | | **Three-month period ended April 30, 2010** |
| **As reported under Canadian GAAP** | | **$ 89** | **$ 135** | **$ 224** | **$ (28)** | **$ 153** [(1)] |
| Restatements to income before income taxes | | | | | | |
| Retirement benefits | A | 5 | 14 | 19 | (13) | 6 |
| Revenues | B | 14 | (3) | 11 | | 11 |
| Aerospace program tooling | C | 14 | | 14 | | 14 |
| Sale and leaseback obligations | D | 10 | | 10 | (1) | 9 |
| Other | | 1 | | 1 | (1) | - |
| | | 44 | 11 | 55 | (15) | 40 |
| Income tax impact of all restatements | E | | | | | 2 |
| Total restatements | | 44 | 11 | 55 | (15) | 42 |
| **As restated under IFRS** | | **$ 133** | **$ 146** | **$ 279** | **$ (43)** | **$ 195** |
| **Diluted EPS under Canadian GAAP (as reported)** | | | | | | **$ 0.08** |
| Impact of IFRS restatements to net income | | | | | | 0.03 |
| **Diluted EPS under IFRS** | | | | | | **$ 0.11** |

(1) Net of income taxes of $43 million

The following items explain the most significant restatements to equity and net income resulting from the change in accounting policies upon adoption of IFRS.

### A. Retirement benefits

The equity adjustment before income taxes was as follows as at February 1, 2010:

| | | |
|---|---|---|
| Net unrecognized actuarial losses recorded in deficit | $ | (1,826) |
| Vested past service credits | | (32) |
| Asset ceiling and additional liability test | | (97) |
| Measurement date | | (227) |
| Allocation of retirement benefit costs to inventories and aerospace program tooling | | (16) |
| **Equity adjustment, before income taxes** | $ | (2,198) |

The impact on EBT was as follows:

| | | Year ended January 31, 2011 | | Three-month period ended April 30, 2010 |
|---|---|---|---|---|
| Increase in EBIT | $ | 97 | $ | 19 |
| Increase in net financing expense | | (44) | | (13) |
| **Increase in EBT** | $ | 53 | $ | 6 |

***Actuarial gains and losses***
Under Canadian GAAP, actuarial gains and losses were amortized through income using a corridor approach over the estimated average remaining service life (“EARSL”) of employees. Under IFRS, the Corporation has elected to recognize all actuarial gains and losses in OCI as incurred. As a result of this election, foreign exchange gains and losses on the translation of plan assets and liabilities are also recorded in OCI under IFRS.

***Vested past service costs (credits)***
Under Canadian GAAP, vested past service costs (credits) of defined benefit plans were amortized over the EARSL of plan participants from their grant date. Under IFRS, vested past service costs (credits) of defined benefit plans must be recognized in income immediately as granted.

***Asset ceiling and additionally liability test***
Under IFRS, IFRIC 14, *The limit on a defined benefit asset, minimum funding requirements and their interaction*, requires entities to consider minimum funding requirements when assessing the financial position of defined benefit plans. This interpretation may require either a reduction of the retirement benefit asset or the recognition of an additional liability. Canadian GAAP also set limits on the recognition of the retirement benefit asset, but did not consider minimum funding requirements and as such could not create an additional liability.

Further, under Canadian GAAP, an adjustment arising from the asset ceiling was recognized in income. Since the Corporation has elected to recognize all actuarial gains and losses in OCI under IFRS, variations arising from this test are also recognized in OCI in the period in which they occur.

***Measurement date***
Canadian GAAP allowed entities to use a measurement date for defined benefit obligations and plan assets up to three months prior to the fiscal year-end date. December 31 was used as the measurement date for all of the Corporation's defined benefit plans under Canadian GAAP.

Measurement of the defined benefit obligations and plan assets is performed at the reporting date under IFRS. Accordingly, defined benefit plans at BA and Corporate Office were measured using a January 31 measurement date under IFRS during the fiscal year ended January 31, 2011. Defined benefit plans at BT continued to use a December 31 measurement date as this is the financial year-end date of BT.

***Allocation of retirement benefit costs to inventories and aerospace program tooling***
The adjustment to inventories and aerospace program tooling arises from changes in the presentation of retirement benefit costs. The Corporation elected to segregate retirement benefit costs into three components under IFRS:

- retirement benefit expense (including current and past service costs or credits) recorded in EBIT;
- accretion on retirement benefit obligations and expected return on retirement plan assets recorded in financing expense and financing income; and
- actuarial gains and losses, asset ceiling and additional liability test and gains and losses on foreign exchange recorded in OCI.

Under Canadian GAAP these three components were eventually all recorded in EBIT. As a result, only current service costs are considered for capitalization in aerospace program tooling and inventories under IFRS, whereas under Canadian GAAP all three components were considered for capitalization.

**B. Revenues**

***Bombardier Aerospace***
Under Canadian GAAP, revenues from the sale of light business (*Learjet* family), commercial and amphibious aircraft were recognized at delivery of the completed aircraft. Revenues from the sale of medium and large business aircraft (*Challenger* and *Global* families) were segmented between two milestones: green aircraft delivery (i.e. before exterior painting and installation of interiors and optional avionics) and upon final acceptance of the completed aircraft by customers.

Under IFRS, revenues from the sale of all aircraft are recognized upon delivery of the completed aircraft to customers. At transition, revenues for 113 medium and large business aircraft for which final delivery had not taken place were reversed, resulting in an order backlog increase of $2.9 billion. For the year ended January 31, 2011, revenues for 109 medium and large business aircraft for which final delivery had not taken place were reversed and revenues for 121 medium and large business aircraft for which final delivery took place during the year were recognized. For the three-month period ended April 30, 2010, revenues for 28 and 31 medium and large business aircraft were reversed and recognized, respectively.

The following tables show the restatements in the number of aircraft deliveries for the year and three-month period.

| | | | | **Year ended January 31, 2011** |
|---|---|---|---|---|
| (In units) | **Aircraft deliveries Canadian GAAP** | **Reversal of green aircraft** | **Recognition of completed aircraft** | **Aircraft deliveries IFRS** |
| *Learjet* Series | **33** | - | - | **33** |
| *Challenger 300* | **29** | (29) | 29 | **29** |
| *Challenger 605* | **33** | (33) | 36 | **36** |
| *Challenger 800* Series | **1** | - | 6 | **7** |
| *Global 5000/Global Express XRS* | **47** | (47) | 50 | **50** |
| Commercial | **97** | - | - | **97** |
| Amphibious | **4** | - | - | **4** |
| | **244** | (109) | 121 | **256** |

| | Three-month period ended April 30, 2010 | | | |
|---|---|---|---|---|
| (In units) | **Aircraft deliveries Canadian GAAP** | **Reversal of green aircraft** | **Recognition of completed aircraft** | **Aircraft deliveries IFRS** |
| *Learjet* Series | **8** | - | - | **8** |
| *Challenger 300* | **6** | (6) | 7 | **7** |
| *Challenger 605* | **9** | (9) | 10 | **10** |
| *Challenger 800* Series | **-** | - | 3 | **3** |
| *Global 5000/Global Express XRS* | **13** | (13) | 11 | **11** |
| Commercial | **16** | - | - | **16** |
| Amphibious | **1** | - | - | **1** |
| | **53** | (28) | 31 | **56** |

As part of the operations of the Corporation, unavoidable costs of meeting contractual obligations may exceed the economic benefits expected from a contract, resulting in an onerous contract. Under Canadian GAAP, no provision was recorded in such circumstances, unless the contract was accounted for under long-term contract accounting rules. Under IFRS, a provision must be recorded when a contract becomes onerous. This difference resulted in a decrease in equity at transition.

Under most contracts for the sale of aircraft, penalties must be paid if the aircraft is delivered after an agreed timeline. Under Canadian GAAP, such late-delivery penalties were recognized directly in income, based on the total expected penalty. Under IFRS, such penalties are recognized in inventories, when incurred, since they are seen as an integral component of the cost of the asset. This difference resulted in an increase in equity at transition.

Under Canadian GAAP, provisions for warranties related to the sale of aircraft did not take into account the time value of money. Under IFRS, aircraft warranty provisions must be discounted and an accretion expense is recorded over the passage of time. This difference resulted in an increase in equity at transition.

As a result of these restatements, BA revenues for the year ended January 31, 2011 increased by $252 million, EBIT increased by $24 million and financing expense increased by $7 million. For the three-month period ended April 30, 2010, BA revenues increased by $30 million and EBIT and EBT increased by $14 million.

***Bombardier Transportation***

In connection with BT's operations, a base contract is often granted with options that can be exercised by the customer to order more quantities of the same product. The margin earned on these options is often higher than the margin on the base contract, mainly due to the learning curve effect decreasing production costs over time.

Canadian GAAP did not allow accounting for the base contract and an exercised option as a single unit of accounting, using a combined margin, if the margins of the base contract and option differed significantly. This criterion does not exist under IFRS and therefore base contracts must always be combined with exercised options if they relate to a single project and the product is similar in design, technology and function; the price of the options was negotiated as part of the base contract; and production is performed on a continuous basis. Consequently, under IFRS, more base contracts are combined with options. Such combining generally increases the profit on the base contract through a cumulative adjustment recorded when the option contract is signed and reduces the profit during the execution of the option contract, as the combined margin is used instead of only the higher margin of the option contract.

This difference resulted in an increase in equity at transition. As a result of this difference, BT's revenues, EBIT and EBT under IFRS all decreased by $15 million for the year ended January 31, 2011 and by $3 million for the three-month period ended April 30, 2010.

## C. Aerospace program tooling

Restatements related to aerospace program tooling are attributed to the following three elements.

***Government refundable advances***

As an incentive to stimulate R&D, some governments provide advances during the development period, which are usually conditionally repaid upon delivery of the related product.

Under Canadian GAAP, contingently repayable advances received were deducted from aerospace program tooling or R&D expense, and any repayments were recorded as an expense in cost of sales upon delivery of the aircraft. Under IFRS, a liability is recorded for the expected repayment of advances received if it is probable that the conditions for repayment will be met. Repayments are recorded as a reduction of the liability. Revisions to the estimate of amounts to be repaid result in an increase or decrease in the liability and aerospace program tooling or R&D expense, and a cumulative catch-up adjustment to amortization is recognized immediately in income.

As a result, aerospace program tooling is recorded gross of government refundable advances under IFRS, resulting in a higher amortization expense in the earlier stages of an aircraft program's life. Recording of government refundable advances as a liability at transition decreased equity by $148 million as a significant portion of the related aerospace program tooling was amortized prior to February 1, 2010 under IFRS.

***R&D expenditures incurred by vendors on behalf of the Corporation***

As a new aircraft is developed, some vendors invest in the development of new technology (vendor non-recurring costs or "VNR costs"). These costs may be repaid to the vendor as part of the purchase price of the vendor's product, and the technology is transferred to the Corporation once an agreed amount is repaid.

Under Canadian GAAP, the amounts repaid to vendors were recognized as aerospace program tooling ratably as the vendor developed product was purchased. Under IFRS, upon evidence of successful development, which generally occurs at a program's entry into service, such VNR costs must be recognized as a liability based on the best estimate of the amount to be repaid to the vendor, with a corresponding increase in aerospace program tooling.

As a result, VNR costs are recorded earlier under IFRS, based on the present value of the best estimate of the amounts repayable, with consequential higher amortization of aerospace program tooling early in the program life. Repayments to vendors are recorded as a reduction of the liability.

The adjustment at transition decreased equity by $70 million as a significant portion of the related aerospace program tooling was amortized prior to February 1, 2010.

***Borrowing costs***

As noted in the section "Exemptions from full retrospective application of IFRS", the Corporation has elected under the IFRS 1 exemption to begin capitalization of borrowing costs to qualifying assets effective February 19, 2007, the launch date of the *CRJ1000 NextGen* aircraft program. Borrowing costs of $32 million capitalized under Canadian GAAP prior to that date were derecognized and applied against retained earnings at the transition date.

As noted above, aerospace program tooling is recorded gross of government refundable advances under IFRS. As a result, aerospace program tooling for programs under development is higher under IFRS and therefore the amount of capitalized borrowing costs is also higher.

Under Canadian GAAP, interest charges incurred during the development period were capitalized as part of aerospace program tooling based on the general borrowing rate as there were no specific borrowings. Under IFRS, government refundable advances recorded during the development period are considered specific borrowings and are included in borrowing costs capitalized to aerospace program tooling beginning February 19, 2007.

At transition, the $32 million write-off of capitalized borrowing costs was offset by an increase of $4 million in borrowing costs capitalized to aerospace program tooling as a result of these accounting policy differences.

***Combined impact on EBT of adjustments to aerospace program tooling***

| Increase (decrease) in EBT | Year ended January 31, 2011 | Three-month period ended April 30, 2011 |
|---|---|---|
| Decrease in amortization resulting from overall lower aerospace program tooling balance | $ 33 | $ 15 |
| Repayments of government refundable advances no longer recorded in EBIT | 47 | 7 |
| Change in estimates of the liability for government refundable advances | (14) | - |
| Foreign exchange loss upon translation of the liability for government refundable advances | (11) | (8) |
| Accretion expense on the liability for government refundable advances | (19) | (4) |
| Additional capitalization of borrowing costs due to a higher capitalization base for programs under development | 15 | 4 |
| | $ 51 | $ 14 |

**D. Sale and leaseback obligations**

Under Canadian GAAP, contracts under sale and leaseback facilities for pre-owned business aircraft were classified as operating leases based on the quantitative tests for lease classification. IFRS requires a qualitative and quantitative assessment of lease classification and, as a result, these lease contracts are accounted for as financial obligations secured by the pre-owned business aircraft.

Under Canadian GAAP, revenue was recorded when the aircraft was transferred to a facility. Under IFRS, the pre-owned aircraft remain in inventories and no revenue is recorded until the aircraft is sold outside the facilities to a third-party customer. Also, interest expense is recognized on the liability under IFRS based on the effective interest rate of the sale and leaseback obligation.

Under IFRS, revenues and cost of sales for the year ended January 31, 2011 decreased by $39 million as 18 sales of pre-owned aircraft to these facilities were reversed and 16 sales outside the facilities to third-party customers of different pre-owned aircraft were recognized. As these sales are generally made at low margins, the adjustment to revenues had no impact on EBIT. However, EBIT for the year ended January 31, 2011 is higher by $10 million under IFRS, as lease payments to the facilities are recorded as capital repayments or interest expense under IFRS, rather than as a lease expense in EBIT, while interest expense for the year ended January 31, 2011 increased by $5 million, resulting in an increase in EBT of $5 million.

For the three-month period ended April 30, 2010, five sales of pre-owned aircraft to these facilities were reversed and four sales outside the facilities to third-party customers of different pre-owned aircraft were recognized with no significant impact to revenues and cost of sales. EBIT increased by $10 million due to the change in accounting policy under IFRS and interest expense increased by $1 million.

### E. Income tax impact of all restatements

The restatements to equity as at February 1, 2010 totalling $3,016 million affect the accounting values of assets and liabilities but not their taxes bases. Using the Canadian statutory tax rate of 31.3% at the transition date, these restatements would trigger the recognition of a deferred income tax asset of $944 million. However, IFRS allows recognition of a deferred income tax asset only to the extent it is probable that taxable profit will be available against which the deductible temporary differences or unused income tax losses can be utilized. The deferred income tax asset has not been fully recognized under IFRS, as some of the income tax benefits are expected to materialize in periods subsequent to the period meeting the probability of recovery test necessary to support such assets. In connection with IFRS restatements to equity, $207 million of additional deferred income tax assets were recognized at transition.

Applying the Canadian statutory tax rate of 30.0% to the IFRS adjustments to EBT for the year ended January 31, 2011 would result in an income tax expense of $20 million. However, the probable future taxable profit that will be available to utilize operating losses and deductible temporary differences is lower under IFRS mainly due to the change in revenue recognition policy for medium and large business aircraft, which delays revenue recognition until completion of the aircraft. As a result, less deferred income tax benefits have been recognized during the year under IFRS. The additional income tax expense as a result of all restatements for the year ended January 31, 2011 was $60 million.

For the three-month period ended April 30, 2010, applying the Canadian statutory tax rate of 30.0% to the IFRS adjustments would result in an income tax expense of $12 million. However, additional income tax benefits related to operating losses and temporary differences were recognized under IFRS and there was an overall income tax recovery of $2 million.

### Reconciliation of statements of financial position and income from Canadian GAAP to IFRS

The following reconciliations illustrate the reclassifications and restatements from Canadian GAAP to IFRS to the opening statement of financial position and to the statement of income for the year ended January 31, 2011.

**Consolidated statement of financial position as at February 1, 2010**

| Canadian GAAP line items | Cdn GAAP | Reclassi-fications | Restate-ments | Items | IFRS | IFRS line items |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | **Assets** |
| Cash and cash equivalents | 3,372 | | | | 3,372 | Cash and cash equivalents |
| Invested collateral | 682 | (682) | | | | |
| Receivables | 1,897 | (137) | (619) | B | 1,141 | Trade and other receivables |
| Aircraft financing | 473 | (473) | | | | |
| Inventories | 5,268 | 62 | 2,300 | A, B, D | 7,630 | Inventories |
| | | 547 | (10) | | 537 | Other financial assets |
| | | 500 | 19 | B | 519 | Other assets |
| | **11,692** | **(183)** | **1,690** | | **13,199** | **Current assets** |
| | | 682 | - | | 682 | Invested collateral |
| PP&E | 1,643 | 46 | (15) | | 1,674 | PP&E |
| | | 1,439 | (54) | (1), C | 1,385 | Aerospace program tooling |
| Intangible assets | 1,696 | (1,696) | | | | |
| Fractional ownership deferred costs | 271 | (271) | | | | |
| Deferred income taxes | 1,166 | | 207 | E | 1,373 | Deferred income taxes |
| Accrued benefit assets | 1,070 | (44) | (1,026) | A | - | |
| Derivative financial instruments | 482 | (482) | | | | |
| Goodwill | 2,247 | | | | 2,247 | Goodwill |
| | | 1,003 | | | 1,003 | Other financial assets |
| Other assets | 1,006 | (455) | 6 | C, D | 557 | Other assets |
| | **9,581** | **222** | **(882)** | | **8,921** | **Non-current assets** |
| | **21,273** | **39** | **808** | | **22,120** | |
| **Liabilities** | | | | | | **Liabilities** |
| Accounts payable and accrued liabilities | 7,427 | (4,076) | (152) | B, D | 3,199 | Trade and other payables |
| | | 1,180 | (40) | B | 1,140 | Provisions |
| Advances and progress billings in excess of related long-term contract costs | 1,899 | | | | 1,899 | Advances and progress billings in excess of long-term contract inventories |
| Advances on aerospace programs | 2,092 | (1,374) | 2,337 | B | 3,055 | Advances on aerospace programs |
| Fractional ownership deferred revenues | 346 | (346) | | | | |
| | | 359 | 178 | D | 537 | Other financial liabilities |
| | | 1,835 | (2) | D | 1,833 | Other liabilities |
| | **11,764** | **(2,422)** | **2,321** | | **11,663** | **Current liabilities** |
| | | 677 | (2) | | 675 | Provisions |
| | | 1,373 | | | 1,373 | Advances on aerospace programs |
| Deferred income taxes | 65 | (65) | | | | |
| Long-term debt | 4,162 | (11) | (17) | | 4,134 | Non-current portion of long-term debt |
| Accrued benefit liabilities | 1,084 | (59) | 1,156 | A | 2,181 | Retirement benefits |
| Derivative financial instruments | 429 | (429) | | | | |
| | | 358 | 200 | C | 558 | Other financial liabilities |
| | | 617 | (41) | | 576 | Other liabilities |
| | **5,740** | **2,461** | **1,296** | | **9,497** | **Non-current liabilities** |
| | **17,504** | **39** | **3,617** | | **21,160** | |
| Preferred shares | 347 | | | | 347 | Preferred shares |
| Common shares | 1,324 | | | | 1,324 | Common shares |
| Contributed surplus | 132 | | | | 132 | Contributed surplus |
| Retained earnings | 2,087 | | (2,910) | A-E | (823) | Deficit |
| Accumulated OCI - AFS and cash flow hedges | (72) | | (6) | | (78) | Accumulated OCI - AFS and cash flow hedges |
| Accumulated OCI - CTA | (117) | | 117 | (1) | - | Accumulated OCI - CCTD |
| Equity attributable to shareholders of Bombardier Inc. | 3,701 | | (2,799) | | 902 | Equity attributable to equity holders of Bombardier Inc. |
| Equity attributable to NCI | 68 | | (10) | | 58 | Equity attributable to NCI |
| | **3,769** | | **(2,809)** | | **960** | |
| | **21,273** | **39** | **808** | | **22,120** | |

(1) Restatements include effect of IFRS 1 optional exemptions.

**Consolidated statement of income for the fiscal year ended January 31, 2011**

| Canadian GAAP line items | Cdn GAAP | Reclassi-fications | Restate-ments | Items | IFRS | IFRS line items |
|---|---|---|---|---|---|---|
| Revenues | 17,712 | | 180 | B, D | 17,892 | Revenues |
| Cost of sales | 14,668 | 249 | 38 | A-D | 14,955 | Cost of sales |
| | **3,044** | **(249)** | **142** | | **2,937** | **Gross margin** |
| SG&A | 1,369 | 7 | 1 | A, B | 1,377 | SG&A |
| R&D | 193 | 160 | (34) | A, C | 319 | R&D |
| Other expense (income) | 22 | (7) | 21 | C | 36 | Other expense (income) |
| Amortization | 410 | (410) | | | | |
| **EBIT** | **1,050** | **1** | **154** | | **1,205** | **EBIT** |
| Financing income | (137) | 3 | (342) | A | (476) | Financing income |
| Financing expense | 256 | (2) | 430 | A-D | 684 | Financing expense |
| **EBT** | **931** | **-** | **66** | | **997** | **EBT** |
| Income taxes | 162 | | 60 | E | 222 | Income taxes |
| **Net income** | **769** | **-** | **6** | | **775** | **Net income** |
| Attributable to shareholders of Bombardier | 755 | | 7 | | 762 | Attributable to equity holders of Bombardier |
| Attributable to NCI | 14 | | (1) | | 13 | Attributable to NCI |
| Basic EPS | 0.42 | | 0.01 | | 0.43 | Basic EPS |
| Diluted EPS | 0.42 | | - | | 0.42 | Diluted EPS |

### Reclassifications from Canadian GAAP reporting to IFRS

A classified statement of financial position has been presented under IFRS, based on the operating cycle for operating items and based on a twelve-month period for non-operating items.

The following are mandatory reclassifications of items in the statement of financial position upon transition to IFRS:

- Financial assets and financial liabilities are presented separately from non-financial assets and non-financial liabilities.
- Provisions are presented separately from other payables.
- Other long-term employment benefits, such as long-term disability and service awards, are segregated from retirement benefits and are presented in other liabilities.

The Corporation has also made the following elective reclassification of items in the statements of financial position to place focus on key accounts under IFRS:

- Aerospace program tooling is presented separately from goodwill and other intangibles.
- Fractional ownership deferred costs and fractional ownership deferred revenues are no longer presented separately and are included in other assets and other liabilities, respectively.
- Aircraft financing is no longer presented separately and is included in other financial assets, except for assets under operating leases which are presented as non-financial assets classified according to their nature.
- Derivative financial instruments are no longer presented separately and are included in other financial assets and other financial liabilities.

The Corporation has made the following mandatory reclassification of items in the statement of income:

- Amortization expense is no longer presented separately and is classified based on the underlying functions between cost of sales, R&D and SG&A.

The Corporation has made the following elective reclassifications of items in the statement of income:

- Expected return on pension plan assets and accretion on retirement benefit obligations are presented in financing expense and financing income and are no longer included in EBIT.
- Other income and expenses related to operations, such as foreign exchange gains and losses, are no longer included in other expense (income) and are instead classified as cost of sales unless the item is unusual and material.
- Under Canadian GAAP, changes in valuation of credit and residual value guarantees, loans and lease receivables, lease subsidies, investments in financing structures and servicing fees are presented in cost of sales or other expense (income). Under IFRS, changes in the value of these items are presented in financing expense or financing income if the changes arise from variation in interest rates. Other changes in valuation of these items are presented in other expense (income) under IFRS.

**Reconciliation of comprehensive income from Canadian GAAP to IFRS**

The following reconciliation illustrates the restatements to comprehensive income reported under Canadian GAAP to IFRS for the periods indicated.

**Reconciliation of OCI**

| | Item | Year ended January 31, 2011 | Three-month period ended April 30, 2010 |
|---|---|---|---|
| **Comprehensive income under Canadian GAAP (as reported)** | | **$ 799** | **$ 154** |
| Differences on net income | | 6 | 42 |
| Differences on OCI | | | |
| Retirement benefits | A | 35 | (94) |
| Other | | (35) | 44 |
| Income tax impact of all restatements | E | (28) | (3) |
| | | (28) | (53) |
| **Comprehensive income under IFRS** | | **$ 777** | **$ 143** |

The following items explain the significant restatements to OCI resulting from the change in accounting policies upon adoption of IFRS.

**A. Retirement benefits**

Net actuarial gains of $35 million were incurred during fiscal year 2011, which include actuarial gains of $161 million mainly due to changes in discount rates, a loss of $70 million arising from variations in the asset ceiling and additional liability test, as well as $56 million of foreign exchange losses on the translation of plan assets and liabilities. Such actuarial gains and losses are recognized in OCI under IFRS in accordance with the Corporation's choice of accounting policy.

For the three-month period ended April 30, 2010, net actuarial losses decreased OCI by $94 million, and included actuarial losses of $50 million, mainly due to changes in discount rates, and foreign exchange losses of $44 million on the translation of plan assets and liabilities.

**E. Income tax impact of all restatements**

The related deferred income tax assets have not been fully recognized, as some of the income tax benefits are expected to materialize in periods subsequent to the period meeting the probability of recovery test necessary to support such assets.

**Changes to the statement of cash flows from Canadian GAAP to IFRS**

The net impacts on the statement of cash flows as a result of conversion to IFRS are as follows:

| | Year ended January 31, 2011 | Three-month period ended April 30, 2010 |
|---|---|---|
| Cash flows from operating activities | $ 14 | $ 9 |
| Cash flows from investing activities | (52) | (9) |
| Cash flows from financing activities | 38 | - |
| | $ - | $ - |

The following items explain the most significant restatements to the statement of cash flows, resulting from the changes in accounting policies upon adoption of IFRS:

- Under Canadian GAAP, payments to and from sale and leaseback facilities for pre-owned aircraft were classified as cash flows from operating activities. Under IFRS, such payments are treated as financing transactions and are classified as cash flows from financing activities. For the year ended January 31, 2011, cash flows from financing activities increased by $38 million as amounts received from these facilities exceeded repayments to the facilities. In the three-month period ended April 30, 2010, amounts received from the facilities was the same as the amounts of repayments, resulting in no impact on cash flows.
- Under Canadian GAAP, inflows from government refundable advances were netted against additions to PP&E and intangible assets and classified as cash flows from investing activities, with any repayments classified as cash flows from operating activities. Under IFRS, all transactions related to the government refundable advances are classified as cash flows from operating activities. During the year ended January 31, 2011, $52 million in government refundable advances was received and classified as cash flows from operating activities under IFRS ($9 million in the three-month period ended April 30, 2010).

# 19. ADDITIONAL ANNUAL DISCLOSURES

As a result of the adjustments discussed in note 18 – Adoption of IFRS, and as these interim consolidated financial statements are the Corporation's first consolidated financial statements prepared under IFRS, certain disclosures that are required in annual financial statements in accordance with IFRS, which were not included in the Corporation's most recent annual Consolidated Financial Statements prepared in accordance with previous Canadian GAAP, have been included in these interim consolidated financial statements.

Certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information.

## A. USE OF ESTIMATES AND JUDGMENT

The application of the Corporation's accounting policies requires management to make judgments, estimates and assumptions that can have a significant effect on the revenues, expenses, assets and liabilities recognized and disclosures made in the Consolidated Financial Statements. Estimates and judgments are significant when the outcome is highly uncertain at the time the estimates are made, or if different estimates or judgments could reasonably have been used and would have had a material impact on the Consolidated Financial Statements.

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

Management's budgets and strategic plans are pervasive information for the preparation of the Corporation's Consolidated Financial Statements, as this information is used as a basis for many estimates necessary to prepare the financial statements. Management prepares budgets and strategic plans on an annual basis, using a process whereby a detailed budget and three-year plan are prepared by each business unit and then consolidated at the segment and Corporation levels. Cash flows and profitability included in such budgets and strategic plans are based on the existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and collective agreements. The budget and strategic plans are subject to approval at various levels, including senior management and the Board of Directors. Management uses the budgets, three-year strategic plans as well as additional projections or assumptions to extrapolate the expected results for periods thereafter. Management then tracks performance as compared to the budgets and strategic plans at various levels within the Corporation. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of the Consolidated Financial Statements must be revised.

The following areas require management's most critical judgments, estimates and assumptions.

***Long-term contracts*** – BT conducts most of its business under long-term contracts with customers, whereby revenues and margins are recognized using the percentage-of-completion method of accounting. The long-term nature of these contracts requires estimates of total contract costs and revenues at completion.

Revenues at completion are adjusted for change orders, claims, penalties and contract terms that provide for the adjustment of prices. Management judgment is applied to determine if realization of additional revenues from contract change orders and claims is probable and such amounts, if probable, are included in estimated revenues at completion.

Estimated contract costs at completion incorporate forecasts for material and labour costs, foreign exchange rates and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers.

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

***Aerospace program tooling*** – Aerospace program tooling amortization and impairment testing require estimates of the expected number of aircraft to be delivered under each program. Such estimates are reviewed in detail as part of the budget and strategic plan process. Management exercises judgment to identify independent cash inflows and allocate aerospace program tooling to CGUs by family of aircraft. The recoverable amount of a CGU is based on the higher of fair value less costs to sell and value in use, generally determined using a discounted cash flow model. Other key estimates used to determine the recoverable amount include the discount rate and the expected future cash flows over the remaining life of the programs as determined in the strategic plans for each family of aircraft.

***Goodwill*** – The recoverable amount of the BT reportable segment, the group of CGUs to which goodwill is allocated, is based on the higher of fair value less costs to sell and value in use. The recoverable amounts calculated as at January 31, 2011 and as at February 1, 2010 were based on fair value less costs to sell using a discounted cash flow model.

Future cash flows are estimated as part of the strategic plans. A growth rate of 1% as at January 31, 2011 and February 1, 2010 was applied to the last year of the strategic plan to extrapolate cash flows beyond the initial three-year period. The discount rate after income taxes used is also a key estimate in the discounted cash flow model. The post-tax discount rate used for the impairment reviews was 7.3% as at January 31, 2011 (7.4% as at February 1, 2010).

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

***Credit and residual value guarantees –*** The Corporation uses an internal valuation model based on stochastic simulations to estimate the amounts to be paid under residual value and credit guarantees. The value is calculated using estimates of fair values of aircraft, current market assumptions for interest rates, published credit ratings when available and default probabilities from rating agencies. The fair value of aircraft is estimated using aircraft residual value curves adjusted to reflect the specific factors of the current aircraft market. The Corporation also uses internal assumptions to determine the credit risk of customers without published ratings. The estimates are reviewed on a quarterly basis.

***Retirement benefits*** – The actuarial valuation process used to measure pension and other post-employment benefit costs, assets and obligations is dependent on assumptions regarding discount rates, expected long-term rate of return on plan assets, compensation increases and inflation rates, health-care cost trends, as well as demographic factors such as retirement, mortality and turnover rates. Discount rates are reviewed on a quarterly basis. As most assumptions and estimates are long-term in nature, management assesses events and circumstances that could require a change in assumptions or estimates on a quarterly basis.

Discount rates represent the market rates for high quality corporate fixed income investments available for the period to maturity of the benefits. Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long-term investment returns and asset allocations. The expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases. See note 19 G – Retirement benefits for further details regarding assumptions used and sensitivity to changes in critical assumptions.

## B. INCOME TAXES

**Analysis of income tax expense**

Details of income tax expense were as follows for fiscal year 2011:

| | | |
|---|---|---|
| Current income taxes | $ | 155 |
| Deferred income taxes | | 67 |
| | $ | 222 |

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows for fiscal year 2011:

| | | |
|---|---|---|
| Income before income taxes | $ | 997 |
| Canadian statutory rate | | 30.0% |
| Income tax expense at statutory rate | | 299 |
| Increase (decrease) resulting from: | | |
| Recognition of previously unrecognized tax losses, tax credits or temporary differences | | (146) |
| Non-recognition of tax benefits related to tax losses and temporary differences | | 53 |
| Write down of deferred income tax assets | | 9 |
| Permanent differences | | 7 |
| Effect of substantively enacted tax rate changes | | 4 |
| Other | | (4) |
| Income tax expense | $ | 222 |
| Effective tax rate | | 22% |

Details of deferred income tax expense were as follows for fiscal year 2011:

| | | |
|---|---|---|
| Origination and reversal of temporary differences | $ | 147 |
| Recognition of previously unrecognized tax losses, tax credits and temporary differences | | (146) |
| Change in unrecognized tax benefits related to tax losses and temporary differences | | 53 |
| Write-down of deferred income tax assets | | 9 |
| Effect of substantively enacted tax rate changes | | 4 |
| | $ | 67 |

**Deferred income taxes**

Significant components of the Corporation's deferred income tax asset and liability were as follows as at:

| | January 31, 2011 | | February 1, 2010 | |
|---|---|---|---|---|
| | Asset | Liability | Asset | Liability |
| Operating tax losses carried forward | $ 1,261 | $ - | $ 1,226 | $ - |
| Inventories | 540 | (53) | 609 | (65) |
| Advances and progress billings in excess of long-term contract inventories and advances on aerospace programs | 412 | - | 400 | - |
| Provisions | 461 | - | 370 | - |
| PP&E | (108) | - | (77) | - |
| Intangible assets | (6) | - | 48 | - |
| Other financial assets and other assets | (170) | - | (246) | - |
| Retirement benefits | 523 | - | 578 | - |
| Other financial liabilities and other liabilities | 186 | - | 96 | - |
| Other | 47 | - | 116 | - |
| | 3,146 | (53) | 3,120 | (65) |
| Unrecognized deferred income tax assets | (1,852) | - | (1,747) | - |
| | $ 1,294 | $ (53) | $ 1,373 | $ (65) |

The net operating losses carried forward and deductible temporary differences for which deferred income tax assets have not been recognized amounted to $6,698 million as at January 31, 2011 ($6,400 million as at February 1, 2010). Of these amounts, $6,670 million as at January 31, 2011 have no expiration date ($6,383 million as at February 1, 2010) and $1,167 million relate to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income ($1,160 million as at February 1, 2010).

In addition, the Corporation has $123 million of unused investment tax credits, most of which can be carried forward for 20 years and $18 million of net capital losses carried forward for which deferred income tax assets have not been recognized (nil and $261 million as at February 1, 2010). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

Undistributed earnings of the Corporation's foreign subsidiaries, joint ventures and associates are considered to be indefinitely reinvested and, accordingly, no related deferred income tax liabilities have been recognized. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes. It is not practicable for the Corporation to estimate the amount of withholding taxes related to these undistributed foreign earnings.

## C. FINANCIAL INSTRUMENTS

**Carrying amounts and fair value of financial instruments**

The classification of financial instruments and their carrying amounts and fair value of financial instruments were as follows as at:

| | FVTP&L | | AFS | Amortized cost [1] | DDHR | Total carrying value | Fair value |
|---|---|---|---|---|---|---|---|
| | HFT | Designated | | | | | |
| **January 31, 2011** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | $ 4,195 | $ - | $ - | $ - | $ - | $ 4,195 | $ 4,195 |
| Invested collateral | - | 676 | - | - | - | 676 | 676 |
| Trade and other receivables | - | - | - | 1,377 | - | 1,377 | 1,377 |
| Other financial assets | 65 | 643 | 388 | 221 | 492 | 1,809 | 1,807 |
| | $ 4,260 | $ 1,319 | $ 388 | $ 1,598 | $ 492 | $ 8,057 | $ 8,055 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | $ - | $ - | n/a | $ 3,246 | $ - | $ 3,246 | $ 3,246 |
| Long-term debt | - | - | n/a | 4,662 | - | 4,662 | 4,747 |
| Other financial liabilities | 64 | 161 | n/a | 537 | 613 | 1,375 | 1,375 |
| | $ 64 | $ 161 | n/a | $ 8,445 | $ 613 | $ 9,283 | $ 9,368 |
| **February 1, 2010** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | $ 3,372 | $ - | $ - | $ - | $ - | $ 3,372 | $ 3,372 |
| Invested collateral | - | 682 | - | - | - | 682 | 682 |
| Trade and other receivables | - | - | - | 1,141 | - | 1,141 | 1,141 |
| Other financial assets | 98 | 508 | 328 | 208 | 398 | 1,540 | 1,539 |
| | $ 3,470 | $ 1,190 | $ 328 | $ 1,349 | $ 398 | $ 6,735 | $ 6,734 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | $ - | $ 9 | n/a | $ 3,190 | $ - | $ 3,199 | $ 3,213 |
| Long-term debt | - | - | n/a | 4,145 | - | 4,145 | 4,035 |
| Other financial liabilities | 77 | 196 | n/a | 447 | 364 | 1,084 | 1,111 |
| | $ 77 | $ 205 | n/a | $ 7,782 | $ 364 | $ 8,428 | $ 8,359 |

[1] Financial assets are classified as L&R and financial liabilities as other than HFT.
n/a: Not applicable

## D. PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows as at:

| | Land | Buildings | Equipment | Construction in progress | Other | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance as at February 1, 2010 | $ 99 | $ 1,901 | $ 1,103 | $ 157 | $ 442 | $ 3,702 |
| Additions | - | 48 | 86 | 117 | 116 | 367 |
| Disposals | - | (5) | (49) | - | (4) | (58) |
| Transfers | - | 86 | 14 | (104) | 4 | - |
| Effect of foreign currency exchange rate changes | 3 | 16 | 27 | 5 | 6 | 57 |
| Balance as at January 31, 2011 | $ 102 | $ 2,046 | $ 1,181 | $ 175 | $ 564 | $ 4,068 |
| **Accumulated amortization and impairment** | | | | | | |
| Balance as at February 1, 2010 | $ - | $ 1,058 | $ 705 | $ - | $ 265 | $ 2,028 |
| Amortization | - | 53 | 102 | - | 16 | 171 |
| Impairment | - | 8 | - | - | - | 8 |
| Disposals | - | (5) | (41) | - | (3) | (49) |
| Effect of foreign currency exchange rate changes | - | 7 | 22 | - | 3 | 32 |
| Balance as at January 31, 2011 | $ - | $ 1,121 | $ 788 | $ - | $ 281 | $ 2,190 |
| Net book value | $ 102 | $ 925 | $ 393 | $ 175 | $ 283 | $ 1,878 |

## E. INTANGIBLE ASSETS

Intangible assets were as follows as at:

| | Aerospace program tooling | | | Goodwill | Other [1] | Total |
|---|---|---|---|---|---|---|
| | Acquired | Internally generated | Total | | | |
| **Cost** | | | | | | |
| Balance as at February 1, 2010 | $ 814 | $ 3,382 | $ 4,196 | $ 2,247 | $ 820 | $ 7,263 |
| Additions | 328 | 501 | 829 | - | 47 | 876 |
| Disposals | - | - | - | - | (3) | (3) |
| Effect of foreign currency exchange rate changes | - | - | - | 111 | - | 111 |
| Balance as at January 31, 2011 | $ 1,142 | $ 3,883 | $ 5,025 | $ 2,358 | $ 864 | $ 8,247 |
| **Accumulated amortization and impairment** | | | | | | |
| Balance as at February 1, 2010 | $ 551 | $ 2,260 | $ 2,811 | $ - | $ 564 | $ 3,375 |
| Amortization | 27 | 99 | 126 | - | 58 | 184 |
| Disposals | - | - | - | - | (2) | (2) |
| Effect of foreign currency exchange rate changes | - | - | - | - | 1 | 1 |
| Balance as at January 31, 2011 | $ 578 | $ 2,359 | $ 2,937 | $ - | $ 621 | $ 3,558 |
| Net book value | $ 564 | $ 1,524 | $ 2,088 | $ 2,358 | $ 243 | $ 4,689 |

[1] Includes internally generated intangible assets with a cost and accumulated amortization of $433 million and $328 million, respectively, as at January 31, 2011 ($273 million and $228 million, respectively, as at February 1, 2010). Presented in note 11 – Other assets.

## F. TRADE AND OTHER PAYABLES

Trade and other payables were as follows as at:

| | January 31, 2011 | February 1, 2010 |
|---|---|---|
| Trade payables | $ 2,218 | $ 2,293 |
| Accrued liabilities | 597 | 543 |
| Interest | 89 | 56 |
| Other | 343 | 307 |
| | $ 3,246 | $ 3,199 |

## G. RETIREMENT BENEFITS

### Defined benefit plans

The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering a majority of its employees. Defined benefits are generally based on salary and years of service. The Corporation also provides other defined benefit plans, consisting essentially of post-retirement healthcare coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the components of the retirement benefit costs and financing expense and financing income for fiscal year 2011:

| | Pension benefits | Other benefits |
|---|---|---|
| Current service cost | $ 201 | $ 9 |
| Past service cost (credit) | $ 3 | $ (1) |
| Other | $ 4 | $ - |
| Accretion on retirement benefit obligations | $ 399 | $ 18 |
| Expected return on pension plan assets | $ (373) | $ - |

Net actuarial gains of $35 million recognized directly in OCI in fiscal year 2011 include $161 million of actuarial gains, a loss of $70 million resulting from the asset ceiling and additional liability test and a loss of $56 million related to foreign exchange re-evaluation of plans not denominated in the functional currency of the entity to which they relate.

The following tables present the changes in the defined benefit obligation and fair value of pension plan assets for fiscal year 2011:

| | Pension benefits | Other benefits |
|---|---|---|
| **Change in benefit obligation** | | |
| Obligation at beginning of year | $ 6,919 | $ 298 |
| Accretion | 399 | 18 |
| Benefits paid | (260) | (13) |
| Current service cost | 201 | 9 |
| Actuarial losses (gains) | 165 | (3) |
| Plan participants' contributions | 35 | - |
| Settlements | (8) | - |
| Curtailments | 4 | - |
| Past service cost | 3 | - |
| Special termination benefits | 1 | - |
| Other | 1 | - |
| Effect of exchange rate changes | 302 | 18 |
| Obligation at end of year | $ 7,762 | $ 327 |
| **Change in plan assets** | | |
| Fair value at beginning of year | $ 5,181 | $ - |
| Employer contributions | 419 | 13 |
| Expected return | 373 | - |
| Actuarial gains | 323 | - |
| Benefits paid | (260) | (13) |
| Plan participants' contributions | 35 | - |
| Settlements | (7) | - |
| Other | 1 | - |
| Effect of exchange rate changes | 257 | - |
| Fair value at end of year | $ 6,322 | $ - |

The following tables present the reconciliation of the funded status to the amount recognized in the consolidated statements of financial position as at:

| | January 31, 2011 | | February 1, 2010 | |
|---|---|---|---|---|
| | Pension benefits | Other benefits | Pension benefits | Other benefits |
| **Funded status - deficit** | | | | |
| Present value of funded obligations | $ 7,171 | $ - | $ 6,339 | $ - |
| Fair value of plan assets | (6,322) | - | (5,181) | - |
| | 849 | - | 1,158 | - |
| Present value of unfunded obligations | 591 | 327 | 580 | 298 |
| Unrecognized past service credits | - | 2 | - | 3 |
| Impact of asset ceiling test | 97 | - | 8 | - |
| Liability arising from minimum funding requirement | 80 | - | 90 | - |
| Net amount recognized | $ 1,617 | $ 329 | $ 1,836 | $ 301 |
| **Amounts included in:** | | | | |
| Retirement benefit | | | | |
| liabilities | $ 1,646 | $ 329 | $ 1,880 | $ 301 |
| assets[1] | (29) | - | (44) | - |
| Net liability | $ 1,617 | $ 329 | $ 1,836 | $ 301 |

[1] Presented in note 11 – Other assets.

The significant actuarial assumptions reflect the economic situation of each country. The weighted-average assumptions used to determine the benefit cost and obligation were as follows as at:

| | January 31, 2011 | | February 1, 2010 | |
|---|---|---|---|---|
| (in percentage) | Pension benefits | Other benefits | Pension benefits | Other benefits |
| **Benefit cost** | | | | |
| Discount rate | 5.64% | 5.74% | n/a | n/a |
| Expected long-term rate of return on plan assets | 7.00% | n/a | n/a | n/a |
| Rate of compensation increase | 3.73% | 3.50% | n/a | n/a |
| Inflation rate | 2.71% | n/a | n/a | n/a |
| **Benefit obligation** | | | | |
| Discount rate | 5.40% | 5.40% | 5.64% | 5.74% |
| Rate of compensation increase | 3.72% | 3.50% | 3.73% | 3.50% |
| Inflation rate | 2.61% | n/a | 2.71% | n/a |

n/a: Not applicable

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

| **Increase (decrease)** | **Retirement benefit cost for fiscal year 2011** | **Net retirement benefit liability as at January 31, 2011** |
|---|---|---|
| Discount rate | $ (12) | $ (286) |
| Expected return on plan assets | $ (13) | $ n/a |
| Rate of compensation increase | $ 9 | $ 70 |
| Inflation rate | $ 8 | $ 107 |

n/a: Not applicable

The total cumulative amount of net actuarial gains before income taxes recognized in OCI since February 1, 2010 was $35 million as at January 31, 2011. The Corporation has not determined the amount of actuarial gains and losses that would have been recognized in OCI before February 1, 2010 since that information was not required to be determined in those earlier periods.

## H. 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. Its capital structure gives the Corporation the ability to meet its liquidity needs as well as support its longer-term strategic investments. The Corporation analyzes its capital structure using global metrics, which are based on a broad economic view of the Corporation. Details of the methods for calculating global metrics for fiscal year 2011 are provided in the Non-GAAP financial measures section of this MD&A.

The Corporation's objective with regard to the global metrics is to manage and monitor them such that it can achieve an investment-grade profile, which among other considerations typically requires meeting the following ratios:

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

**Global metrics**

| | January 31, 2011 |
|---|---|
| Adjusted EBIT[1] | $ 1,226 |
| Adjusted net interest[2] | $ 259 |
| Adjusted EBIT to adjusted net interest ratio | 4.7 |
| Adjusted debt[3] | $ 7,276 |
| Adjusted EBITDA[4] | $ 1,647 |
| Adjusted debt to adjusted EBITDA ratio | 4.4 |

(1) Represents EBIT plus interest adjustment for operating leases.
(2) Represents interest paid less interest received, as per the supplemental information provided in the consolidated statements of cash flows (adjusted, if needed, for the settlement of derivatives before their contractual maturities), plus interest adjustment for operating leases, accretion expense on sale and leaseback obligations, expected return on pension plan assets and accretion expense on retirement benefit obligations.
(3) Represents long-term debt plus net retirement benefit liability, sale and leaseback obligations and the net present value of operating lease obligations.
(4) Represents EBITDA plus amortization and interest adjustments for operating leases.

In order to adjust its capital structure, the Corporation may issue or repay long-term debt, make discretionary contributions to pension funds, repurchase or issue share capital, or vary the amount of dividends paid to equity holders.

The above global metrics do not represent the calculations required for bank covenants. Bank covenants are described in note 11 - Credit facilities in the Corporation's Annual Report for fiscal year 2011.

## I. TRANSACTIONS WITH RELATED PARTIES

The Corporation's related parties are its joint ventures, associates and key management personnel. The Corporation has no significant transactions with associates.

**Joint ventures**
The Corporation buys and sells products and services on arm's length terms with some of its joint ventures in the ordinary course of business. The following table presents the portion of these transactions that is attributable to the interests of the other third-party venturers for fiscal year 2011:

| | | |
|---|---|---|
| Sales of products and services, and other income | $ | 143 |
| Purchase of products and services, and other expense | $ | 12 |

The Corporation received dividends from joint ventures of $120 million in fiscal year 2011.

The following table presents the Corporation's outstanding balances with joint ventures as at:

| | January 31, 2011 | | February 1, 2010 | |
|---|---|---|---|---|
| Receivables | $ | 94 | $ | 43 |
| Payables | $ | 3 | $ | 32 |

**Compensation paid to key management personnel**
The annual remuneration and related compensation costs of the executive and non-executive board members and key Corporate management, defined as the President and Chief Executive Officer of Bombardier Inc., the Presidents and Chief Operating Officers of BA and BT, the Senior Vice President and Chief Financial Officer of Bombardier Inc. and the Senior Vice President General Counsel of Bombardier Inc., were as follows for fiscal year 2011:

| | | |
|---|---|---|
| Salaries, bonuses and other short-term benefits | $ | 13 |
| Retirement benefits | | 3 |
| Share-based payments | | 7 |
| | $ | 23 |