IT'S ALL ABOUT WHAT'S NEXT

ANNUAL REPORT
FISCAL YEAR ENDED DECEMBER 31, 2011

BOMBARDIER
the evolution of mobility

FINANCIAL HIGHLIGHTS

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

For the fiscal years ended	December 31 2011[1]	January 31 2011
Revenues	$ 18,347	$ 17,892
EBIT	$ 1,202	$ 1,205
Income taxes	$ 203	$ 222
Net income	$ 837	$ 775
EPS (in dollars)		
Basic	$ 0.47	$ 0.43
Diluted	$ 0.47	$ 0.42
Dividend per common share—as declared (in Cdn dollars)		
Class A	$ 0.10	$ 0.10
Class B	$ 0.10	$ 0.10

As at	December 31 2011[1]	January 31 2011
Total assets	$ 23,864	$ 24,092
Shareholders' equity	$ 671	$ 1,521
Net additions to PP&E and intangible assets	$ 1,475	$ 1,125
Total backlog (in billions of dollars)	$ 53.9	$ 52.7
Number of common shares		
Class A	314,537,237	316,109,537
Class B	1,409,355,577	1,409,538,220

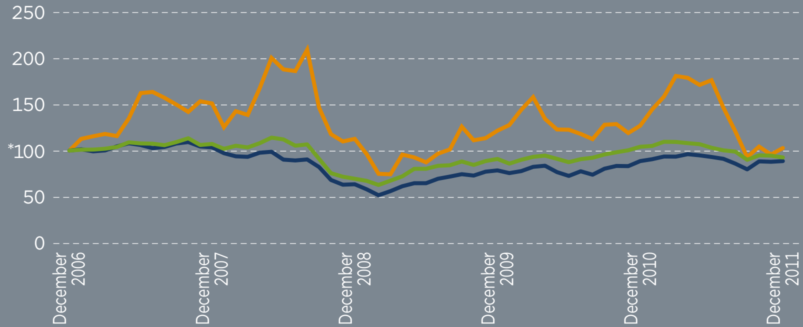
STOCK MARKET PRICE RANGES

(in Cdn dollars)

For the fiscal years ended	Dec. 31 2011[2]	Jan. 31 2011
Class A		
High	$ 7.29	$ 6.24
Low	$ 3.41	$ 4.28
Close	$ 4.06	$ 5.72
Class B		
High	$ 7.29	$ 6.24
Low	$ 3.30	$ 4.25
Close	$ 4.06	$ 5.70

BOMBARDIER'S STOCK PERFORMANCE

December 31, 2006 to December 31, 2011



MARKET CAPITALIZATION

$6,999 MILLION CDN

(as at December 31, 2011)

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

1 Our fiscal year ended December 31, 2011 comprises 11 months of Bombardier Aerospace results and 12 months of Bombardier Transportation results.
2 For the 11-month period ended December 31, 2011.

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

CONTENTS

THE EVOLUTION OF MOBILITY

The world is constantly on the move and so is Bombardier. Driving progress by staying one step ahead to shape how people get where they need to go, intelligently, safely and comfortably. Across cities, countries and continents, in the air and on the ground.

Accelerating towards a more eco-friendly future with the very high speed *ZEFIRO* train and public transit that's smarter than ever. Looking above and beyond to the newest members of our *Global* and *Learjet* business jet families and the game-changing *CSeries* commercial aircraft. More technologically advanced, efficient, reliable and attuned to global needs and trends.

The Evolution of Mobility. It's all about what's next.

INNOVIA MONORAIL

GLOBAL 7000 BUSINESS JET

MOBILITY. IT'S ALL ABOUT LONG-TERM DEMAND AND GROWTH.

Our sector is the world of mobility and global trends point to its long-term demand and growth.

Swelling urban populations are fuelling the evolution of mobility. By 2025, the planet's top 600 middleweight and mega cities will have two billion inhabitants and generate nearly 60% of the world's gross domestic product[1]. Investing in sustainable mobility is crucial to ensuring these urban centres' quality of life, productivity and long-term competitiveness.

Creating better ways to move the world is imperative both on the ground and in the air. It's the answer to urban congestion and sprawl, escalating oil and energy prices, environmental challenges, aging fleets and the universal need to connect people in cities, countries and continents worldwide.

OUR UNIQUE DUAL FOCUS ON MOBILITY

Within this growth sector, Bombardier is the only company in the world to hold leadership positions in both air and land transportation. This distinctive dual focus multiplies our opportunities to shape the evolution of mobility in carefully selected niches.

AEROSPACE

Over the next 10 years, industry forecasts show sustained growth in both our business and commercial aircraft markets. This means 5% to 8% annual delivery growth in business aircraft and 5% to 6% in commercial aircraft's 20- to 149-seat category. With 28 aircraft programs launched since 1989, our Aerospace group continues to innovate as six new state-of-the-art aircraft programs prepare to take flight.

RAIL TRANSPORTATION

The development of urban and suburban centres worldwide will continue to drive the need for efficient public transportation. Ongoing investment in passenger rail transportation will support this long-term growth. Leading in numerous rail categories, our Transportation group delivers groundbreaking rail solutions that overcome crippling traffic, restore freedom of movement and help cities breathe.

The Evolution of Mobility — it's our business and our promise.

1 McKinsey Global Institute, March 2011 report, "Urban world: Mapping the economic power of cities"

DELIVERING THE EVOLUTION OF MOBILITY

Formalizing our promise — the Evolution of Mobility — led us to fine-tune our strategic framework for delivering on this commitment. Three interrelated strategies supported by four competitive capabilities will drive our future growth.

AT BOMBARDIER, WE'RE SHAPING THE EVOLUTION OF MOBILITY BY...

... CREATING BETTER WAYS TO MOVE THE WORLD

INVEST IN LEADING MOBILITY SOLUTIONS

... CAPTURING GLOBAL GROWTH OPPORTUNITIES

GROW LOCAL ROOTS IN KEY MARKETS

... STRENGTHENING OUR CUSTOMER-FOCUSED EXCELLENCE

ACHIEVE FLAWLESS EXECUTION EVERY STEP OF THE WAY

OUR GROWTH STRATEGIES

GREAT TALENT GLOBALLY

STRONG FINANCIAL DISCIPLINE

ACTIVE RISK MANAGEMENT

COMMITTED CORPORATE SOCIAL RESPONSIBILITY

OUR COMPETITIVE FOUNDATION

GLOBAL 6000
BUSINESS JET

INVEST IN LEADING MOBILITY SOLUTIONS

Investing in the future separates the leaders and innovators from the followers and imitators. We've been successfully creating better ways to move the world since 1942. Decades of experience have sharpened our skills at assessing global trends and anticipating societal needs in mobility. At applying fresh thinking and inspired engineering to build market-astute planes and trains that launch and lead industry categories. Sophisticated solutions that are one step ahead in technology, functionality, reliability and trend-setting design.

CSeries
The game-changer with triple appeal

Our new *CSeries* commercial aircraft family offers triple appeal for operators, passengers and communities. It's the world's greenest and most cost-effective mainliner with exceptional widebody comfort. In addition to being four times quieter[1], the *CSeries* delivers a 20% fuel burn advantage[1], a 15% cash operating cost advantage[1] and 20% fewer CO_2 emissions[1] than any in-production aircraft in its segment. That's why the game-changing *CSeries* is attracting customers from around the world.

1 The *CSeries* aircraft are in the design phase. All data and specifications are estimates and subject to change. Performance estimates are based on a 500-nautical-mile North American operating environment.

TWINDEXX Express
High capacity, high speed

This state-of-the-art double-deck intercity train is set to ramp up capacity by as much as 60% for Swiss Federal Railways (SBB). Equipped with leading-edge tilt and optional steering technologies, the *TWINDEXX* Express enables trains to reach higher speeds in curves. The result is shorter journey times.

PRIMOVE technology
Taking e-mobility beyond rail

Our breakthrough *PRIMOVE* technology supplies today's electric rail and road vehicles with safe, reliable and contactless power. Based on inductive power transfer, this wireless, catenary-free solution allows all components to be hidden under the vehicle and beneath the tracks or road. Electric vehicles operate above and below the ground with complete flexibility. No emissions, noise or overhead cables. Beautiful!

Learjet 85
Unprecedented innovation

From its breakthrough composite wings and fuselage to its super smart engine and exquisite interiors, the *Learjet 85* aircraft is ingenuity from nose to tail. It redefines technology, performance and comfort in the midsize segment. Entering into service in 2013, it will fly faster and farther than any other *Learjet* business jet. The *Learjet 85* aircraft is a legend in the making.

GROW LOCAL ROOTS IN KEY MARKETS

In business, if you're not at the table, you're not in the game. Given the growth in emerging markets, we've set clear priorities for international expansion. Building a strong local presence in the world's rising economies is a must to capture opportunities, generate cost advantages and strengthen our global leadership and competitiveness. This multi-local approach leverages our scale, expertise, technologies and products to meet the sizeable transportation needs of billions of people in these regions.

MOVIA METRO

MEXICO AND MOROCCO

Strategically positioned

Mexico and Morocco are strategically positioned emerging aerospace hubs. They're also part of our local roots strategy. Today our expanding Querétaro site in Mexico participates in our *Q400 NextGen*, *Learjet 85* and *Global* aircraft programs. Starting in 2013, a new Moroccan manufacturing facility will further diversify our international footprint, reduce our reliance on third-party suppliers and open the door to new markets.

WORLDWIDE

Our expanding services footprint at Aerospace

In five years, our global services network grew from 37 maintenance facilities in 17 countries to 65 sites in 27 countries today. We also have 10 parts depots on five continents. In 2011, we expanded our *PartsExpress* delivery service to the Middle East and areas of Asia and Africa while establishing operations in São Paulo and Hong Kong. This provides our customers with better access to parts, services and support worldwide.

HORTOLÂNDIA, BRAZIL

INNOVIA monorail

We're also actively growing deeper roots in Brazil's fast-paced rail market. That's why we chose our Hortolândia manufacturing site to build the next-generation *INNOVIA* Monorail 300 cars for São Paulo's metro extension. Local suppliers will deliver a substantial number of the driverless monorail components. The new Expresso Tiradentes line will cut commuting time in half for up to 400,000 passengers daily.

SAVLI, INDIA

Metro success in a growing market

As the first foreign company to invest in passenger rail manufacturing in India, today we're helping the country meet the infrastructure needs of its bustling economy. Built in record time in 2008, our Savli manufacturing site produces high capacity *MOVIA* cars for the Delhi metro while fuelling the local economy and know-how. It's also expanding our footprint, revenues and opportunities in this booming market.

MANUFACTURING,
FRANCE

ACHIEVE FLAWLESS EXECUTION EVERY STEP OF THE WAY

Designing, building, operating and servicing aircraft and rail transportation solutions is a feat of great complexity and precision. We're the best at it if our customers say we are. That's why we systematically pursue customer-focused excellence and apply lean principles throughout a product's entire lifecycle. This approach is key to delivering flawlessly on our promises every step of the way. It also drives our leadership and paves the way to accelerated profitable growth.

Over 7% EBIT for two years in a row at Transportation

Delivering on financials

The most compelling evidence of our commitment to flawless execution is Transportation's steady gains in profitability since fiscal 2005. Guided by the Bombardier Operations System, our employees are mastering lean manufacturing, best-practice sharing and world-class project management. Looking ahead, we continue to close in on our 2013 EBIT margin target of 8%[1].

Global Vision flight deck

A completely new experience

Our breakthrough *Global Vision* flight deck received certification and will enter service as scheduled in early 2012. This sophisticated avionics suite will give crews on our *Global 5000* and *Global 6000* business jets a state-of-the-art flight deck experience. It's the perfect fusion of design and technology for unrivalled control and comfort.

CITYFLO 650 system

Record-setting implementation

In 2011, this industry-leading communication-based train control (CBTC) system drove breakthrough mass transit signalling contracts for us. So did our proven ability to deliver *CITYFLO* 650 without interrupting service or inconveniencing passengers. Metros in Madrid, Spain, and Shenzhen, China, the latter delivered in a record 22 months, are stellar examples. Next up, London in the U.K. and São Paulo in Brazil.

Achieving Excellence System at Aerospace

Beyond flawless execution

Aerospace's five-stage Achieving Excellence System drives the group's lean enterprise process, risk mitigation, employee engagement, customer satisfaction and, last but not least, flawless execution. It took only four years for all Aerospace teams to meet the Bronze and Silver requirements of the rigorous continuous improvement system. Following this milestone, all sites are now focused on completing Gold certification in this ongoing journey by year-end 2013.

1 In the Management's Discussion and Analysis, see the Forward-looking statements section in Transportation.

MESSAGE TO SHAREHOLDERS

SHAPING THE EVOLUTION OF MOBILITY

Throughout 2011, we stayed focused on the factors affecting our growth. These are the five priorities of Our Way Forward, the strategic direction we gave ourselves in 2009. We also reviewed our core purpose at Bombardier — the promise we make to all of our stakeholders worldwide. It's what motivates us to innovate, our customers to choose our products and our people to excel. Our new promise, which holds true across Bombardier, is the Evolution of Mobility.

These three words capture the essence of what we do every day — we create better ways to move people. The Evolution of Mobility is all about what's next, even in terms of communicating our strategic direction.

In 2011, we distilled Our Way Forward into three pivotal growth strategies. First, we're investing in mobility solutions that are game-changing and broaden our geographic reach to ensure our long-term success. Second, our sustained growth depends on our ability to build local capabilities and sound partnerships in emerging economies. And finally, achieving flawless execution in our new product programs and delivery of our substantial backlog are musts to build value.

These strategies are anchored in our competitive foundation — our great talent globally, strong financial discipline, active risk management and committed corporate social responsibility.

With a fine-tuned strategic framework and powerful promise, it's even clearer where we're headed and how we'll create value for our shareholders at Bombardier.

DELIVERING AMIDST THE CHALLENGES

Short-term uncertainty aptly describes the current global economy. A still volatile economic environment is impacting confidence in many sectors worldwide including our markets. At Bombardier, we remain vigilant yet confident in the long-term growth of our industries.

Over the last decade, we've learned a great deal about the financial rigour needed to deliver complex international projects and compete in a constantly shifting global marketplace. These lessons prepared us for the past year's challenges and enabled us to sustain our revenue and margin.

A GOOD PERFORMANCE IN 2011[1]

In 2011, we continued to create better ways to move the world and capture global growth opportunities, always with a focus on meeting our customers' expectations. Our revenues reached $18.3 billion. We posted earnings before financing expense, financing income and income taxes (EBIT) of $1.2 billion to deliver an EBIT margin of 6.6%. Our order backlog grew to $53.9 billion, ensuring visibility of future revenues. Free cash flow usage totalled $1.2 billion, resulting in a cash position of $3.4 billion at year-end.

Given the sluggish global economy, our solid performance is a testament to our market-leading product portfolio, expanding geographic footprint and ability to execute in the face of setbacks.

AEROSPACE: SKILL AND EFFICIENCY

Since 2009, our Aerospace group has produced good results despite lower order volumes in some aircraft categories. In 2011, we navigated through another challenging year with skill and efficiency, growing our backlog and increasing our industry leadership in business jets.

Throughout 2011, we continued to renew and expand our aircraft portfolio. We reached several milestones in our new aircraft programs. We also improved execution across the board. With the return of a more robust economy, we'll be ready to pick up the pace.

Pierre Beaudoin	Guy C. Hachey	André Navarri
President and Chief Executive Officer, Bombardier Inc.	President and Chief Operating Officer, Bombardier Aerospace	President and Chief Operating Officer, Bombardier Transportation

TRANSPORTATION: CONTINUOUS GROWTH IN PROFITABILITY

As global demand for eco-friendly mass transit solutions, optimized urban infrastructure and modern rolling stock rises, so does our leadership in rail equipment and technologies. Our Transportation group performed strongly in a stable market, continuing to grow its EBIT margin from 4% in 2006 to 7.2% in 2011.

Revenues climbed by 7% and our backlog reached $31.9 billion. We continued to lead in the majority of rail segments and made inroads in new categories and countries. This included generating unprecedented orders with our advanced signalling systems. As we ramp up projects to deliver on our extensive backlog, our focus is on flawless execution, the key to driving more value to the bottom line.

1 Our fiscal year ended December 31, 2011 comprises 11 months of Bombardier Aerospace results and 12 months of Bombardier Transportation results.

GLOBAL FAMILY
OF BUSINESS JETS

AEROSPACE

next-generation thinking

CRJ1000 NEXTGEN REGIONAL AIRCRAFT

LEARJET FAMILY OF BUSINESS AIRCRAFT

CS300 COMMERCIAL AIRCRAFT

TAKING CARE OF BUSINESS

While ongoing economic headwinds made customers and financial institutions more cautious in 2011, our Aerospace group reaffirmed its leadership. We performed very well in business aircraft while the regional aircraft market remained challenging.

In the context of an 11-month fiscal year, revenues and profitability remained stable while the backlog increased compared to the previous fiscal year. Disciplined cash management supported our extensive aircraft programs and growing services network. As part of these programs, we expanded our *Global* Completion Centre in Québec, *Learjet 85* aircraft final assembly sites in Wichita and Querétaro, and our *CSeries* airliner facilities in Mirabel and Belfast.

Our continued focus on efficiency and execution strengthened our operating fundamentals. Over the past two years, the dispatch reliability of our aircraft improved by 27%. And our on-time deliveries increased by 52%.

BUSINESS AIRCRAFT

In 2011, we increased our leadership in business jets, growing our backlog and market share in terms of revenues and deliveries. While demand for light jets such as our *Learjet* line continued to be soft, both demand and pricing improved for medium and large business jets.

As a result, our *Global* aircraft platform performed well. The new *Global 7000* and *Global 8000* jets, the latest additions to this platform, will enter into service in 2016 and 2017 respectively. Both aircraft are competing successfully on range, comfort, value and fuel efficiency. Their solid and growing backlog includes a breakthrough order from NetJets, the global leader in private aviation with the world's largest and most diverse private jet fleet.

PERFORMANCE SNAPSHOT[1]

245
aircraft deliveries

$22 billion
backlog

$8.6 billion
in revenues

$502 million
EBIT

5.8%
EBIT margin

EVOLVING IN THE AIR

Globalization heightens the need to connect people worldwide with advanced mobility solutions. At Bombardier, we're building the planes of the future. As our smarter and more fuel-efficient aircraft draw nearer to takeoff, we see exciting opportunities ahead.

On the ground, our manufacturing sites around the globe are also evolving and increasing in number. They're undergoing a major transformation. Our employees are focused on working together to deliver quality while optimizing every dollar. This means improved efficiency, leaner processes and meticulous program management that measures progress in "inchstones" not milestones.

To seize promising opportunities worldwide, we've trained our sights on emerging markets. Our aftermarket services are expanding globally and growing rapidly thanks to an increasingly embedded customer-first mindset. Change is definitely in the air.

COMMERCIAL AIRCRAFT

We continued to be a leader in turboprop aircraft deliveries in 2011. However lower demand for regional aircraft in North America and Europe, where we have our largest customer bases, slowed sales and put pressure on our backlog. This forced us to trim *Q400 NextGen* turboprop and *CRJ* jet production rates effective in the last half of 2011 and in January 2012 respectively, with minimal impact on our workforce level.

Long-term prospects for our fuel-efficient commercial aircraft remain strong. With our new *CSeries* and *CRJ1000 NextGen* jets as well as our *Q400 NextGen* turboprops, we're well positioned to meet our customers' long-term needs and grow our leadership.

CUSTOMER SERVICES

As our Customer Services business unit gains traction year after year, our global servicing network is becoming a key competitive advantage and revenue generator. In 2011 alone, we added regional support, authorized maintenance and *PartsExpress* facilities in five countries. This investment is paying off. Last year, our customer satisfaction scores continued to improve for both our business jets and commercial aircraft.

CREATING VALUE FOR THE FUTURE

Our *CSeries* commercial aircraft program advanced well, reaching several milestones as we drive for first delivery at the end of 2013. Facilities were built and refurbished in Canada and the U.K. Testing is ongoing on key components, systems and the aircraft's next-generation engine.

In 2011, we strengthened customer diversity in the *CSeries* aircraft program by signing up five new operators, further broadening our customer base. This included 43 firm orders, 29 options, 10 purchase rights and letters of intent for up to 45 aircraft, bringing the total orders and commitments to over 300 *CSeries* aircraft. As the only new aircraft in its segment, our advanced commercial jet is revving up to meet global fleet replacement needs in the 100- to 149-seat market.

Solid progress in our innovative *Learjet 85* business jet program also kept us on schedule for a 2013 entry-into-service. We began building production parts and the first test vehicle. This revolutionary business jet program incorporates expertise and sites in Mexico, the U.K., the U.S. and Canada.

GLOBALIZING OUR FOOTPRINT

In 2011, we took decisive steps to significantly increase our sales, services and manufacturing capabilities in the Middle East, China, South America, Europe and South Africa. We doubled our commercial aircraft sales force and focused these additional resources on the growing economies of China, Asia-Pacific and the Middle East. A sales team is now dedicated to aircraft leasing companies, which will generate approximately one third of our commercial aircraft sales worldwide. We also strengthened our global competitive manufacturing footprint by committing to build a facility in Morocco.

1 The fiscal year ended December 31, 2011 comprises 11 months of results for Bombardier Aerospace.

TRANSPORTATION

Mobilizing the future

TRAXX LOCOMOTIVE

ELECTROSTAR INTERCITY TRAIN

FLEXITY LIGHT RAIL VEHICLE

OMNEO REGIONAL TRAIN

CONTINUED SUCCESS AROUND THE GLOBE

In 2011, we continued to lead in rail and to see steady growth, boosting revenues to $9.8 billion. Increasing our product and geographic diversification strengthened our ability to deliver on our growth targets. We're now the industry's most diversified player in terms of segments, products and reach with a presence in 25 countries.

As customers sought to maximize their rolling stock and keep pace with technological advances, our global Services business grew significantly last year. Today in the U.K. alone, we provide a broad range of services to 40% of the country's extensive rail fleet.

A GOOD YEAR FOR OUR RAIL VEHICLES

Our driverless *INNOVIA* automated people mover (APM) systems are operating in 24 airports and urban areas around the world. In 2011, the Sacramento International Airport in the U.S. inaugurated its new *INNOVIA* APM 100 system. We also received our first orders for the latest-generation *INNOVIA* APM 300 system from Saudi Arabia and Germany. Both Delhi in India and Chicago in the U.S. opted to add more of our state-of-the-art metro cars to their subway systems.

Building on the worldwide launch of our *FLEXITY* 2 tram in Blackpool, U.K., our *FLEXITY* 2 light rail system was selected to meet the mobility needs of people along Australia's Gold Coast. We also introduced the *FLEXITY* Freedom tram, designed specifically for urban and suburban applications in North America.

PERFORMANCE SNAPSHOT[1]

$9.7 billion
in new orders

1.0
book-to-bill ratio

$31.9 billion
backlog

$9.8 billion
in revenues

$700 million
EBIT

7.2%
EBIT margin

ONE STEP AHEAD IN RAIL

Even in our fiscally constrained world and especially with today's mounting environmental pressures, rail transportation is essential. Cities in both developed and high growth emerging markets are grappling with traffic congestion and pollution. Developed urban centres also face aging infrastructure and rail fleet issues. At Bombardier, we're shaping the evolution of mobility by delivering innovations that tackle these challenges head on.

Our comprehensive rail equipment, technology and services portfolio drives sustainable value for our customers. It allows operators to optimize existing infrastructure, reduce energy and product lifecycle costs, integrate rail networks and implement rail solutions at lower costs.

From state-of-the-art locomotives and high speed trains, to advanced light rail, metro and monorail vehicles, to fully automated signalling and transit systems, we're one step ahead in rail. It's what you expect from the industry leader.

We delivered 74 kilometres of South Africa's 80-kilometre Gautrain intercity rail system, with the final six-kilometre link to Johannesburg's city centre opening later this year. And we signed an agreement to partner with Siemens to develop and supply key components for up to 300 ICx high speed trains for Germany's Deutsche Bahn (DB AG) railway.

GETTING THE TECHNOLOGY RIGHT

Our technology-intensive Rail Control Solutions division and Propulsion & Controls business unit also grabbed attention worldwide last year. After a year of record order intake for our rail signalling solutions, we now have 26 communication-based train control (CBTC) solutions in operation or delivery around the globe. We signed our largest-ever signalling contract to upgrade London's underground metro, one of the world's biggest systems, with our *CITYFLO* 650 system. We also continued to lead in European Rail Traffic Management System (ERTMS) wayside technology.

A breakthrough contract for our high performance *MITRAC* propulsion system reinforced our growing relationship with India and consolidated our position there. We also entered serial production with the *MITRAC* Permanent Magnet Motor, part of our suite of *ECO4* energy-saving technologies. This high efficiency motor will save lifecycle costs on our Régio2N[2] trains in France and *TWINDEXX* double-deckers in Switzerland.

NON-STOP INNOVATION

As society calls for more accessible, efficient and eco-friendly mobility, we're responding with non-stop innovation to meet our customers' evolving needs. Take our next-generation *INNOVIA* Monorail 300. It's set to provide relief in the crowded urban landscape of São Paulo, Brazil, and the financial district of Riyadh, Saudi Arabia.

Last year, we added several innovations to our market-leading *TRAXX* locomotive platform. This included rolling out our groundbreaking *TRAXX* diesel-electric multi-engine locomotive, which replaces one large engine with four smaller diesel-electric ones for unmatched fuel efficiency. We also launched the *TRAXX* F140 AC with Last Mile Feature, an electric locomotive with auxiliary diesel power. These products help us strengthen the platform's market and innovation leadership and grow our presence in countries like Poland, which has one of Europe's largest rail systems.

In April 2011, we launched the *PrimoveCity* program, our multi-modal electric mobility solution for road and rail vehicles. Testing in Germany and Belgium optimized the technology's design for tram, bus and car applications. *PRIMOVE* technology is now ready to bring emission-free e-mobility to cities of the future.

1 The fiscal year ended December 31, 2011 comprises 12 months of results for Bombardier Transportation.
2 Trademark of the Association des Régions de France.

ENGINEERING, INDIA

MANUFACTURING, CANADA

PROGRESS IN EMERGING MARKETS

With short-term economic growth weakened in Europe and North America, we've intensified our activities in emerging markets. While competition is fierce in these markets, our track record and innovative, cost-optimized solutions offer major competitive advantages. So does our unique dual focus as the world's only plane and train manufacturer. Our two groups are successfully leveraging each other's achievements, multi-local approach and reputation in markets around the world to capture new opportunities.

This approach is working. Over the past five years, our revenues from BRIC (Brazil, Russia, India and China) countries quadrupled from $533 million to $2.1 billion. That's why we're rapidly expanding our manufacturing and sales footprint in these crucial markets.

ENSURING GREAT TALENT GLOBALLY

I want to thank our talented employees for driving our many achievements in 2011. Their ingenuity, skills and dedication are the foundations of our success. To ensure we attract, develop and keep great talent globally, we're aligning our talent management processes across our organization.

In 2011, we took a major step in this direction by rolling out BTALENT, our online global talent management tool. BTALENT not only improves our talent management processes, it empowers our employees to take ownership of their careers. It's also helping us focus our employees on mastering the core competencies needed to succeed.

These diverse talent management initiatives helped us increase employee engagement in 2011 by 4% at our Aerospace group and maintain a high engagement rate at our Corporate Office. In 2012, our Transportation group will begin polling employees on engagement issues annually as opposed to every two years.

FOCUS ON GOOD GOVERNANCE

Also contributing to our evolution as an organization is our dedicated Board of Directors. Our Board members' diverse experience, knowledge and wisdom continue to benefit us. In 2011, the Board implemented an annual "Say on Pay" practice, giving shareholders an advisory, non-binding vote on executive compensation. I would like to thank each Board member for furthering our commitment to good governance. In particular, I would like to underscore the invaluable contribution of Janine Bombardier, who joined the Board in 1984 and who will step down as an active Board member and be named a Director Emeritus at our annual shareholder meeting on May 10, 2012.

THE BUSINESS OF SUSTAINABILITY

Our expanding geographic footprint comes with greater responsibility. We're fulfilling this responsibility by delivering more eco-friendly products and operations, building capacity in local communities where we do business and fostering high ethical standards across our global supply chain. Both of our groups recently launched awards to recognize supplier contributions in corporate social responsibility (CSR).

In 2011, we were listed for the fifth consecutive year on the Dow Jones Sustainability Index (DJSI) World and DJSI North America Index. Our Aerospace group received the Business Aviation Meritorious Award from the Flight Safety Foundation for raising safety awareness in several countries through its Safety Standdown seminars. Our Transportation group won the iF Product Design Award for the *ZEFIRO* 380 and its groundbreaking fusion of aerodynamic efficiency, distinctive appearance and state-of-the-art technologies. These recognitions among many others reinforce the fact that CSR makes good business sense.

BUILDING THE FUTURE AT AEROSPACE

Over the next decade, the number of both our individual and corporate business jet customers will increase. With demand gradually recovering in business aircraft, we're positioned to grow our leadership.

In commercial aircraft, we forecast demand in the 100- to 149-seat segment to be 7,000 units over the next 20 years with our *CSeries* mainliner capturing at least 50% of this market. While our long-term prospects are strong in commercial aircraft, this market will likely remain sluggish over the short term.

We're already taking steps to regain any lost ground in commercial aircraft with a significantly expanded sales force to increase commercial aircraft and aircraft leasing sales in new markets. Recent sales in China, South Korea and Indonesia are a sign of the positive things to come. Our plants are also working diligently to improve our margins by reducing lead times, optimizing inventory turn times and sustaining these efficiencies as volume increases.

EXPANDING OPPORTUNITIES AT TRANSPORTATION

Once our Transportation group achieves its 8% EBIT margin target by 2013[1], we'll focus on further increasing our profitability while managing a vast portfolio of complex rail projects worldwide. This will require even better program execution, purchasing, operating costs and low-cost country sourcing.

Although certain economies remain fragile, rail is too strategic a sector to be targeted for major cutbacks. Countries need to move people efficiently with minimal environmental impact and modernize their rail fleets. In Europe, 30% of the fleets are over 30 years old. We're well positioned throughout Western Europe, thanks to options in major framework agreements and increased outsourcing of services. China, India and Latin America will also continue to invest heavily in rail solutions and infrastructure. China alone presents us with a huge opportunity to connect its many large cities with our segment-leading regional trains.

ACCELERATING IMPROVEMENTS

At Bombardier, we operate in the world of mobility — a world of long-term, sustainable growth. We're uniquely suited to weather today's challenging environment, with a business built on our unmatched combination of ground and air mobility solutions.

Over the long term we see improvements in revenues, profits and margins stemming from our unrivalled product portfolio and our stronger focus on execution and emerging markets.

Despite global economic uncertainty, we know where we're headed. And as we shape the Evolution of Mobility, we're putting the pieces in place to be a very different company in five years. A company with exciting new products in service and increased revenues from emerging markets. Like our world of mobility, we too are positioned for long-term, sustainable growth.

Pierre Beaudoin
President and Chief Executive Officer
Bombardier Inc.

1 In the Management's Discussion and Analysis, see the Forward-looking statements section in Transportation.

OUR BOARD OF DIRECTORS

LAURENT BEAUDOIN, C.C., FCA
Chairman of the Board of Directors • Bombardier Inc. • Westmount, Canada • Director since 1975
Not independent
Mr. Laurent Beaudoin began his career with Bombardier in 1963. Over the years, he has received many honours including Canada's Outstanding CEO of the Year and Canada's International Executive of the Year. He is Chairman of BRP and of FIRST Robotics Québec, which he co-founded.

PIERRE BEAUDOIN
President and Chief Executive Officer • Bombardier Inc. • Westmount, Canada • Director since 2004
Not independent
Mr. Pierre Beaudoin joined Bombardier in 1985, rising through management positions of increasing responsibility before becoming President and COO of Bombardier Recreational Products, President of Bombardier Business Aircraft, and President and COO of Bombardier Aerospace. He is a member of the Boards of Directors of Power Corporation of Canada and of BRP.

ANDRÉ BÉRARD
Corporate Director • Montréal, Canada • Director since 2004 • Lead Director since 2007
Independent
Mr. André Bérard was Chairman of the Board of National Bank of Canada from 2002 to 2004. He previously served as the Bank's President and COO (1986 to 1989), President and CEO (1989), and Chairman of the Board and CEO (1990 to 2002). He also serves on other boards.

J.R. ANDRÉ BOMBARDIER
Vice Chairman of the Board of Directors • Bombardier Inc. • Montréal, Canada • Director since 1975
Not independent
Mr. J.R. André Bombardier joined Bombardier in 1969 as Vice President, Industrial Division. He held several positions before assuming the Vice Chairmanship of Bombardier Inc. in 1978. He is a member of the Board of Directors of BRP.

JANINE BOMBARDIER
President and Governor • J. Armand Bombardier Foundation • Westmount, Canada • Director since 1984
Not independent
Mrs. Janine Bombardier has been a Governor of the J. Armand Bombardier Foundation since March 27, 1965, and its President since August 21, 1978.

MARTHA FINN BROOKS
Corporate Director • Atlanta, United States • Director since 2009
Independent
Ms. Martha Finn Brooks was until May 2009 President and COO of Novelis Inc., a global aluminum rolling company spun off by Alcan Inc. in 2005. Prior to the spinoff, she served as President and CEO of Alcan Rolled Products, Americas and Asia. She also serves on other boards.

L. DENIS DESAUTELS, O.C., FCA
Corporate Director • Ottawa, Canada • Director since 2003
Independent
Auditor General of Canada from 1991 to 2001, Mr. L. Denis Desautels was previously a senior partner in the Montréal office of Ernst & Young, where he worked for 27 years. He is Chairman of the Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants. He also serves on other boards.

You will find detailed biographies of our Directors on our website at www.bombardier.com and in the 2012 Management Proxy Circular.

THIERRY DESMAREST

Honorary Chairman and member of the Board of Directors • Total S.A. • Paris, France • Director since 2009

Independent

Mr. Thierry Desmarest has been Honorary Chairman and a member of the Board of Total since May 2010, after having served as Chairman since 2007. He has held various senior management positions at Total since joining the company in 1981, ultimately becoming its Chairman and Chief Executive Officer. He also serves on the boards of other companies.

JEAN-LOUIS FONTAINE

Vice Chairman of the Board of Directors • Bombardier Inc. • Westmount, Canada • Director since 1975

Not independent

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

DANIEL JOHNSON

Counsel • McCarthy Tétrault LLP • Montréal, Canada • Director since 1999

Independent

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

JEAN C. MONTY

Corporate Director • Montréal, Canada • Director since 1998

Independent

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

CARLOS E. REPRESAS

Corporate Director • Mexico City, Mexico • Director since 2004

Independent

Mr. Carlos E. Represas was Chairman of Nestlé Group México from 1983 to 2010. In 2004, he retired from his executive responsibilities at Nestlé, where he had worked for 36 years in seven different countries. He serves on other boards and is a member of the Latin American Business Council (CEAL).

JEAN-PIERRE ROSSO

Chairman • World Economic Forum USA Inc. • New York City, United States • Director since 2006

Independent

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

HEINRICH WEISS

Chairman and Chief Executive Officer • SMS Holding GmbH • Düsseldorf, Germany • Director since 2005

Independent

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

THE J. ARMAND BOMBARDIER FOUNDATION

WHAT'S NEXT IN PHILANTHROPY?

Philanthropy is evolving. At the Foundation, our role is no longer simply to donate funds to the charities that we support. We now go one step further, sharing our resources and expertise to enhance these organizations' autonomy. We call it collaborative philanthropy. In 2011, we held workshops and participated in over 80 conferences and meetings to build capacity within Québec and Canada's philanthropic community. It's about creating better ways to help our partners develop and grow.

Building capacity among "non-profits"

Non-profit organizations are a key element of our social fabric. They fuel change, hope and innovation. The 143 organizations that we support also play a role in enabling us, at the J. Armand Bombardier Foundation, to achieve our mission of building a better world.

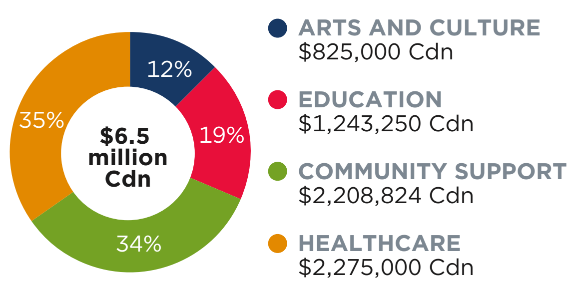
In 2011, we developed a formal partnership with a unique organization in Québec called Business Volunteers (Bénévoles d'affaires). Created in 2005, Business Volunteers matches business professionals with community and cultural organizations requiring specific expertise. Volunteers transfer their knowledge in accounting, human resources, communications and other fields. This knowledge empowers and equips non-profit organizations with the tools they need to grow and be effective.

Our relationship with Business Volunteers dates back to 2009 when we started referring our donees to this "matching agency." Members of our team also began volunteering their services through the organization. In 2011, we committed to providing Business Volunteers with financial support, enabling this important organization to expand its reach. By year-end 2011, Business Volunteers had completed its 1,000th match.

THE J. ARMAND BOMBARDIER DONATIONS BY SECTOR

(11-month period ended December 31, 2011)

In 2011, the J. Armand Bombardier Foundation donated more than $6.5 million Cdn. It also pledged more than $11.3 million Cdn over the next eight years.



As part of its commitment to corporate social responsibility, Bombardier donated, in 2011, more than $6.7 million to the Foundation and an additional $5.7 million to community organizations worldwide.

A historic donation in healthcare

Without quality healthcare, our well-being as individuals and as a society suffers. That's why funding medical research and high quality patient care has always been part of our mission at the Foundation.

In May 2011, we made our largest-ever donation in healthcare—$8 million Cdn over the next eight years to the Joint Corporate Campaign of the Fondation du Centre hospitalier de l'Université de Montréal (CHUM) and the McGill University Health Centre (MUHC) Foundation.

The campaign will help provide Montréal's two university health centres with new and modernized facilities. This includes a 21st-century medical infrastructure and equipment to deliver world-class patient care and accelerate progress in teaching, research, diagnosis and treatment.

Our donation will serve to equip these teaching hospitals with cutting-edge technology that enables researchers to push back the boundaries of medical knowledge and clinicians to deliver higher quality, more compassionate patient care.

We're proud to join other foundations and corporations in strengthening Montréal's and Canada's reputation as leaders in life sciences and in building a healthier future for all.

Educating tomorrow's business leaders

Supporting education and increasing its accessibility to all have been priorities at the Foundation since its inception in 1965. From day one, we've provided grants for scholarships to Canadian colleges and universities. Our partnership with the Richard Ivey School of Business, consistently ranked among Canada's top business schools, goes back almost as far in time.

Part of the University of Western Ontario, the school offers the country's oldest and most innovative undergraduate business degree, the Ivey Honours Business Administration (HBA) Program. We applaud the program's focus on leadership and entrepreneurship.

In 2010, we took our 40-plus-year partnership with this progressive school to the next level by creating the J. Armand Bombardier HBA Scholarship Fund in Entrepreneurship. Starting in 2013-2014, the scholarship will be awarded to two outstanding HBA students who demonstrate a strong entrepreneurial mindset and community leadership. These are the qualities needed in our future leaders.

PROFILE, STRATEGY AND MARKET

AEROSPACE

TRANSPORTATION

AEROSPACE

OUR PROFILE

A world leader in the aerospace industry

REVENUES[1]	BACKLOG	GLOBAL PRESENCE	NET ADDITION TO PP&E AND INTANGIBLE ASSETS[1]	WORKFORCE
$8.6 billion	**$22.0** billion	Customers in more than **100** countries Presence in **28** countries	**$1.3** billion	**33,600**

Bombardier Aerospace (BA) is a world leader in the design, manufacture and support of innovative aviation products for the business, commercial, specialized and amphibious aircraft markets. We have the most comprehensive aircraft portfolio in the market categories in which we compete and we are the third largest civil aircraft manufacturer globally. We also offer our customers total lifecycle solutions including technical support and components, maintenance and training services, as well as the *Flexjet* fractional ownership programs. We have production facilities in Canada (Montréal, Toronto and North Bay), the United States (U.S.) (Wichita), the United Kingdom (U.K.) (Belfast) and Mexico (Querétaro). Through our 14 production and engineering sites and our international service and support network, we have a presence in 28 countries. Our installed base of aircraft exceeds 6,300. Within our supply chain, we built relationships with suppliers in over 49 countries.

Our revenues reached $8.6 billion for the fiscal year ended December 31, 2011[1]. Our revenues are spread globally with the U.S. representing our largest market, accounting for 40% of our total revenues for the fiscal year ended December 31, 2011, compared to 36% for the fiscal year ended January 31, 2011. We have customers located in over 100 countries, which consist mainly of corporations and high net worth individuals for business aircraft, and airlines and leasing companies for commercial aircraft. Flexjet also serves the private jet travel needs of corporations and high net worth individuals in North America by offering fractional ownership, jet card, on-demand charter services, and whole aircraft ownership and management.

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

Our commercial aircraft customers are buying aircraft that meet their required airfield performance, range and payload, as well as competitive operating costs. They are selecting product features that ensure safe and reliable service adapted to their business model. Our broad portfolio of commercial aircraft is designed to meet these diverse operational requirements from airlines around the world.

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

1 Our fiscal year ended December 31, 2011 comprises 11 months of results.

INDUSTRY-LEADING PRODUCTS AND SERVICES

We offer the broadest portfolio of products and services in our market categories

BUSINESS AIRCRAFT

Our three families of business jets, when combined, represent the most comprehensive offering of all business aircraft manufacturers and enable us to meet and exceed the needs of most business aircraft users, owners and operators.

LEARJET FAMILY OF AIRCRAFT

MODELS: *Learjet 40 XR*, *Learjet 45 XR*, *Learjet 60 XR* and *Learjet 85*[1]

MARKET CATEGORY: Light business jets

COMPETITIVE ADVANTAGES[2]: The Learjet heritage of high performance is upheld by each *Learjet* product. The *Learjet* family of aircraft sports exceptionally fast cruise speeds, the highest climb rates and operating ceilings, along with competitive operating costs. The *Learjet 85* will be the largest, most comfortable *Learjet* ever built and will feature a composite structure.

CHALLENGER FAMILY OF AIRCRAFT

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

MARKET CATEGORY: Medium business jets

COMPETITIVE ADVANTAGES[3]: The *Challenger* aircraft are productivity enhancing business tools, with the widest, most spacious cabins within their category. Each aircraft can be customized with leading-edge cabin communication equipment, creating a highly efficient business environment in the sky.

GLOBAL FAMILY OF AIRCRAFT

MODELS: *Global 5000*, *Global Express XRS*, *Global 6000*[4], *Global 7000*[1] and *Global 8000*[1]

MARKET CATEGORY: Large business jets

COMPETITIVE ADVANTAGES[2]: The *Global* family of aircraft offers the fastest cruise speeds and greatest interior volumes in its category and provides the perfect balance of performance and comfort for long-range missions. These superior long and ultra long-range business aircraft incorporate advanced technologies and superior design. The *Global 7000* and *Global 8000* aircraft are being developed as an extension to the *Global* family of aircraft and will give Bombardier the broadest market coverage of the upper end of the business aircraft market.

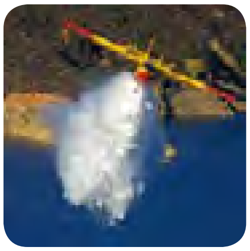
1 Currently under development.
2 Under certain operating conditions, when compared to aircraft currently in service. See *Learjet 85*, *Global 7000* and *Global 8000* aircraft program disclaimer on the inside back cover of this annual report.
3 Under certain operating conditions, when compared to aircraft currently in service.
4 The *Global 6000* is the *Global Express XRS* equipped with the *Global Vision* flight deck.

SPECIALIZED AND AMPHIBIOUS AIRCRAFT

SPECIALIZED AIRCRAFT

MODELS: Various Bombardier business and commercial aircraft platforms

COMPETITIVE ADVANTAGES: Specialized aircraft provide solutions for governments, agencies and specialized organizations worldwide by modifying commercial and business aircraft to suit the needs of customers for different mission requirements ranging from surveillance and monitoring to communication platforms.



AMPHIBIOUS TURBOPROPS

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

COMPETITIVE ADVANTAGES: The *Bombardier 415* amphibious aircraft is the only aircraft specifically designed for aerial firefighting, offering unique operational capabilities and exceptional performance. The *Bombardier 415* MP aircraft is a multi-purpose aircraft that can be used in a variety of specialized missions such as search and rescue, coastal patrol, environmental protection and transportation.

COMMERCIAL AIRCRAFT

We have the broadest portfolio of commercial products in the 20- to 149-seat categories. Each product or product family of jets and turboprops is optimized for the market segments they serve. With increased emphasis on operating efficiencies, reliability, environmental footprint and passenger appeal, our products are strongly positioned to satisfy the most important customer requirements.

Q-SERIES TURBOPROP AIRCRAFT

MODEL: *Q400 NextGen*

MARKET CATEGORY: 60- to 90-seat turboprops

COMPETITIVE ADVANTAGES[1]: For short-haul operations, the optimized *Q400 NextGen* airliner is a fast, fuel-efficient and low-emission large turboprop. It is the only in-production turboprop that offers jet-like speed and an extended range, along with competitive operating costs and product commonality across the *Q-Series* family of turboprops.

CRJ REGIONAL JETS FAMILY OF AIRCRAFT

MODELS: *CRJ700 NextGen*, *CRJ900 NextGen* and *CRJ1000 NextGen*

MARKET CATEGORY: 40- to 100-seat regional jets

COMPETITIVE ADVANTAGES: Designed for hub expansion and point-to-point services, the *CRJ* family of aircraft is optimized for medium- to long-distance routes where traffic volumes are low. The family features best-in-class operating costs, fuel burn and greenhouse gas emissions, as well as commonality across the family[1].

CSERIES MAINLINE SINGLE-AISLE JETS FAMILY OF AIRCRAFT

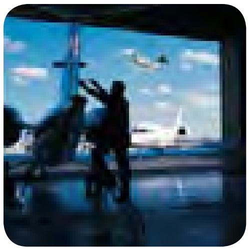
MODELS: *CS100*[2] and *CS300*[2]

MARKET CATEGORY: 100- to 149-seat commercial jets

COMPETITIVE ADVANTAGES[3]: The *CSeries* family of aircraft is specifically intended to revolutionize the 100- to 149-seat category. Compared to any other aircraft currently in service in this category, it will offer superior field performance, a 15% cash operating costs advantage, a 20% fuel burn advantage, 20% lower CO_2 emissions, 50% lower NO_x emissions, a noise footprint four times smaller, along with a transcontinental range.

1 Under certain operating conditions, when compared to aircraft currently in service benchmarked at 500 nautical miles.
2 Currently under development.
3 Under certain operating conditions, when compared to aircraft currently in service for flights of 500 nautical miles. See *CSeries* family of aircraft program disclaimer on the inside back cover of this annual report.

CUSTOMER SERVICES



SERVICES PORTFOLIO: Component, maintenance and training services

COMPETITIVE ADVANTAGES: Customer services offers worldwide service and support through a network of field service personnel, wholly owned and authorized service centres, 24/7 customer response centres, a mobile parts delivery service, spare parts depots and training centres.

FLEXJET

SERVICES PORTFOLIO: Fractional jet ownership, jet card programs, charter brokerage services and whole aircraft ownership and management

COMPETITIVE ADVANTAGES: Flexjet offers a broad choice of aircraft, the youngest in the fractional jet industry with an average age of just over five years, and is the recipient of 12 consecutive Federal Aviation Administration Diamond Awards for outstanding maintenance training. Flexjet provides top-tier service to its owners via its industry-leading Customer Account Managers and an array of unique and flexible program features that tailor the ownership experience to each owner's unique needs.

OUR STRATEGIC PRIORITIES

Focused on execution while investing in our future

The aerospace industry has experienced significant challenges over the past four years. The recession and economic uncertainty have seriously affected traditional customers for our products in North America and Europe, causing a reduction in capacity and reduced confidence to renew and expand their fleets, thus reducing new aircraft demand. High oil prices and increasingly stringent environmental regulations also hamper airlines' ability to achieve growth in air travel. While the state of the global economy reduced the demand for business aircraft, globalization will lead to an increase in demand for business travel and for business aircraft that can reach more destinations efficiently. Demand from emerging countries is creating growth in domestic and international travel as well as in local after-sale support services.

Leveraging our broad portfolio of products and continuously enhancing our operations has allowed us to remain profitable throughout the recent economic volatility and uncertainty. We aim to further strengthen our leadership position and better meet our customers' growing needs by focusing our efforts in the following areas:

- Develop industry-leading products
- Achieve flawless execution
- Expand our international presence

DEVELOP INDUSTRY-LEADING PRODUCTS

High oil prices and stringent environmental regulations are pushing airlines to look for more fuel-efficient and environmentally conscious products. The globalization of the economy means that business aircraft customers are increasingly looking for products that can go farther and faster, are highly reliable and supported by a strong and dependable customer service network. The arrival of new products and new competitors will also make the competitive landscape, in both commercial and business aircraft, even more challenging.

We are responding to these challenges by developing industry-leading products that meet the evolving needs of our customers. Our game-changing *CSeries* single-aisle commercial aircraft will offer, compared to any aircraft currently in service in the 100- to 149-seat category, superior field performance, best-in-class operating economics, and an unparalleled environmental footprint[1]. Our *Learjet 85* business jet will fly faster and farther than any *Learjet* aircraft ever built with a high-speed cruise of Mach 0.82 and a transcontinental range of up to 3,000 nautical miles (5,556 km)[1]. We are further growing our flagship *Global* family with two new jets. The *Global 7000* jet will feature a spacious four-zone cabin 20% larger than the cabin of the *Global 6000* jet, the current industry leader. The *Global 8000* business jet will fly farther than any other business jet, boasting an impressive range of 7,900 nautical miles (14,631 km) at Mach 0.85[1].

1 Under certain operating conditions. See aircraft programs disclaimer on the inside back cover of this annual report.

ACHIEVE FLAWLESS EXECUTION

Designing, building and servicing aircraft is a feat of great complexity and precision. Our relentless focus is to strive to deliver flawlessly on our promise to customers. We pursue flawless execution in all spheres of our activities with a sustained dedication. Currently, we are paying particular attention to three areas: aircraft program development execution, building our backlog, and deployment of our Achieving Excellence System.

Recognizing the long-term nature of our industry, we have a stringent process to manage the launch of our products, ensure that their development is on time, and on budget, and share lessons learned effectively throughout the organization. By following that process, we were able to achieve important milestones in some of our major programs, such as obtaining the certification of our *Global Vision* flight deck from Transport Canada and the European Aviation Safety Agency and successfully completing the testing of the *CSeries* fuselage barrel section.

To capture all the potential of our markets and build backlog and revenues, we restructured our commercial aircraft sales organization. We doubled the size of the sales team, bringing in new sales leaders and positioning the team closer to our customers' markets. We have also adjusted our production rates to match our order backlog but have also improved our ability to ramp up and reduce lead times to be ready for the expected increase in regional aircraft orders.

AIRCRAFT PORTFOLIO STRATEGY BOARD
Thoroughly assess all new programs

PRODUCT DEVELOPMENT CYCLE
Rigorous gated product development process, ensuring early identification and efficient mitigation of potential risks

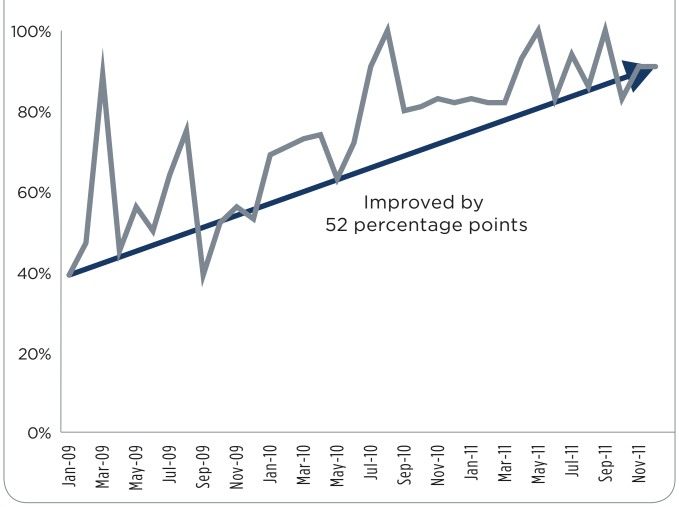
PROGRAMS

LESSONS LEARNED
Ongoing sharing platform that allows best practices sharing

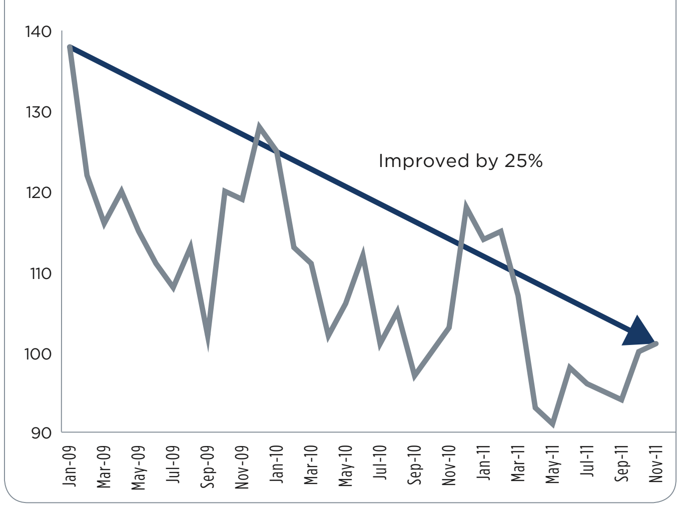
KEY CONTROLS
Significant milestones to ensure that we execute as planned in our product development

We continued to deploy our Achieving Excellence System, which contributes to further enhancing our operational and functional excellence. This will in turn increase customer satisfaction. In the past few years, we have strengthened the operational fundamentals of the business through continuous focus on key performance indicators. We have improved on-time delivery of our aircraft by 52 percentage points and reduced the number of missed departures by 25% since January 2009.

ON TIME DELIVERY
January 2009 to December 2011



MISSED DEPARTURES
(per 10,000 scheduled departures)
January 2009 to December 2011



EXPAND OUR INTERNATIONAL PRESENCE

The transformation of the global economy creates various opportunities from a sales, manufacturing and after-market perspective. New technological capabilities in some emerging countries allow manufacturers to bring production closer to these markets at a competitive cost. Our customer base is becoming more international, and customers from emerging economies are accounting for a larger share of the market.

We also continued to get closer to our customers by significantly expanding our customer service footprint throughout the year. In 2011, we added four new Regional Support Office (RSO) locations for business aircraft customers in Singapore; São Paolo, Brazil; Sydney, Australia; and Hong Kong, China. We also entered into a strategic alliance with Fokker Services to launch FLY, a new program that bolsters support services for customers operating the *Dash 8* and the *Q-Series 100/200/300* turboprops. We also began serving *CRJ* aircraft customers at our Dallas, U.S., repair facility.

In the past five years, we expanded our manufacturing footprint. We built a manufacturing site in Querétaro, Mexico, that produces lower cost and high-quality components. The site began with the production of electrical harnesses and rapidly evolved to the manufacture of major components. Underscoring the rapid progress of the Querétaro facility, it will soon begin manufacturing the high technology composite wing and fuselage of the *Learjet 85* business jet. Furthermore, we are currently building a new facility that will begin the production of the aft fuselage of the *Global 7000* and *Global 8000* business jets in 2013.

In 2011, we decided to build on the successful model that we put in place in Mexico to further diversify our production footprint and improve our supply chain efficiency. We recently announced that we would invest approximately $200 million over the next eight years to establish a manufacturing facility in Morocco. Scheduled to be implemented in phases starting in 2012, the new Moroccan facility will initially include sub-assembly capabilities for simple structures and is scheduled to start manufacturing in 2013.

WE HAVE WHAT IT TAKES TO DELIVER ON OUR LONG-TERM STRATEGY

We are well positioned in markets with solid growth forecasts. We are endowed with a large talent pool of well-trained and engaged employees, focused on constantly enhancing execution and customer engagement. Our experienced management team is committed to the long-term success of the organization.

Although the current economic volatility is creating significant challenges, we are confident in our future. We are leveraging our diversified portfolio of jet- and turbo-propelled aircraft to address the various needs of geographically diversified commercial and business aviation customers both today and into the future. Our significant investments in six major aircraft programs illustrate our continued commitment to innovation.

OUR MARKET

Poised for long-term growth

The state of the world economy, and that of individual countries, is a key factor in the demand for air travel. As such, the performance of the aerospace industry follows the performance of the greater macroeconomic business cycle, albeit with a lag between economic expansion (or contraction) and the time it takes to reflect on the industry. Real GDP growth is the widely accepted measure of economic activity. According to IHS Global Insight's World Overview report released on February 15, 2012, worldwide annual real GDP will almost double from $51.2 trillion in 2010 to $96.1 trillion in 2030 (expressed in constant 2005 dollars). On average, this is equivalent to a growth rate of 3.2% per year.

Given this forecast of economic growth and the drivers in our markets, which are described hereafter, we remain positive about the long-term business outlook. With our product portfolio and continued investments in game-changing products, we are poised to capture a good share of this long-term growth.

BUSINESS AIRCRAFT

LEADING THE WAY

For the third consecutive year, we are the market leader in terms of deliveries in the categories in which we compete. We achieved a market share of 32%[1], compared to 31% in calendar year 2010. This improvement of our total market share reflects the competitive advantage of our products and our strong performance in order intake in the last two years despite a tough economic environment.

Furthermore, for an eighth consecutive year, the GAMA airplane shipment report confirms our leadership position in terms of revenues in the business aircraft market categories in which we compete, with a market share of 37%[1], compared to 35% in calendar year 2010.

BUSINESS AIRCRAFT MARKET AND MARKET SHARE (BASED ON DELIVERIES)[2,3]

	Calendar year 2011[1]			Calendar year 2010[4]		
		BA			BA	
By market category	**Total market (in units)**	**Total deliveries (in units)**	**Market share**	Total market (in units)	Total deliveries (in units)	Market share
Light	**241**	**43**	**18%**	194	28	14%
Medium	**187**	**86**	**46%**	208	83	40%
Large	**141**	**53**	**38%**	142	55	39%
	569	**182**	**32%**	544	166	31%

Source: The General Aviation Manufacturers Association ("GAMA") airplane shipment report dated February 22, 2012 and other public sources[1].

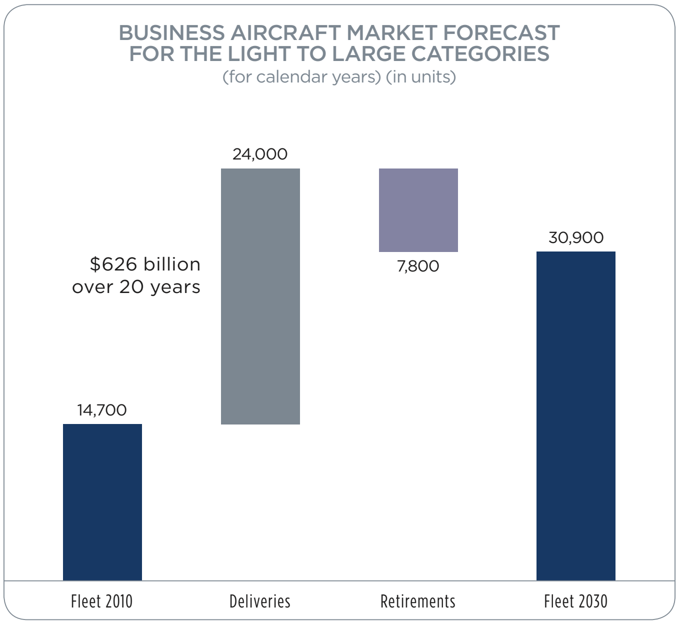
1 Hawker Beechcraft's fourth quarter 2011 delivery data was not available in the February 22, 2012 GAMA shipment report. In building the market data, Hawker Beechcraft's fourth quarter 2011 deliveries and revenues were estimated from other public sources.
2 Assessment of market share in the business aircraft industry is based on delivery data from GAMA and other public sources for the calendar year and thus does not correspond with the number of aircraft deliveries recorded during our fiscal years ended December 31, 2011 and January 31, 2011.
3 Deliveries in the very light category and large corporate airliners (132 units in calendar year 2011 and 232 units in calendar year 2010) are not included in the market totals shown above as we have no product offering in these two categories.
4 For comparative purposes, BA's deliveries for calendar year 2010 have been restated under IFRS.

A MARKET OPPORTUNITY OF $626 BILLION OVER 20 YEARS

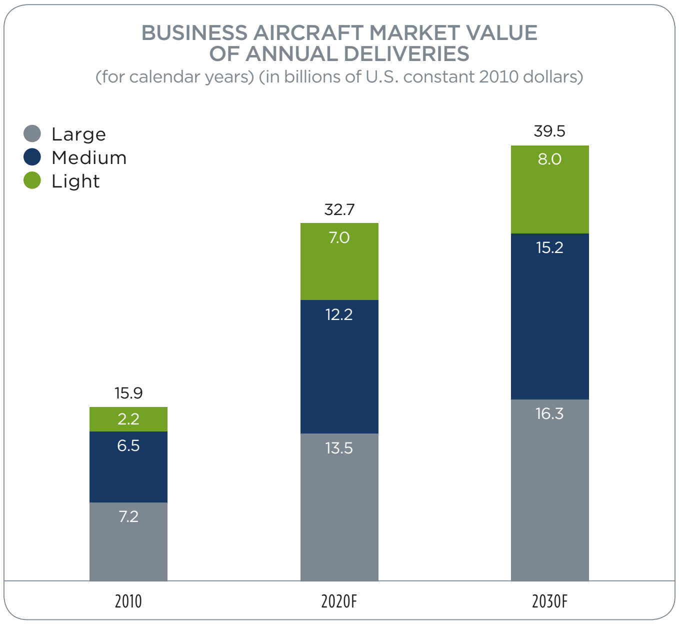
As stated in our Business Aircraft Market Forecast, published in June 2011 and available on Bombardier's website at www.bombardier.com, we estimate 24,000 aircraft deliveries in the light to large categories, representing $626 billion in revenues in constant 2010 U.S. dollars, between calendar years 2011 and 2030. Moreover, the worldwide business aircraft fleet is forecast to more than double to 30,900 aircraft in calendar year 2030, from 14,700 aircraft at the end of 2010.

Currently the U.S. represents approximately 64% of the worldwide installed base. Going forward, we believe that the U.S. will remain the largest market, although to a lesser extent, as more wealth is created in other regions. The shift in demand towards non-U.S. customers started a few years ago, mostly in emerging markets, and has increased the demand for larger aircraft, as these customers tend to prefer aircraft with superior range capabilities. The increased importance of range impacts how our products are designed and the geographical layout of our support network. Further, the continued demand growth outside the U.S. is dependent on the creation and availability of the necessary infrastructure and support services to allow business aviation to become more widely accepted.

Our long-term growth forecast of 24,000 aircraft deliveries in the next 20 years is based on our monitoring of long-term market drivers. Bombardier has a leading product portfolio to capture this long-term growth opportunity. In the short term, however, orders and deliveries will continue to be susceptible to economic uncertainty.



Source: BA 2011 Business Aircraft Market Forecast.



Source: BA 2011 Business Aircraft Market Forecast.
F: Forecast

Business aircraft market drivers—long-term outlook

Although economic shocks and uncertainties may have an impact in the short term, we believe that the long-term market drivers of growth for the business jet industry remain solid. Over the next 20 years, using GDP data from IHS Global Insight we forecast that the world business jet fleet will grow at a compound annual growth rate (CAGR) of 3.8%.

CALENDAR YEARS 2012-2031 OUTLOOK

Market driver	Description	Outlook
Wealth creation	The wealth of our customer base, comprised of corporations, individuals and governments, can be measured by real GDP. The real GDP growth from calendar years 2003 to 2007 averaged 3.6% per year. Over this same period, the business aircraft market saw strong order intake. In their February 2012 World Overview report, IHS Global Insight forecast an average annual worldwide real GDP growth rate of 3.2% per year over the next 20 years, which should enable healthy market conditions.	↑
Globalization of trade	According to IHS Global Insight's February 2012 report, the value of world merchandise exports is expected to increase by a CAGR of 6.6% over the next 20 years. As international trade and global mobility increase, the business community requires flexible travel means like business aviation to efficiently link all workplaces.	↑
Replacement demand	The worldwide installed base in segments in which we compete was comprised of 14,700 aircraft as of December 31, 2010. With the majority of aircraft replacement occurring 5 to 10 years after initial delivery, a solid momentum of replacement demand can be expected.	↑
New aircraft programs	New aircraft programs stimulate demand by offering customers better performing and more environmentally conscious aircraft. In the categories in which we compete, there are numerous aircraft programs under development scheduled for entry-into-service over the next decade and we expect this trend to continue for the following decade.	↑
Emerging markets	According to IHS Global Insight data, the contribution to world real GDP made by countries outside North America and Europe grew from 38% to 45% between 2001 and 2011. IHS Global Insight's February 2012 report predicts that by 2031 countries outside North America and Europe will account for 56% of world real GDP. The continued wealth creation in emerging markets coupled with aviation infrastructure development will accelerate the use of business aircraft dramatically from levels seen today.	↑
Accessibility	Other offerings (air taxi, on-demand charter, jet card programs and fractional ownership) provide air travel customers with more tailor-made options to suit their needs. Over the next 20 years, approximately 10% of the industry orders are expected to come from fractional and branded charter operators.	↑

↑ → ↓ Indicates a favourable, neutral or negative trend, respectively, in the market categories in which we compete.

LEADING IN A COMPETITIVE ENVIRONMENT

In the business aircraft market categories in which we compete, the landscape of our competitors consists of five main original equipment manufacturers (OEMs):

- Cessna Aircraft Company ("Cessna"), a subsidiary of Textron Inc.;
- Dassault Aviation ("Dassault");
- Embraer–Empresa Brasileira de Aeronáutica S.A. ("Embraer");
- Gulfstream Aerospace Corporation ("Gulfstream"), a subsidiary of General Dynamics; and
- Hawker Beechcraft Corporation ("Hawker Beechcraft"), a private company owned by Goldman Sachs and Onex Partners.

The table below is our assessment of the current market segmentation. It is based on the latest information available for characteristics such as range, cabin volume and price.

	LIGHT JETS				MEDIUM JETS			LARGE JETS		
BOMBARDIER	L40XR In service	L45XR In service	L60XR In service	L85 Under development	CL-300 In service	CL-605 In service	CL-800 Series In service	G5000 In service	GEX G6000 In service	G7000 G8000 Under development
Cessna	In service	In service	Under development	In service	In service, Under development					
Dassault					Under development	In service	In service	In service		
Embraer	In service			Under development	Under development		In service			
Gulfstream				In service	In service, Under development		In service	In service	In service	Under development
Hawker Beechcraft			In service	In service	In service					

L refers to *Learjet*, CL to *Challenger*, G to *Global* and GEX to *Global Express XRS*. G6000 is equipped with the *Global Vision* flight deck.

Products in service Products under development

We are well positioned in the business aircraft market with our three families of aircraft, each with strong products covering the majority of the market. The *Global 7000* and *Global 8000* aircraft will extend our product family by linking regions too distant for any other business jet, thus facilitating access to and from emerging markets. The business jet market remains extremely competitive, and our competitors are expected to continue to upgrade their product portfolios going forward. With a product portfolio strategy centred on our customers, we are confident that we will be successful in maintaining our market leadership position in business aviation.

COMMERCIAL AIRCRAFT

A CHALLENGING MARKET, BUT A PROMISING GROWTH OPPORTUNITY

COMMERCIAL AIRCRAFT MARKET AND MARKET SHARE (BASED ON DELIVERIES)[1]

	Calendar year 2011			Calendar year 2010		
		BA			BA	
By market category	Total market (in units)	Total deliveries (in units)	Market share	Total market (in units)	Total deliveries (in units)	Market share
20- to 99-seat turboprops	**108**	**54**	**50%**	106	55	52%
40- to 100-seat regional jets	**131**	**46**	**35%**	118	35	30%
100- to 149-seat commercial jets	**110**	**–**	**n/a**	83	–	n/a
	349	**100**		307	90	

Source: Publicly available competitor reports.

1 Assessment of market share in the commercial aircraft industry is calculated on the basis of aircraft deliveries recorded during the calendar year, which does not correspond to the number of aircraft deliveries recorded during our fiscal years ended December 31, 2011 and January 31, 2011.

n/a: Not applicable

A total of 349 aircraft in the 20- to 149-seat category were delivered in calendar year 2011, up from 307 in the same period last year. This 14% delivery increase is attributable to an increase in order booking in 2010. This growth was largely driven by commercial and regional jets and concentrated in emerging markets such as Asia-Pacific and Latin America, where we have had a limited sales presence until recently. Our traditional markets, such as the U.S. and Europe, continued to record slower economic growth.

Our delivery market share slightly reduced from 52% to 50% in the turboprop category. We delivered the *Q400 NextGen* aircraft to new customers SpiceJet Ltd. of India and Smart Aviation of Egypt, which demonstrated the appeal of the *Q400 NextGen* aircraft to new customers in emerging markets. In addition, Jazz of Canada, an Air Canada Express carrier, took delivery of their first *Q400 NextGen* aircraft, further enhancing the favourable position of this product in the mature North American market.

In the regional jet category, our delivery market share increased from 30% to 35%. This increase can be attributed to the entry-into-service of the *CRJ1000 NextGen* aircraft, the largest member of the *CRJ* family of aircraft.

Going forward, we believe that we are well positioned in the 20- to 149-seat category due to the competitive economics of our products, a large installed customer base and family commonality benefits within each of the *Q-Series*, *CRJ* and *CSeries* families of aircraft. We are also adapting our organization to meet the evolving needs of our current and new customers, bringing our marketing, sales, financing and customer service teams closer to them. These changes will help us better address the changing competitive landscape.

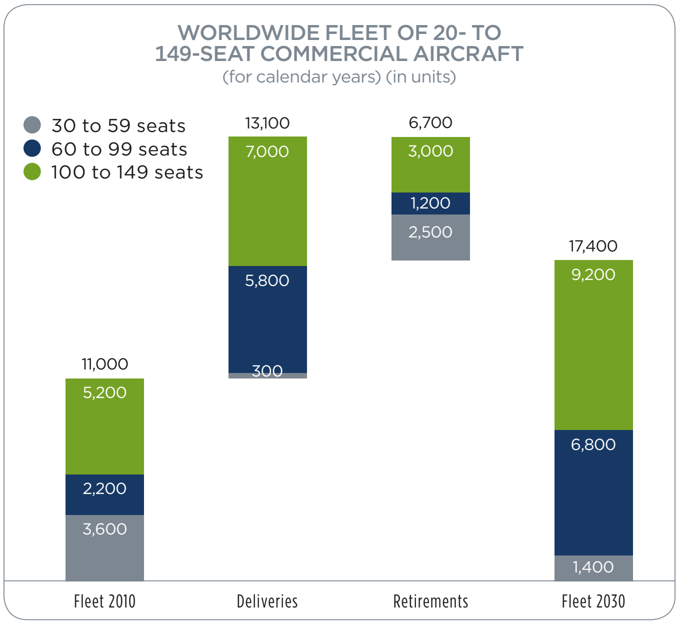
LONG-TERM FUNDAMENTALS REMAIN STRONG

Demand for commercial aircraft is driven by the replenishment of in-service fleet, the growth in overall traffic, and the change in airline business models. The retirement pace of existing fleets can be stimulated by a number of factors such as airline profitability, availability of new technologies, exogenous shocks, etc. The strong correlation between GDP and passenger traffic will stimulate the demand for capacity over time. Airline business models will influence the aircraft type and size required to fulfil the capacity and the pace of implementation.

The health of commercial airlines is highly dependent on the state of the economy. In periods of weakened economic conditions, businesses tend to limit expenses and individuals to adjust their discretionary spending, negatively impacting traffic levels and thus airline profitability. As the overall economy recovers, so does the level of passenger traffic, allowing airlines to return to growth. This growth in turn drives an increased demand for commercial aircraft.

Currently, emerging economies represent the best growth opportunities for commercial aviation, while steady replacement and low organic growth is predicted in more mature markets. As a percentage of the total deliveries, new aircraft demand is expected to increase for emerging markets.

According to our Commercial Aircraft Market Forecast published in June 2011 and available on Bombardier's website at www.bombardier.com, we estimate that 13,100 new commercial aircraft worth approximately $639 billion will be delivered between calendar years 2011 and 2030 in the 20- to 149-seat category. Of the 13,100 deliveries, 2,500 will be for turboprops, 3,600 will be regional jets in the 20- to 99-seat category while 7,000 will be commercial jets in the 100- to 149-seat category.



Source: BA 2011 Commercial Aircraft Market Forecast

We expect turboprops to continue to play an important role in the regional aircraft market of up to 100 seats. As regional airlines worldwide are faced with rising fuel costs and more stringent environmental regulations, the low fuel burn of turboprops compared to similarly-sized regional jets allows airlines to maintain capacity while reducing fuel costs and shrinking their CO_2 emissions.

Large regional jets of up to 100 seats allow airlines to accommodate traffic growth and fly longer routes with optimized seating capacities, while reducing unit costs without compromising passenger comfort. In order to satisfy market frequency requirements on these longer routes, we expect that demand for regional jets will be larger than for turboprops. We believe that nearly 59% of deliveries of aircraft up to 100 seats will be for regional jets in the period from calendar years 2011 to 2030, with the balance being turboprops.

The 100- to 149-seat category represents a key growth opportunity. Today, the 100- to 149-seat category is served by an aging aircraft fleet. Furthermore, the current in-production aircraft are not optimized for this segment, because they are derivatives of larger or smaller aircraft that were not designed for this seat category. Therefore, they incur penalties of extra weight or inadequate performance characteristics. Demand for new 100- to 149-seat aircraft is driven by the retirement of older generation aircraft and the availability of new models specifically built for this segment. With a current average age of 14 years, we estimate that nearly 58% of the 100- to 149-seat aircraft fleet as at December 31, 2010 will be retired from passenger service by calendar year 2030. New aircraft demand for 100- to 149-seat aircraft is expected to be 7,000 deliveries between calendar years 2011 and 2030, generating revenue of approximately $424 billion. The total fleet will grow from 5,200 to 9,200 units, and will be the largest segment in which we have a product offering.

Over the long term, the outlook for the airline industry remains positive, and we expect that commercial aviation will continue to play a pivotal role in facilitating global commerce.

Commercial aircraft 20- to 149-seat category market drivers—long-term outlook

We closely monitor commercial aircraft market drivers. We believe that the market for 20- to 149-seat aircraft will grow at a moderate pace, as the focus on optimization, efficiency and environment continues.

CALENDAR YEARS 2011-2031 OUTLOOK

Market driver	Description	Outlook
Economic growth	Air travel demand is directly linked to economic growth. Over the next 20 years, IHS Global Insight is forecasting an average annual worldwide real GDP growth rate of 3.2%, based on data issued in February 2012. Economic growth forecasts for emerging economies are well above the worldwide average.	↑
Fuel prices	According to the Annual Energy Outlook 2012 Early Release issued by the U.S. Energy Information Administration, prices for crude oil are predicted to rise at approximately 1.8% per year net of inflation over the period from calendar years 2011 to 2035. We believe that this will accelerate the retirement of old, less efficient aircraft types, increasing demand for fuel-efficient new aircraft.	↑
	Oil prices have become increasingly volatile in recent years. Increasing fuel costs or unusually high volatility in fuel prices may impair airline operating economics. Consumers' purchasing power may also be affected, resulting in lower air travel demand. Both could negatively impact demand for new aircraft.	↓
Replacement demand	More than half of the current commercial aircraft fleet of 11,000 will be replaced in the next 20 years due to technical obsolescence, with a large number of these replacements being in the 100- to 149-seat category. This is a continuation of the trend to replace lower capacity aircraft with larger models.	↑
Emerging markets	With a developing infrastructure, we expect a strong growth in air traffic and aircraft fleet in these regions, although starting from a much lower base. As of December 31, 2010, the Asia-Pacific region, including India and China, represented 16% of the global fleet of the 20- to 149-seat category. By calendar year 2030, we estimate this level to rise to 27%. In particular, the fleet of 20- to 149-seat aircraft in China is expected to grow at a CAGR of more than 7.7%, with 2,310 deliveries between calendar years 2011 and 2030. As a result of safety concerns, accelerated retirement of domestically built aircraft will continue in Russia for the next few years.	↑
Environmental regulations	Environmental concerns are being addressed by the aviation industry with increased retirement of older aircraft, fleet modernization, as well as infrastructure and operational improvements, all having a positive influence on demand for new aircraft.	↑
	Increasingly stringent environmental regulations like the ones currently deployed in Europe, Japan and Australia will negatively impact airline operating economics through fees and surcharges, ultimately hampering the development of the industry.	↓
Scope clauses	It is predicted that scope clauses will evolve in the U.S., permitting 100-seat aircraft to be flown by regional airlines. Changes to scope clauses that allow regional airlines to fly larger aircraft will have a positive impact on demand.	↑

↑ → ↓ Indicates a favourable, neutral or negative trend in the market categories in which we compete.

WE ARE FACING INCREASING COMPETITION, PARTICULARLY IN THE REGIONAL JET SEGMENTS

Our main competitors in the 20- to 149-seat category, representing the market in which we have a product offering, are:

- Avions de Transport Régional ("ATR"), a joint venture between EADS and Alenia Aeronautica S.P.A. (a Finmeccanica S.P.A. company) and Aviation Industry Corporation of China ("AVIC") in the turboprop market;
- Embraer in the 60- to 119-seat regional jet market;
- Commercial Aircraft Corporation of China, Ltd. ("COMAC") prospectively in the 80- to 100-seat regional jet market;
- Sukhoi Company (JSC) ("Sukhoi") in the 80- to 100-seat regional jet market;
- Mitsubishi Heavy Industries Ltd. ("MHI") prospectively in the 60- to 100-seat regional jet market; and
- Airbus S.A.S. ("Airbus") and The Boeing Company ("Boeing") in the 100- to 149-seat commercial jet market for mainline airlines.

	Turboprops	Regional jets				Commercial jets	
	60-90	40-59	60-79	80-100		100-119	120-149
BOMBARDIER	*Q400*[1] ✈	*CRJ200* ✈	*CRJ700*[1] ✈	*CRJ900*[1] ✈	*CRJ1000*[1] ✈	*CS100* ✈*	*CS300* ✈*
ATR	✈						
AVIC	✈						
Embraer		✈	✈	✈	✈	✈	
COMAC				✈*			
MHI			✈*	✈*			
Sukhoi				✈			
Airbus						✈	✈ ✈**
Boeing						✈	✈ ✈**

1 *NextGen* aircraft models

✈ Products in service ✈* Products under development ✈** Re-engined legacy products under development (Airbus A319, Boeing B737-700)

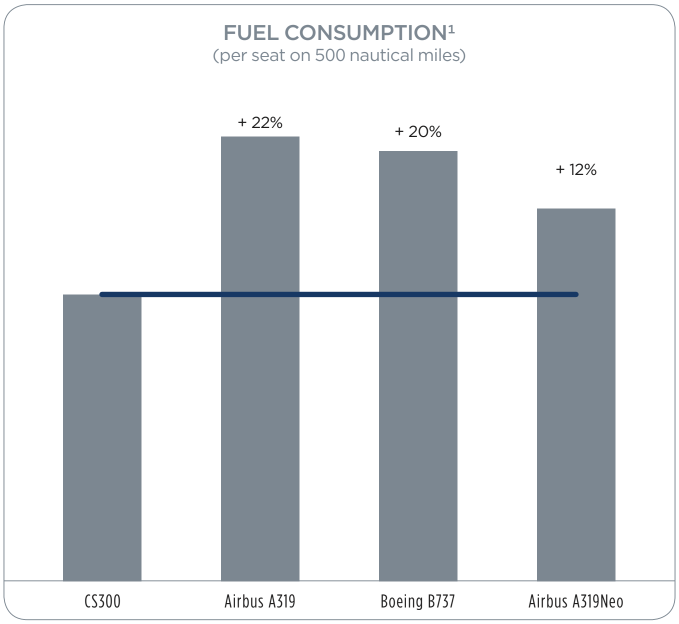
We are in a unique position of being the only OEM in the world to offer both regional jets and turboprop aircraft. Due to the economic advantage of our products, a large installed customer base and family commonality benefits across the *CRJ* family of aircraft and across the *Q-Series* family of aircraft, we believe that even though the increased competition may impact our market share in the near future, we are well positioned in the regional jet and turboprop categories for the long term.

The *CSeries* family of aircraft will further strengthen the economic advantage of our aircraft portfolio by offering aircraft with distinct value propositions that respond to customers' needs in the 100- to 149-seat category. With its game-changing design, the *CSeries* family of aircraft will meet airlines' requirements for more economical, flexible (transcontinental range and short-field capability) and passenger-oriented aircraft and will provide significant fuel burn, cash operating cost, and noise emission advantages compared to any in-production aircraft in the 100- to 149-seat market segment[2]. Our estimates show that the *CS300* maintains an up to 12% fuel burn advantage and double-digit cash operating cost advantage over the recently launched re-engined aircraft in the same seat segment[2]. Such re-engined products are expected to enter into service no earlier than three years after the entry-into-service of the *CS300* aircraft.

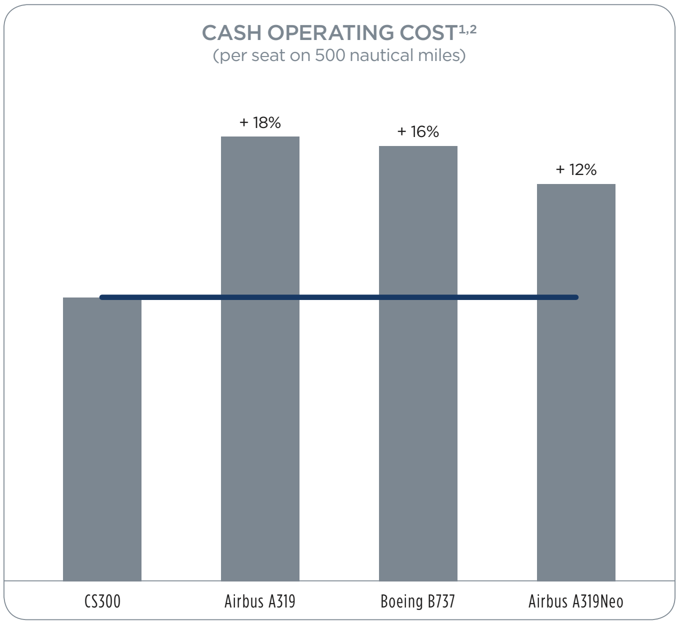
For the past few years, Embraer has sold primarily the E190, an aircraft that, until recently, had enjoyed no competition. Since the entry-into-service of the *CRJ1000 NextGen* aircraft, in December 2010, we have offered airlines an aircraft with the best economics in this seat category, as reported publicly by our launch customers. The *CRJ1000 NextGen* aircraft has a 16% fuel burn advantage (per trip) over the E190, and a 15% cash operating cost advantage. The *CRJ900 NextGen* aircraft is just as impressive versus the E175 with a 9% fuel burn advantage per seat and a 7% cash operating cost advantage[3].

The *Q400 NextGen* aircraft is the preferred turboprop in mature airline markets such as the U.S. and Europe, mainly due

2 Under certain operating conditions, when compared to aircraft currently in service for flights of 500 nautical miles. See *CSeries* family of aircraft program disclaimer on the inside back cover of this annual report.
3 Under certain operating conditions, when compared to aircraft currently in service benchmarked at 500 nautical miles.



Source: BA Analysis



Source: BA Analysis

1 Under certain operating conditions, when compared to aircraft currently in service for flights of 500 nautical miles. See *CSeries* family of aircraft program disclaimer on the inside back cover of this annual report.
2 North American environment.

Note: Boeing's 737 MAX is not included in the analysis as the aircraft specifications have not yet been published.

to its jet-like speed and jet-bridge capability. As we continue to make inroads in demonstrating the value of the aircraft, the *Q400 NextGen* aircraft is well positioned to be the aircraft that meets capacity and growth needs of emerging markets.

We are putting in place strategies to help strengthen and maintain our market position. All of our aircraft, especially the *Q400 NextGen* aircraft, have caught the attention of many leasing companies and we are pursuing these opportunities. We have expanded our sales and marketing team and deployed these resources regionally, to be as close as possible to our customers in order to respond to their needs.

Going forward, we believe that we are well positioned in the 60- to 149-seat category due to the economic advantage of our products, a large installed customer base, and family commonality benefits within each of the *Q-Series*, *CRJ* and *CSeries* families of aircraft.

CUSTOMER SERVICES

EXPANDING OUR OFFERINGS AND GEOGRAPHIC PRESENCE

The aftermarket includes every activity that is performed to support aircraft operations. Bombardier Customer Services provides a broad range of services related to our aircraft portfolio. Our focus is to provide customers with total life-cycle solutions that address the complete aftermarket experience, including technical support and components, maintenance and training services. These services are administered through our international service and support network of authorized providers and fully-owned facilities.

We support business and commercial aircraft customers' parts requirements through our worldwide network of parts hubs, depots and our *PartsExpress* service. Customers are currently served from our main distribution centres in Chicago, U.S., and Frankfurt, Germany, and from spare parts depots in Frankfurt, Germany; Singapore; Sydney, Australia; Narita, Japan; Dubai, United Arab Emirates; Beijing, China; Belfast, U.K.; São Paulo, Brazil; and Hong Kong, China. We administer worldwide 24/7 spare parts sales and support, through various programs such as aircraft-on-ground ("AOG") services and *PartsExpress*. Launched in 2007, *PartsExpress* leverages hand-carriers and charters from a network of Freight Forwarding partners to dispatch required parts and support personnel to the AOG location. We also offer rotable management programs and "Smart Services" to both Bombardier business and commercial aircraft customers. Smart Services allows customers to purchase spare parts on a cost-per-flight-hour basis, providing customers with more predictable payments over time and helping to effectively manage operation costs.

Through our integrated Customer Response Centres (CRC) located in Toronto (*Q-Series*), Montréal (*Challenger* and *Global*), Mirabel (*CRJ*), and Wichita (*Learjet*), we provide a single point of contact for customers to resolve AOG situations. The CRC teams are comprised of logistics and technical experts offering round-the-clock support and expertise, providing quick resolution to return the customer's aircraft back to service.

We provide maintenance services through our six business aircraft OEM service centres located in Dallas, Fort Lauderdale, Hartford, Tucson and Wichita in the U.S. and in Amsterdam in the Netherlands. Commercial aircraft customers can access our maintenance services at our three service centres in Bridgeport, Macon and Tucson in the U.S. In addition, there are 51 third-party AOG/line maintenance and authorized service facilities worldwide for business aircraft maintenance (including two business aircraft maintenance centres in which Bombardier owns an equity interest) and five third-party facilities for commercial aircraft maintenance.

Training is also an essential part of a complete aircraft services portfolio. We offer pilot and maintenance training solutions for our business, commercial and amphibious aircraft customers either through our two training centres located in Montréal, Canada, and Dallas, U.S., and/or third-party Authorized Training Providers.

The customer services market represents a large growth opportunity for BA. In the past, the U.S. represented the largest share of deliveries for both business and commercial aircraft. Wealth creation and economic development in emerging markets is driving a shift in the proportion of business and commercial aircraft delivered outside of the U.S. This trend in demand impacts the geographical layout of our support network.

This is why we continue to develop innovative and comprehensive service solutions and to invest in building our international service and support capabilities. In calendar year 2008, we began our worldwide customer support expansion strategy.

In 2011, we continued to make important progress across the globe, opening new Regional Support Office (RSO) locations and appointing new Line Maintenance Facilities (LMF) to better serve our business aircraft customers. We have expanded our *PartsExpress* network to cover the Middle East and Asia, and increased aftermarket services for business aircraft in China. In June 2011, we announced the expansion of our business aircraft Customer Response Team in France, Eastern Europe and South Africa. We also named two new business aircraft Authorized Service Facilities (ASFs) in Latin America. This year we entered into a strategic alliance with Fokker Services to launch FLY, a new program that bolsters support services for commercial aircraft customers flying the *Dash 8* and the *Q-Series 100/200/300* aircraft.

We continue to actively seek out strategic locations for expansion in order to move closer to customers, improve response times and build stronger relationships around the globe. All these initiatives contribute to improving the profitability of our customer service business and capturing a larger share of this growing market.

NEW CUSTOMER SUPPORT LOCATIONS IN 2011

RSO	Singapore	Business aircraft
	São Paulo, Brazil	Business aircraft
	Sydney, Australia	Business aircraft
	Hong Kong, China	Business aircraft
LMF	Amman, Jordan	Business aircraft
	Perth, Australia	Business aircraft
	Jinan, China	Business aircraft
ASF	Nuevo León, Mexico	Business aircraft
	Buenos Aires, Argentina	Business aircraft
Parts Depot	Hong Kong, China	Business and commercial aircraft

FLEXJET

COMPLEMENTING OUR BUSINESS AIRCRAFT ACTIVITIES

We offer convenient turnkey solutions to customers in the U.S. who may not need an entire aircraft, who seek to avoid the complexities of whole aircraft ownership, who can benefit from access to several aircraft types, or who simply desire guaranteed access to aircraft at pre-determined rates. Flexjet is the only private aviation solutions provider in the U.S. that offers a full suite of products that range from full ownership to on-demand charter.

As of December 31, 2011, we had the second-largest number of fractional program aircraft in the world, comprised of 82 business aircraft in the light and medium categories. We also ranked second in terms of shares sold in the U.S. fractional ownership industry for calendar year 2011, and enjoyed an owner retention rate of 69%, the highest in our history.

2011 marked the first anniversary of our Customer Account Management organization, which provides personalized service and a single point of contact for each *Flexjet* owner. Our Customer Account Managers, paired with our pilots, who continue to set the bar for training and experience, allow us to provide unmatched service to our owners, who consistently give us high marks for customer satisfaction.

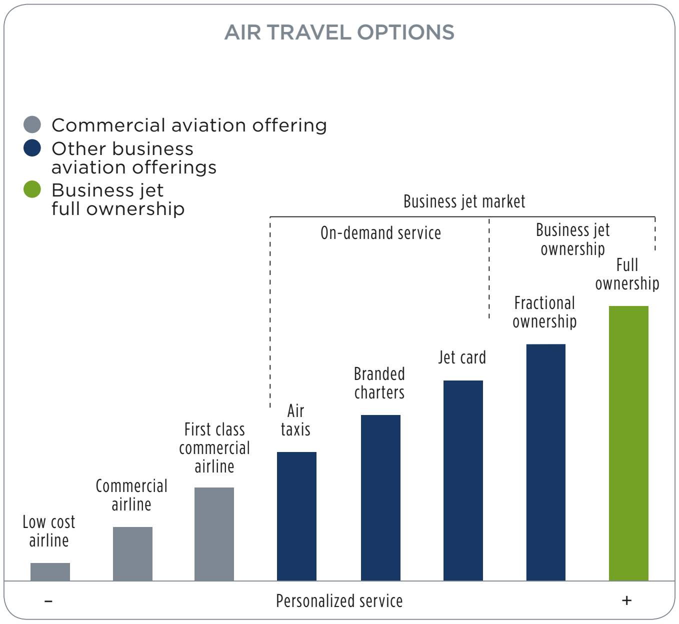
THE FRACTIONAL INDUSTRY IS REFLECTIVE OF GENERAL ECONOMIC CHALLENGES

Fractional ownership deliveries historically represent 10% to 15% of annual new business aircraft deliveries, and this is expected to continue in the future. The recession in the U.S. drastically reduced the demand for business aviation products, leading all major fractional providers, including Flexjet, to reduce the number of business jets in operation. The fleet of aircraft in active service in the U.S. at the four major fractional providers has declined from a peak of more than 765 business jets in December 2007 to 578 in December 2011.

The current economic expansion should benefit all facets of business aviation. Customers who migrated to commercial travel during the past few years are therefore expected to return to the fractional ownership and jet card market in order to leverage the productivity enhancements that business aviation provides.

Jet cards continue to provide a low-risk entry point due to the limited commitment (as little as 12.5 hours of travel). As the market rebounds and market inventory declines it is expected that consumers will migrate from on-demand charter to the jet card market, leveraging the guaranteed pricing this product provides. The fractional ownership market is also expected to grow in the near future, as the financial position of both corporations and high-net-worth individuals improves. The number of owners renewing their contract is also expected to increase over the next few years, since owners who purchased fractional shares during the industry's peak years (calendar years 2006 to 2008) have contracts that are expiring. It is expected that these owners will take advantage of the lower operating costs of newer business aircraft to trade in their existing fractional share for shares of a newer aircraft.

In an industry reflective of general economic challenges, we have developed an outstanding reputation for operational excellence, product innovation, and superior service. All of our flight training is conducted by active pilots, and we are the only fractional ownership company to have earned 12 consecutive FAA Diamond Awards for outstanding maintenance training. We offer a broad choice of aircraft, the youngest in the fractional jet industry, with an average age of just over five years. We continue to introduce innovative new programs and product features, while investing in new tools and training to further enhance our outstanding customer service, with the goal of maximizing our retention of existing owners while also appealing to potential new customers.



TRANSPORTATION

OUR PROFILE

Leading the rail industry

REVENUES	GLOBAL PRESENCE	ORDER BACKLOG	WORKFORCE
$9.8 billion	**62** production and engineering sites in **25** countries	**$31.9** billion	**36,200**
Customers in more than **60** countries		Strong revenue visibility	Located in **40** countries

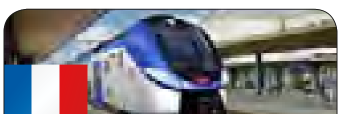
Rail is one of the most environmentally-friendly means of transportation. With its low energy consumption and emissions, as well as its contribution to reduce congestion and travel times, rail is helping cities to breathe better and connect people.

Bombardier Transportation (BT) is the global leader in the rail industry. We offer the broadest portfolio of efficient products and services, covering the full spectrum of rail solutions from complete trains to sub-systems, services, system integration and signalling. We have reiterated our leadership position by winning more orders than our competitors over the last three years[1]. We have won orders across all product segments and geographies, underlining the competitiveness of our products and services worldwide. Our installed base of rolling stock product exceeds 100,000 rail cars and locomotives worldwide.

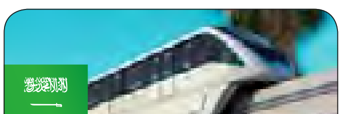
1 Based on our order intake versus competitors who publish order intake for rail transportation (e.g. Siemens, Alstom, GE, Stadler, CAF).

LEADING IN ORDER INTAKE

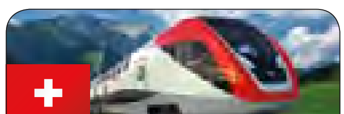
A selection of significant orders since 2010



OMNEO double-deck trains for the SNCF $11 billion[2] (Feb 2010)



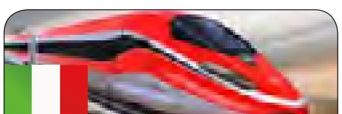
INNOVIA Monorail system for Riyadh $241 million (May 2010)



59 *TWINDEXX* double-deck trains for the Swiss Railways $1.6 billion (June 2010)

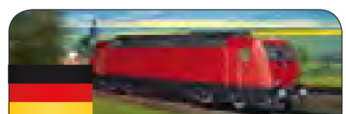
40 CRH1 HS trains for MOR China $373 million (July 2010)

INNOVIA Monorail system for São Paulo $747 million (Sept 2010)

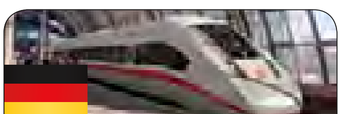


50 V300ZEFIRO VHS trains for Trenitalia $889 million (Sept 2010)

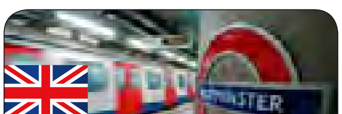
52 metro trains for Montréal $715 million (Oct 2010)



200 *TRAXX* locomotives for DB Regio $867 million[2] (Apr 2011)

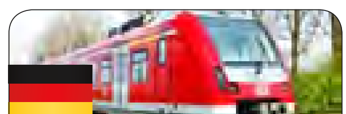


ICx components with Siemens for DB $1.8 billion (May 2011)



CITYFLO 650 signalling for London $577 million (June 2011)

Light Rail Transit system for Queensland $265 million (June 2011)



90 commuter trains for DB Regio $648 million (Dec 2011)

2 Frame contract values if all options are exercised.

Note: Contract values, base only, BT share only.

In 2011, our revenues reached $9.8 billion, with Europe remaining our largest market. We have a very diverse customer base with products or services in more than 60 countries. Around 90% of our rolling stock business is conducted with large railway operators in the public sector, such as national railways and municipal transit authorities. These organizations are often tied closely to public sector involvement in infrastructure funding and operations. In some markets, deregulation has led to the growth of private players and funding. Key factors in rail procurement tenders are compliance with customer specifications, product reliability, maintainability, availability, safety, price and terms of payment, energy efficiency and design. Local content in products is often an important criterion for public operators as well.

Our industry-leading international capability is based on our strong local roots and the global knowledge we foster among our sites. We have 62 production and engineering sites in 25 countries and we operate more than 40 service centres at our customers' premises across the world. We employ 36,200 employees in 40 countries. We provide highly complex rail solutions that incorporate a wide range of high-technology sub-systems, parts and components that we leverage and deploy globally. These solutions are often developed through projects for our customers. An effective global supply chain is critical to our business, which we achieve in part through highly qualified suppliers in more than 68 countries.

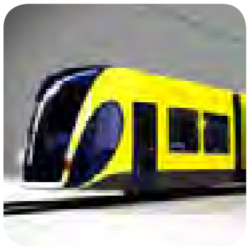
LEADING GLOBAL PRESENCE

BT production and engineering sites, service centres and country offices

INDUSTRY-LEADING PRODUCTS AND SERVICES

We offer the broadest portfolio and most innovative technology

MARKET SEGMENT: ROLLING STOCK



LIGHT RAIL VEHICLES

APPLICATION: Efficient transit in urban centres

MAJOR PRODUCTS: *FLEXITY* family (*FLEXITY* 2, Outlook, Freedom, Berlin)

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

METROS

APPLICATION: High-capacity mobility for urban mass transit

MAJOR PRODUCTS: *MOVIA* and *INNOVIA*

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

COMMUTER AND REGIONAL TRAINS

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

MAJOR PRODUCTS: *OMNEO*, *SPACIUM*, *TALENT* 2, *TWINDEXX* Vario, *ELECTROSTAR*, *BiLevel* and MultiLevel

KEY COMPETITIVE ADVANTAGES: Broad product line featuring electric, diesel and dual mode self-propelled vehicles, along with a wide range of locomotive-hauled coaches in both single and double-deck configurations. Modular platforms offer maximum flexibility to transit authorities and operators. These products have won many awards, especially for high reliability.

INTERCITY, HIGH SPEED TRAINS AND VERY HIGH SPEED TRAINS

APPLICATION: Equipment for medium- and long-distance operations

MAJOR PRODUCTS: *ZEFIRO* family, *REGINA* and *TWINDEXX* Express

KEY COMPETITIVE ADVANTAGES: Solutions covering the full spectrum of speed requirements offering optimal operating flexibility and energy efficiency: intercity (160-200 km/h), high speed (200-250 km/h) and very high speed (above 250 km/h).

LOCOMOTIVES

APPLICATION: Locomotives for intercity, regional and freight rail service

MAJOR PRODUCTS: *TRAXX* platform, ALP electric and dual-power locomotives

KEY COMPETITIVE ADVANTAGES: Industry-leading product platform offering electric, diesel-electric, dual-power and multi-system propulsion, last-mile diesel or battery drive features. Homologated in 18 countries in Europe, thus allowing cross-border service.

PROPULSION AND CONTROLS

APPLICATION: Complete propulsion, train control and management systems for our rail vehicles and third-party customers. Intelligent wayside solutions to increase operational efficiency and productivity

MAJOR PRODUCT: *MITRAC*

KEY COMPETITIVE ADVANTAGES: Leading-edge reliability, efficiency and energy-saving technologies covering the full spectrum of rolling stock applications. Integrated wayside applications enhance train and fleet capabilities.

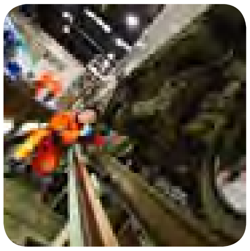
BOGIES

APPLICATION: Complete bogies solutions for our full range of rail vehicles and for our third-party customers' needs

MAJOR PRODUCTS: *FLEXX* bogies portfolio including latest technologies: *FLEXX* Eco, *FLEXX* Compact and *FLEXX* Tronic *WAKO* system

KEY COMPETITIVE ADVANTAGES: Advanced product technology and complete aftermarket services covering the full spectrum of rolling stock applications. Our track-friendly bogies ensure safe and smooth operation, reduce wear of wheel and rail, as well as minimize operational costs and noise emission.

MARKET SEGMENT: SERVICES



FLEET MAINTENANCE

APPLICATION: Fleet maintenance services for rail operators

KEY COMPETITIVE ADVANTAGES: Our engineering expertise, maintenance techniques and tools, such as the *ORBITA* predictive maintenance management solutions, maximize availability, reliability, punctuality and safety.

REFURBISHMENT AND OVERHAUL

APPLICATION: Modernization, reengineering and overhaul services of rail vehicles and components

KEY COMPETITIVE ADVANTAGES: Strong experience with more than 3,000 vehicles refurbished through mid-life upgrades or life-extension programs. More than 4,000 different types of components overhauled worldwide.

MATERIAL SOLUTIONS

APPLICATION: Supply chain management, spare parts inventory management and technical support services for rail operators

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

MARKET SEGMENT: SYSTEM AND SIGNALLING

MASS TRANSIT AND AIRPORT SYSTEMS

APPLICATION: Fully Automated People Mover (APM), metro and monorail as well as light rail systems
MAJOR PRODUCTS: *INNOVIA* APM 300 system, *INNOVIA* Monorail 300 system, *INNOVIA* Metro 300 system, *FLEXITY* 2 tram systems
KEY COMPETITIVE ADVANTAGES: Broad rolling stock portfolio for any urban and airport application that can be customized to provide a complete turnkey system solution. Proven experience in project management, systems engineering and integration, as well as driverless or unattended operations. Strong track record for reliability and dependability across 60 complete systems around the world.

MAINLINE SYSTEMS

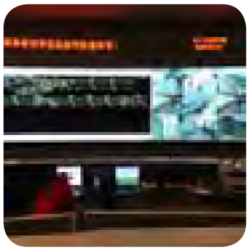
APPLICATION: System solutions for intercity and high speed applications covering medium- to long-distance operations
KEY COMPETITIVE ADVANTAGES: Turnkey system approach to providing reliable rail systems for mainline applications featuring high passenger comfort and trend-setting safety standards. Highly experienced in systems integration and engineering as well as maintenance and operations.

OPERATION AND MAINTENANCE OF SYSTEMS

APPLICATION: Operations and maintenance ("O&M") services for fully automated transit and mass transit systems
KEY COMPETITIVE ADVANTAGES: Strong O&M experience in automated, driverless technologies, including APM, metro and monorail systems as well as the fleet maintenance solutions for light rail, and intercity systems.

E-MOBILITY SOLUTIONS

APPLICATION: Inductive energy supply solution for all types of electric rail and road vehicles including trams, buses, trucks, taxis and cars
MAJOR PRODUCT: *PRIMOVE* system
KEY COMPETITIVE ADVANTAGES: Convenient, wireless and emission-free e-mobility solution that allows electric vehicles to be powered regardless of whether they are in motion (dynamic charging) or at rest (static charging) without affecting driving habits or journey times.



MASS TRANSIT SIGNALLING

APPLICATION: Rail control and signalling solutions for mass transit systems such as metros, light rail or APMs
MAJOR PRODUCT: *CITYFLO*
KEY COMPETITIVE ADVANTAGES: Complete portfolio of solutions ranging from manual applications to fully automated Communication-Based Train Control (CBTC).

MAINLINE SIGNALLING

APPLICATION: Rail control and signalling solutions for mainline transit ranging from freight traffic to regional/ commuter, intercity and high speed lines
MAJOR PRODUCTS: *INTERFLO* and *EBI* Cab Automatic Train Control (ATC) onboard equipment
KEY COMPETITIVE ADVANTAGES: Complete portfolio of conventional signalling systems. Market leader in European Rail Traffic Management System ("ERTMS") technology.

OUR STRATEGIC PRIORITIES

Focused on customer needs today and tomorrow

At BT, we believe that having the broadest presence and portfolio gives us privileged insight into the opportunities and challenges our customers face globally. This global perspective is a competitive advantage that enables us to develop leading products and technologies that exceed customer expectations. Today, our customers are striving to meet tomorrow's mobility demand with more efficient transportation systems. In the context of economic uncertainty and a more competitive environment this is a challenge, and our opportunity. We are responding to these changing needs and will continue to lead the rail technology industry by focusing on the following priorities:

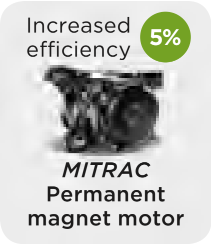
- Develop innovative and cost-optimized products and solutions
- Enable development of more integrated transportation networks
- Build local capabilities and long-term partnerships
- Deliver flawlessly on our promises worldwide

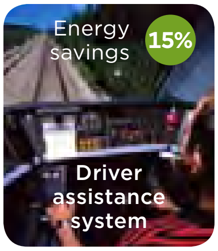
DELIVER FLAWLESSLY ON OUR PROMISES WORLDWIDE, EVERY STEP OF THE WAY

DEVELOP INNOVATIVE AND COST OPTIMIZED PRODUCTS AND SOLUTIONS

We are shaping the market with new technologies that make trains more efficient, faster, quieter and more comfortable. Our innovative and cost-optimized solutions enable operators to expand their service profitably with lower life cycle costs. This is a competitive advantage in an environment of aging infrastructure and budget constraints. For example, our *ECO4* portfolio of energy saving technologies answers operator needs for lower operating and life cycle costs. These technologies are being integrated on new platforms such as the Régio2N[1] regional train in France, to significantly reduce energy consumption by using permanent magnet motors and driver assistance for more efficient operations.

1 Trademark of the Association des Régions de France.





ENABLE MORE INTEGRATED TRANSPORTATION NETWORKS

We are a leader in enabling more integrated networks through a rolling stock and signalling portfolio that enables flexibility and interoperability. Our technologies make transportation networks more efficient and attractive by permitting regional integration within and across borders, enabling seamless connectivity between modes and bridging existing and new infrastructure. For example, in China, we have recently delivered our advanced *INTERFLO* 450 signalling system on over 3,650 kilometres of lines, enabling full interoperability with previous signalling technology CTCS2.

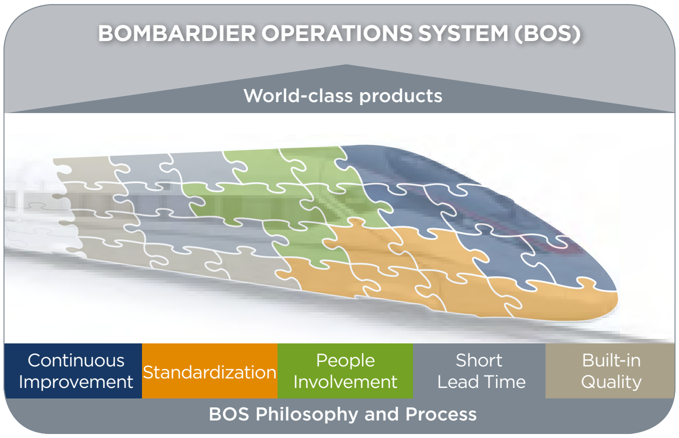
BUILD LOCAL CAPABILITIES AND LONG-TERM PARTNERSHIPS

We are growing our broad footprint, localizing in key growth markets. Rapid growth in rail investment in emerging markets and the liberalization of European rail markets is opening market opportunities to grow. We are focused on building local capabilities and long-term partnerships in developing markets by localizing production, investing in public-private partnerships and establishing an operations and maintenance presence. For example, for Metro de São Paulo in Brazil, we used our local presence to deliver a refurbished fleet of metro vehicles, extending the vehicle life by 20 years and creating a significant reduction in maintenance costs, and improving reliability and availability for passengers.

DELIVER FLAWLESSLY ON OUR PROMISES WORLDWIDE

While leading products and a local presence are vital to meet customer needs, delivering on our commitments is our relentless focus. We believe the key to sustained industry leadership lies in customer satisfaction through executing flawlessly on our projects and delivering quality products on time. Our focus on execution is also key to sustain revenue growth and improve profitability. Having the right people, processes and supply chain is critical to successful execution. Our strength comes from the diversity of our people with more than 100 nationalities who speak around 30 different languages. This is a differentiator to attract industry leading talent and build local roots. We strive for an innovative environment with strong internal processes for efficiency and risk management.

In the last two years we complemented our strong project management processes with internal gate reviews to assure better consolidation and synchronization of project deliverables. In 2011, we launched an initiative on quality, with two core elements. The first element involves advanced quality planning throughout all phases of project management. The other core element is an effective process



of problem identification, problem solving and prevention, and process improvement.

Our Bombardier Operations System (BOS) is driving production improvements and continues to be rolled out across our manufacturing sites. BOS is BT's common operations system across all sites. Operations tools and processes are based around five core principles—Built-in Quality, Short Lead Time, People Involvement, Standardization, and Continuous Improvement. To support the implementation of BOS, certified employee auditors make improvement suggestions to site management teams by doing detailed site assessments and provide feedback on areas for productivity improvement. In 2011, we conducted assessments at 13 sites. We have a developed network of internal BOS assessors and therefore a structured training program. Currently, we have certified more than 150 employees as trainers and we plan to further certify 120 in 2012. These efforts are paying off. Our Mannheim site has been recognized as having a best-in-class Lean production system by the University RWTH Aachen. In that benchmark, Mannheim was chosen as one of the top performers among more than 180 participating multinational industrial companies.

Our competitive position is built on a strong track record of delivering a broad innovative portfolio of products and technologies with a local presence in many markets, laying the foundations for our leadership.

OUR MARKET

A promising outlook for rail investment

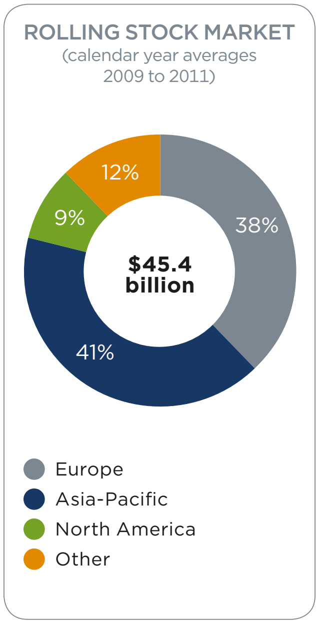
IN THE LONG TERM, OUR MARKET IS STEADILY GROWING, SUSTAINING HIGH LEVELS OF ACTIVITY

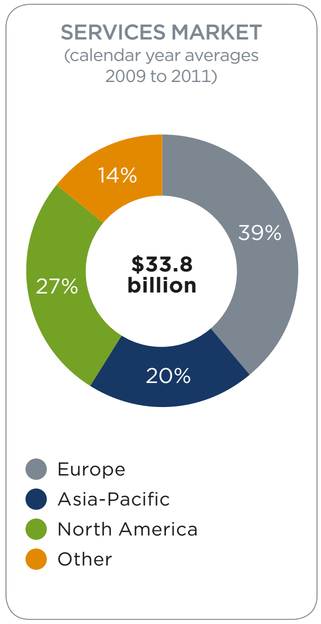
ACCESSIBLE MARKET

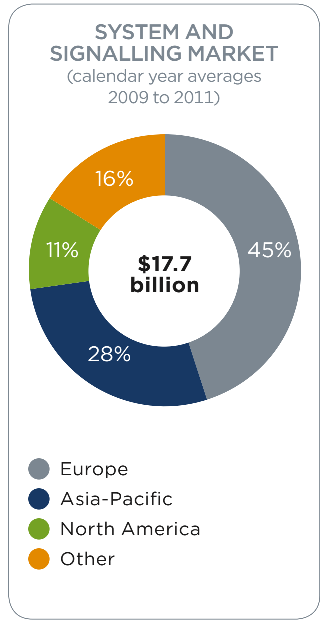
(in billions of dollars)	**Calendar years 2009-2011**		Calendar years 2008-2010	
By market category				
Rolling stock	**$45.4**	**47%**	$44.8	47%
Services	**33.8**	**35%**	32.9	35%
System and signalling	**17.7**	**18%**	16.9	18%
	$96.9	**100%**	$94.6	100%
By geographical region				
Europe	**$38.4**	**40%**	$36.9	39%
Asia-Pacific	**30.2**	**31%**	30.1	32%
North America	**15.2**	**16%**	15.0	16%
Other	**13.1**	**13%**	12.6	13%
	$96.9	**100%**	$94.6	100%

Our market is the worldwide rail market accessible to external suppliers as defined by the industry standards of the Association of the European Rail Industry (UNIFE). Replacing the "relevant market" used in previous reports, this definition encompasses a broad view of the market, which reflects our priority to continuously address growth opportunities worldwide. The calculation of our market is based on UNIFE data from the third edition of the World rail market study—status quo and outlook 2020 published by UNIFE in September 2010 ("UNIFE 2010 study"). UNIFE data is updated every two years based on a survey conducted in the 50 largest rail markets worldwide and provides an update on the performance of the rail industry. In line with common industry practice, the accessible market is stated as the average order intake of a three-year period and excludes the share of markets in which contracts are awarded to local players without open-bid competition. The breakdown of the market by category excludes the infrastructure, freight wagons and shunters segments.

RECORD YEARS FOR THE RAIL SUPPLY INDUSTRY







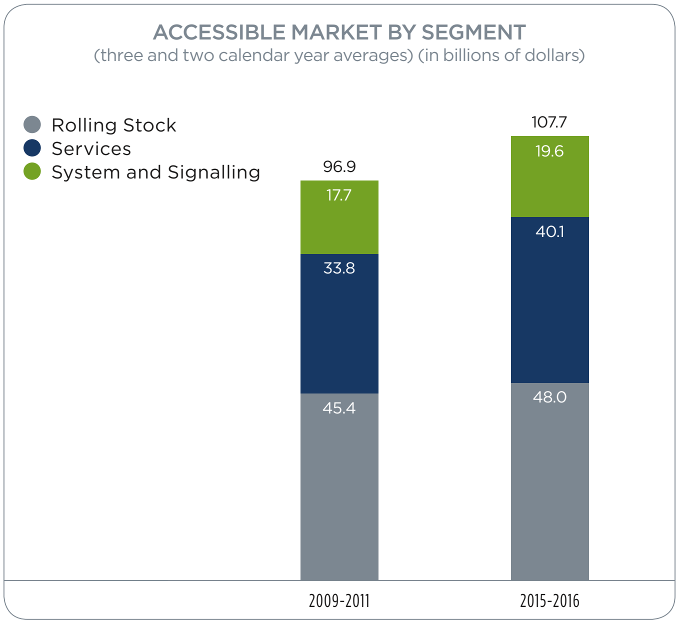
Our rail supply accessible market continues to have high levels of activity, reaching $96.9 billion on average over the last three years, higher than the previous levels of $94.6 billion. This level of order activity provides evidence of the resilience of the rail supply market to the economic cycles, as previously noticed in the past 3-year period, i.e. 2008-2010.

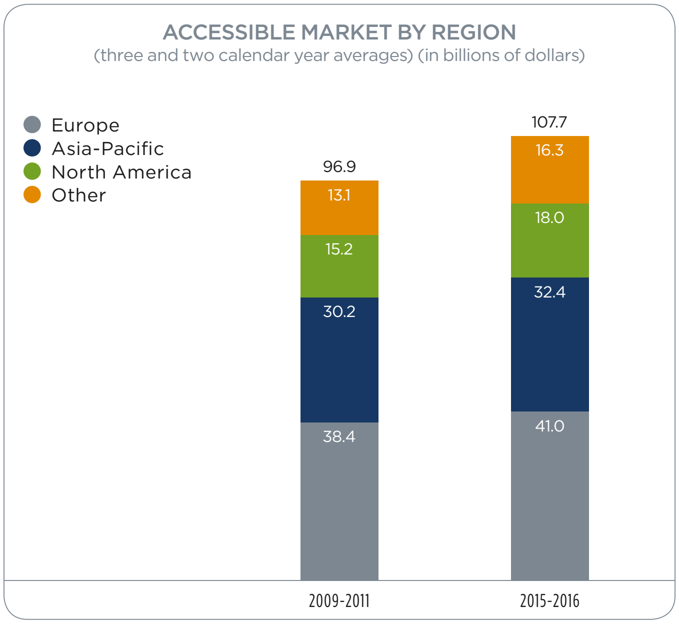
Following a series of record contracts awarded over the last years, e.g. in Switzerland, in Italy and in France, momentum in Western and Northern Europe towards large renewal and expansion of fleets was sustained with major intercity contracts in Germany as well as mass transit in the U.K. The Asia-Pacific region took over as the largest rolling stock market worldwide thanks to the massive investment in metros in China as well as the boom of very high speed trains in 2009. North America remained relatively buoyant, lifted by the metro and light rail contracts in Canada. In the Other region, in addition to two exceptionally large locomotive and commuter orders in Russia, the market was characterized by an increased level of activity spread out across all segments and geographies, confirming the willingness of governments to invest in rail infrastructure to foster economic development.

The services market continues to grow at a high pace, driven by renewed investment in modernizing rolling stock and the ongoing liberalization of markets. In Europe, many operators are increasingly focused on their core business and outsourcing train maintenance services. Though the market remains concentrated around Europe and North America, the share of Asia-Pacific and Other regions is set to grow alongside the market for rolling stock. There does however remain great disparity in the accessibility of the service markets.

Growth in the system and signalling market is fuelled by investment in brownfield projects in Europe and greenfield projects in emerging markets. Major investments in the re-signalling of lines are being carried out throughout Europe. The development of infrastructure in emerging markets, especially for mass transit applications, is driving investments in new Communication-Based Train Control (CBTC) technologies. Investment in monorails for mass transit purposes has supported growth in the system segment, as seen recently in Brazil. Finally, the expansion of airports in Europe and construction of new terminals in emerging economies is driving the need for turnkey solutions such as automated people movers.

SIGNIFICANT OPPORTUNITIES ON THE HORIZON ACROSS GEOGRAPHIES AND SEGMENTS





Source: UNIFE data from the third edition of the *World rail market study—status quo and outlook 2020* published by the Association of the European Rail Industry (UNIFE) in September 2010.

Exchange rate 1€ = 1.3733$, cumulative average exchange rate over the 2009-2011 period.

Our future market outlook forecasts an average annual volume of $107.7 billion for calendar years 2015-2016.

We believe that investment in railway transportation will remain on the top of government agendas. We expect a sustained and steadily growing level of activity in our markets due to three key factors:

- a significant portion of the European market will be made up of outstanding options to be exercised, a direct consequence of the large frame contracts awarded over the past years;
- large contracts are still on the horizon both in mature and emerging markets; and
- significant investments in infrastructure are expected to continue, and will consequently drive demand for new rolling stock; according to the UNIFE study.

GROWTH IN EUROPE BEYOND OPTIONS	
Crossrail commuter trains	U.K.
Stockholm metro	Sweden
High speed tilting cars	Switzerland

Europe is expected to remain the world's largest market. Large replacement orders were placed in recent years, including large options attached to some of these contracts. In Germany and France, significant options tied to recent orders placed for locomotives, regional and intercity trains will support future market growth. In addition, tenders are planned and orders will continue to be placed to address the growing complexity of our customers' operations as well as increasingly stringent regulatory requirements; projects are already in the making and being tendered, for example in the U.K., Sweden and Switzerland.

INDIA AND AUSTRALIA RISING	
Mass transit in Delhi, Chennai, Bangalore, Mumbai	India
Electric locomotives	India
Queensland rail project	Australia

In Asia-Pacific, China is likely to see continued orders on top of massive investment in metros and continuous expansion of capacity for intercity transportation. China may also introduce light rail vehicles and commuter trains for mass transit applications. India laid out large modernization plans for metros and locomotives to keep pace with its growing economy. The Southeast-Asia region is investing in mass transit with the construction of metro lines in Vietnam and ongoing investments in Malaysia, Thailand and the Philippines. Further developments are expected in the wake of a newly created infrastructure fund set up by the Association of Southeast Asian Nations ("ASEAN"). In Australia, cities will continue to invest in light rail and commuter applications while the Queensland Rail project represents an opportunity.

OPPORTUNITES ON BOTH SIDES OF THE BORDER	
Several tenders for MTA	U.S.
Ottawa Light Rail	Canada
San Francisco BART	U.S.

The North American market has significant potential moving forward, with a number of tenders planned for the next three years. Amtrak in the U.S. is planning to replace regional trains while mass transit opportunities are arising in New York, San Francisco, Ottawa, Montréal and Vancouver. The introduction of Positive Train Control (PTC) signalling in the U.S. will also be a driver in the signalling market in the coming years.

WORLDWIDE RAIL DEMAND	
Monorails in Belo Horizonte and Recife	Brazil
Qatar integrated rail network	Qatar
Mass transit in Santiago	Chile

On top of strong domestic economic growth, world events will drive the demand for efficient public transportation in some key geographies. Brazil is preparing for both the FIFA World Cup and the Olympics while Qatar and Russia are also expanding their networks to accommodate football events in 2018 and 2022. Russia will also present significant opportunities following the current reorganization of the main operator Russian Railways. Other countries with strong economies and growing cities, such as Chile and Peru, are also continuing to invest in mass transit.

Our long-term outlook is sustained by strong fundamentals

MARKET DRIVERS — OUTLOOK FOR 2020

Market drivers	Description	Outlook
Urbanization and population growth	According to a McKinsey Global Institute study, by 2025, the top 600 cities (with a current population of over 150,000) will represent nearly 60% of world GDP and have 2 billion inhabitants. These rapidly expanding middleweight and mega cities have to mitigate major challenges in urban planning, pollution and traffic management by implementing optimized urban and intercity mass transportation systems.	↑
Oil scarcity and energy price	An International Union of Railways (UIC) study showed that rail transportation is on average two to five times more energy efficient than road, water or air transportation. Efficient and eco-friendly rail solutions are the mode of transportation required by changing travel behaviours.	↑
Environmental awareness	The UIC conducted a study demonstrating that rail transportation is three to ten times less CO_2 emission intensive compared to other modes. As environmental awareness increases worldwide and regulations are introduced, behaviours and investment will continue to change towards greener transportation.	↑
Public funding	Governments responded to the 2008 financial crisis through stimulus packages and rescue plans which partly targeted rail. Nevertheless, since over 90% of the rolling stock business is conducted with rail operators from the public sector, a potential consequence of budget constraints is that under the current economic uncertainties, funding for new projects might be more difficult to come by.	→
Replacement, upgrade and extension of aging rail equipment	Aging fleet upgrades, replacements and urban rail network extensions are driving growth, especially in emerging markets. The modernization of signalling equipment is also key to improve network safety, maximize existing infrastructure and relieve growing capacity needs to optimize overall operations.	↑
Liberalization of rail transport markets	The continued liberalization of rail markets across Europe has improved the conditions for new operators to invest and enter the market, with Sweden, Great Britain, Denmark, Germany and the Netherlands leading the way. The "Rail Liberalisation Index 2011" published together by IBM Global Business Services and Humboldt University of Berlin illustrates the major developments towards "advanced" liberalization levels and increased private investment of European countries between calendar years 2002 and 2011.	↑

↑ → ↓ Indicates a favourable, neutral or negative trend in the market categories in which we compete.

OUR COMPETITION

We offer the broadest portfolio of products and services, covering the full spectrum of efficient rail solutions from complete trains to sub-systems, services, system integration and signalling. We have reiterated our industry leadership position by winning more orders than our competitors over the last three years[1].

Our competitors with a similar range of products in Europe include Siemens AG ("Siemens") and Alstom SA ("Alstom"). Other competitors such as Construcciones y Auxiliar de Ferrocarriles ("CAF") and Stadler Rail AG ("Stadler") are focused on competing in specific segments like light rail vehicles and regional trains. In China, China CNR Corporation Ltd. ("CNR") and China South Locomotive & Rolling Stock Corporation Ltd. ("CSR") are growing in parallel and alongside strong domestic market investment in segments such as metros and very high speed trains. Other global players with a significant presence in specific segments include: Ansaldo STS S.p.A. ("Ansaldo STS"); General Electric Company ("GE"); Hitachi, Ltd. ("Hitachi"); Invensys plc ("Invensys"); Kawasaki Heavy Industries, Ltd. ("Kawasaki"); Hyundai Rotem ("Rotem"); and Thales Rail Signalling Solutions Inc. ("Thales"). We sometimes partner with our competitors and other suppliers to meet local requirements and offer competitive products and solutions for our customers.

1 Order intake versus competitors who publish order intake for rail transportation (e.g. Siemens, Alstom, GE, Stadler, CAF).

	Rolling stock								
	Light rail	Metros	Commuter and Regional	High speed and Intercity	Loco-motives	Automated systems	System integration	Signalling	Corporate office
BOMBARDIER									Germany
Alstom									France
Ansaldo									Italy
CAF									Spain
CNR									China
CSR									China
GE									U.S.
Hitachi									Japan
Invensys									U.K.
Kawasaki									Japan
Rotem									Korea
Siemens									Germany
Stadler									Switzerland
Thales									France

WE HAVE THE RIGHT STRATEGIC PRIORITIES AND CAPABILITIES TO CAPTURE OPPORTUNITIES AND DELIVER ON OUR PROMISE

Our capability to deliver results is based on the following:

- we are in markets with solid long-term demand growth;
- we have a broad, leading-edge product portfolio that can be customized to specific customer requirements;
- we have a global presence and a diversified customer base;
- we continuously improve our key business processes;
- we have strong relationships with our key stakeholders, including customers, unions and suppliers;
- we have a large talent pool of well-trained and motivated employees who are proud of the products we produce; and
- we have an experienced management team, committed to the long-term success of the organization.

FINANCIAL SECTION

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

Term	Description
AFS	Available for sale
AOCI	Accumulated other comprehensive income
BA	Bombardier Aerospace
BT	Bombardier Transportation
CAGR	Compound annual growth rate
CCTD	Cumulative currency translation difference
CGU	Cash generating unit
CIS	Commonwealth of Independent States
DDHR	Derivative designated in a hedge relationship
DSU	Deferred share unit
EBIT	Earnings before financing expense, financing income and income taxes
EBITDA	Earnings before financing expense, financing income, income taxes and amortization
EBT	Earnings before income taxes
EPS	Earnings per share attributable to equity holders of Bombardier Inc.
FVTP&L	Fair value through profit and loss
GAAP	Generally accepted accounting principles
GDP	Gross domestic product
HFT	Held for trading
IAS	International Accounting Standard(s)
IASB	International Accounting Standards Board
IFRIC	IFRS Interpretations Committee Interpretation
IFRS	International Financial Reporting Standard(s)
L&R	Loans and receivables
MD&A	Management's discussion and analysis
NCI	Non-controlling interests
OCI	Other comprehensive income
OEM	Original equipment manufacturer
PP&E	Property, plant and equipment
PSU	Performance share unit
R&D	Research and development
RVG	Residual value guarantee
SG&A	Selling, general and administrative
SPE	Special purpose entity
U.K.	United Kingdom
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. The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results due to our change of year-end (see the Change of year-end section hereafter).

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

The data presented in this MD&A is structured by manufacturing segment: BA and BT, and then by market segment, which is reflective of our organizational structure. Some financial measures used in this MD&A are not in accordance with IFRS and comparative figures for periods before the Corporation's transition to IFRS (February 1, 2010) have not been restated in accordance with IFRS. When such Canadian GAAP financial measures are presented, a legend has also been added for the benefit of the readers. See also 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

HIGHLIGHTS OF THE YEAR

Good overall financial performance, despite negative free cash flow

REVENUES[1]	NET INCOME[1]	EPS[1]	FREE CASH FLOW[1]	ORDER BACKLOG
$18.3 billion	**$837** million	**$0.47**	**($1.2)** billion	**$53.9** billion

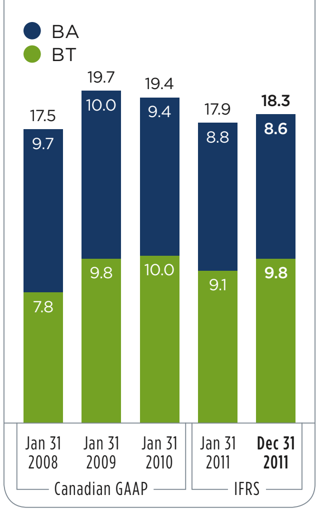
RESULTS

- Revenues of $18.3 billion, an increase of $0.4 billion compared to last fiscal year.
- EBIT of $1.2 billion, or 6.6% of revenues, compared to $1.2 billion, or 6.7%, last fiscal year.
- Net income of $837 million (diluted EPS of $0.47), compared to $775 million (diluted EPS of $0.42) last fiscal year.
- Investment of $1.5 billion in PP&E and intangible assets, compared to $1.1 billion last fiscal year.
- Free cash flow usage of $1.2 billion, compared to a free cash flow of $567 million last fiscal year.
- Strong cash position of $3.4 billion as at December 31, 2011, compared to $4.2 billion as at January 31, 2011.
- Solid order backlog of $53.9 billion as at December 31, 2011, compared to $52.7 billion as at January 31, 2011.

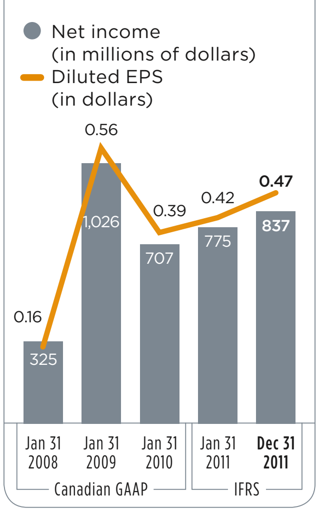
KEY INITIATIVES

- We renewed our unsecured revolving credit facility, increasing the amount available for cash drawing from $500 million to $750 million.
- We renewed the BA and BT letter of credit facilities, which increased our liquidity by $705 million, as these new facilities no longer require any invested collateral.

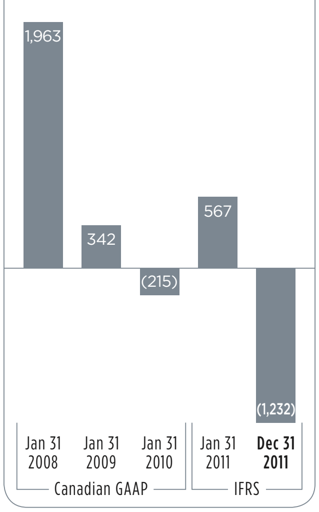
REVENUES[1,2]
(for the fiscal years ended)
(in billions of dollars)



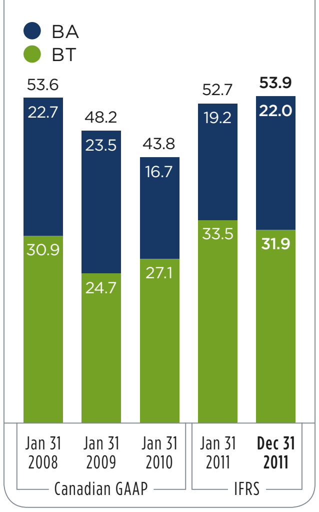
NET INCOME AND EPS[1]
(for the fiscal years ended)



FREE CASH FLOW[1]
(for the fiscal years ended)
(in millions of dollars)



ORDER BACKLOG
(as at)
(in billions of dollars)



1 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Some totals do not agree due to rounding.

FIRST ANNUAL REPORTING UNDER IFRS

The fiscal year ended December 31, 2011 represents our first annual reporting period under IFRS. Previous annual consolidated financial statements were prepared under Canadian GAAP. Comparative figures as at January 31, 2011 and February 1, 2010 and for the fourth quarter and fiscal year ended January 31, 2011 have been restated to comply with IFRS. For a summary of the impact of adoption of IFRS on our consolidated financial statements, see the Accounting and reporting developments section in Other. Note 36 – Adoption of IFRS, to the consolidated financial statements, provides more details on the most significant adjustments to equity, net income, comprehensive income and cash flows. Our choices made with regard to our accounting policies under IFRS have remained unchanged from those presented in previous quarters of the current fiscal year.

Other comparative figures presented in this MD&A for periods and dates prior to our transition date to IFRS have not been restated and are presented as prepared under Canadian GAAP. Consequently, this information is not entirely comparable.

CHANGE OF YEAR-END

On November 30, 2011, the Board of Directors approved the change of our financial year-end from January 31 to December 31, effective December 31, 2011. The change simplifies our internal processes as all business units now use the same reporting periods.

As a result, the fourth quarter ended December 31, 2011 comprises two months and the fiscal year ended December 31, 2011 comprises 11 months of BA's results. This change had no impact on BT's financial reporting as BT's results were already reported on a calendar year basis.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	Profitability	Liquidity	Deliveries/Growth and order intake
BA[1]	EBIT margin for the year ending December 31, 2012 is expected to be approximately 5%. Profitability should be higher in the second half of the year.	For the year ending December 31, 2012, cash flows from operating activities are expected to substantially fund our net additions to PP&E and intangible assets of approximately $2 billion.	We expect to deliver approximately 180 business aircraft and 55 commercial aircraft in the year ending December 31, 2012.
BT[1]	Continue to improve EBIT margin towards our target of 8% by calendar year 2013.	Maintain free cash flow[2] generally in line with EBIT, although it may vary significantly from quarter to quarter.	Maintain a book-to-bill ratio around 1.0, in line with market evolution.

1 See the Forward-looking statements sections in BA and BT.
2 See the Non-GAAP financial measures section hereafter for a definition of this metric.

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, guidance, targets, goals, priorities, our market and strategies, financial position, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business outlook, prospects and trends of an industry; expected growth in demand for products and services; product development, including projected design, characteristics, capacity or performance; expected or scheduled entry-into-service of products and services, orders, deliveries, testing, lead times, certifications and project execution in general; our competitive position; and the expected impact of the legislative and regulatory environment and legal proceedings on our business and operations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "plan", "foresee", "believe" "continue" or "maintain", the negative of these terms, variations of them or similar terminology. By their nature, forward-looking statements require us to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. While we consider our assumptions to be reasonable and appropriate based on information currently available, there is a risk that they may not be accurate. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the respective Guidance and forward-looking statements sections in BA and in BT.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry and major rail operators), operational risks (such as risks related to developing new products and services; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; 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, exposure to credit risk, certain restrictive debt covenants, financing support provided for the benefit of certain customers and reliance on government support) and market risks (such as risks related to foreign currency fluctuations, changing interest rates, decreases in residual value and increases in commodity prices). For more details, see the Risks and uncertainties section in Other. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this 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.

OVERVIEW OF ACTIVITIES

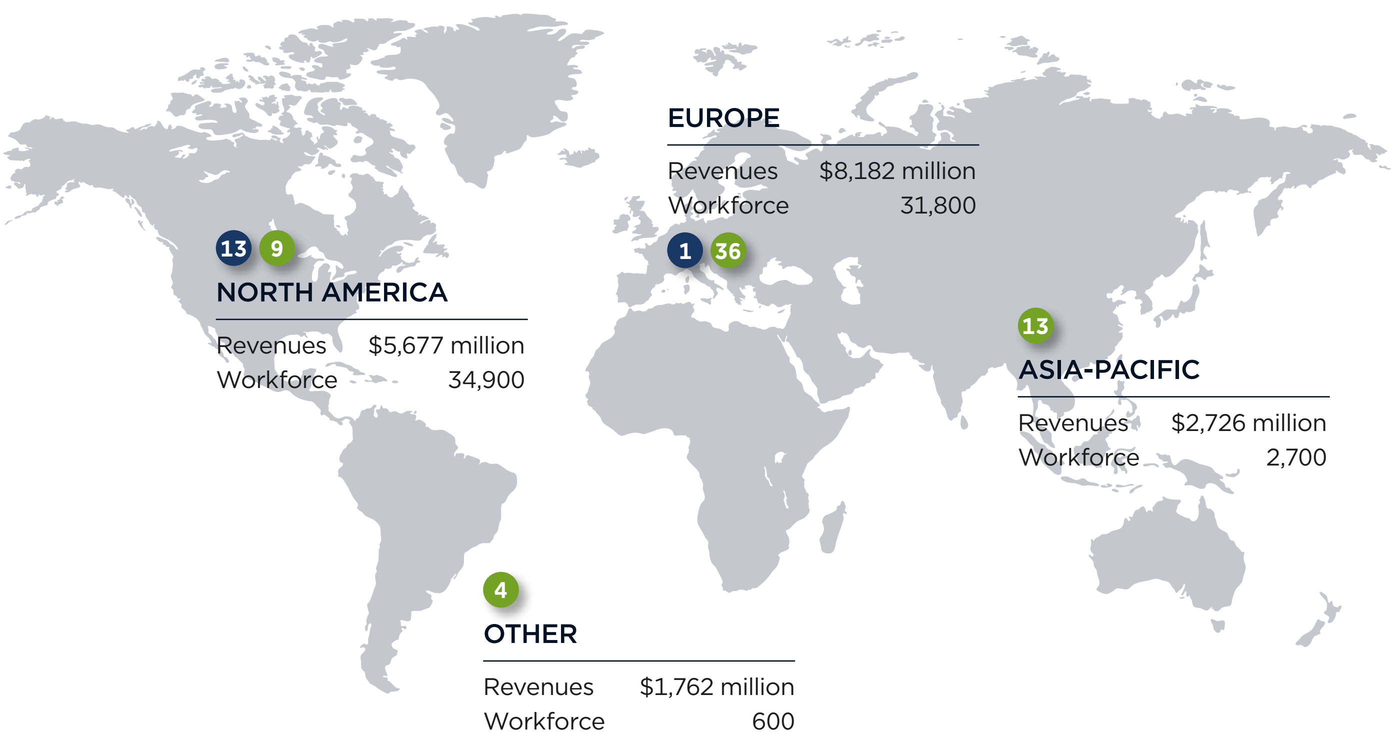
Bombardier is a world leading manufacturer of innovative transportation solutions. We operate in the transportation industry under two broad segments: aerospace (through BA) and rail transportation (through BT).

BA is a world leader in the design, manufacture and support of innovative aviation products for the business, commercial, specialized and amphibious aircraft markets.	
Revenues[1]	$8.6 billion
EBIT[1]	$502 million
Free cash flow[1]	($453) million
Order backlog	$22.0 billion
Number of employees	33,600

BT is the world leader in the design, manufacture and support of rail equipment and systems.	
Revenues[2]	$9.8 billion
EBIT[2]	$700 million
Free cash flow[2]	($424) million
Order backlog	$31.9 billion
Number of employees	36,200

1 The fiscal year ended December 31, 2011 comprises 11 months of results.
2 The fiscal year ended December 31, 2011 comprises 12 months of results.

Every day around the globe, our 70,000 dedicated employees work diligently to earn our worldwide leadership in aerospace and rail transportation. We have 76 production and engineering sites in 25 countries, and a worldwide network of service centres.



Number of Bombardier Aerospace production and engineering sites

Number of Bombardier Transportation production and engineering sites

KEY PERFORMANCE MEASURES AND METRICS

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

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Revenues and delivery units, as measures of growth. • Order backlog, as a measure of future revenues. • Book-to-bill ratios[1], as an indicator of future revenues. • Market share or position, as a measure of our competitive positioning.
Profitability	• Diluted EPS, as a measure of global performance. • EBIT and EBIT margin, as measures of segment performance.
Liquidity	• Free cash flow and average net utilized assets, as measures of liquidity generation. • Available short-term capital resources, defined as cash and cash equivalents and the amount available under the revolving credit facility, as a measure of liquidity adequacy.
Customer satisfaction	• Various customer satisfaction measures, as a measure of our commitment to customers and the reliability of our products.
Execution	• Achievement of product development milestones, as a measure of flawless execution. • Employee engagement and enablement, as measured by the annual employee survey.
Capital structure	• Adjusted EBIT[2] to adjusted interest[2] ratio, as a measure of interest coverage. • Adjusted debt[2] to adjusted EBITDA[2] ratio, as a measure of financial leverage. • Weighted-average long-term debt maturity, as a measure of the term structure.

1 Refer to the respective Key performance measures and metrics sections in BA and BT for definitions of this metric.
2 Refer to the Non-GAAP financial measures section hereafter for definitions of these metrics.

Employee incentive-based compensation is linked to the achievement of targeted results, based on EBIT, free cash flow, average net utilized assets, customer-related metrics, execution in our new product development programs and diluted EPS.

FIVE-YEAR SUMMARY

		IFRS			Canadian GAAP
	Dec. 31, 2011[3]	Jan. 31, 2011	Jan. 31, 2010	Jan. 31, 2009	Jan. 31, 2008
For the fiscal years ended					
Revenues	**$18,347**	$17,892	$19,366	$19,721	$17,506
EBIT	**$ 1,202**	$ 1,205	$ 1,098	$ 1,429	$ 748
EBIT margin	**6.6%**	6.7%	5.7%	7.2%	4.3%
EBITDA	**$ 1,535**	$ 1,576	$ 1,596	$ 1,984	$ 1,260
EBITDA margin	**8.4%**	8.8%	8.2%	10.1%	7.2%
Effective income tax rate	**19.5%**	22.3%	22.7%	20.5%	27.3%
Net income	**$ 837**	$ 775	$ 707	$ 1,026	$ 325
Diluted EPS (in dollars)	**$ 0.47**	$ 0.42	$ 0.39	$ 0.56	$ 0.16
Free cash flow (usage)	**$ (1,232)**	$ 567	$ (215)	$ 342	$ 1,963
Adjusted EBIT to adjusted interest ratio	**4.7**	5.0	n/c	n/c	n/c
As at					
Order backlog (in billions)	**$ 53.9**	$ 52.7	$ 43.8	$ 48.2	$ 53.6
Cash and cash equivalents	**$ 3,372**	$ 4,195	$ 3,372	$ 3,470	$ 3,602
Adjusted debt to adjusted EBITDA ratio	**3.2**	3.1	n/c	n/c	n/c
Weighted-average long-term debt maturity (in years)	**8.0**	8.9	6.5	7.5	8.5

3 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
n/c: Not comparable. These ratios were redefined during the fiscal year ended December 31, 2011 and as a result, comparable ratios are not available for all periods presented.

FINANCIAL PRIORITIES

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

PROFITABILITY
Increase the level and consistency of profitability

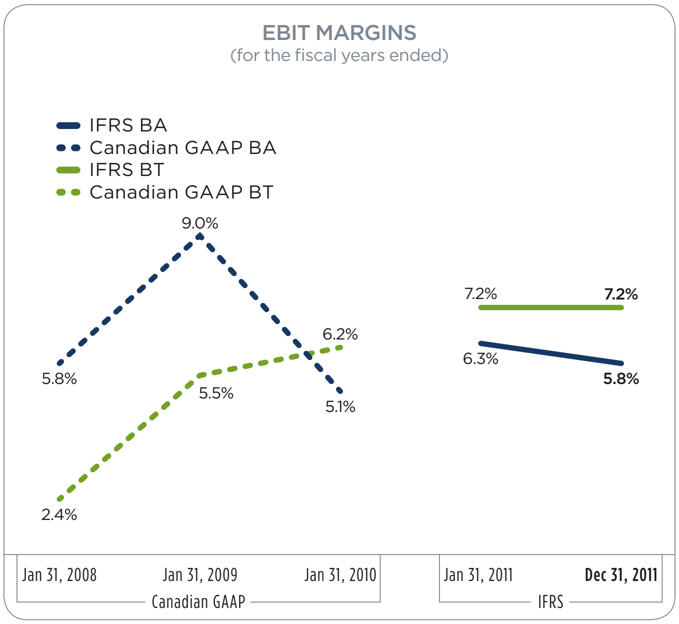
LIQUIDITY
Increase the level and consistency of cash flows from operating activities and ensure sufficient capacity to meet capital requirements

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

IMPROVING PROFITABILITY REMAINS A KEY FOCUS

Increasing the level and consistency of our profitability remains a key focus. BA achieved an EBIT margin of 5.8% for the fiscal year ended December 31, 2011, compared to 6.3% last fiscal year. BA expects to achieve a 5%[1] EBIT margin in calendar year 2012, in the context of the continuing economic uncertainty affecting the market segments in which it competes. BT achieved an EBIT margin of 7.2% for the fiscal year ended December 31, 2011, unchanged from last fiscal year. BT remains focused on achieving an EBIT margin of 8%[1] by calendar year 2013 and is determined to continue building from the significant increases in EBIT margin achieved in recent years.

Reaching these objectives will require both groups to continue improving their processes to ensure flawless execution. In the current fiscal year, BT experienced execution issues in certain projects for which corrective measures have been taken and progression towards resolution has been made. We are leveraging our project management capabilities and focusing on efficient execution through the implementation of lean initiatives. Meanwhile, we continue to implement cost reduction programs and to capitalize on our worldwide presence in both established and emerging markets to achieve cost savings. This worldwide presence provides us with tremendous opportunities to develop local partners and suppliers. Also refer to the respective Guidance status sections in BA and BT where each group has provided an update on their prior and future guidance.



OUR CASH FLOW FROM OPERATIONS AND OUR STRONG CASH POSITION ALLOW US TO FINANCE OUR AMBITIOUS INVESTMENTS IN NEW PRODUCTS

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

As at December 31, 2011, we had a strong cash position of $3.4 billion and a $750 million revolving credit facility, which has remained undrawn since its inception in September 2009. During the fiscal year ended December 31, 2011, BT had a free cash flow usage of $424 million, compared to an EBIT of $700 million. Meanwhile BA had a free cash flow usage of $453 million[2], as net capital expenditures of $1.3 billion[2] exceeded cash flows from operating activities. Furthermore, during the current fiscal year we increased our liquidity by $705 million, as the new letter

1 See the Guidance and forward-looking statements sections in BA and BT.
2 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

of credit facilities no longer require any invested collateral. To secure additional access to liquidity, we also maintain factoring and sale and leaseback facilities.

Our level of capital expenditures is expected to remain high until our significant products under development reach entry-into-service ("EIS"). EIS dates for our most significant programs range from calendar years 2013 to 2017. Investment in new products is expected to be funded primarily through our cash flows from operating activities. Depending on the aircraft program, we may also receive government advances and contributions from key suppliers, which increase our financing flexibility as they act as risk-sharing partners for certain projects requiring substantial funding. In addition, BA continues to invest in state-of-the-art facilities to support our product development programs and expand our presence in emerging markets. Our two liability management initiatives (described hereafter) in fiscal year ended January 31, 2011 allowed us to extend our debt maturity profile, with no significant debt maturing before November 2016, and to align debt repayments with our long-term liquidity management outlook. We use scenario analysis to stress-test our revenues and cash flow projections.

For calendar years	Launch date	2012	2013	2014	2015	2016	2017
Debt maturity (in millions of dollars)	Not applicable	$ 151	–	$ 162	–	$ 1,016	–
Learjet 85	October 2007		EIS				
CS100	July 2008		EIS				
CS300	July 2008			EIS			
Global 7000	September 2010					EIS	
Global 8000	September 2010						EIS

For the year ending December 31, 2012, BA's cash flows from operating activities are expected to substantially fund BA's net additions to PP&E and intangible assets of approximately $2 billion[1].

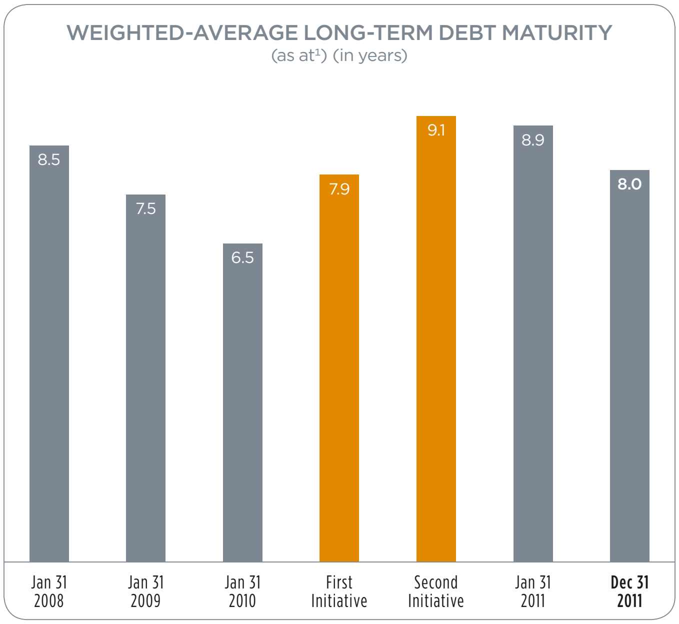
Over the long term, BT's free cash flow should generally be in line with EBIT, although it may vary significantly from quarter to quarter[1]. In the current fiscal year BT's free cash flow was negatively affected by execution issues in certain contracts, resulting in a free cash flow usage of $424 million in the current fiscal year.

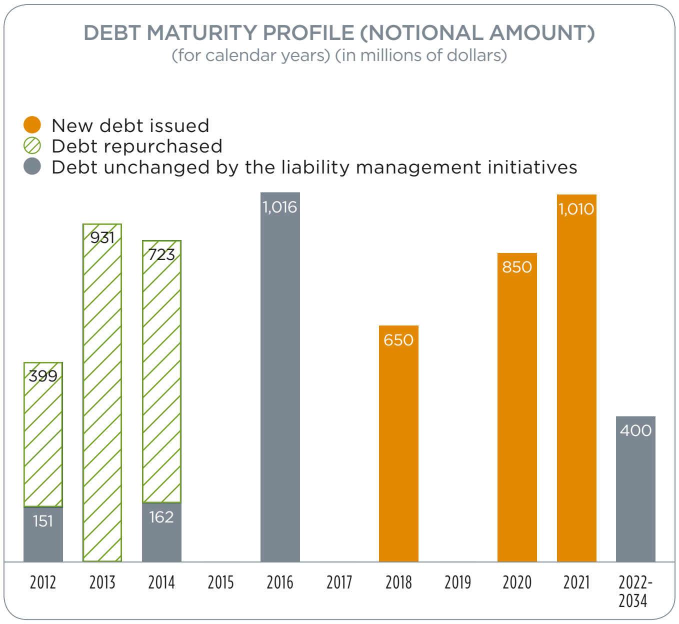
OUR LIABILITIES MANAGEMENT INITIATIVES LAUNCHED LAST YEAR CONTRIBUTE TO OUR ABILITY TO CONTINUE INVESTING IN PRODUCT DEVELOPMENT

Our prudent management of debt maturities allowed us to extend debt maturities, taking advantage of favourable capital market conditions, and to continue investing in our future. During the fiscal year ended January 31, 2011, we implemented two liability management initiatives, consisting of a combination of new issuances and simultaneous retirements of near-term indebtedness, to extend our long-term debt maturity profile and increase available short-term capital resources.

- **First Initiative:** During the first quarter of the fiscal year ended January 31, 2011, we issued $650 million of 7.5% senior notes due in March 2018 and $850 million of 7.75% senior notes due in March 2020. At the same time, we repurchased debt for an aggregate cash consideration of $1,050 million. As a result, we increased our weighted-average long-term debt maturity by 1.4 years (calculated as at March 29, 2010) and our available short-term capital resources by approximately $500 million. Concurrently, we entered into interest-rate swap agreements to convert the effective interest rate on these senior notes from fixed to variable. The interest rate after the effect of these fair value hedges is 3-month Libor + 4.19 for the $650-million senior notes and 3-month Libor + 4.14 for the $850-million senior notes.
- **Second Initiative:** During the fourth quarter of fiscal year ended January 31, 2011, we issued €780 million ($1.1 billion) of 6.125% senior notes due in May 2021 at 99.0422% of par, resulting in an effective interest rate of 6.25%, and repurchased debt for an aggregate cash consideration of $1.1 billion. As a result, we further increased our weighted-average long-term debt maturity profile by 1.7 years (calculated as at October 31, 2010). During the first quarter of the fiscal year ended December 31, 2011, we entered into interest-rate swap agreements to convert the effective interest rate on these senior notes from fixed to variable. The interest rate after the effect of these fair value hedges is 3-month Euribor + 2.87.

1 See the Guidance and forward-looking statements section in BA.





1 Calculated as at March 29, 2010 for the First Initiative and as at October 31, 2010 for the Second Initiative.

During the course of the year, we renewed our $500-million unsecured revolving credit facility available for cash drawings, which was to mature in August 2011. The new $750-million unsecured revolving credit facility matures in June 2014 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar drawing) plus a margin based on our credit ratings. These unsecured revolving credit facilities were unused since their inception.

In addition, we renewed our BA and BT letter of credit facilities. Under the new BA and BT letter of credit facilities and our new unsecured revolving credit facility available for cash drawings, we must maintain various financial covenants. The financial covenants remained essentially the same under the new facilities but we are no longer required to provide invested collateral as security for the letter of credit facilities. As a result, the invested collateral required under the previous letter of credit facilities, amounting to €406 million ($584 million) for BT and $121 million for BA, has been released leading to a corresponding increase of liquidity during the second quarter of the current fiscal year. Refer to Credit facilities section for further details on these facilities.

In addition, BT intends to enter into a three-year unsecured revolving credit facility of up to €500 million ($647 million converted using the exchange rate as at December 31, 2011), under which the proceeds of drawings will be used for general corporate purposes of BT. Negotiations are currently taking place with the joint book runners and the execution of the definitive agreement is anticipated in late March or April 2012. Although BT is in negotiations to finalize the terms of this facility and the related agreements, there can be no assurance that this facility will be available on mutually acceptable terms.

Investment-grade status remains an objective

We remain committed to further improving our capital structure and regaining our investment-grade status, thus improving our ability to seize strategic opportunities. We manage and monitor our global metrics, which have been redefined to align with management's view of the metrics that should be used to assess the creditworthiness of the Corporation. (Refer to the Capital structure section for details of our global metrics.)

Managing our net retirement benefit liability and the security of benefits is a key part of our overall management of the capital structure. We separately monitor the impacts of our retirement benefit plans on our financial position and on other key performance indicators. (See the Retirement benefits section for details on the risk management initiatives related to our retirement plans). During the fiscal year ended December 31, 2011, we made contributions to pension plans totalling $425 million. Our net retirement benefit liability increased from $1.9 billion as at January 31, 2011, to $3.2 billion as at December 31, 2011, mostly explained by variances in discount rates.

In the near-term, we will closely monitor our capital structure to ensure we have sufficient liquidity to fund our product development programs. Over the long term, we will continue to reduce adjusted debt to improve our leverage metrics by de-leveraging the balance sheet with strategic long-term debt repayments, in line with active management of consolidated liquidity, weighted-average cost of capital and term structure; and by proactively managing opportunities to reduce our retirement benefit liabilities, including an assessment for discretionary contributions to further enhance capital structure and the security of benefits.

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

Our current ratings are one notch below investment grade at S&P and Fitch and two notches below at Moody's. We believe that we will be in a good position to improve our credit ratings as we progress towards our profitability targets. An investment-grade rating would be beneficial as it would generally reduce the cost of our banking activities, improve our access to capital markets and lower the amount and cost of the guarantees we provide. It would also put us in a better position to seize strategic opportunities.

CREDIT RATINGS

	Investment-grade rating	Bombardier Inc.'s rating	
		December 31 2011	January 31 2011
S&P	BBB-	**BB+**	BB+
Fitch	BBB-	**BB+**	BB+
Moody's	Baa3	**Ba2**	Ba2

RISK MANAGEMENT

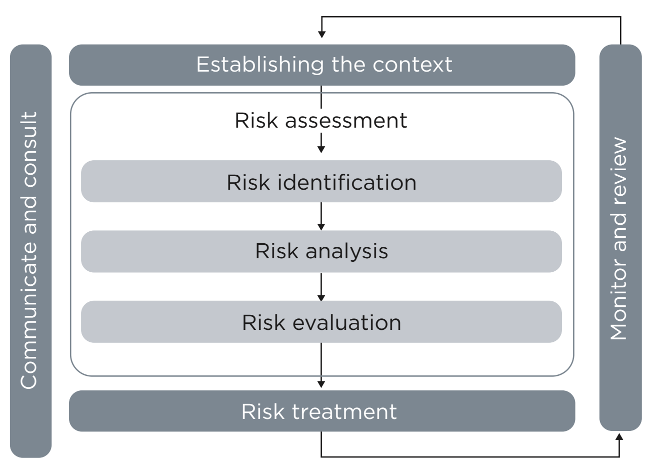
Active risk management has been one of our priorities for many years and is a key component of our corporate strategy framework.

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

In calendar year 2010, we introduced a Corporate Risk Management policy and a risk management framework based on the ISO 31000 standard. For each risk or category of risks, our risk management process includes activities performed in a continuous cycle. Each group is responsible for implementing the appropriate structures, processes and tools to allow proper identification of risks (i.e. establishing the context). Risk assessment, including risk identification, analysis and evaluation, ensures that each risk is analyzed to identify the consequence, velocity and likelihood of the risk occurring and the adequacy of existing controls. Once the risks have been identified and assessed, risk treatment identifies the actions to be implemented by management. The risk profile of the Corporation is dynamic and therefore subject to changes that must be monitored and reviewed on a continuous basis. For this reason, our risk management framework involves a continuous communication and consultation process.

Every year, our Corporate Audit Services and Risk Assessment (CASRA) team thoroughly assess our major risks. Senior management reviews this risk assessment and develops action plans to address the identified risks. The Board of Directors is ultimately responsible for reviewing the overall risks faced by the Corporation. The Board exercises its duty through the Finance and Risk Management Committee, consisting of four independent Directors, which reviews our material financial risks and the measures that management takes to monitor, control and manage such risks, including the adequacy of policies, procedures and controls designed by management to assess and manage these risks.

RISK MANAGEMENT FRAMEWORK



Source: ISO 31000 Standard

Each group has implemented risk management processes that are embedded in our governance and activities to achieve the objectives of our Corporate Risk Management policy. To complement the annual CASRA review of our major risks, each group is implementing a quarterly or bi-annual periodic review of its risks based on a structured bottom-up risk identification, analysis, and evaluation process that results in standardized heat maps at the business unit and group level.

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

We have also developed specific governance and risk management practices to reduce the nature and extent of our exposure to financing and market related risks (see section hereafter).

Our risk management practices address many risks (see the Risks and uncertainties section in Other for further details on these risks). Among the risks faced by the Corporation, we consider the following as the key current risks associated with BA and BT:

Key risks for BA		Risk-mitigation measures initiated by management
Product development initiatives	BA's success depends in part on its ability to deliver new aircraft programs into service according to defined business case requirements.	We mitigate this risk through various means which include following a rigorous gated product development process, our Bombardier Engineering System. See Analysis of results section in BA for further details on risk-mitigation measures initiated by management.
Product demand	BA's success depends in part on its ability to secure sufficient orders to maintain critical mass and sustain aircraft platforms' competitiveness in their market segments.	We mitigate this risk through various means which include positioning our sale teams closer to our customers, introducing product improvements and deploying our Achieving Excellence System. Further details on these initiatives are provided in the BA Profile, strategy and market section contained in our Annual Report for the fiscal year ended December 31, 2011.

Key risks for BT		Risk-mitigation measures initiated by management
Project execution	BT's performance depends in part on its ability to deliver complex projects often requiring the introduction of new products or new technology in emerging or mature markets. Execution issues could lead to lower EBIT margin, lower operating cash flows and higher level of inventories and could weaken our customer relationships.	We mitigate this risk through various levers which include strong project management processes with internal gate reviews to assure better consolidation and synchronization of project deliverables and continuous improvement through our Bombardier Operations System (BOS). Our BOS is driving production improvements and continues to be rolled out across our manufacturing sites. Further details on BOS are provided in the BT Profile, strategy and market section contained in our Annual Report for the fiscal year ended December 31, 2011.
Product design and homologation	BT's competitiveness depends in part on its ability to design and/or homologate multiple new technologies and platforms on time and within budgeted cost.	We mitigate this risk through various means which include close design collaboration with our customers and implementing engineering performance improvement initiatives, such as standardization of product development processes across BT divisions and gate review processes.

Financing and market related risks

FOREIGN CURRENCY FLUCTUATIONS

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

FOREIGN EXCHANGE MANAGEMENT

Owner	Hedged exposures	Hedging policy[1]	Risk-mitigation strategies
BA	Forecasted cash outflows denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars and pounds sterling.	Hedge 85% of the identified exposures for the first three months, 75% for the next 15 months and up to 50% for the following 9 months.	Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars and pounds sterling.
BT	Forecasted cash inflows and outflows denominated in a currency other than the functional currency of the entity incurring the cash flows.	Hedge 100% of the identified exposures at the time of order intake.	Use of forward foreign exchange contracts, mainly to sell or purchase euros, U.S. dollars, Swiss francs, Canadian dollars, Swedish krona and other Western European currencies.
Corporate Office	Forecasted cash outflows other than interest, denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars.	Hedge 85% of the identified exposures for the first 18 months and up to 75% for the following 6 months.	Use of forward foreign exchange contracts mainly to sell U.S. dollars and buy Canadian dollars.
	Balance sheet exposures, including long-term debt and net investments in foreign operations with non-U.S. dollar functional currencies.	Hedge 100% of the identified exposures affecting our results.	Asset/liability management techniques. Designation of long-term debt as hedges of our net investments in foreign operations with non-U.S. dollar functional currencies.

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

BA

The hedged portion of BA's significant foreign currency denominated costs for the 12-month period ending December 31, 2012 was as follows as at December 31, 2011:

BA'S FOREIGN CURRENCY DENOMINATED EXPECTED COSTS

	Expected costs	Hedged portion	Weighted-average hedge rates foreign currency/USD
Expected costs denominated in:			
Canadian dollars	2,388	81%	0.9840
Pounds sterling	260	84%	1.5462

Sensitivity analysis

A U.S. one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact BA's expected costs for the 12-month period ending December 31, 2012 by approximately $24 million before giving effect to forward foreign exchange contracts ($5 million impact after giving effect to such contracts).

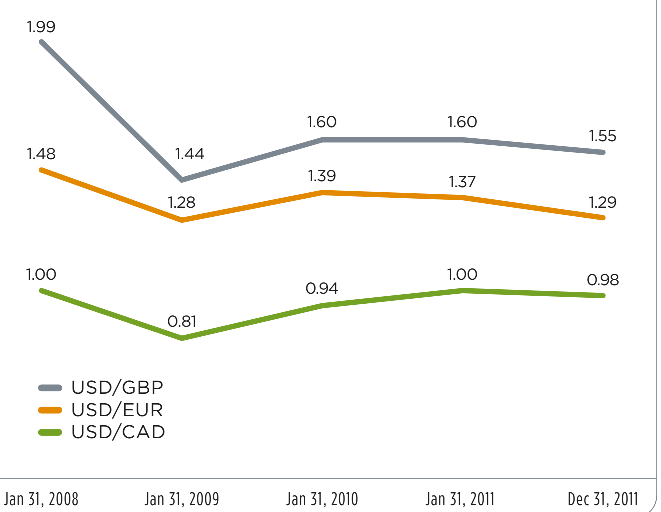
A U.S. one-cent change in the value of the pound sterling compared to the U.S. dollar would impact BA's expected costs for the 12-month period ending December 31, 2012 by approximately $3 million before giving effect to forward foreign exchange contracts (impact of $0.4 million after giving effect to such contracts).

BT and Corporate Office

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

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

EVOLUTION OF FOREIGN EXCHANGE RATES
(as at)



Sensitivity analysis

For our investments in foreign operations exposed to foreign currency movements, a 1% fluctuation of the relevant currencies as at December 31, 2011 would have impacted equity, before income taxes, by $18 million before giving effect to the related hedging items ($8 million after giving effect to the related hedging items).

CHANGING INTEREST RATES

Our future cash flows are exposed to fluctuations from changing interest rates, arising mainly from existing assets and liabilities at variable interest rates, including long-term debt synthetically converted to variable interest rates. From time to time, we may also be exposed to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by our central treasury function as part of our overall risk management policy, by matching assets and liability positions to align exposures, including the use of derivative financial instruments to synthetically convert interest-rate exposures, such as interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements.

We are also exposed to gains and losses arising from changes in interest rates, which includes liquidity risk, through our financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, investments in securities, lease subsidies and certain derivative financial instruments.

In addition, we are economically exposed to gains and losses on some of our assets and liabilities as a result of changes in interest rates. The most significant on-balance sheet exposure arises from retirement benefits plans, for which there is a duration and nominal mismatch between the plans' assets and liabilities, as well as our credit and residual value guarantees and portfolio of aircraft loans and lease receivables. In recent years, risk reduction initiatives were implemented with regard to our pension plans. For more details on the risks and our risk reduction initiatives, refer to Retirement benefits section. Our exposure arising from credit and residual value guarantees is partially mitigated by offsetting positions from our portfolio of aircraft loans and lease receivables and other financial assets that are carried at fair value, such as our portfolio of investments.

Sensitivity analysis

Assuming a 100-basis point increase in interest rates impacting the measurement of on-balance sheet assets and liabilities carried at fair value, EBT would have been negatively impacted by $47 million for fiscal year ended December 31, 2011.

EXPOSURE TO CREDIT RISK

Through our normal treasury activities, we are exposed to credit risk on our derivative financial instruments and other investing activities. We are also exposed to credit risk through our trade receivables arising from normal commercial activities and lending activities related primarily to aircraft loans and lease receivables provided to BA customers in connection with the sale of aircraft.

The effective monitoring and controlling of credit risk is a key component of our risk management activities. Credit risks arising from our treasury activities are managed by a central treasury function in accordance with our Corporate Foreign Exchange Risk Management Policy and our Corporate Investment Management Policy. The objective of these policies is to minimize our exposure to credit risk from our treasury activities by ensuring that we transact strictly with investment-grade financial institutions and rated money market funds, based on pre-established consolidated counterparty risk limits per financial institution and funds.

In the fiscal year ended December 31, 2011, the Eurozone sovereign debt crisis has had a contagion effect on many European banks resulting from their significant holdings of Greek and other European sovereign debt. Since we have exposure to these banks in the form of credit commitments, services provided and monies placed on deposit, it has become necessary for us to monitor these banks and determine their relative abilities to withstand this sovereign debt crisis. We have developed a quantitative tool that ranks these banks after incorporating metrics such as bank and sovereign CDS, capital shortfalls, as determined by the European Central Bank, and exposure to European sovereign states which are experiencing budgetary and liquidity pressures. We then compared our exposures to these banks relative to their ability to withstand the crisis based on our model and took corrective action, as necessary.

Credit risks arising from normal commercial activities and lending activities are managed and controlled by BA and BT. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and our experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customers' financial results and payment behaviour. These customer credit ratings and credit limits are critical inputs in determining the conditions under which credit or financing is extended to customers, including obtaining collateral to reduce our exposure to losses. Specific governance is in place to ensure that credit risks arising from large transactions are analyzed and approved by the appropriate level of management before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure.

EXPOSURE TO LIQUIDITY RISK

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

CONSOLIDATED RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[1]	January 31 2011	**December 31 2011[1]**	January 31 2011
Revenues	**$ 4,316**	$ 5,586	**$ 18,347**	$ 17,892
Cost of sales	**3,601**	4,636	**15,444**	14,955
Gross margin	**715**	950	**2,903**	2,937
SG&A	**339**	372	**1,439**	1,377
R&D	**75**	86	**271**	319
Other expense (income)	**8**	65	**(9)**	36
EBIT	**293**	427	**1,202**	1,205
Financing expense	**156**	184	**681**	684
Financing income	**(123)**	(146)	**(519)**	(476)
EBT	**260**	389	**1,040**	997
Income taxes	**46**	94	**203**	222
Net income	**$ 214**	$ 295	**$ 837**	$ 775
Attributable to:				
Equity holders of Bombardier Inc.	**$ 213**	$ 289	**$ 837**	$ 762
Non-controlling interests	**$ 1**	$ 6	**$ –**	$ 13
EPS (in dollars):				
Basic	**$ 0.12**	$ 0.16	**$ 0.47**	$ 0.43
Diluted	**$ 0.12**	$ 0.16	**$ 0.47**	$ 0.42

SUPPLEMENTAL INFORMATION

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[1]	January 31 2011	**December 31 2011[1]**	January 31 2011
EBIT	**$ 293**	$ 427	**$ 1,202**	$ 1,205
Amortization	**75**	91	**333**	371
EBITDA	**$ 368**	$ 518	**$ 1,535**	$ 1,576

REVENUES AND EBIT MARGIN

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[1]	January 31 2011	**December 31 2011[1]**	January 31 2011
Revenues				
BA	**$ 2,016**	$ 3,091	**$ 8,594**	$ 8,809
BT	**$ 2,300**	$ 2,495	**$ 9,753**	$ 9,083
Consolidated	**$ 4,316**	$ 5,586	**$ 18,347**	$ 17,892
EBIT Margin				
BA	**6.3%**	7.2%	**5.8%**	6.3%
BT	**7.2%**	8.2%	**7.2%**	7.2%
Consolidated	**6.8%**	7.6%	**6.6%**	6.7%

1 Our fourth quarter and fiscal year ended December 31, 2011 comprise two and 11 months of BA's results and three and 12 months of BT's results.

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

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

NET FINANCING EXPENSE

Net financing expense amounted to $33 million and $162 million for the fourth quarter and fiscal year ended December 31, 2011, compared to $38 million and $208 million for the corresponding periods last fiscal year.

The $5-million decrease for the fourth quarter is mainly due to:

- higher net financing income related to certain financial instruments classified as FVTP&L ($33 million); and
- lower interest expense on long-term debt, after effect of hedges ($25 million), in part as a result of the quarter ended December 31, 2011 comprising only two months.

Partially offset by:

- higher financing expense related to changes in discount rates for provisions ($39 million); and
- a gain on repurchase of long-term debt in fiscal year ended January 31, 2011 ($17 million).

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

- lower net financing expense related to retirement benefits ($44 million);
- lower interest expense on long-term debt, after effect of hedges ($34 million), in part as a result of the fiscal year ended December 31, 2011 comprising only 11 months; and
- higher interest income on cash and cash equivalents ($14 million).

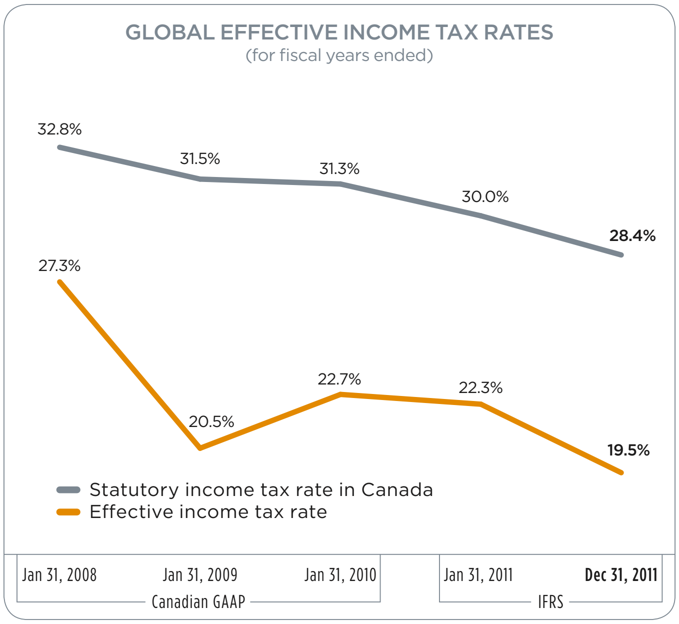
Partially offset by:

- higher financing expense related to changes in discount rates for provisions ($35 million); and
- gains on repurchase of long-term debt in fiscal year ended January 31, 2011 ($22 million).

INCOME TAXES

The effective income tax rate was 17.7% and 19.5%, respectively, for the fourth quarter and fiscal year ended December 31, 2011, compared to the statutory income tax rate in Canada of 28.4%. The effective income tax rate was 24.2% and 22.3%, respectively, for the fourth quarter and fiscal year ended January 31, 2011, compared to the statutory income tax rate in Canada of 30.0%.

The lower effective tax rates in both fiscal years and fourth quarters, compared to the statutory income tax rates in Canada, were mainly due to the positive impact of the recognition of income tax benefits related to tax losses and temporary differences, partially offset by unrecognized tax benefits.



LIQUIDITY AND CAPITAL RESOURCES

We are proactively managing our liquidity

RECONCILIATION OF SEGMENTED FREE CASH FLOW (USAGE) TO CASH FLOW FROM OPERATING ACTIVITIES

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[1]	January 31 2011	**December 31 2011[1]**	January 31 2011
Segmented free cash flow				
BA	**$ 110**	$ 762	**$ (453)**	$ 5
BT	**564**	799	**(424)**	741
Segmented free cash flow (usage)	**674**	1,561	**(877)**	746
Net income taxes and net interest paid[2]	**(84)**	(107)	**(355)**	(179)
Free cash flow (usage)	**590**	1,454	**(1,232)**	567
Add back: Net additions to PP&E and intangible assets	**391**	339	**1,475**	1,125
Cash flow from operating activities	**$ 981**	$ 1,793	**$ 243**	$ 1,692

1 Our fourth quarter and fiscal year ended December 31, 2011 comprise two and 11 months of BA's results and three and 12 months of BT's results.
2 Not allocated to segments.

WE HAVE A STRONG CASH POSITION OF $3.4 BILLION AS AT DECEMBER 31, 2011

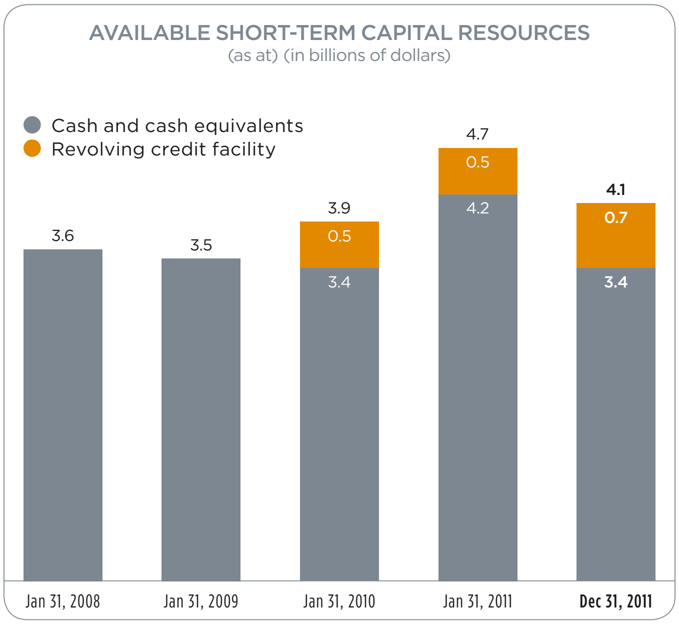
VARIATION IN CASH AND CASH EQUIVALENTS

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[3]	January 31 2011	**December 31 2011[3]**	January 31 2011
Balance as at beginning of period/fiscal year	**$2,708**	$ 2,725	**$ 4,195**	$ 3,372
Free cash flow (usage)	**590**	1,454	**(1,232)**	567
Proceeds from disposal of invested collateral	**–**	–	**705**	–
Dividends paid	**(1)**	(50)	**(156)**	(197)
Proceeds from issuance of long-term debt	**19**	1,100	**122**	2,625
Repayments of long-term debt	**(2)**	(1,067)	**(15)**	(2,125)
Effect of exchange rate changes on cash and cash equivalents	**(76)**	34	**(41)**	102
Purchase of Class B shares held in trust under the PSU plan	**–**	–	**(58)**	(50)
Purchase of NCI	**–**	–	**(61)**	–
Other	**134**	(1)	**(87)**	(99)
Balance as at end of fiscal year	**$3,372**	$ 4,195	**$ 3,372**	$ 4,195

3 Our fourth quarter and fiscal year ended December 31, 2011 comprise two and 11 months of BA's results and three and 12 months of BT's results.

Our available short-term capital resources include cash and cash equivalents and the amount available under our unsecured revolving credit facility (undrawn since its inception in September 2009). This credit facility was renewed in June 2011 and matures in June 2014. The facility 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 (see Credit facilities hereafter for more details).

We consider that our expected cash flows from operating activities, combined with our available short-term capital resources of $4.1 billion as at December 31, 2011, will enable the development of new products to enhance our competitiveness and support our growth; allow the payment of dividends, if and when declared by the Board of Directors; and enable us to meet all other expected financial requirements in the near term.



Other facilities

In the normal course of its business, BT has set up factoring facilities in Europe under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €580 million ($751 million) were outstanding under such facilities as at December 31, 2011 (€248 million [$340 million] as at January 31, 2011). Trade receivables of €183 million ($250 million) and €581 million ($812 million) were sold to these facilities during the fourth quarter and fiscal year ended December 31, 2011, respectively, (€122 million [$158 million] and €442 million [$584 million] during the fourth quarter and fiscal year ended January 31, 2011, respectively).

AVAILABLE SHORT-TERM CAPITAL RESOURCES

	Cash and cash equivalents	Available revolving credit facility	Available short-term capital resources
December 31, 2011	**$3,372**	**$750**	**$4,122**
January 31, 2011	$4,195	$500	$4,695

EXPECTED TIMING OF FUTURE LIQUIDITY REQUIREMENTS

					December 31, 2011
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Long-term debt[1]	$ 4,550	$ 189	$ 242	$1,118	$3,001
Interest payments	2,463	293	574	564	1,032
Operating lease obligations	587	100	139	77	271
Purchase obligations[2]	10,045	5,669	3,450	462	464
Trade and other payables	3,210	3,010	27	2	171
Other financial liabilities	896	291	83	153	369
Derivatives financial liabilities	345	257	16	72	–
	$22,096	$9,809	$4,531	$2,448	$5,308

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

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

CREDIT FACILITIES

Letter of credit facilities are only available for the issuance of letters of credit. As these facilities are unfunded commitments from banks, they typically provide better pricing for the Corporation as compared to credit facilities that are available for cash drawings. Letters of credit are issued in support of our performance obligations and advance payments received from customers. As at December 31, 2011, we have $5.9 billion committed under the BA, BT and our performance security guarantee facilities ($6.7 billion as at January 31, 2011). Letters of credit issued under these facilities amounted to $4.4 billion as at December 31, 2011 ($4.2 billion as at January 31, 2011).

We also use numerous bilateral facilities with insurance companies to support BT's operations. An amount of $2.1 billion was outstanding under such facilities as at December 31, 2011 ($2.0 billion as at January 31, 2011 and $1.5 billion as at February 1, 2010).

In June 2011, we renewed our unsecured revolving credit facility available for cash drawings, increasing the amount from $500 million to $750 million. This credit facility matures in June 2014 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar drawing) plus a margin based on our credit ratings. These unsecured revolving credit facilities were unused since their inception.

In addition, we renewed our BA and BT letter of credit facilities in May 2011 and June 2011, respectively. Under the new BA and BT letter of credit facilities and our new unsecured revolving credit facility available for cash drawings, we must maintain various financial covenants including a requirement to maintain a minimum BT liquidity of €600 million ($776 million) at the end of each calendar quarter and a requirement to maintain a minimum BA liquidity of $500 million at the end of each fiscal quarter. The financial covenants remained essentially the same under the new facilities but we are no longer required to provide invested collateral as security for the letter of credit facilities. As a result, the invested collateral required under the previous letter of credit facilities, amounting to €406 million ($584 million) for BT and $121 million for BA, has been released leading to a corresponding increase of liquidity during the fiscal year ended December 31, 2011. The financial covenants under these credit facilities were all met as at December 31, 2011 and January 31, 2011.

In addition, BA enters into sale and leaseback facilities with third parties, under which we can sell certain pre-owned business aircraft and lease them back for a period not greater than 24 months. We have the right to buy the aircraft back during the term of the lease for predetermined amounts. As at December 31, 2011, we have $220 million committed in two sale and leaseback facilities with third parties under which a total of $163 million was outstanding as at December 31, 2011 ($216 million as at January 31, 2011).

RETIREMENT BENEFITS

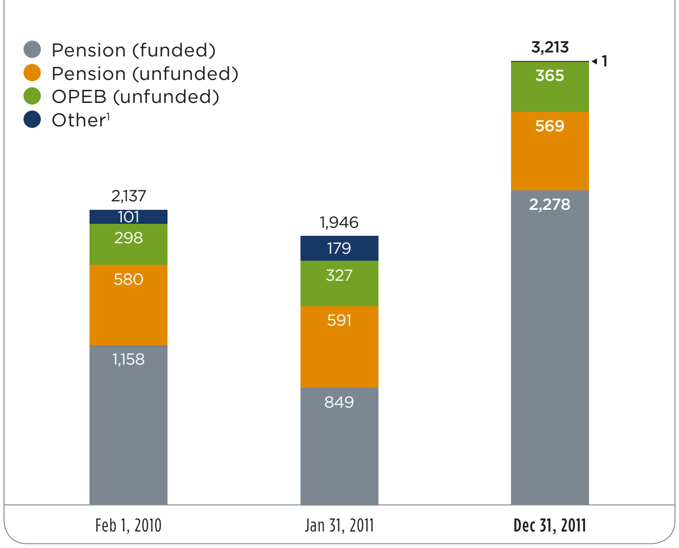
Our deficit is largely dependent on global market conditions

Overview of our retirement benefit plans

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

Pension plans are categorized as defined benefit ("DB") or defined contribution ("DC"), based on the risk sharing involved in the plan. DC plans specify how contributions are determined, while DB plans specify the amount of benefits an employee is to receive at retirement. As a result, there is no deficit or surplus for DC plans.

RETIREMENT BENEFIT DEFICIT
(as at) (in millions of dollars)



1 Comprises unrecognized past service credits, liability arising from minimum funding requirements and impact of asset ceiling test.

Risk management initiatives

We have taken several steps to gradually reduce key risks that stem from both pension liabilities and assets, notably:

- Reduction of equity target allocation by approximately 20%;
- Liquidation of investments in hedge funds and private placements;
- Move to long-term bonds and long-term inflation-linked real return bonds;
- Implementation of nominal and real interest rate hedging overlay strategies;
- Introduction of real return assets exposure (i.e. infrastructure and real estate);
- Implementation of foreign currency exposure hedging strategies;
- Introduction of indexation capping of future benefits (U.K. plans);
- Defined contribution pension plans offered to new employees in several countries; and
- Substantial contributions to amortize deficits.

These steps helped attenuate the volatility of pension deficits related to the volatility of bond yields and equity returns. Future changes in our net retirement benefit costs and liabilities will continue to be nonetheless highly dependent on:

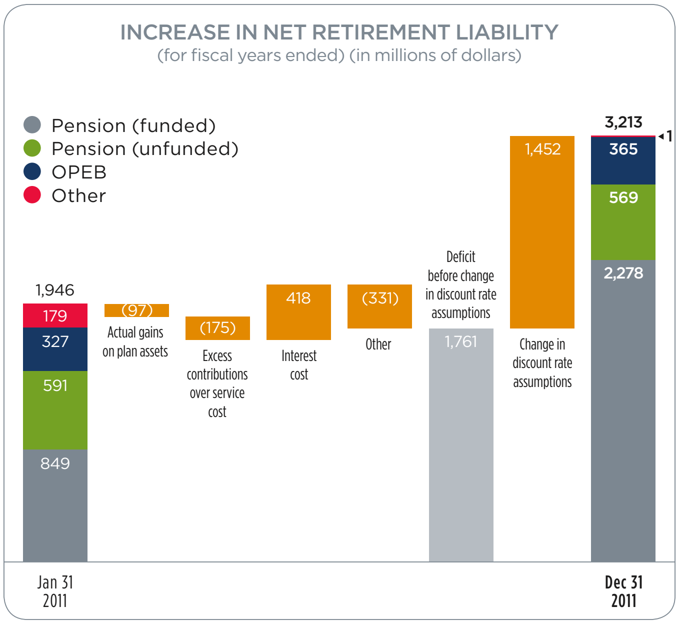
- Changes in discount rates and inflation;
- Volatility in the equity and fixed-income markets; and
- Other factors such as plan amendments, future rate of compensation increases and our level of contributions to these plans.

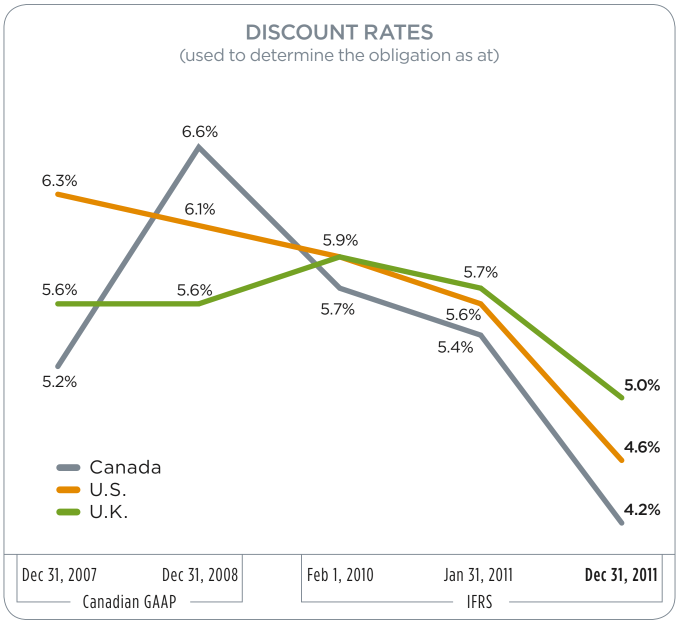
In recent years, our contributions to funded plans amounted to approximately $450 million per year on average. The future level of contributions is expected to increase if bond yields remain at their historical lows or if the expected return on assets is not achieved.

Net retirement benefit liability

The $1,267-million increase in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability	Pension	OPEB	Total
Balance as at January 31, 2011	$1,617	$329	$1,946
Changes in discount rates	1,395	57	1,452
Accretion expense on retirement benefit obligations	402	16	418
Employer contributions	(373)	(12)	(385)
Service costs	201	9	210
Changes in asset ceiling and additional liability	(178)	–	(178)
Actual gains on pension plan assets	(97)	–	(97)
Changes in foreign exchange rates	(88)	(9)	(97)
Other net actuarial gains	(32)	(24)	(56)
Balance as at December 31, 2011	**$2,847**	**$366**	**$3,213**





Retirement benefit liabilities

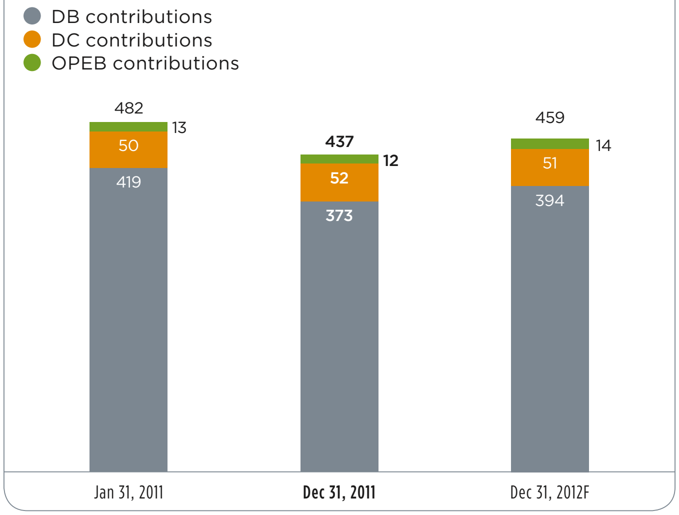
Retirement benefit liability is highly dependent on discount rates, expected inflation rates and expected rates of compensation increase. Discount rates, which are used to determine the present value of estimated future benefit payments, are the most important elements of the calculation. We have little discretion in selecting discount rates, as they must represent the market rate for high-quality corporate fixed-income investments available for the period to maturity of the benefits. As a result, discount rates change based on market conditions. A lower discount rate increases the benefit obligation. Our net retirement benefit liability increased in the current fiscal year by $1,452 million due to decreases in discount rates.

Plan assets and contributions

The value of plan assets is highly dependent on the pension funds' asset performance and on the level of contributions. The performance of the financial markets is a key driver in determining the funds' asset performance as assets in the plans are composed mostly of publicly traded equity and fixed-income securities.

During the fiscal year ended December 31, 2011, we achieved a positive return of $97 million on plan assets and we made DB and DC pension contributions totalling $425 million ($437 million for total retirement benefit contributions). DB and DC pension contributions are estimated at $445 million for calendar year 2012.

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



F: Forecast

Retirement benefit cost

The retirement benefit cost for the fiscal year ending December 31, 2012 related to DB plans is estimated at $319 million, compared to an actual benefit cost of $198 million for the fiscal year ended December 31, 2011, which comprises 12 months of costs for BT and 11 months for BA. The expected increase mainly results from the negative variation in discount rates during the fiscal year ended December 31, 2011, lower expected return on assets as well as the additional month of expense for BA plans.

RETIREMENT BENEFIT COST

	Fiscal year ended December 31, 2011[1] Actual	Fiscal year ending December 31, 2012 Estimate
DB pension plans	**$ 175**	$ 292
OPEB plans	**23**	27
Total DB plans	**$ 198**	$ 319
DC pension plans	**52**	51
Total retirement benefit cost	**$ 250**	$ 370
Recorded as follows:		
EBIT expense	**$ 250**	$ 357
Financing expense	**$ 418**	$ 435
Financing income	**$(418)**	$(422)

1 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

SENSITIVITY ANALYSIS

	Impact of a 0.25% increase in:	
Increase (decrease)	**Retirement benefit cost for the fiscal year ending December 31, 2012**	**Retirement benefit deficit as at December 31, 2011**
Discount rate	$(14)	$(396)
Expected return on plan assets	$(16)	n/a
Rate of compensation increase	$ 12	$ 89
Inflation rate	$ 8	$ 118

n/a: Not applicable

Details regarding assumptions used are provided in note 20 – Retirement benefits, to the consolidated financial statements.

CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation. The Corporation manages and monitors its global metrics such that it can achieve an investment-grade profile.

We adjusted our global metrics to align them to those that we believe should be used to assess the creditworthiness of the Corporation and to reflect the new accounting rules under IFRS:

- Adjusted debt now includes our sale and leaseback obligation as this obligation is recognized in our consolidated statements of financial position under IFRS. In addition, adjusted debt now excludes:
  - the fair value of derivatives designated in fair value hedge relationship as such derivatives are related to our interest rate hedging program (i.e. they do not represent a principal repayment obligation); and
  - the net retirement benefit liability which is now monitored separately from our global metrics (see below).
- Adjusted interest was redefined to include interest paid (as per the supplemental information provided in the consolidated statements of cash flows), an interest adjustment for operating leases and accretion expense on sale and leaseback obligations.

Furthermore, we no longer monitor the capitalization metric as we believe such metrics have become less relevant, in particular in the context of the volatile equity measurement that arises under IFRS.

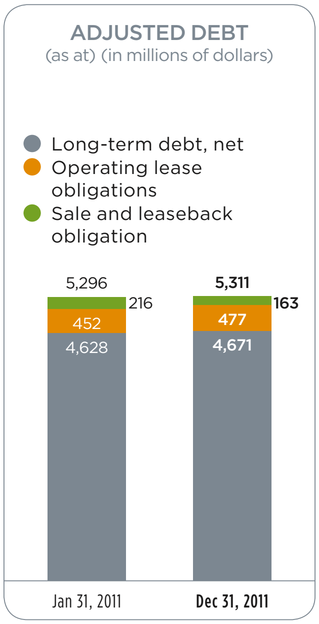
Our objectives with regard to our global metrics are as follows:

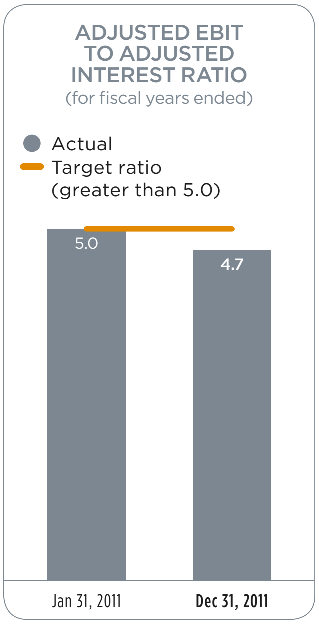
- adjusted EBIT to adjusted interest ratio greater than 5.0; and
- adjusted debt to adjusted EBITDA ratio lower than 2.5.

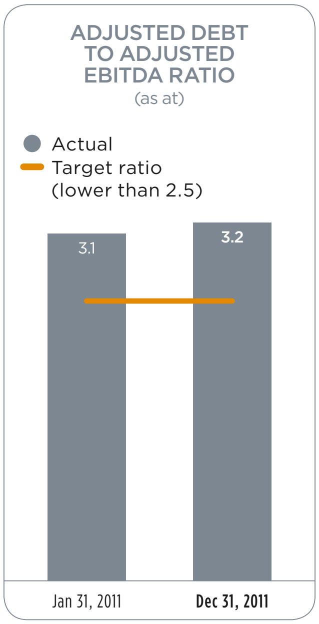
GLOBAL METRICS[1]

	December 31 2011	January 31 2011	**Explanation of major variances**
Interest coverage			
Adjusted EBIT	**$ 1,271**	$ 1,262	Deteriorated, mainly due to higher interest paid and interest adjustment on operating leases.
Adjusted interest	**$ 271**	$ 251	
Adjusted EBIT to adjusted interest ratio	**4.7**	5.0	
Financial leverage			
Adjusted debt	**$ 5,311**	$ 5,296	
Adjusted EBITDA	**$ 1,657**	$ 1,683	
Adjusted debt to adjusted EBITDA ratio[2]	**3.2**	3.1	No significant variance.

1 Refer to the Non-GAAP financial measures section hereafter for definitions and reconciliations to the most comparable IFRS measures.
2 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.







These global metrics do not represent the calculations required for bank covenants. For compliance purposes, we regularly monitor these 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.

In addition to the above global metrics, the Corporation separately monitors its net retirement benefit liability which amounted to $3,213 million as at December 31, 2011 ($1,946 million as at January 31, 2011). The measurement of this liability is dependent on numerous key long-term assumptions such as those regarding future compensation increases, inflation rates, mortality rates and current discount rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. For example, discount rates have reached a historical low during the fiscal year ended December 31, 2011 resulting in a net retirement benefit liability increase of $1.5 billion. The Corporation closely monitors the impact of the net retirement benefit liability on its future cash flows and has introduced significant risk mitigation initiatives in recent years in this respect (see the Retirement benefits section for details on the increase in net retirement benefit liability due to change in discount rate assumptions and our risk mitigation initiatives).

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 as presented in our consolidated statements of financial position adjusted for the fair value of derivatives designated in fair value hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.
Adjusted EBIT	EBIT plus interest adjustment for operating leases and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
Adjusted EBITDA	EBITDA plus amortization and interest, adjusted for operating leases, and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
Adjusted interest	Interest paid, as per the supplemental information provided in the consolidated statements of cash flows, plus accretion expense on sale and leaseback obligations and interest adjustment for operating leases.

We believe that 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.

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

- EBITDA to EBIT — see the respective Results of operations tables in BA and in BT; and
- free cash flow (usage) to cash flows from operating activities — see the Reconciliation of segmented free cash flow (usage) to cash flow from operating activities table in Liquidity and capital resources section.

RECONCILIATION OF ADJUSTED DEBT TO LONG-TERM DEBT

		As at
	December 31 2011	January 31 2011
Long-term debt	**$4,941**	$4,662
Adjustment for the fair value of derivatives designated in fair value hedge relationships	**(270)**	(34)
Long-term debt, net	**4,671**	4,628
Sale and leaseback obligations	**163**	216
Operating lease obligations[1]	**477**	452
Adjusted debt	**$5,311**	$5,296

RECONCILIATION OF ADJUSTED EBITDA AND ADJUSTED EBIT TO EBIT

		Fiscal years ended
	December 31 2011[2]	January 31 2011
EBIT	**$1,202**	$1,205
Interest received	**40**	169
Adjustment for the settlement of fair value hedge derivatives before their contractual maturity date	**–**	(133)
Interest adjustment for operating leases[3]	**29**	21
Adjusted EBIT	**1,271**	1,262
Amortization adjustment for operating leases[4]	**53**	50
Amortization	**333**	371
Adjusted EBITDA	**$1,657**	$1,683

RECONCILIATION OF ADJUSTED INTEREST TO INTEREST PAID

		Fiscal years ended
	December 31 2011[2]	January 31 2011
Interest paid	**$238**	$224
Accretion expense on sale and leaseback obligations	**4**	6
Interest adjustment for operating leases[3]	**29**	21
Adjusted interest	**$271**	$251

1 Discounted using the average five-year U.S. Treasury Notes plus the average credit spread, given our credit rating, for the corresponding period.
2 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
3 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 eleven-or twelve-month period, given our credit rating.
4 Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

FINANCIAL POSITION

	December 31 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	**$ 3,372**	$ 4,195	$ (41)	$ (782)		See the Variation in cash and cash equivalents table and Free cash flow in BA and BT for details
Trade and other receivables	**1,408**	1,377	(56)	87	$ 62	Higher level in BT
					25	Higher level in BA
Gross inventories	**12,216**	11,355	(362)	1,223	$1,288	Due to the ramp-up of several BT contracts ahead of deliveries and delays experienced in deliveries for some rolling stock contracts
Advances and progress billings related to long-term contracts	**(6,767)**	(6,469)	(318)	616		Due to higher advances and milestone payments received on new orders and existing contracts
Advances on aerospace programs	**(4,054)**	(4,182)	–	(128)		Due to higher deliveries than orders received for regional jets and turboprops, partially offset by higher orders received than deliveries of business aircraft
Invested collateral	**–**	676	29	(705)		Collateral no longer required upon renewal of the BA and BT letter of credit facilities
PP&E	**1,864**	1,878	(54)	40	$ 218	Net additions
					(178)	Amortization
Aerospace program tooling	**3,168**	2,088	–	1,080	$1,171	Additions. See Analysis of results section in BA
					(91)	Amortization
Goodwill	**2,253**	2,358	(105)	–		No variance
Deferred income tax asset	**1,506**	1,294	(36)	248		Mainly resulting from the net actuarial losses on retirement benefits recorded in OCI
Other financial assets	**1,831**	1,809	2	20		No significant variances
Other assets	**1,064**	1,110	(17)	(29)		No significant variances

FINANCIAL POSITION (CONTINUED)

	December 31 2011	January 31 2011	Increase (decrease) Foreign exchange impact	Increase (decrease) Variance excluding foreign exchange	Explanation of major variances other than foreign exchange impact	
Trade and other payables	**(3,210)**	(3,073)	(67)	204	$ 274	Higher level in BA
Provisions	**(1,672)**	(1,812)	(43)	(97)	Mainly resulting from the reversal and utilization of provisions for credit and residual guarantees and restructuring	
Non-current portion of long-term debt	**(4,748)**	(4,645)	(129)	232	$ 107	Issuance of long-term debt, net
					300	Effect of fair value hedges
					(153)	Reclassification of long-term debt from non-current to current liabilities
Retirement benefit liability	**(3,226)**	(1,975)	(39)	1,290	See the Variation in net retirement benefit liability table for details	
Other financial liabilities	**(1,234)**	(1,392)	(3)	(155)	$ (333)	Decrease in derivatives
					153	Reclassification of long-term debt from non-current to current liabilities
					(53)	Decrease in sale and leaseback obligations
					33	Increase in government refundable advances
Other liabilities	**(3,100)**	(3,071)	(83)	112	$ 70	Increase in accruals for long-term contract costs
					60	Increase in income & other taxes payable
					(42)	Decrease in employee benefits
					34	Increase in supplier contributions to aerospace programs
Equity	**(671)**	(1,521)	n/a	(850)	$ 837	Net income
					(204)	Dividends
					(1,376)	OCI – mainly due to net actuarial losses
					(58)	Purchase of shares related to PSU plan
					(81)	Purchase of the remaining NCI of a BT subsidiary in Poland

n/a: Not applicable

MANAGEMENT'S DISCUSSION AND ANALYSIS

AEROSPACE

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

HIGHLIGHTS OF THE YEAR

Our investment in product development accelerated, laying the ground for future growth

REVENUES[1]	EBIT MARGIN[1]	FREE CASH FLOW[1]	NET ADDITIONS TO PP&E & INTANGIBLE ASSETS[1]	ORDER BACKLOG
$8.6 billion	**5.8%**	**($453)** million	**$1.3** billion	**$22.0** billion

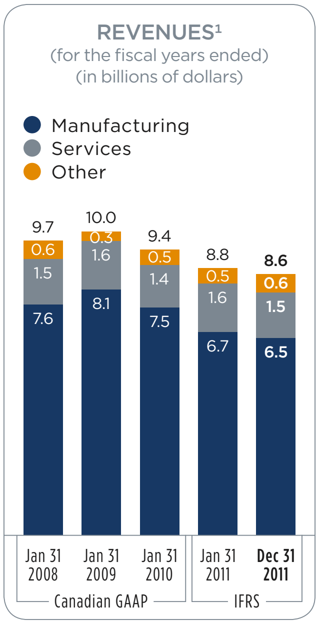
RESULTS

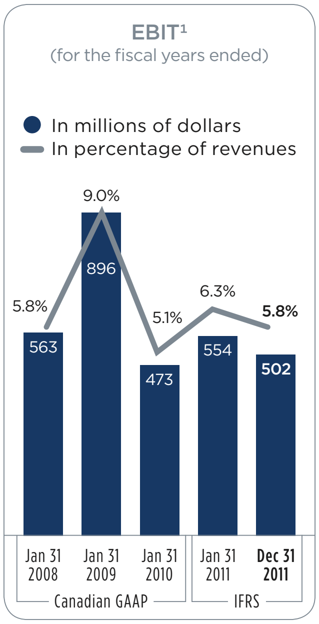
Our fiscal year ended December 31, 2011 comprises 11 months of results, compared to 12 months of results in our fiscal year ended January 31, 2011.

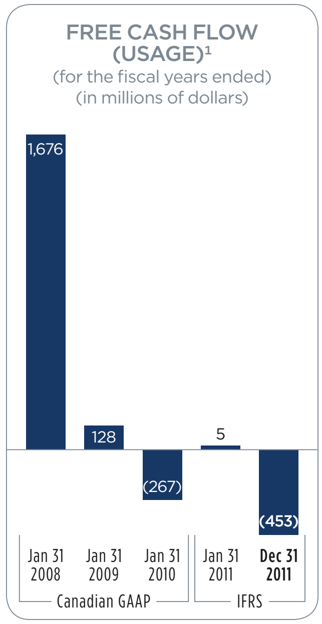
- Revenues of $8.6 billion, compared to $8.8 billion last fiscal year.
- EBIT of $502 million, or 5.8% of revenues, compared to $554 million, or 6.3%, last fiscal year.
- EBITDA of $697 million, or 8.1% of revenues, compared to $799 million, or 9.1% of revenues last fiscal year.
- Free cash flow usage of $453 million, compared to free cash flow of $5 million last fiscal year.
- Net additions to PP&E and intangible assets of $1.3 billion, compared to $1.0 billion last fiscal year.
- 245 aircraft deliveries, compared to 256 last fiscal year.
- 249 net orders, compared to 201 last fiscal year.
- Order backlog of $22.0 billion as at December 31, 2011, compared to $19.2 billion as at January 31, 2011.

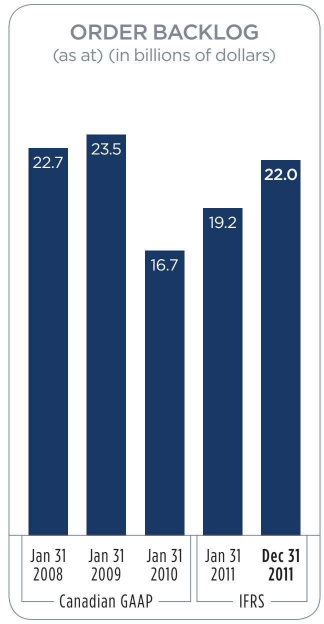
KEY EVENTS

- 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 list prices, the value of the firm order is $2.8 billion, and could increase to $6.7 billion if all options are exercised. This is the largest business aircraft order in our history.
- Signed 43 firm orders for the *CSeries* family of aircraft with a value based on list prices totalling $2.8 billion, which brings the total *CSeries* order backlog to 133 units with 8 customers in 7 countries.
- In the fourth quarter, we signed a memorandum of understanding with the Government of the Kingdom of Morocco for the establishment of a manufacturing facility in Morocco.
- Subsequent to the end of the fiscal year, we signed a memorandum of understanding with AVIC International Leasing Co. Ltd. of the People's Republic of China for co-operation to support the financing of commercial aircraft sales in China and globally.
- Subsequent to the end of the fiscal year, we signed firm orders for six *CRJ1000 NextGen* regional jets and seven *Q400 NextGen* aircraft. Based on list prices, the value of the firm orders is $517 million.









1 The fiscal year ended December 31, 2011 comprises 11 months of results.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	What we said	What we did	What's next[1]
Profitability	EBIT margin for the 11-month period ending December 31, 2011 is expected to be approximately 5%. Profitability should be higher in the second half of the year.	EBIT margin of 5.8% for the fiscal year ended December 31, 2011. EBIT margin in the first six months of the fiscal year was 5.8%, increasing slightly to 5.9% the last five months of the year.	EBIT margin for the year ending December 31, 2012 is expected to be approximately 5%. Profitability should be higher in the second half of the year.
	Target EBIT margin of 10% by calendar year 2013.		The prolonged current economic downturn continues to affect the markets in which we compete and has had a negative impact on our targeted delivery levels and selling prices. It has become very difficult to predict the timing of a recovery and as a result we have decided to withdraw previous long-term guidance and not to provide guidance on profitability beyond calendar year 2012.
Liquidity	Free cash flow for the 11-month period ending December 31, 2011 is expected to be essentially neutral, as cash flows from operating activities will be used to finance our net PP&E and product development capital expenditures expected to be at approximately $1.5 billion.	Free cash flow usage of $453 million, as cash flows from operating activities were less than our net additions to PP&E and intangible assets of $1.3 billion mainly because of lower than expected order intake and related customer advances in commercial aircraft.	For the year ending December 31, 2012, cash flows from operating activities are expected to substantially fund our net additions to PP&E and intangible assets of approximately $2 billion.
Deliveries	We expect to deliver approximately 150 business aircraft and 90 commercial aircraft in the 11-month period ending December 31, 2011.	We delivered 163 business aircraft and 78 commercial aircraft.	We expect to deliver approximately 180 business aircraft and 55 commercial aircraft in the year ending December 31, 2012.

1 See Forward-looking statements below.

Forward-looking statements:

Forward-looking statements[2] in this section of the MD&A are based on:

- current firm order backlog and estimated future order intake determined by[3]:
  - significant increase in orders for business and commercial aircraft for the fiscal year ending December 31, 2012 compared to the fiscal year ended December 31, 2011; and
  - growth in after-market services in line with the in-service fleet;
- continued deployment and execution of strategic initiatives related to quality improvement and cost reductions;
- ability to meet scheduled entry-into-service dates for new aircraft programs;
- ability to recruit and retain highly skilled resources to deploy our product development strategy; and
- ability of our supply base to support planned production rates.

2 Also see the Guidance and forward-looking statements section in Overview.
3 Demand forecast is based on the analysis of main market indicators, including real GDP growth, industry confidence, wealth creation and profitability within our customer base, aircraft utilization, pre-owned business jet inventory levels, globalization of trade, replacement demand, new aircraft programs and emerging markets and their accessibility. For more details, refer to the short-term indicators in the Industry and economic environment section.

KEY PERFORMANCE MEASURES AND METRICS

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

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Profitability	• EBIT and EBIT margin, as measures of performance.
Liquidity	• Free cash flow and average net utilized assets, as measures of liquidity generation.
Growth and competitive positioning	• Revenues and delivery units, as measures of growth. • Order backlog, as a measure of future revenues. • Book-to-bill ratio, as an indicator of future revenues. The ratio represents the net orders received over aircraft deliveries, measured in units in a given period. • Market shares (in terms of revenues and units delivered), as measures of competitive positioning.
Customer satisfaction	• On-time aircraft deliveries, as a measure of meeting our commitment to customers. • Fleet dispatch reliability, as a measure of our products' reliability.
Execution	• Achievement of product development milestones, as a measure of flawless execution. • Employee engagement and enablement, as measured by the annual employee survey.

Our employee incentive-based compensation plan for non-unionized employees across all BA sites rewards the collective efforts of our employees in achieving our objectives using performance indicator targets. A total of 15,500 employees worldwide now participate in the program. As part of this program, incentive-based compensation is linked to the achievement of targeted results, based on EBIT, average net utilized assets, on-time aircraft deliveries, fleet dispatch reliability and executing according to plan in our new product development programs. The results of the 2011 employee survey ranked BA among the best performing companies in terms of engagement and enablement.

FIVE-YEAR SUMMARY

	IFRS		Canadian GAAP		
	December 31 2011[1]	January 31 2011	January 31 2010	January 31 2009	January 31 2008
For the fiscal years ended					
Aircraft deliveries (in units)					
Business aircraft	**163**	155	176	235	232
Commercial aircraft	**78**	97	121	110	128
Amphibious aircraft	**4**	4	5	4	1
	245	256	302	349	361
Revenues	**$ 8,594**	$ 8,809	$ 9,357	$ 9,965	$ 9,713
EBIT	**$ 502**	$ 554	$ 473	$ 896	$ 563
EBIT margin	**5.8%**	6.3%	5.1%	9.0%	5.8%
EBITDA	**$ 697**	$ 799	$ 844	$ 1,327	$ 966
EBITDA margin	**8.1%**	9.1%	9.0%	13.3%	9.9%
Free cash flow (usage)	**$ (453)**	$ 5	$ (267)	$ 128	$ 1,676
Net orders (in units)	**249**	201	11	367	698
Book-to-bill ratio	**1.0**	0.8	–	1.1	1.9
As at					
Order backlog (in billions)	**$ 22.0**	$ 19.2	$ 16.7	$ 23.5	$ 22.7
Total number of employees[2]	**33,600**	30,300	28,900	32,500	28,100

1 The fiscal year ended December 31, 2011 comprises 11 months of results.
2 Including contractual and inactive employees.

INDUSTRY AND ECONOMIC ENVIRONMENT

Our product development activities position us well for future growth

The health of the aerospace industry is a function of general economic conditions, with a lag typically between economic recovery and the time it takes to reflect on the industry deliveries and revenues. Real GDP growth is the widely accepted measure of economic activity. According to a report by IHS Global Insight dated February 15, 2012, worldwide real GDP increased year-over-year by 2.7% in calendar year 2011, compared to an increase of 4.1% in calendar year 2010. IHS Global Insight predicts that the world economy is expected to grow at 2.4% in calendar year 2012. The GDP in the U.S., the most important market for our business and commercial aircraft units, is expected to grow at 2.1% in 2012, compared to 1.7% GDP growth in calendar year 2011. Europe, our second most important market in terms of sales, is struggling and GDP is expected to contract by 0.1% in 2012, while it showed growth of just 1.9% in calendar year 2011. Regions with high growth potential for business and commercial aviation like China, India and the CIS are expected to grow in calendar year 2012 by 8.1%, 7.2% and 3.7%, respectively, as compared to GDP growth in calendar year 2011 of 9.2%, 6.8% and 4.6%, respectively.

We are closely monitoring the economic uncertainty and market volatility in the U.S. and Europe and the possible impact these may have on our business.

BUSINESS AIRCRAFT

Demand is strong in the large business jet segment, while orders are soft in the light jet segment of the market.

Given the market conditions, some aircraft manufacturers opted in 2011 to halt aircraft programs, while other manufacturers, like ourselves, have a number of new business jets in development, with the view that the new models will not only benefit from improved market conditions expected in the future, but also contribute to the recovery by stimulating demand.

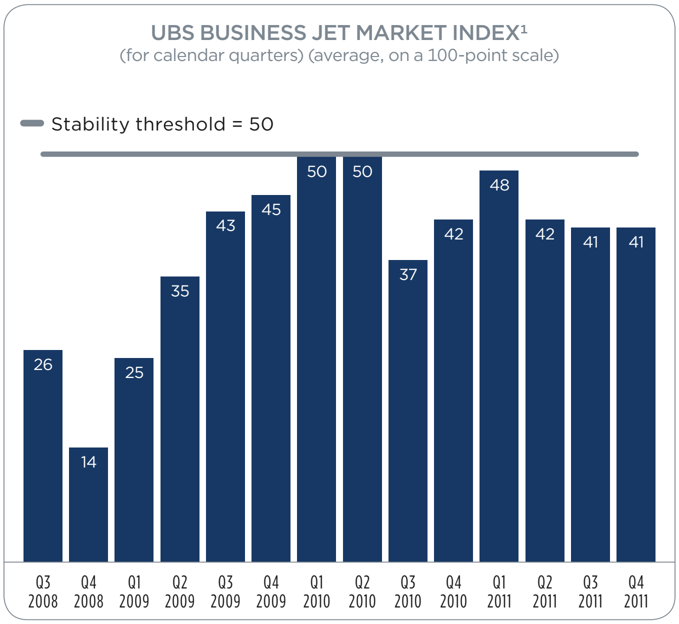
We use the following four types of indicators to monitor the short-term health of the business aviation market:

BUSINESS AIRCRAFT MARKET SHORT-TERM INDICATORS

Indicator	Current situation	Status
Industry confidence	The UBS Business Jet Market Index, which measures the industry confidence, had increased in the first quarter of calendar year 2011 to just under the threshold of market stability, but decreased during the remainder of calendar year.	↓
	Per Flightglobal's 2012 forecast for business aviation, corporate profits remain strong, which should improve industry confidence.	↑
Pre-owned business jet inventory levels	A lower level of pre-owned aircraft inventory is a leading indicator for increases in sales of new aircraft. The number of pre-owned aircraft available for sale as a percentage of the total in-service fleet continued an overall downward trend over the past four consecutive calendar quarters to reach 13.6% in December 2011. The level of pre-owned business aircraft inventory in the light category remained high at 14.8% of the total in-service fleet in December 2011, although the level has decreased by 1.7 percentage points since the beginning of the calendar year. Levels of large pre-owned business aircraft inventory remained at a low level, at 6.3% of the total in-service fleet in December 2011.	↑
Aircraft utilization rates	Business jet utilization in the U.S. and Europe increased in calendar year 2011 compared to calendar year 2010.	↑
Aircraft shipments and billings	Based on delivery data submitted to the General Aviation Manufacturers Association ("GAMA") and other public sources[1], in the business aircraft market categories in which we compete, there has been a 5% increase in business aircraft deliveries and a 2% increase in total billings for calendar year 2011, as compared to calendar year 2010.	↑

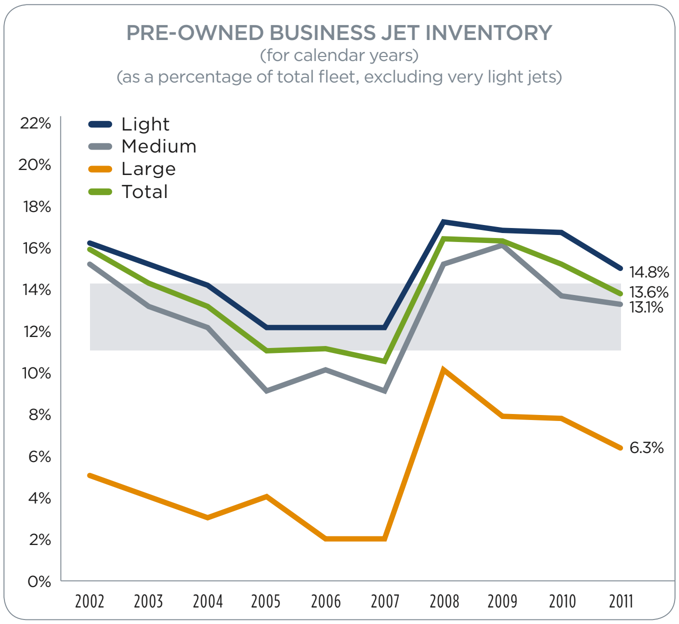
↑ → ↓ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

1 GAMA airplane shipment report dated February 22, 2012, except for Hawker Beechcraft's fourth quarter 2011 deliveries and revenues, which were estimated based on other public sources.



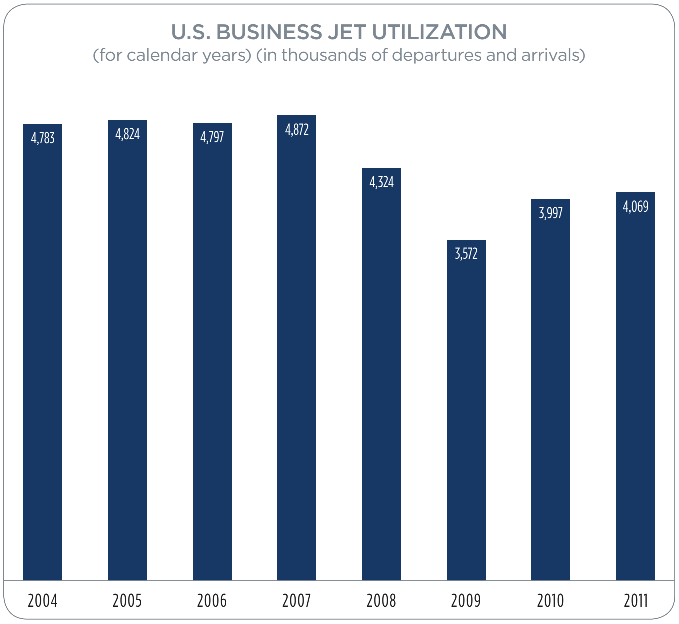
Source: UBS

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

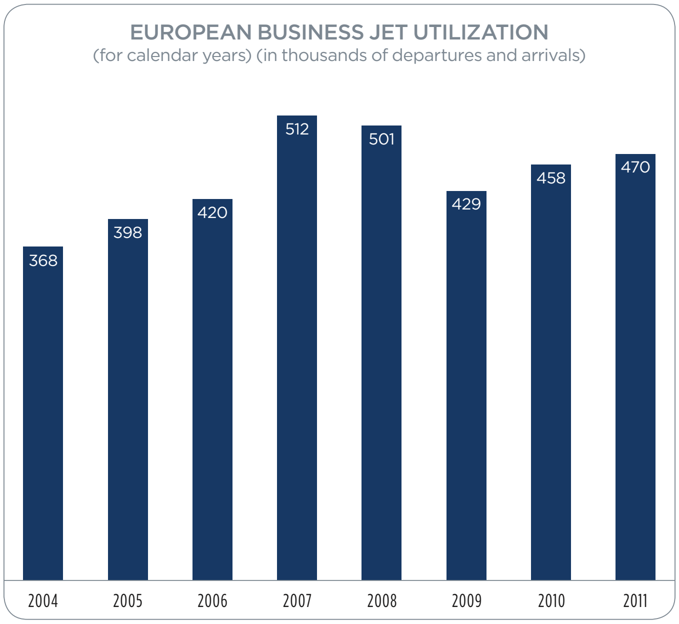


Source: JETNET and Ascend Online

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



Source: Federal Aviation Administration (FAA) website (for all business jets)



Source: Eurocontrol (for all business jets)

COMMERCIAL AIRCRAFT

We continue to closely monitor the indicators that impact the commercial aircraft market. Per IATA's December 2011 Financial Forecast, the biggest risk facing airline profitability over the next year is the economic turmoil that would result from a failure of governments to resolve the Eurozone sovereign debt crisis. IATA's central forecast for the airline industry is based on further measures being taken to avert the financing problems in Europe. Nevertheless, IATA believes there will be a short-lived recession in Europe. There also remains a risk if the sovereign debt crisis in the Eurozone were to spiral out of control, that scenario could generate a banking crisis and more widespread economic weakness.

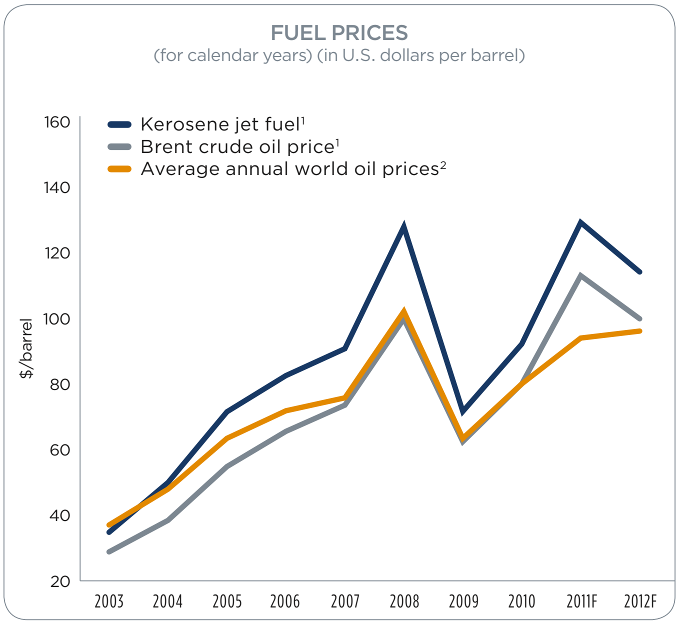
Despite the economic environment, some aircraft manufacturers, like ourselves, have continued to invest in new product development while others have opted to re-engine some of their current aircraft platforms in order to benefit from the eventual growth in passenger air travel.

We use the following indicators to monitor the short-term health of the commercial airline industry:

COMMERCIAL AIRCRAFT MARKET SHORT-TERM INDICATORS

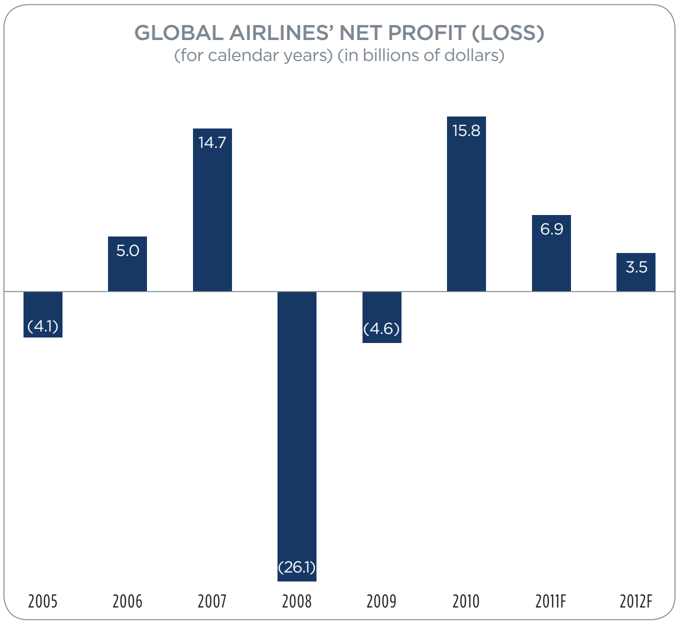
Indicator	Current situation	Status
Passenger traffic levels	Per IATA's Air Market Transport Analysis report for the month of December 2011, scheduled international and domestic air travel, measured by revenue passenger kilometres ("RPK"), was 6.9% and 4.2% higher, respectively, for calendar year 2011 as compared to calendar year 2010. The strongest performances were registered by airlines in Latin America, Europe and the Middle East. Latin American economies have remained vibrant with robust trade activity and domestic demand. Despite the economic concerns in the Eurozone, European airlines have benefitted from robust business travel in long-haul markets, in part related to strong exports from Germany. The emerging markets of China, India and Brazil showed double-digit growth. Japan's airlines saw a decrease in demand mainly due to the impact of the earthquake and tsunami in 2011.	↑
	Commercial airlines worldwide achieved an international and domestic passenger load factor of 76.2% and 77.7%, respectively, in December 2011, with the highest international load factors recorded in North America (76.9% and 77.8%, respectively, in December 2010). In domestic air travel markets, strong passenger load factors were experienced in China, India and Brazil, but the U.S. retained the highest level.	↑
Industry confidence	According to a survey of CFOs and heads of cargo, airline industry confidence has continued to decline, as reported in IATA's January 2012 Airline Business Confidence Index report. There was a particularly sharp decline in expectations for traffic growth for the next 12 months.	↓
Fuel prices	Planning is difficult for airlines when one of the largest components of their operating costs remains volatile. In its December 2011 Financial Forecast, IATA forecasted fuel prices to remain high in calendar year 2012. The financial performance of the airline industry is closely linked to the health of world economies. Per IATA, if economic growth is strong, airlines can cope with high fuel prices. However, whenever economic growth has slowed below 2%, the airline industry has suffered losses.	→
Airline profitability	In its December 2011 Financial Forecast, IATA forecasted a net profit of $6.9 billion in the commercial airline industry in calendar year 2011. This compares to the $16 billion that the airlines earned in calendar year 2010.	↓
	Assuming the Eurozone sovereign debt crisis does not spiral into a full-blown banking crisis, IATA forecasts industry profits of $3.5 billion in 2012 and a marked divergence of financial performance between regions. European airlines are likely to be hardest hit by recessions in their home markets, and IATA now expects to see small losses in this region. When compared to Europe, contrasting performances are expected from North American airlines, where capacity cuts are providing some protection to profitability, and in Asia where IATA expects significant profits generated by high load factors on China's expanding domestic market.	↓

↑ → ↓ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.



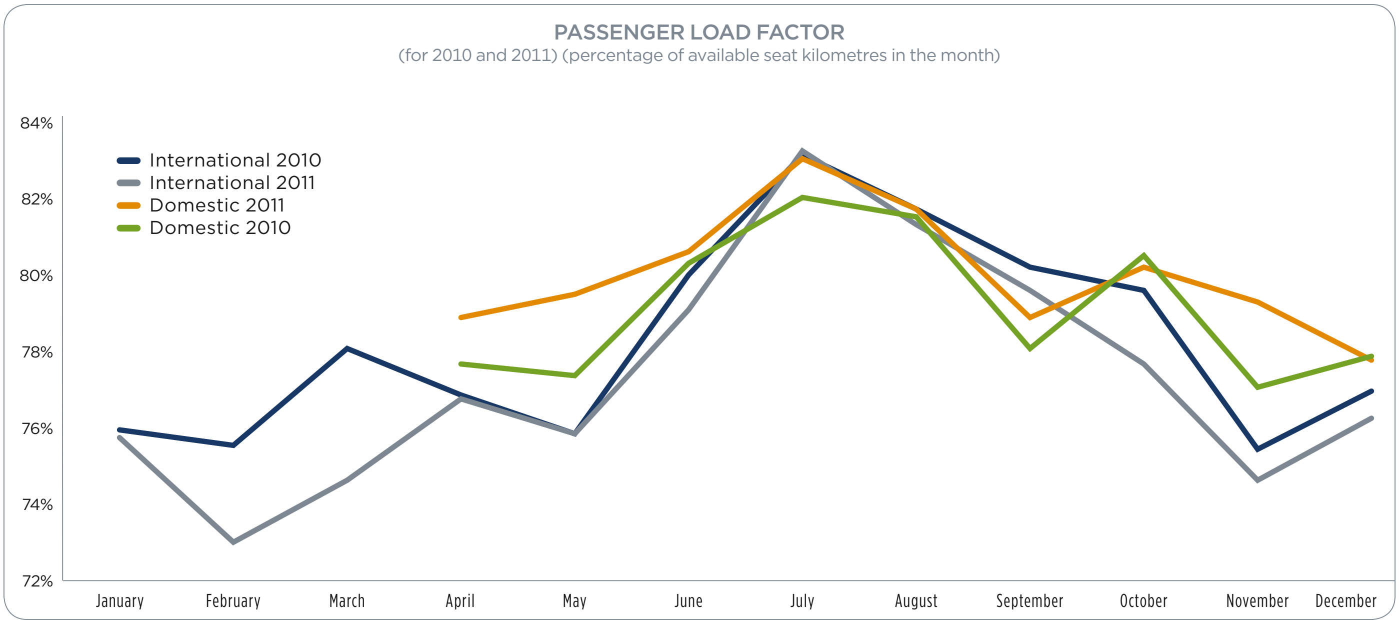
Sources: 1 IATA, Financial Forecast, December 2011
2 Annual Energy Outlook 2012 Early Release report by the U.S. Energy Information Administration

F: Forecast



Source: IATA, Financial Forecast, December 2011

F: Forecast



Source: IATA statistics for international and domestic air travel. IATA began publishing domestic data in April 2011, along with comparative information for 2010.

Passenger load factor is defined as RPK divided by available seat kilometres. RPK is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported one kilometre.

Available seat kilometres are measured as one seat carried for one kilometre, whether a passenger occupied it or not.

ANALYSIS OF RESULTS

Solid financial performance despite a challenging environment in our markets

RESULTS OF OPERATIONS

	Two months ended	Three months ended	11 months ended	12 months ended
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
Revenues				
Manufacturing				
Business aircraft	**$ 1,198**	$ 1,362	**$ 4,262**	$ 4,021
Commercial aircraft	**241**	980	**1,721**	2,157
Other	**104**	160	**507**	559
Total manufacturing	**1,543**	2,502	**6,490**	6,737
Services[1]	**282**	422	**1,522**	1,564
Other[2]	**191**	167	**582**	508
Total revenues	**2,016**	3,091	**8,594**	8,809
Cost of sales	**1,717**	2,635	**7,355**	7,495
Gross margin	**299**	456	**1,239**	1,314
SG&A	**132**	182	**621**	623
R&D	**27**	39	**122**	172
Other expense (income)[3]	**13**	13	**(6)**	(35)
EBIT	**127**	222	**502**	554
Amortization[4]	**39**	58	**195**	245
EBITDA	**$ 166**	$ 280	**$ 697**	$ 799
(as a percentage of total revenues)				
Gross margin	**14.8%**	14.8%	**14.4%**	14.9%
EBIT	**6.3%**	7.2%	**5.8%**	6.3%
EBITDA	**8.2%**	9.1%	**8.1%**	9.1%

REVENUES BY GEOGRAPHIC REGION[5]

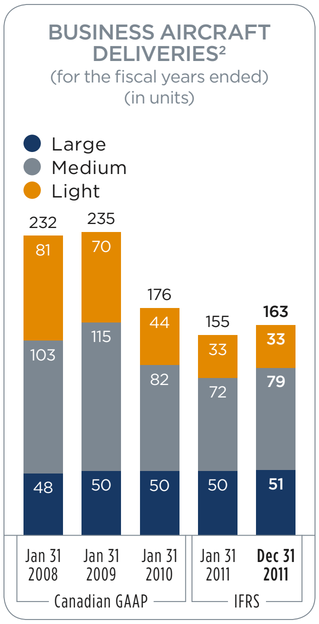
	11 months ended		12 months ended	
	December 31, 2011		January 31, 2011	
North America	**$ 4,281**	**50%**	$ 3,738	42%
Europe	**1,907**	**22%**	2,492	28%
Asia-Pacific	**1,282**	**15%**	952	11%
Other	**1,124**	**13%**	1,627	19%
	$ 8,594	**100%**	$ 8,809	100%

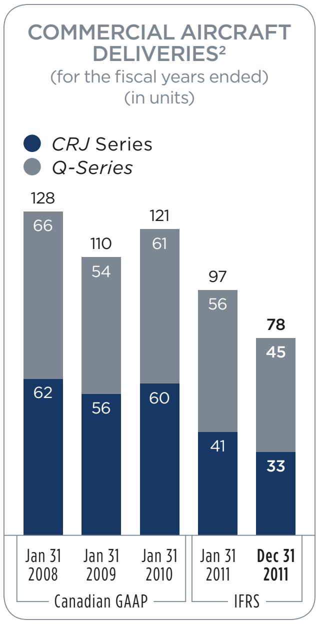
1 Includes revenues from parts services, *Flexjet* fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.
2 Includes mainly sales of pre-owned aircraft.
3 Includes i) net gain on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding the losses (gains) arising from changes in interest rates; ii) severance and other involuntary termination costs (including changes in estimates); iii) gains on disposals of PP&E.
4 Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset.
5 Revenues are attributed to countries based on the location of the customer.

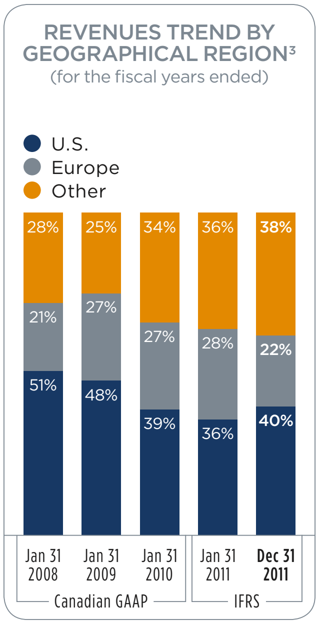
TOTAL AIRCRAFT DELIVERIES

	Two months ended	Three months ended	**11 months ended**	12 months ended
(in units)	**December 31 2011**	January 31 2011	**December 31 2011**	January 31 2011
Business aircraft				
Excluding those of the *Flexjet* fractional ownership program	**47**	54	**161**	153
Flexjet fractional ownership program[1]	**1**	1	**2**	2
	48	55	**163**	155
Commercial aircraft	**11**	44	**78**	97
Amphibious aircraft	**1**	1	**4**	4
	60	100	**245**	256

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.







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

Manufacturing revenues

The $959-million decrease for the fourth quarter is mainly due to:

- lower revenues for commercial aircraft mainly due to lower deliveries, in part as a result of the quarter ended December 31, 2011 comprising only two months ($739 million); and
- lower revenues for business aircraft mainly due to lower deliveries as a result of the quarter ended December 31, 2011 comprising only two months, partially offset by higher net selling prices ($164 million).

The $247-million decrease for the fiscal year is mainly due to:

- lower revenues for commercial aircraft mainly due to lower deliveries, in part as a result of the fiscal year ended December 31, 2011 comprising only 11 months ($436 million).

Partially offset by:

- higher revenues for business aircraft, mainly due to higher deliveries despite the fiscal year ended December 31, 2011 comprising only 11 months and higher net selling prices ($241 million).

Services revenues

The $140-million decrease for the fourth quarter is mainly due to the quarter ended December 31, 2011 comprising only two months.

The $42-million decrease for the fiscal year is mainly due to:

- the fiscal year ended December 31, 2011 comprising only 11 months; and
- lower revenues from Specialized Aircraft Solutions.

Partially offset by:

- higher revenues from parts services and aircraft maintenance, mainly due to higher volume.

Other revenues

The $24-million and $74-million increases for the fourth quarter and fiscal year are mainly due to:

- higher deliveries of pre-owned business aircraft ($47 million for the quarter and $143 million for the fiscal year).

Partially offset by:

- lower deliveries of pre-owned commercial aircraft ($18 million for the quarter and $45 million for the fiscal year).

EBIT margin

The 0.9 percentage-point decrease for the fourth quarter is mainly due to:

- lower absorption of SG&A expenses;
- lower margins for commercial aircraft;
- lower margins from service activities;
- lower liquidated damage payments from customers upon cancellation of orders; and
- an unfavourable mix of business aircraft deliveries.

Partially offset by:

- the mix between business and commercial aircraft deliveries; and
- higher net selling prices for business aircraft.

The 0.5 percentage-point decrease for the fiscal year is mainly due to:

- lower liquidated damage payments from customers upon cancellation of orders;
- higher cost of sales per unit, mainly due to price escalation of materials;
- lower margins from sales of pre-owned aircraft due to an unfavourable mix and higher write-downs of pre-owned business aircraft inventories;
- reduction in other income; and
- lower margins from service activities.

Partially offset by:

- higher net selling prices for business aircraft;
- 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; and
- the mix between business and commercial aircraft deliveries.

Liquidity generated by our operations partially financed our significant product development programs

FREE CASH FLOW (USAGE)

	Two months ended	Three months ended	**11 months ended**	12 months ended
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
EBIT	**$ 127**	$ 222	**$ 502**	$ 554
Amortization	**39**	58	**195**	245
EBITDA	**166**	280	**697**	799
Other non-cash items:				
Gains on disposals of PP&E	**–**	–	**–**	(8)
Share-based expense	**3**	6	**19**	23
Net change in non-cash balances related to operations	**273**	759	**151**	199
Cash flows from operating activities	**442**	1,045	**867**	1,013
Net additions to PP&E and intangible assets	**(332)**	(283)	**(1,320)**	(1,008)
Free cash flow (usage)	**$ 110**	$ 762	**$ (453)**	$ 5

The $652-million decrease for the fourth quarter is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations ($486 million) (see explanation below);
- a lower EBITDA ($114 million); and
- higher net additions to PP&E and intangible assets ($49 million).

The $458-million decrease for the fiscal year is mainly due to:

- higher net additions to PP&E and intangible assets ($312 million), due to our significant investments in product development;
- a lower EBITDA ($102 million); and
- a negative period-over-period variation in net change in non-cash balances related to operations ($48 million) (see explanation below).

Net change in non-cash balances related to operations

For the fourth quarter ended December 31, 2011, the $273-million cash inflow is mainly due to:

- a decrease in aerospace program work-in-process inventories, mainly due to significant deliveries of business aircraft.

Partially offset by:

- a decrease in advances on aerospace programs due to higher deliveries than orders received for business aircraft.

For the fourth quarter ended January 31, 2011, the $759-million cash inflow was mainly due to:

- a decrease in aerospace program work-in-process inventories, mainly due to higher deliveries of business aircraft and the first deliveries of the *CRJ1000 NextGen* aircraft in the fourth quarter ended January 31, 2011; and
- a decrease in finished product inventories, mainly due to the increase in commercial aircraft deliveries in the fourth quarter ended January 31, 2011.

For the fiscal year ended December 31, 2011, the $151-million cash inflow is mainly due to:

- an increase in trade and other payables.

Partially offset by:

- a decrease in advances on aerospace programs due to higher deliveries than orders received for regional jets and turboprops, partially offset by higher orders received than deliveries of business aircraft.

For the fiscal year ended January 31, 2011, the $199-million cash inflow was mainly due to:

- a decrease in aerospace program work-in-process inventories.

Partially offset by:

- a decrease in advances on aerospace programs, resulting mainly from higher deliveries than orders received for business and commercial aircraft.

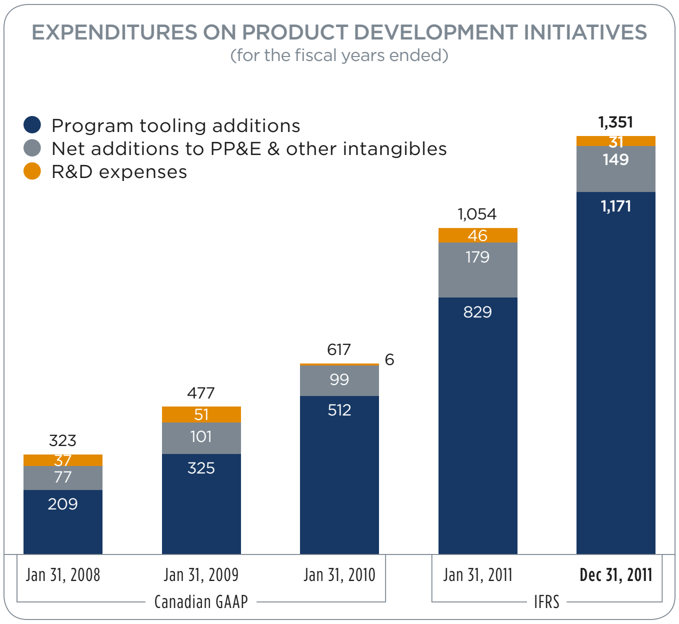
Significant investments in newer, more fuel-efficient aircraft

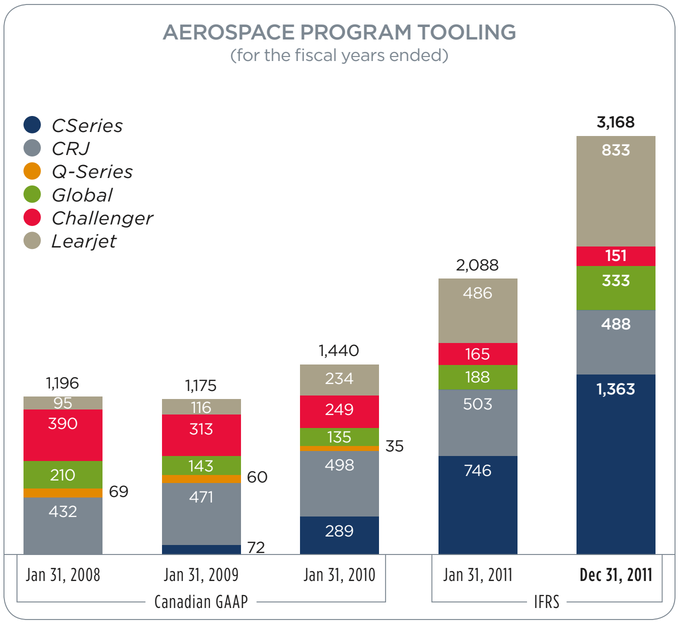
INVESTMENT IN PRODUCT DEVELOPMENT

	Two months ended	Three months ended	**11 months ended**	12 months ended
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
Program tooling[1]	**$303**	$227	**$1,171**	$829
R&D expense[2]	**6**	7	**31**	46
	$309	$234	**$1,202**	$875
As a percentage of manufacturing revenues	**20.0%**	9.4%	**18.5%**	13.0%

1 Capitalized in aerospace program tooling.
2 Excluding amortization of aerospace program tooling of $21 million and $91 million for the fourth quarter and fiscal year ended December 31, 2011 ($32 million and $126 million for the fourth quarter and fiscal year ended January 31, 2011), as the related costs are included in program tooling.

Our program tooling additions 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 programs. The increase in program tooling additions reflects our commitment to investing in product development.





FOSTERING THE PROPER CONTROL ENVIRONMENT TO ACHIEVE OUR OBJECTIVES

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

Stage		Description	Program status
Conceptual definition	**JTAP**	**Joint Technical Assessment Phase** – Preliminary review with our potential partners and suppliers to analyze technologies desired to build or modify an aircraft.	
	JCDP	**Joint Conceptual Definition Phase** – Cooperative effort with our potential partners and suppliers to perform a configuration trade-off study and define the system architecture and functionality.	
Launch preparation		Continuation of the design definition and technical activities. Creation of a project plan to define the schedule, cost, scope, statement of work and resource requirements for the program.	
Preliminary definition	**JDP**	**Joint Definition Phase** – Joint determination with our partners and suppliers of the technical design of the aircraft and sharing of the work required. Optimization of the aircraft design with respect to manufacturing, assembly and total life-cycle costs.	*CS300* *Global 7000* *Global 8000*
Detail definition	**DDP**	**Detailed Design Phase** – Preparation of detailed production drawings and confirmation of the design based on the preliminary design definition agreed upon in the previous phase.	*CS100*
Product definition release		Formal issue of the engineering drawings to manufacturing, allowing for the completion of tool designs and the assembly of the first produced aircraft.	*Learjet 85*
Product certification		Completion of certification activities to demonstrate that the aircraft complies with the original design requirements and all regulatory airworthiness standards.	
Program completion		Conclusion of final design activity. Preparation for entry-into-service.	*Global Vision*

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

Other key controls are also followed throughout the development process, to ensure that we execute as planned in our product development. We continuously apply what we have learned from one program to other programs, by sharing ideas and learning in our various functional committees as well as through regular peer reviews, bringing together expertise across all platforms to drive alignment and common approaches, establish best practices and leverage the knowledge and experience of our best people.

In order to foster the proper innovative environment in our product development and manufacturing processes, we continue to invest in developing state-of-the-art facilities.

THE *CS100* AND *CS300* AIRCRAFT PROGRAMS ARE DRIVING TOWARDS PLANNED ENTRY-INTO-SERVICE IN 2013 AND 2014, RESPECTIVELY

Testing	During the fiscal year ended December 31, 2011, the final results of a three-phase wind tunnel test program validated the *CSeries* aircraft's overall aerodynamic design and performance.
	The first systems (a collection of components) continue to be 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"), which is designated as aircraft 0. Installation of system rigs is currently underway, with some parts, including the engine accessory gearbox and flight deck controls, already in the CIASTA. The first block of systems has been commissioned, including the engine control software linked to generators and dummy engines in the CIASTA. 90% of systems are expected to be tested in the first half of 2012, including the fly-by-wire flight control system. The remaining 10% of systems, including heating, cooling and lighting, will be commissioned thereafter. The entire airworthiness testing on the aircraft will be performed on the ground in the facility through simulated flight testing. A flight test program of 2,400 hours is planned on the *CS100* aircraft consisting of five test aircraft and a program of 750 hours is planned on the *CS300* aircraft consisting of two test aircraft.
	The assembling of the *CS100* first flight test aircraft will take place in 2012 and we are preparing for the first flight near the end of calendar year 2012.
Suppliers	The PW1524G engine has completed its first flight test program logging 25 flights with 115 flight hours, and completed more than 1,100 hours for full engine testing, demonstrating the geared architecture's benefits of low fuel consumption and lower noise. The combined results of both the wind tunnel tests and engine flight tests support the overall performance and operating cost advantage offered by the *CSeries* family of aircraft.
	The testing of the fuselage barrel section, built by Shenyang Aircraft Corporation (SAC) from China, was completed in July 2011 on schedule, and was subjected to 180,000 simulated flights (cycles). Further fatigue tests are planned, to determine how the fuselage copes with additional cycles.
	The first test pylon, which is part of the structure used to mount the aircraft's engines to the wing and house fuel and hydraulic lines, was completed by a supplier in July 2011 and will be used in future testing.
	To reduce the cycle time required to assemble a larger and more complex aircraft, we have introduced new advanced processes to ensure that high quality parts are received at the plant on time. Aligned with this strategy, we have trained all the targeted suppliers for advanced quality planning and advanced logistics methodologies. Our focus is now on the implementation of these methodologies with our suppliers.
Facilities	In Belfast, installation of semi-automated jigs is underway in the second phase of the new 56,000 sq. m. (600,000 sq. ft.) facility where manufacturing and assembly of the advanced composite wings of the aircraft will take place.
	At the Saint-Laurent components plant, which will manufacture the carbon-fibre aft fuselage and the cockpit, more than 9,000 sq. m. (100,000 sq. ft.) was upgraded to support production of some of the programs' 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 demonstrator aft fuselage (in advanced carbon fibre) was successfully completed at the plant. In the second quarter of the fiscal year ended December 31, 2011, two robots have been delivered to the plant and will be used to fuse together the cockpit with the front section of the fuselage.

THE *LEARJET 85* PROGRAM IS PROGRESSING TOWARDS PLANNED ENTRY-INTO-SERVICE IN 2013

Production & testing	Our development and production teams in Wichita, Montréal, Belfast and Querétaro are actively engaged in manufacturing activities and manufacturing of the first flight test aircraft is underway.
	As part of the Bombardier composite structural technology readiness program, over 12,000 test pieces have been produced and tested to date.
	Manufacture of the first flight test aircraft major structural assemblies has commenced at the Querétaro facility.
	Parts manufacturing is underway at the Belfast site, which is responsible for detailed design and manufacturing of the wing planks and spar structures (main structural member of the wing). The first production wing spars and planks using Resin Transfer Infusion (RTI) technology have been successfully manufactured and were shipped to the Querétaro facility in January 2012.
Certification	The first U.S. Federal Aviation Administration ("FAA") structural certification test project was successfully completed.
Suppliers	All our suppliers have started the manufacturing of components, with approximately 55% of supplier test rigs operational and the balance planned to be operational over the coming months. These test rigs are used to ensure the reliability of systems (a collection of components) prior to shipment of flight worthy parts to the final assembly line in Wichita.
Facilities	The Querétaro facility, which will manufacture and assemble major composite structures, is operational with production tooling in place.
	Construction of the Wichita final assembly line facility, a part of our initial phase of the Wichita site expansion, is complete and the site is ready for the start of final assembly. Phase two of the expansion plan, which includes building a new production flight facility, is scheduled to begin in calendar year 2012. Phase three, the paint facility and new delivery centre, is on track to be completed in calendar year 2013.

THE *GLOBAL 7000* AND *GLOBAL 8000* AIRCRAFT PROGRAMS ARE PROGRESSING TOWARDS PLANNED ENTRY-INTO-SERVICE IN 2016 AND 2017, RESPECTIVELY

Suppliers	In May 2011, we announced suppliers for two major structural packages and six systems.
	During the third quarter of the fiscal year ended December 31, 2011, we selected seven new suppliers for the avionics system and primary flight control computer, the hydraulics system and fly-by-wire technology, the main and nose landing gear system, the wheels and braking system, the air management system, the water and waste system and the ducting system.
	The awarding of supply contracts to renowned aerospace companies, who will design and manufacture key systems, is an important milestone in the programs' development. We are currently actively engaged in the process of selecting additional suppliers.
	Our product development team and our suppliers' representatives are co-located at our Aerospace Product Development Centre in Montréal and are focused on advancing the technical design of the aircraft. We continue to ramp up the programs, increasing resources to meet the programs' needs and milestones.
Key decisions	Final assembly of the aircraft will take place at the Toronto manufacturing site, interior completion will take place at the Global Completion Centre in Montréal and the aft fuselage will be built in Querétaro.
	We will design and manufacture the forward fuselage, aft fuselage and empennage internally for these two aircraft.

THE *GLOBAL VISION* FLIGHT DECK IS PROGRESSING TOWARDS PLANNED ENTRY-INTO-SERVICE IN EARLY 2012

Production & testing	The new avionics suite has been integrated on the *Global 5000* and *Global 6000* final assembly line, and production is taking place in Toronto and Montréal.
	Over 35 production aircraft featuring the *Global Vision* flight deck are in completion, and more than 900 hours of flight testing have been completed to date.
Certification	Certification from Transport Canada (TC) was granted in the second quarter of the fiscal year ended December 31, 2011 and certification from the European Aviation Safety Agency (EASA) was obtained in February 2012.
	Certification from the FAA is progressing in line to support our entry-into-service in 2012.

Overall deliveries in line with our guidance

BUSINESS AIRCRAFT DELIVERIES

(in units)	**Two months ended December 31 2011**	Three months ended January 31 2011	**11 months ended December 31 2011**	12 months ended January 31 2011
Light				
Learjet 40/40 XR/Learjet 45/45 XR	**8**	11	**15**	24
Learjet 60 XR	**5**	3	**18**	9
Medium				
Challenger 300	**8**	9	**34**	29
Challenger 605	**11**	15	**39**	36
Challenger 800 Series	**3**	–	**6**	7
Large				
Global 5000/Global Express XRS	**13**	17	**51**	50
	48	55	**163**	155

As a result of the quarter ended December 31, 2011 comprising only two months, deliveries of business aircraft for the fourth quarter decreased by 13% as compared to last year. Deliveries during the 11-month period ended December 31, 2011 increased by 5%, as a result of higher deliveries of business aircraft in the medium category, despite the fiscal year comprising one less month.

For the third consecutive year, in calendar year 2011, we were the market share leader in terms of deliveries in the categories in which we compete, with a market share of 32%, as compared to 31% in calendar year 2010[1]. Furthermore, for an eighth consecutive year we are in the leadership position in terms of revenues in the business aircraft market categories in which we compete, with a market share of 37%, as compared to 35% in calendar year 2010[1].

1 Based on GAMA airplane shipment report dated February 22, 2012 except for Hawker Beechcraft's fourth quarter 2011 deliveries and revenues, which were estimated from other public sources.

COMMERCIAL AIRCRAFT DELIVERIES

(in units)	**Two months ended December 31 2011**	Three months ended January 31 2011	**11 months ended December 31 2011**	12 months ended January 31 2011
Regional jets				
CRJ700 NextGen	**–**	6	**10**	18
CRJ900 NextGen	**2**	7	**12**	14
CRJ1000 NextGen	**3**	9	**11**	9
Turboprops				
Q400/Q400 NextGen	**6**	22	**45**	56
	11	44	**78**	97

Deliveries of commercial aircraft decreased significantly during the quarter and fiscal year ended December 31, 2011 compared to the same periods last year, because of lower deliveries of both regional jets and turboprops, in part as a result of the current fourth quarter and fiscal year comprising one less month, but also due to the economic uncertainties in the U.S. and Europe.

Our delivery market share slightly reduced from 52% to 50%[2] in the turboprop category, while in the regional jet category, our delivery market share increased from 30% to 35%[2].

2 Based on publicly available competitor reports.

Aircraft orders

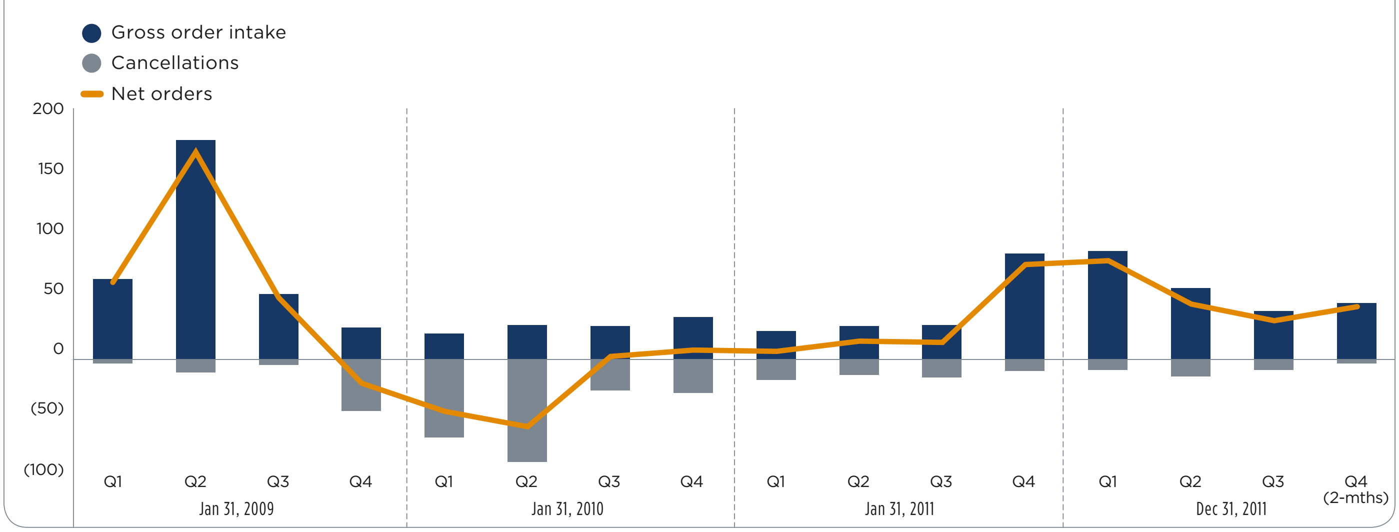
TOTAL AIRCRAFT NET ORDERS

	December 31, 2011			January 31, 2011		
	Gross orders	**Cancellations**	**Net orders**	Gross orders	Cancellations	Net orders
Fourth quarters ended			**Two months ended**			Three months ended
Business aircraft (including those of the *Flexjet* fractional ownership program)	**44**	**(3)**	**41**	83	(9)	74
Commercial aircraft	**2**	**–**	**2**	23	(10)	13
Amphibious aircraft	**–**	**–**	**–**	1	–	1
	46	**(3)**	**43**	107	(19)	88
Fiscal years ended			**11 months ended**			12 months ended
Business aircraft (including those of the *Flexjet* fractional ownership program)	**223**	**(32)**	**191**	158	(51)	107
Commercial aircraft	**54**	**–**	**54**	108	(15)	93
Amphibious aircraft	**4**	**–**	**4**	1	–	1
	281	**(32)**	**249**	267	(66)	201

BUSINESS AIRCRAFT

The increase in the net order intake for business aircraft, for the fiscal year ended December 31, 2011 as compared to last fiscal year, is due to significant net orders received during the year for the medium and large jets category and because of lower order cancellations, despite the fact that the fiscal year comprised one less month of results.

BUSINESS AIRCRAFT GROSS/NET ORDERS
(for quarters for fiscal years ended) (gross orders include *Flexjet* programs and exclude swaps)



The following significant orders were received during the fiscal year ended December 31, 2011:

Customer	Firm order	Options	Value of firm order based on list prices
NetJets Inc.	30 *Global 5000* and *Global 6000* 20 *Global 7000* and *Global 8000*	70 aircraft of the *Global* family	$2.8 billion[1]
VistaJet (Switzerland)	10 *Global 8000*	—	$650 million
AVWest (Australia)	2 *Global 7000* 2 *Global 8000*	—	$265 million
Undisclosed customer	3 *Challenger* 3 *Global*	—	$255 million
Undisclosed customer	5 *Challenger 850*	—	$156 million

1 This is the largest business aircraft order in our history. Based on list prices, the order value could increase to $6.7 billion if all options are exercised.

COMMERCIAL AIRCRAFT

COMMERCIAL AIRCRAFT NET ORDERS

(in units)	**Two months ended December 31 2011**	Three months ended January 31 2011	**11 months ended December 31 2011**	12 months ended January 31 2011
Regional jets				
CRJ700 NextGen	**–**	(4)	**–**	(4)
CRJ900 NextGen	**1**	–	**4**	14
Commercial jets				
CS100	**–**	–	**28**	–
CS300	**–**	–	**15**	40
Turboprops				
Q400 NextGen	**1**	17	**7**	43
	2	13	**54**	93

The economic uncertainties in the U.S. and Europe are having a negative impact on order intake for regional jets and turboprops.

The following significant orders were received during the fiscal year ended December 31, 2011:

Customer	Firm order	Options	Value of firm order based on list prices
Korean Air	10 *CS300*	10 *CS300*	$719 million
Braathens Leasing Limited, a member of Braathens Aviation (Sweden)	5 *CS100*[2] 5 *CS300*[2]	5 *CS100*[2] 5 *CS300*[2]	$665 million
Undisclosed European customer	10 *CS100*	—	$628 million
Undisclosed customer[3]	10 *CS100*	6 *CS100*	$616 million
Undisclosed customer	3 *CS100*	3 *CS100*	$186 million
Luxair Luxembourg Airlines	4 *Q400 NextGen*	4 *Q400 NextGen*	$126 million

2 The customer's firm orders and options contain conversion rights to the other *CSeries* aircraft model.
3 The operator taking delivery of the first *CSeries* aircraft.

On November 29, 2011, AMR Corporation and certain of its U.S.-based subsidiaries (including American Airlines Inc. and AMR Eagle Holding Corporation) filed voluntary petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code. We are monitoring the situation, however, we do not expect a material impact on our results.

Subsequent to the end of the fiscal year, we signed the following significant firm orders, which are not included in the order backlog as at December 31, 2011:

- In January 2012, we signed a firm order with PrivatAir of Geneva, Switzerland for five *CS100* aircraft, with options for an additional five *CS100* aircraft. Based on the list price, the value of the firm order is $309 million.
- In February 2012, we signed a firm order with PT. Garuda Indonesia (Persero) Tbk. for six *CRJ1000 NextGen* regional jets, with options for an additional 18. Based on the list price, the value of the firm order is $297 million.
- In February 2012, we signed a firm order with Ethiopian Airlines for five *Q400 NextGen* aircraft. Based on the list price, the value of the firm order is $160 million.

Book-to-bill ratio and order backlog

BOOK-TO-BILL RATIO[1]

	Two months ended	Three months ended	**11 months ended**	12 months ended
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
Business aircraft	**0.9**	1.3	**1.2**	0.7
Commercial aircraft	**0.2**	0.3	**0.7**	1.0
Total	**0.7**	0.9	**1.0**	0.8

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

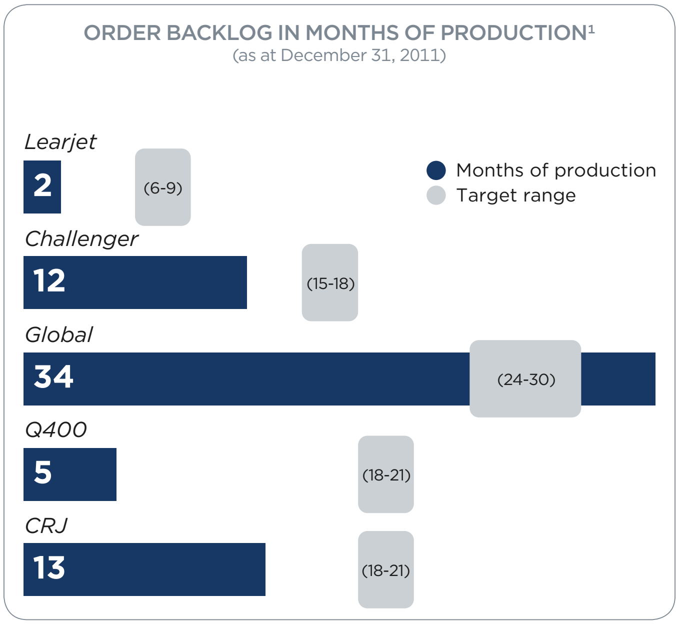
For the fiscal year ended December 31, 2011, the book-to-bill ratio for business aircraft mainly reflects the positive impact of orders received for our new programs under development. The book-to-bill ratio for commercial aircraft mainly reflects orders received for the *CSeries* family of aircraft, and is lower as compared to the last fiscal year because of lower orders for regional jets and turboprops.

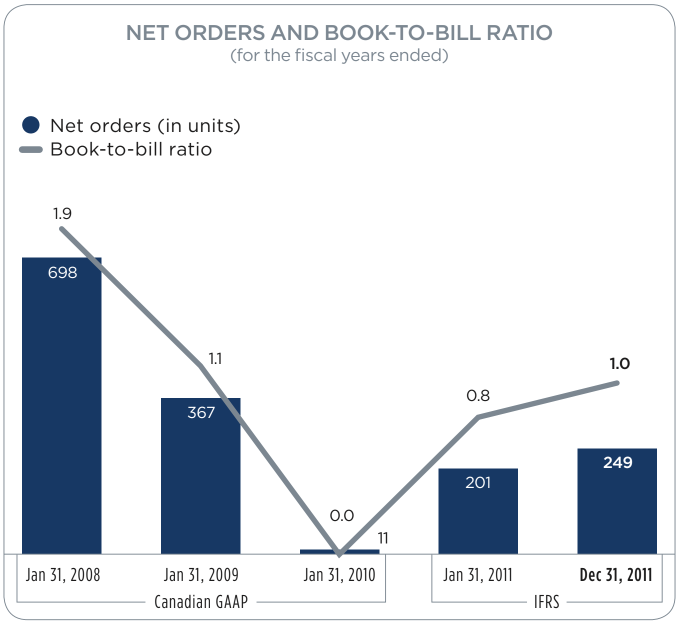
TOTAL ORDER BACKLOG

(in billions of dollars)	**December 31 2011**	January 31 2011
Aircraft programs	**$21.4**	$18.4
Military Aviation Training	**0.6**	0.8
	$22.0	$19.2

The order backlog as at December 31, 2011 increased by 15% compared to January 31, 2011. This is mainly due to an increase in orders for large business aircraft and the *CSeries* family of aircraft, partially offset by a lower order backlog for turboprops and regional jets. We continue to monitor our order backlog and the production horizon for our programs, and to align our production rates to reflect market demand.

In addition, BA has various long-term maintenance and spares support agreements, not included in the order backlog, amounting to $1.9 billion as at December 31, 2011. Generally, revenues from such agreements will be recognized over the next five to 15 years.





1 The number of months in production is calculated by dividing the order backlog in units as at December 31, 2011 for each family of aircraft (excluding orders for the *Learjet 85*, *Global 7000* and *Global 8000* aircraft and 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 AND OPTIONS

	December 31, 2011		January 31, 2011	
	Firm orders	**Options**	Firm orders	Options
Regional jets				
CRJ700 NextGen	**9**	**2**	19	2
CRJ900 NextGen	**10**	**24**	18	93
CRJ1000 NextGen	**29**	**4**	40	4
Commercial jets				
CS100	**61**[2]	**47**	33[3]	33
CS300	**72**[2]	**72**	57[3]	57
Turboprops				
Q400/Q400 NextGen	**24**	**118**	62	124
	205	**267**	229	313

2 The total of 133 orders includes 79 firm orders with conversion rights to the other *CSeries* aircraft model.
3 The total of 90 orders includes 60 firm orders with conversion rights to the other *CSeries* aircraft model.

Workforce

TOTAL NUMBER OF EMPLOYEES

	December 31 2011	January 31 2011
Permanent[1]	**30,600**	28,700
Contractual	**3,000**	1,600
	33,600	30,300
Percentage of permanent employees covered by collective agreements	**47%**	50%

1 Including inactive employees.

The increase in the number of employees is mainly due to new hires related to the *CSeries* and the *Global 7000* and *Global 8000* aircraft programs. Our long-term human resources strategy is to maintain a mix of permanent and contractual employees to allow increased flexibility in periods of fluctuation while ensuring the stability of our permanent workforce.

MAJOR COLLECTIVE AGREEMENTS

Location	Union	Approximate number of permanent employees covered as at December 31, 2011	Expiration of current collective agreement
Belfast	Unite the Union and the General Machinists & Boilermakers	4,200	January 24, 2013
Montréal	International Association of Machinists and Aerospace Workers (IAMAW) 712	4,300	November 28, 2014
Toronto	Canadian Auto Workers (CAW)	2,300	June 22, 2012
Montréal *Global* Aircraft Completion Centre	National Automobile, Aerospace, Transport and Other Workers of Canada (CAW)	1,300	December 5, 2013
Querétaro	Confederación de Trabajadores de México	1,100	April 30, 2012
Wichita	International Association of Machinists and Aerospace Workers (IAMAW) 639	800	October 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRANSPORTATION

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

Despite the Corporation's change of financial year-end from January 31 to December 31, the financial data in this section of the MD&A is comparable as BT was previously consolidated into Bombardier Inc. with a one month lag, i.e. all financial data presented was prepared on a calendar year basis.

HIGHLIGHTS OF THE YEAR

Continued strong performance building on the success of past years

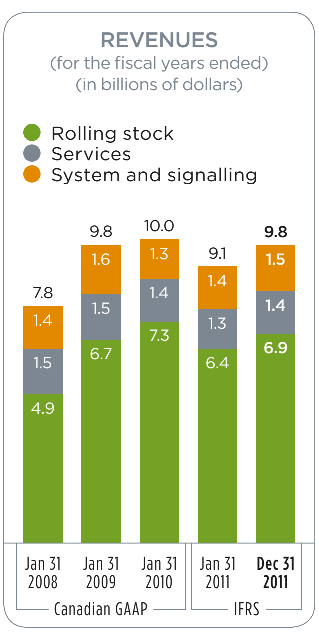
REVENUES	EBIT MARGIN	FREE CASH FLOW	ORDER INTAKE	ORDER BACKLOG
$9.8 billion	**7.2%**	**($424)** million	**$9.7** billion	**$31.9** billion

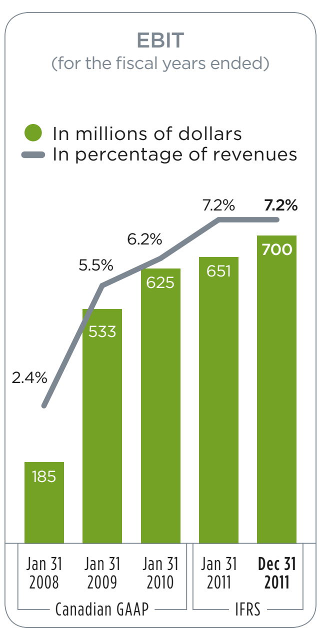
RESULTS

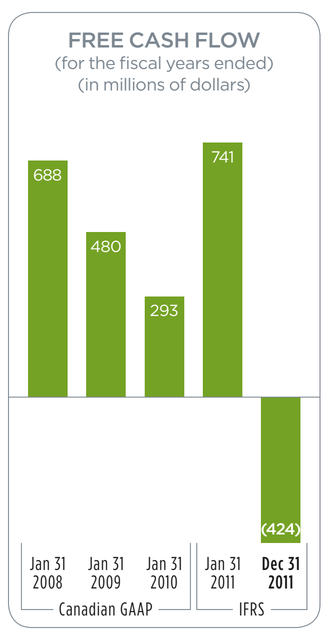
- Revenues of $9.8 billion, compared to $9.1 billion last fiscal year.
- EBIT of $700 million, compared to $651 million, a strong EBIT margin of 7.2% for the second consecutive year.
- EBITDA of $838 million, or 8.6% of revenues, compared to $777 million, or 8.6% of revenues, last fiscal year.
- Free cash flow usage of $424 million, compared to a free cash flow of $741 million last fiscal year.
- $9.7 billion in new orders, compared to $14.3 billion last fiscal year, resulting in a book-to-bill ratio of 1.0.
- Order backlog of $31.9 billion as at December 31, 2011, compared to $33.5 billion as at January 31, 2011.

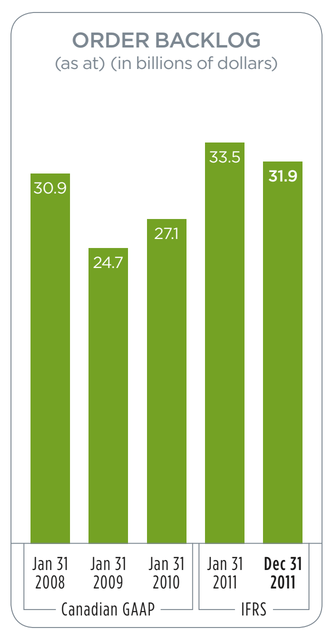
KEY ORDERS

- 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 BT was obtained under this framework agreement.
- We signed several significant contracts, with: Deutsche Bahn Regio AG, Germany, for 90 electrical multiple units (EMUs) of the ET430 series, valued at $648 million; London Underground, U.K., for a *CITYFLO* 650 CBTC signalling system, valued at $577 million; and Chicago Transit Authority, U.S., for 300 additional rapid transit cars, valued at $331 million.
- We also signed a framework agreement with Deutsche Bahn Regio AG, Germany, for 200 *TRAXX* diesel locomotives, with a value estimated at $867 million, if all options are exercised.









GUIDANCE AND FORWARD-LOOKING STATEMENTS

	What we said	What we did	What's next[1]
Profitability	Continue to improve EBIT margin towards our target of 8% by calendar year 2013.	EBIT margin of 7.2%, the same level as last fiscal year.	Continue to improve EBIT margin towards our target of 8% by calendar year 2013.
Liquidity	Maintain free cash flow generally in line with EBIT, although it may vary significantly from quarter to quarter.	Free cash flow usage of $424 million, compared to EBIT of $700 million.	Maintain free cash flow generally in line with EBIT, although it may vary significantly from quarter to quarter.
Growth and order intake	Maintain a book-to-bill ratio around one in the future, in line with market evolution.	Book-to-bill ratio of 1.0.	Maintain a book-to-bill ratio around 1.0, in line with market evolution.

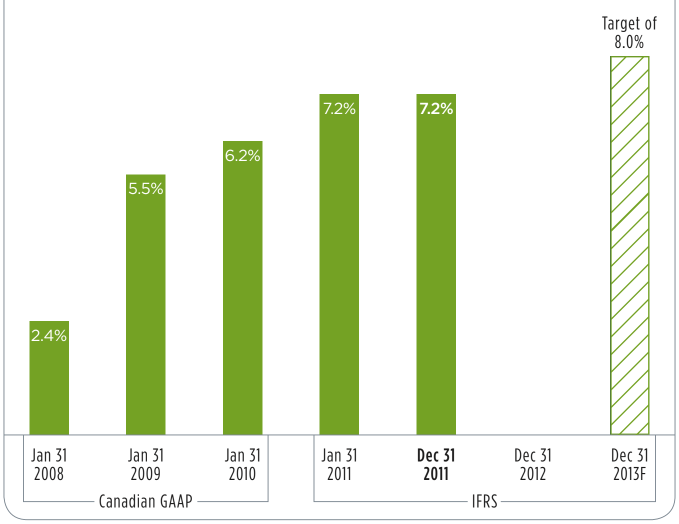
WE CONTINUE TO FOCUS ON OUR ROAD TO 8% EBIT MARGIN[1]

Our strong level of order activity across all segments and geographies is an expression of our customers' continued confidence in our innovative products and services. We ended the year with a solid backlog of $31.9 billion. Our commitment to continued customer support and our focus on flawless execution are expected to enable us to reach our target of 8% EBIT margin by calendar year 2013[1].

Our project management capability will be a key component of our road to 8% EBIT margin[1]. The continued rollout of lean operations under our Bombardier Operations System (BOS) will support our objectives in cost reduction, as will our emphasis on reducing our general administration expenses and increasing efficiency. Paramount to delivering flawlessly on our project objectives is an emphasis on quality. In 2011, we launched an initiative on quality, with two core elements. The first element involves advanced quality planning throughout all phases of project management. The other core element is an effective process of problem identification, problem solving and prevention and process improvement.

1 See Forward-looking statements below.

EBIT MARGIN EVOLUTION
(for fiscal years ended or ending)



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

F: Forecast

Forward-looking statements

Forward-looking statements[2] in this section of the MD&A are based on:

- our current order backlog;
- the realization of upcoming tenders and our ability to capture them;
- normal contract execution and continued deployment and execution of leading initiatives, especially those linked to cost reductions, including procurement and operational improvement initiatives;
- recent industry trends based on main market drivers analysis;
- a sustained level of public sector spending; and
- the ability of our supply base to support the execution of our projects.

2 Also see the Guidance and forward-looking statements section in Overview.

KEY PERFORMANCE MEASURES AND METRICS

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

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Profitability	• EBIT and EBIT margin, as measures of performance.
Liquidity	• Free cash flow, as a measure of liquidity generation.
Growth and competitive positioning	• Revenues, as a measure of growth. • Order backlog, as a measure of future revenues. • Book-to-bill ratio, as an indicator of future revenues. The ratio represents new orders over revenues, measured in dollars in a given period. • Market position, as a measure of competitive positioning.
Customer satisfaction	• Various customer satisfaction metrics, focusing on the four main dimensions: sales and prices, customer orientation, project execution and product offering.

Our employee incentive-based compensation is linked to the achievement of targeted results, based on EBIT and free cash flow.

FIVE-YEAR SUMMARY

	IFRS		Canadian GAAP		
	December 31 2011	January 31 2011	January 31 2010	January 31 2009	January 31 2008
For the fiscal years ended					
Revenues					
Rolling stock	**$ 6,855**	$ 6,385	$ 7,264	$ 6,663	$ 4,894
Services	**1,409**	1,308	1,408	1,529	1,474
System and signalling	**1,489**	1,390	1,337	1,564	1,425
	$ 9,753	$ 9,083	$10,009	$ 9,756	$ 7,793
EBIT	**$ 700**	$ 651	$ 625	$ 533	$ 185
EBIT margin	**7.2%**	7.2%	6.2%	5.5%	2.4%
EBITDA	**$ 838**	$ 777	$ 752	$ 657	$ 294
EBITDA margin	**8.6%**	8.6%	7.5%	6.7%	3.8%
Free cash flow (usage)	**$ (424)**	$ 741	$ 293	$ 480	$ 688
Order intake (in billions)	**$ 9.7**	$ 14.3	$ 9.6	$ 9.8	$ 11.3
Book-to-bill ratio	**1.0**	1.6	1.0	1.0	1.5
As at					
Order backlog (in billions)	**$ 31.9**	$ 33.5	$ 27.1	$ 24.7	$ 30.9
Number of employees[1]	**36,200**	34,900	34,950	35,450	32,600

1 Including contractual and inactive employees.

INDUSTRY AND ECONOMIC ENVIRONMENT

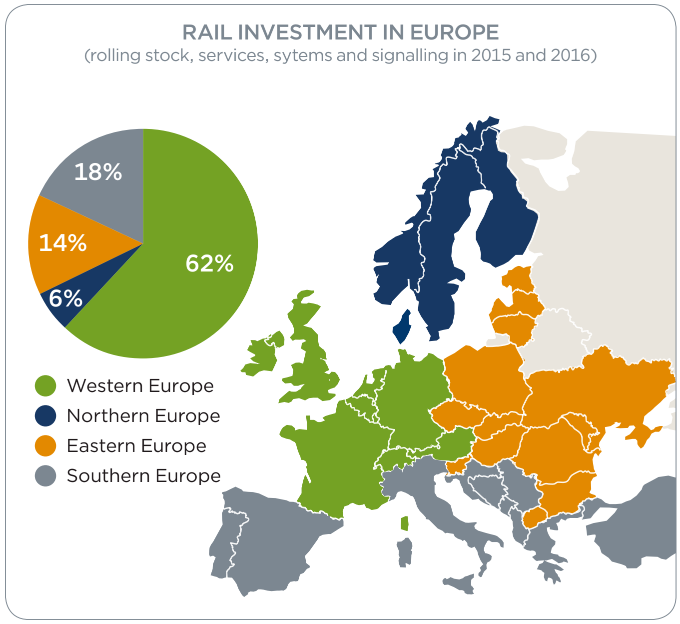
The rail industry is resilient with orders continuing across all markets

The rail industry has historically remained resilient in times of economic turbulence. In the last five years the industry has continued to grow as governments have invested in anticipation of longer term increases in rail demand. Our worldwide rail market accessible to external suppliers continued to have high levels of activity, reaching $96.9 billion on average over calendar years 2009 to 2011, higher than the previous average of $94.6 billion for calendar years 2008 to 2010. This steady growth in investment shows that rail is less subject to short-term volatility than other industries.

Once again, in calendar year 2011 the market for rail equipment was resilient across all segments, including near record orders in rolling stock. Despite economic uncertainty in some regions, we have continued to win orders with our focused strategy.

In Europe, orders remained at a high level after record orders in calendar year 2010, despite economic uncertainty in some countries. The fourth quarter ended the year with high order activity, mainly due to high activity in Germany in the regional trains and light rail vehicles segments. Furthermore, European operators are experiencing encouraging levels of activity in freight and passenger volumes as of the third quarter of 2011, the latest information available, as compared to 2010.

We continue to be well positioned for future growth in Europe. For the purpose of analyzing the rail market, we choose to segment Europe into four regions, as depicted in the graph, as each region has different fundamentals. In our core markets of Western Europe and Northern Europe, we expect to see continued investment in rail with various new orders and options on the horizon. In the past three years we have won significant frame contracts with large options attached. We expect that a good portion of these options will be exercised, which provides us good visibility on future order potential in our core markets. In Eastern Europe, network signalling and fleet modernization plans will continue across the region with the support of European funding. In Southern Europe, where our historical market share is small, new investments may be constrained, though we anticipate a limited impact on our business.



Source: UNIFE 2010

The Asia-Pacific market continued to grow, confirming the region's strong commitment to investment in rail. For example, mass transit investment continues in India with orders for metro cars. In China, we see continued growth in mass transit investment and a need for investment in mainline products such as locomotives. We expect growth in rail investment to continue in these markets, driven by the strong need for mobility on the back of rapid urbanization and continued economic growth.

In North America, the rail market shows positive developments. In mass transit, rail orders have been placed to renew fleets for suburban services and urban centers across Canada and the U.S.

In other markets growth in rail investment is driven by the Middle East, Brazil and Russia. The building of new rail systems, such as a recently announced high speed rail system in Saudi Arabia, demonstrates the momentum for new advanced rail infrastructure in this region.

We are closely monitoring the general economic uncertainty, but at this point we do not see any trend towards a shift of planned tenders.

ANALYSIS OF RESULTS

EBIT margin remained at a high level

We delivered good profitability with a strong EBIT margin of 7.2% for the second consecutive year. Our order intake of $9.7 billion (book-to-bill ratio of 1.0) has resulted in an order backlog of $31.9 billion, which represents an average of 3.3 years of revenues.

RESULTS OF OPERATIONS[1]

	Three months ended		12 months ended	
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
Revenues				
Rolling stock[2]	**$ 1,532**	$ 1,716	**$ 6,855**	$ 6,385
Services[3]	**366**	363	**1,409**	1,308
System and signalling[4]	**402**	416	**1,489**	1,390
Total revenues	**2,300**	2,495	**9,753**	9,083
Cost of sales	**1,884**	2,001	**8,089**	7,460
Gross margin	**416**	494	**1,664**	1,623
SG&A	**207**	190	**818**	754
R&D	**48**	47	**149**	147
Other expense (income)[5]	**(5)**	52	**(3)**	71
EBIT	**166**	205	**700**	651
Amortization[6]	**36**	33	**138**	126
EBITDA	**$ 202**	$ 238	**$ 838**	$ 777
(as a percentage of total revenues)				
Gross margin	**18.1%**	19.8%	**17.1%**	17.9%
EBIT	**7.2%**	8.2%	**7.2%**	7.2%
EBITDA	**8.8%**	9.5%	**8.6%**	8.6%

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 other currencies compared to the U.S. dollar negatively affects revenues and positively affects expenses, while higher exchange rates have the opposite impacts (defined as "negative currency impact" and "positive currency impact"). See the Foreign exchange rates section in Other for the average exchange rates used to translate revenues and expenses.
2 Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls and bogies.
3 Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.
4 Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance systems, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.
5 Includes i) severance and other involuntary termination costs (including changes in estimates); ii) gains on disposals of PP&E; and iii) impairment charge on PP&E.
6 Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset.

REVENUES BY GEOGRAPHIC REGION

	Three months ended				12 months ended			
	December 31 2011		January 31 2011		**December 31 2011**		January 31 2011	
Europe	**$ 1,467[1]**	**64%**	$ 1,580	63%	**$ 6,275[1]**	**64%**	$ 5,866	65%
Asia-Pacific	**257[1]**	**11%**	486	19%	**1,444[1]**	**15%**	1,635	18%
North America	**373**	**16%**	314	13%	**1,396**	**14%**	1,227	13%
Other[2]	**203**	**9%**	115	5%	**638**	**7%**	355	4%
	$ 2,300	**100%**	$ 2,495	100%	**$ 9,753**	**100%**	$ 9,083	100%

1 The changes in foreign exchange rates, period-over-period, result in a positive currency impact of $36 million in Europe and $3 million in Asia-Pacific for the fourth quarter ended December 31, 2011 and $437 million in Europe and $56 million in Asia-Pacific for the fiscal year ended December 31, 2011.
2 The region Other includes South America, Central America, Africa, the Middle East and the CIS.

Rolling stock revenues

The $184-million decrease for the fourth quarter is mainly explained by lower activities due to the phasing out of existing contracts ahead of ramping-up production on new contracts in:

- commuter and regional trains in Europe and Asia ($154 million);
- intercity and high speed trains in Asia ($142 million);
- metro cars in Asia and Europe ($116 million);
- locomotives in Europe ($55 million); and
- propulsion and controls, mainly in Asia and Europe ($26 million).

Partially offset by higher activities due to the ramp-up of production on existing contracts and new orders in:

- commuter and regional trains in region Other ($95 million);
- light rail vehicles, mainly in Europe and Asia ($86 million);
- mass transit and locomotives in North America ($68 million); and
- intercity, high speed and very high speed trains in Europe and in very high speed trains in Asia ($63 million).

The decrease also reflects a positive currency impact ($14 million).

The $470-million increase for the fiscal year reflects a positive currency impact ($344 million). Excluding this currency impact, revenues increased by $126 million. This increase is mainly explained by higher activities due to the ramp-up of production on existing contracts and new orders in:

- intercity, high speed and very high speed trains in Europe and in very high speed trains in Asia ($197 million);
- metro cars in Europe ($153 million);
- mass transit and locomotives in North America ($149 million);
- commuter and regional trains in region Other ($137 million); and
- light rail vehicles, mainly in Europe and Asia ($56 million).

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

- commuter and regional trains in Europe and Asia ($230 million);
- intercity and high speed trains in Asia ($185 million);
- metro cars in Asia ($102 million);
- propulsion and controls, mainly in Asia and Europe ($99 million); and
- locomotives in Europe ($35 million).

Services revenues

The $101-million increase for the fiscal year reflects a positive currency impact ($71 million). Excluding this currency impact, revenues increased by $30 million. This increase is mainly due to:

- higher activities in region Other and Europe ($51 million).

Partially offset by:

- lower activities in North America ($18 million).

System and signalling revenues

The $14-million decrease for the fourth quarter is mainly due to:

- lower activities due to the phasing out of existing contracts ahead of ramping-up production on new contracts in systems in Asia, region Other and North America ($110 million).

Partially offset by:

- higher activities in signalling, mainly in Europe ($49 million).

The decrease also reflects a positive currency impact ($19 million).

The $99-million increase for the fiscal year reflects a positive currency impact ($82 million). Excluding this currency impact, revenues increased by $17 million. This increase is mainly due to:

- higher activities in signalling in Europe, Asia and region Other ($73 million); and
- the ramp-up of production on existing contracts and new orders in systems in North America ($10 million).

Partially offset by:

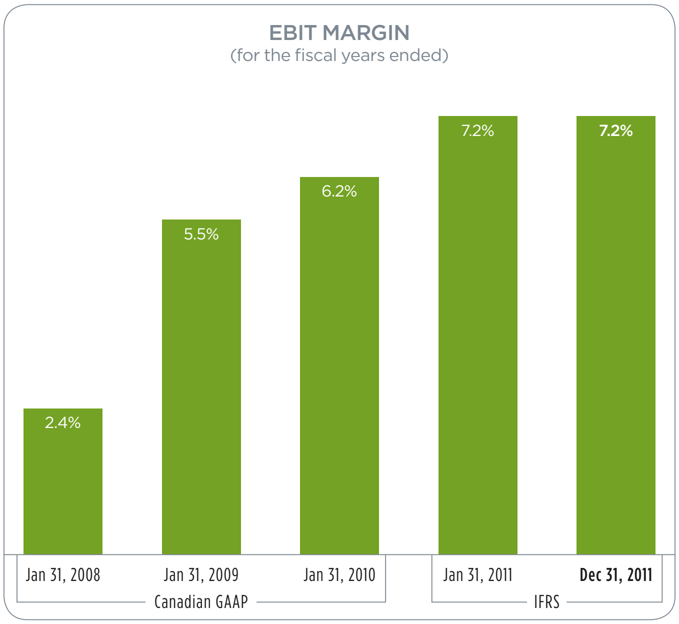
- lower activities due to the phasing out of existing contracts ahead of ramping-up production on new contracts in systems in Asia and Europe ($86 million).

EBIT margin

The EBIT margin for the fourth quarter decreased by 1.0 percentage point. Excluding the impact of last year's non-recurring items (see explanations below), the EBIT margin decreased by 2.8 percentage points mainly as a result of:

- higher SG&A expenses;
- a lower gross margin due to execution issues in certain projects; and
- a lower net gain related to foreign exchange fluctuations and certain financial instruments carried at fair value recorded in cost of sales.

The EBIT margin for the fiscal year remained unchanged at 7.2%. Excluding the impact of last year's non-recurring items (see explanation below), the EBIT margin decreased by 0.7 percentage points mainly as a result of a lower gross margin due to execution issues in certain contracts.



For the fourth quarter and fiscal year ended January 31, 2011, the EBIT margins were negatively impacted by the following non-recurring items recorded in other expense (income):

- by 1.4% and 0.3%, respectively, due to provisions related to capacity adjustments mainly for the optimization of our footprint in Europe ($35 million for the fourth quarter and $28 million for the fiscal year);
- by 0.4% and 0.1%, respectively, related to a $10 million equity pick-up for our share of an impairment loss of an associate in Asia;
- by 0.2% for the fiscal year, due to a $20 million loss in connection with the flooding of our site in Bautzen, Germany; and
- by 0.1% for the fiscal year, due to a $8 million impairment of real estate as a result of the continued effort to optimize our footprint, mainly in Europe.

Overall free cash flow usage for the year with positive free cash flow in the fourth quarter

FREE CASH FLOW (USAGE)

	Three months ended		12 months ended	
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
EBIT	**$166**	$205	**$ 700**	$ 651
Amortization	**36**	33	**138**	126
EBITDA	**202**	238	**838**	777
Other non-cash items:				
Gains on disposals of PP&E	**(2)**	(1)	**(3)**	(3)
Share-based expense	**3**	7	**19**	24
Impairment charge on PP&E	**–**	–	**–**	8
Net change in non-cash balances related to operations	**420**	611	**(1,123)**	52
Cash flows from operating activities	**623**	855	**(269)**	858
Net additions to PP&E and intangible assets	**(59)**	(56)	**(155)**	(117)
Free cash flow (usage)	**$564**	$799	**$ (424)**	$ 741

The $235-million decrease for the fourth quarter is mainly due to a negative period-over-period variation in net change in non-cash balances related to operations ($191 million) (see explanation below) and a lower EBITDA ($36 million).

The $1,165-million decrease for the fiscal year is mainly due to a negative period-over-period variation in net change in non-cash balances related to operations ($1,175 million) (see explanation below).

Net change in non-cash balances related to operations

For the fourth quarter of the fiscal year ended December 31, 2011, the $420-million cash inflow is mainly due to a reduction in inventories following deliveries in several contracts, mainly in some rolling stock contracts where we experienced delays in previous quarters.

For the fourth quarter of the fiscal year ended January 31, 2011, the $611-million cash inflow was mainly due to:

- an increase in advances and progress billings related to new orders and existing contracts; and
- higher trade and other payables.

Partially offset by:

- an increase in inventories resulting from the higher level of activities; and
- an increase in trade and other receivables following increased deliveries in several contracts.

For the fiscal year ended December 31, 2011, the $1,123-million cash outflow is mainly due to:

- an increase in inventories due to the ramp-up of several contracts ahead of deliveries and delays experienced in deliveries for some rolling stock contracts; and
- the impact of settlements of derivatives used in roll-forward cash flow hedge relationships.

Partially offset by:

- an increase in advances and progress billings related to new orders and existing contracts.

For the fiscal year ended January 31, 2011, the $52-million cash inflow was mainly due to:

- an increase in advances and progress billings related to new orders and existing contracts.

Partially offset by:

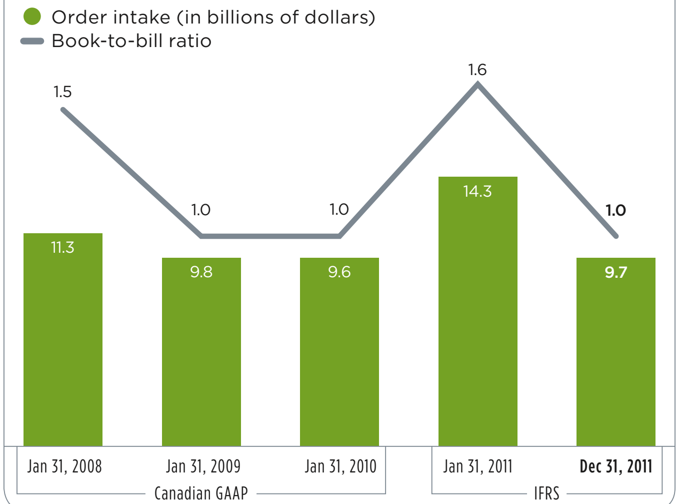
- an increase in trade and other receivables following the increased deliveries in several contracts.

BT continues to secure significant orders

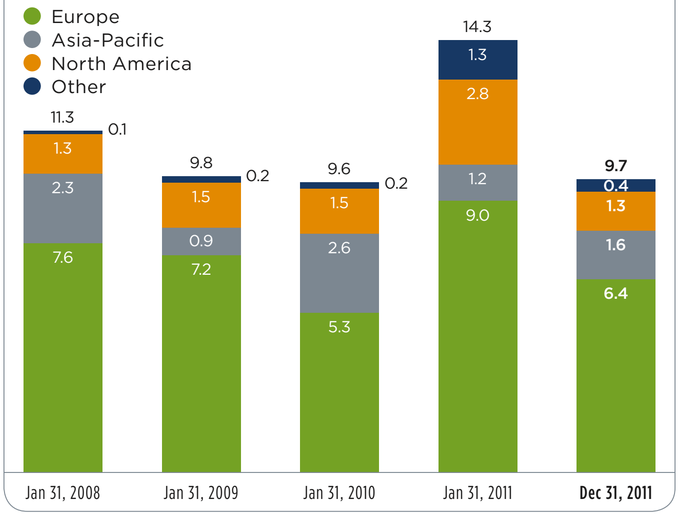
ORDER INTAKE AND BOOK-TO-BILL RATIO

	Three months ended		12 months ended	
(in billions of dollars)	**December 31 2011**	January 31 2011	**December 31 2011**	January 31 2011
Rolling stock	**$2.1**	$2.6	**$6.4**	$10.9
Services	**0.5**	0.4	**1.1**	1.4
System and signalling	**0.4**	0.4	**2.2**	2.0
	$3.0	$3.4	**$9.7**	$14.3
Book-to-bill ratio	**1.3**	1.4	**1.0**	1.6

ORDER INTAKE AND BOOK-TO-BILL RATIO
(for the fiscal years ended)



ORDER INTAKE BY GEOGRAPHICAL REGION
(for fiscal years ended) (in billions of dollars)



Our level of order intake for the fourth quarter ended December 31, 2011 includes orders from Deutsche Bahn Regio AG, Germany, for ET430 series electrical multiple units (EMUs) ($648 million), and from Southern Railways, U.K., for *ELECTROSTAR* cars ($296 million).

The order intake for the fourth quarter and fiscal year ended December 31, 2011 reflect positive currency impacts of $24 million and $468 million, respectively, as a result of changes in foreign exchange rates, period-over-period.

We received the following significant orders during the fiscal year ended December 31, 2011:

Customer	Country	Product or service	Number of cars	Market segment	Value
Siemens AG	Germany	Development and supply of components for ICx high speed trains for a Deutsche Bahn AG (DB) contract	1,165	Rolling stock	$1,800
Deutsche Bahn Regio AG	Germany	ET430 series electrical multiple units (EMUs)	360	Rolling stock	$648
London Underground	U.K.	*CITYFLO* 650 CBTC signalling system	n/a	System and signalling	$577
Chicago Transit Authority (CTA)	U.S.	Rapid transit cars	300	Rolling stock	$331
Southern Railways	U.K.	*ELECTROSTAR* cars	130	Rolling stock	$296
Government of South Australia	Australia	Supply and maintenance of 25kV electric trains	66	Rolling stock	$278
Queensland Government	Australia	Light Rail Rapid Transit system, and 15-year maintenance	14	System and signalling	$265[1]
Frankfurt Transport Authority (VGF)	Germany	*FLEXITY* trams	88	Rolling stock	$249
Mumbai Railway Vikas Corporation (MRVC)	India	*MITRAC* propulsion and control equipment for commuter trains	n/a	Rolling stock	$214
Trenitalia	Italy	E464 electric locomotives	50	Rolling stock	$186
Dallas/Fort Worth (DFW) International Airport	U.S.	10-year maintenance of *INNOVIA* APM 200 system	n/a	System and signalling	$165
Maryland Transit Administration (MTA)	U.S.	MultiLevel commuter cars	54	Rolling stock	$154
Metrolinx	Canada	*BiLevel* commuter cars	50	Rolling stock	$128
Delhi Metro Rail Corporation Ltd (DMRC)	India	*MOVIA* metro cars	76	Rolling stock	$120
Terminal 2 Betriebsgesellschaft mbH & Co oHG (Munich Airport)	Germany	*INNOVIA* APM 300 system, and operations and 9 years maintenance	n/a	System and signalling	$120
Västtrafik	Sweden	*REGINA* high speed trains	18	Rolling stock	$101

1 Contract performed through a consortium. Only the value of our share is stated.
n/a: Not applicable

We are building on our signalling presence in a growing mass transit market. During the third quarter of the current fiscal year, we signed a $96-million contract for a state-of-the-art *CITYFLO* 650 complete mass transit solution with Companhia do Metropolitano de São Paulo (CMSP), Brazil. The scope of the project comprises the turnkey design, supply, installation and commissioning for both the existing part of Line 5 and its extension.

During the second quarter of the current fiscal year, we signed the following agreements:

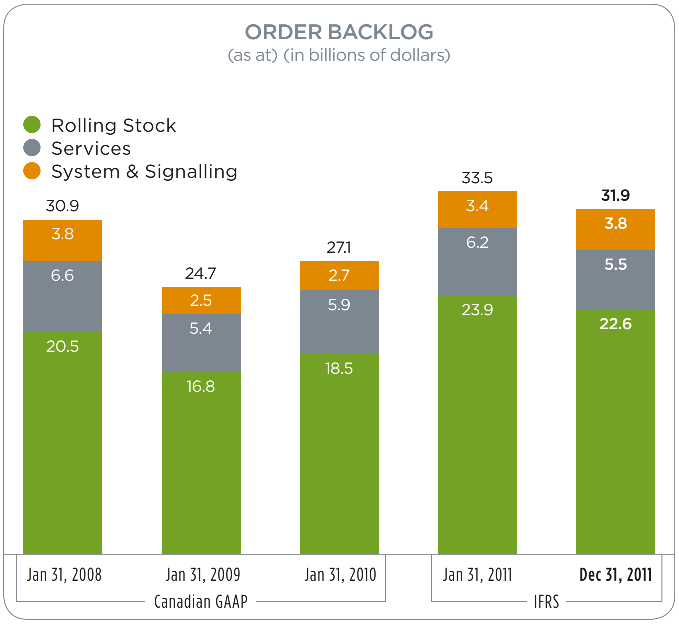
- A framework agreement with Siemens AG, Germany, to be a partner to develop and supply important components for up to 300 ICx high speed trains for DB. A firm order for 130 trains valued at $1.8 billion for BT was obtained under this framework agreement. The remaining trains can be ordered at any time 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 was obtained under this framework agreement.

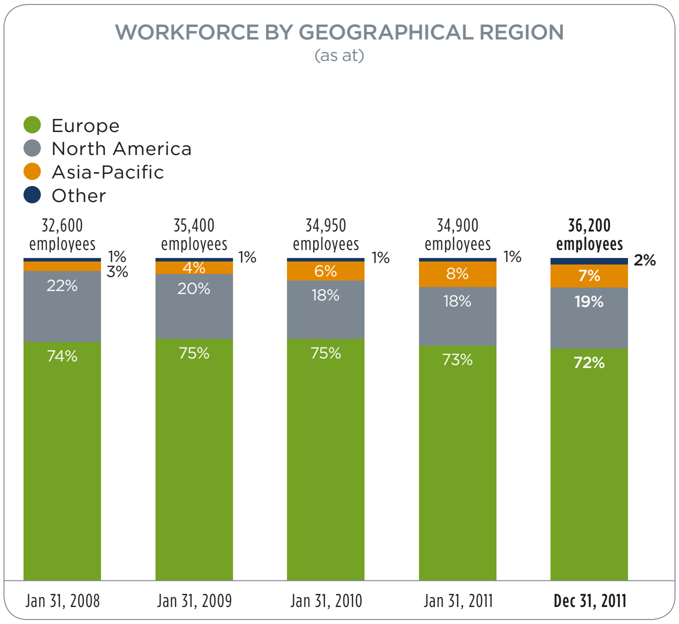
ORDER BACKLOG

(in billions of dollars)	**December 31, 2011**	January 31, 2011
Rolling stock[1]	**$22.6**	$23.9
Services	**5.5**	6.2
System and signalling	**3.8**	3.4
	$31.9	$33.5

1 Of which $15.3 billion, or 68% of rolling stock order backlog, had a percentage of completion from 0% to 25% as at December 31, 2011 ($16.4 billion, or 69%, as at January 31, 2011).

The 5% decrease in order backlog is mainly due to the weakening of most foreign currencies versus the U.S. dollar ($1.5 billion).





Slight increase in workforce following record level of order intake in calendar year 2010

TOTAL NUMBER OF EMPLOYEES

	December 31, 2011	January 31, 2011
Permanent[2]	**31,300**	30,400
Contractual	**4,900**	4,500
	36,200	34,900
Percentage of permanent employees covered by collective agreements	**60%**	57%

2 Including inactive employees.

Since January 31, 2011 our number of employees has increased by 4%, mainly as a result of major orders received in North America and Brazil in the current fiscal year. The increase in employees was also partially due to the hiring of contractual employees to temporarily increase work on delayed contracts in Europe.

We continue to optimize our footprint and align capacity where needed to sustain our competitiveness. The completion of some contracts ahead of receipt of new orders and the loss of one major bid led to reductions in workforce in the U.K. We have also reduced workforce in South Africa following completion of the build-phase of a systems contract. The number of employees in Asia-Pacific remained relatively stable.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OTHER

OFF-BALANCE SHEET ARRANGEMENTS

CREDIT AND RESIDUAL VALUE GUARANTEES

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

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from 1 to 15 years) under the relevant financing arrangements. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value at an agreed-upon date. In most cases, these guarantees are provided as part of a customer financing arrangement (ranging from 1 to 14 years). The value of the underlying asset may be adversely affected by a number of factors. To mitigate our exposure, the financing arrangements generally require the aircraft used as collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically a specified maximum amount of the first losses incurred by the guaranteed party. A claim under the guarantee may typically be made only upon the sale of the underlying asset to a third party.

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

For more details, refer to note 35 – Commitments and contingencies, to the consolidated financial statements.

FINANCING COMMITMENTS

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

As at December 31, 2011, we were not committed to arrange financing for customers in relation to the future sale of aircraft.

FINANCING STRUCTURES RELATED TO THE SALE OF COMMERCIAL AIRCRAFT

In connection with the sale of commercial aircraft, BA has provided credit and/or residual value guarantees to certain entities created solely to provide financing related to the sale of commercial aircraft.

Typically, these entities are financed by third-party long-term debt and equity. Often, equity investors benefit from tax incentives. The aircraft serve as collateral for the entities' long-term debt. We retain certain interests in the form of credit and residual value guarantees, subordinated debt and residual interests. We also provide administrative services to certain of these entities in return for a market fee.

For more details, refer to note 34 – Unconsolidated special purpose entities, to the consolidated financial statements.

FINANCIAL ARRANGEMENTS

In the normal course of its business, BT has set up factoring facilities in Europe, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €580 million ($751 million) were outstanding under such facilities as at December 31, 2011 (€248 million [$340 million] as at January 31, 2011). Trade receivables of €183 million ($250 million) and €581 million ($812 million), respectively, were sold to these facilities during the fourth quarter and fiscal year ended December 31, 2011 (€122 million [$158 million] and €442 million [$584 million], respectively, during the fourth quarter and fiscal year ended January 31, 2011).

RISKS AND UNCERTAINTIES

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

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

Business environment risk

FINANCIAL CONDITION OF THE AIRLINE INDUSTRY AND BUSINESS AIRCRAFT CUSTOMERS

The airline industry's financial condition and viability, including airlines' ability to secure financing, influence the demand for BA's commercial aircraft. The nature of the airline industry makes it difficult to predict when economic downturns or recoveries will impact the industry and economic cycles may be longer than expected. Continued cost pressures and effort to achieve acceptable profitability in the airline industry constrain the selling price of BA's products.

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

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

FINANCIAL CONDITION OF THE RAIL INDUSTRY

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

POLITICAL INSTABILITY

Political unrest in certain regions of the world in which we operate may be prolonged and unpredictable. A prolongation of political instability could lead to delays or cancellation of orders or projects in which we have invested significant resources.

FORCE MAJEURE EVENT OR NATURAL DISASTER

The risk of force majeure or natural disaster (including seismic and severe weather related events such as ice storms, hurricanes, flooding, tornadoes or other calamity) is unpredictable and may have significant adverse results, such as personal injury or fatality; damage to or destruction of on-going projects, facilities or equipment; environmental damage; delays or cancellations of orders and deliveries; delays in the receipt of materials from our suppliers; delays in projects; and possible legal liability.

Operational risk

DEVELOPING NEW PRODUCTS AND SERVICES

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

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

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

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

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

FIXED-PRICE COMMITMENTS AND PRODUCTION AND PROJECT EXECUTION

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

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

BUSINESS PARTNERS

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

PRODUCT PERFORMANCE WARRANTY AND CASUALTY CLAIM LOSSES

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

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

REGULATORY AND LEGAL RISKS

We are subject to numerous risks relating to new regulations or legal proceedings to which we are currently a party or that could arise in the future. We become party to lawsuits in the ordinary course of our business, including those involving allegations of late deliveries of goods or services, product liability, product defects, quality problems and intellectual property infringement. We may incur material losses relating to litigation beyond the limits or outside the coverage of our insurance and our provisions for litigation-related losses may not be sufficient to cover the ultimate loss or expenditure.

ENVIRONMENTAL, HEALTH AND SAFETY RISKS

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

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

DEPENDENCE ON CUSTOMERS

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

BUSINESS DEVELOPMENT

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

DEPENDENCE ON SUPPLIERS

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

Some of our suppliers participate in the development of products such as aircraft or rolling stock platforms. They subsequently deliver major components to us and own some of the intellectual property on key components they developed. Our contracts with these suppliers are therefore on a long-term basis. The replacement of suppliers could be costly and take a significant amount of time.

HUMAN RESOURCES (INCLUDING COLLECTIVE AGREEMENTS)

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

Financing risk

LIQUIDITY AND ACCESS TO CAPITAL MARKETS

We require sufficient capital resources and continued access to capital markets to support our operating activities and the development of new products. To satisfy our financing needs, we rely on cash on hand, cash flow generated from operations, capital market resources such as debt and equity issuance and other financing arrangements such as revolving credit facilities. A decline in credit ratings, a significant reduction in the surety or financing market global capacity, widening credit spreads, significant changes in market interest rates or general economic conditions or an adverse perception in bank and capital markets of our financial condition or prospects could all significantly increase our cost of financing or impede our ability to access financial markets. Also, new regulatory requirements on bank capital adequacy and market liquidity risk may impact the availability of financing whereby access to credit may become more difficult and borrowing costs are likely to increase. In addition, our right to convert into cash certain deposits or investments, made in financing structures to guarantee our obligations, may be subject to restrictions. Credit ratings may be impacted by many external factors beyond our control and, accordingly, no assurance can be given that our credit ratings may not be reduced in the future.

We are required to make contributions to certain pension plans, many of which are presently in a deficit position. If our requirements to make contributions increase, this may reduce the funds available for operating purposes and may weaken our liquidity position. Additionally, in some countries, cash generated from operations may be subject to restrictions on the right to convert and/or repatriate money and may not be available for immediate use.

CREDIT RISK

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

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

RESTRICTIVE DEBT COVENANTS

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

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

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

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

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

FINANCING SUPPORT PROVIDED FOR THE BENEFIT OF CERTAIN CUSTOMERS

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

GOVERNMENT SUPPORT

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

Market risk

FOREIGN EXCHANGE RISK

Our financial results are reported in U.S. dollars and a significant portion of our sales and operating costs are realized in currencies other than U.S. dollars, most often euros, Canadian dollars and pounds sterling. Our results of operations are therefore affected by movements of these currencies against the U.S. dollar. Significant fluctuations in relative currency values against the U.S. dollar could therefore have a significant impact on our future profitability.

INTEREST RATE RISK

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

RESIDUAL VALUE RISK

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

COMMODITY PRICE RISK

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

ACCOUNTING AND REPORTING DEVELOPMENTS

Changes in accounting policies

IFRS

Canadian GAAP for all publicly accountable entities has changed to IFRS, with a few exceptions, effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. This change was effective for our interim and annual financial statements beginning on February 1, 2011. Choices made with regard to our accounting policies under IFRS have remained unchanged from those presented in previous quarters of the current fiscal year.

Other comparative figures presented in this MD&A for periods and dates prior to our transition date to IFRS have not been restated and are presented as prepared under Canadian GAAP. Consequently, this information is not entirely comparable.

For a more detailed explanation of the impacts as a result of our conversion to IFRS, refer to note 36 – Adoption of IFRS, to the consolidated financial statements.

The following is a summary of the most significant adjustments to the opening balance sheet as at February 1, 2010 arising from the adoption of IFRS. All adjustments are presented before income taxes, and the combined income tax impact of all adjustments is presented separately.

A. Retirement benefits

We elected to account for the entire net retirement benefit liability, amounting to $2.1 billion as at February 1, 2010, in our statement of financial position under IFRS. A significant portion of this net liability was not recorded on the statement of financial position under Canadian GAAP and its recognition under IFRS, together with related IFRS adjustments, resulted in a decrease in equity of $2.2 billion.

B. Revenues

We standardized our revenue recognition policy to account for revenues from the sale of all aircraft upon delivery of the completed aircraft to customers. Under Canadian GAAP, revenue 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. Revenues of 113 medium and large business aircraft for which we had reached the green stage of completion but had not yet achieved final delivery were reversed at transition.

Other changes in revenue recognition policy include the application of new rules to account for BT contract options signed in connection with long-term contracts, as well as changes in accounting for certain contractual losses, penalties in connection with late deliveries of aircraft and provisions for aircraft warranties.

The combined impact of the changes described above resulted in a $554 million decrease in equity under IFRS as at February 1, 2010.

C. Aerospace program tooling

As an incentive to stimulate R&D, some governments provide advances during the development period, which are usually refundable conditional upon delivery of the underlying aircraft to customers.

Under Canadian GAAP, contingently repayable advances received were deducted from aerospace program tooling or R&D expense, while, 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.

We also made accounting policy changes related to R&D expenditures incurred by vendors on our behalf and repaid by us and to the capitalization of borrowing costs to aerospace program tooling.

The combined main impacts of these adjustments as at February 1, 2010 was the recognition of a $238-million government refundable advances liability, a decrease of aerospace program tooling of $54 million and a decrease in equity of $246 million.

D. Sales and leaseback of pre-owned business aircraft

Sales and leaseback facilities for pre-owned business aircraft were not recognized on the statement of financial position under Canadian GAAP (the corresponding leases were treated as operating leases), but are recorded as liabilities under IFRS due to more restrictive rules. The main impacts of this adjustment as at February 1, 2010 were an increase in inventories of $167 million and the recognition of a sale and leaseback obligation of $179 million.

E. Income tax impact of all restatements

In connection with the IFRS restatements to equity at transition, $207 million of additional deferred income tax assets were recognized, with a corresponding increase in equity.

Presentation of the statement of financial position

A classified statement of financial position has been presented under IFRS, based on the operating cycle for operating items and based on a 12-month period for non-operating items. In addition, the statement of financial position has been streamlined to remove less significant components and add visibility on aerospace program tooling.

Statement of income and EPS

The following is a summary of the most significant IFRS adjustments to the statement of income for the fiscal year ended January 31, 2011.

Under IFRS, BA EBIT increased by $105 million and by $49 million for BT, for a consolidated increase of $154 million. These increases are mainly due to lower retirement benefit costs, arising mainly from the recognition of actuarial gains and losses in OCI as incurred and the reclassification of expected return on pension plan assets and interest cost accretion on retirement benefit liabilities from EBIT to financing expense (income). BA EBIT was also impacted by lower expenses related to aerospace program tooling and a positive impact arising from the change in the revenue recognition policy.

Overall, the impact of the adoption of IFRS on net income and the diluted EPS for fiscal year ended January 31, 2011 was minimal.

With regard to presentation, amortization expense is no longer presented separately under IFRS and is classified between cost of sales, SG&A and R&D based on the function of the underlying assets. Other accounts were also reclassified between cost of sales and other expense (income), based on a review of the nature of these items.

Statement of cash flows

Total cash flows remained the same under IFRS and Canadian GAAP. For the fiscal year ended January 31, 2011, cash flows from investing activities decreased by $52 million as government refundable advances received were classified as cash flows from operating activities, and cash flows from financing activities increased by $38 million as amounts received from the sales and leaseback facilities and repayments to the facilities are no longer classified as cash flows from operating activities.

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, 2015, 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* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor 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 joint ventures. IFRS 11 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. Although we have not yet completed our assessment, we expect that a large part of our investments in joint ventures, currently accounted for under the proportionate consolidation method, will be accounted for using the equity method of accounting 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. In addition, the statement of cash flows under the equity method will include the cash flows between us and our joint ventures, and not our proportionate share of the joint ventures' cash flows.

DISCLOSURE OF INTERESTS IN OTHER ENTITIES

In May 2011, the IASB released IFRS 12, *Disclosure of interests in other entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 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 started to assess the impact the adoption of this standard will have on our consolidated financial statements and we do not expect to be significantly impacted.

FINANCIAL STATEMENT PRESENTATION

In June 2011, the IASB amended IAS 1, *Presentation of financial statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We do not expect any changes to our consolidated financial statement presentation from this amendment as the items within OCI that may be reclassified to the statement of income are already grouped together.

EMPLOYEE BENEFITS

In June 2011, the IASB amended IAS 19, Employee benefits. Among other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendment to IAS 19 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We have started to assess the impact of the adoption of this standard on our consolidated financial statements and this amendment should result in a higher net financing expense.

FINANCIAL INSTRUMENTS

An important portion of our consolidated balance sheets is composed of financial instruments. Our financial assets include cash and cash equivalents, trade and other receivables, derivative financial instruments with a positive fair value, aircraft loans and lease receivables, investment in securities, investments in financing structures, restricted cash and servicing fee assets. Our financial liabilities include trade and other payables, long-term debt, derivative financial instruments with a negative fair value, government refundable advances, lease subsidies, sale and leaseback obligations, and vendor non-recurring cost liabilities. Derivative financial instruments are mainly used to manage our exposure to foreign exchange and interest rate risks. They consist mostly of forward foreign exchange contracts, interest rate swap agreements and cross-currency interest-rate swap agreements. The classification of our financial instruments as well as the revenues, expenses, gains and losses associated with these instruments is provided in note 2 – Summary of significant accounting policies and in note 12 – Financial instruments, to the consolidated financial statements.

The use of financial instruments exposes us primarily to credit, liquidity and market risks, including foreign exchange and interest rate risks. A description on how we manage these risks is included in Overview and in note 31 – Financial risk management, to the consolidated financial statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

All financial instruments are required to be recognized at their fair value on initial recognition, plus certain transaction costs for financial instruments not at FVTP&L. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as FVTP&L or AFS are carried at fair value, while all others are carried at amortized cost.

Fair value amounts disclosed in the consolidated financial statements represent our estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which we have immediate access. However, there is no active market for many of our financial instruments. In the absence of an active market, we determine fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. In determining these assumptions, we use primarily external, readily observable market inputs such as interest rates, credit ratings, credit spreads, default probability, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are not available. These calculations represent our best estimates based on a range of methodologies and assumptions. Since they are based on estimates, these fair values may not be realized in an actual sale or immediate settlement of the instruments.

A detailed description of the methods and assumptions used to measure the fair value of our financial instruments and their fair value hierarchy are discussed in note 32 – Fair value of financial instruments, to the consolidated financial statements.

Sensitivity analysis

Our main exposures to changes in fair value of financial instruments are related to changes in foreign exchange and interest rates. Note 31 – Financial risk management, to the consolidated financial statements, presents sensitivity analyses assuming variations in foreign exchange and interest rates.

RELATED PARTY TRANSACTIONS

Our related parties, as defined by IFRS, are our joint ventures, associates and key management personnel. A description of our transactions with these related parties is included in note 33 – Transactions with related parties, to the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies and use of estimates and judgment are described in note 2 – Summary of significant accounting policies and note 4 – Use of estimates and judgment, to the consolidated financial statements. The preparation of financial statements, in conformity with IFRS, requires the use of estimates and judgment. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if:

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

Our budget and strategic plans cover a three-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. We prepare a budget and strategic plans on an annual basis, using a process whereby a detailed one-year budget and two-year strategic plan are prepared by each business unit and then consolidated at the segment and Corporation levels. Cash flows and profitability included in the budget 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. We use the budget and strategic plans as well as additional projections or assumptions to derive the expected results for periods thereafter. We then track performance as compared to the budget and strategic 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 financial information must be revised.

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

LONG-TERM CONTRACTS

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

Estimated revenues at completion are adjusted for change orders, claims, penalties and contract terms that provide for the adjustment of prices. We apply judgment 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.

Contract costs include material, direct labour, manufacturing overhead and other costs, such as warranty and freight. Estimated contract costs at completion incorporate forecasts for material and labour 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 the 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 contracts progress towards completion. We conduct quarterly reviews of estimated costs and revenues to completion on a contract-by-contract basis. In addition, a detailed annual review is performed on a contract-by-contract basis as part of our budget and strategic plan process. The effect of any revision may be significant and is recorded by way of a cumulative catch-up adjustment in the period in which the estimates are revised.

Sensitivity analysis

A 1% increase in the estimated future costs to complete all ongoing production contracts accounted for under the percentage-of-completion method would have decreased BT's gross margin by approximately $68 million for the fiscal year ended December 31, 2011.

AEROSPACE PROGRAM TOOLING

BA amortizes aerospace program tooling over an expected number of aircraft to be produced, beginning on the delivery date of the first aircraft of the program. As of February 1, 2011, we changed our amortization method prospectively from the straight-line method over ten years to unit of production. The impact of this change is explained in the notes to the consolidated financial statements.

An impairment test is performed at least annually for aircraft programs under development and, for all programs, when there is an indication that the asset may be impaired and an impairment charge is recorded when the recoverable amount of a group of assets generating independent cash inflows is less than the carrying value of those assets.

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

GOODWILL

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT reportable segment. We carried out an impairment test as of February 1, 2010. During the fiscal years ended January 31, 2011 and December 31, 2011 we completed an impairment assessment carrying forward the recoverable amount calculated as at February 1, 2010.

A goodwill impairment assessment is performed at least annually. An impairment assessment is also performed whenever circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that goodwill might be impaired. We selected the fourth quarter as the period in which we perform our annual impairment assessment for goodwill. The recoverable amount of the BT reportable segment, the group of assets to which goodwill is allocated, is based on the higher of fair value less costs to sell and value in use.

The recoverable amount used in our impairment assessments in fiscal years ended January 31, 2011 and December 31, 2011 was calculated as at February 1, 2010 based on fair value less costs to sell using a discounted cash flow model. Estimated future cash flows for the first three years were based on the budget and strategic plans. A growth rate of 1% was applied to the last year of the strategic plan to derive estimated cash flows beyond the initial three-year period. The post-tax discount rate is also a key estimate in the discounted cash flow model and is based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount as at February 1, 2010 was 7.4%.

VALUATION OF DEFERRED INCOME TAX ASSETS

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

CREDIT AND RESIDUAL VALUE GUARANTEES

Credit and residual value guarantees related to the sale of commercial aircraft are measured at the amount we expect to pay under the guarantees. We use an internal valuation model based on stochastic simulations to estimate the amounts expected to be paid under credit and residual value guarantees. The value is calculated using estimates of fair values of aircraft, current market assumptions for interest rates, published credit ratings when available, default probabilities from rating agencies and the likelihood that the residual value guarantee will be called upon at the expiry of the financing arrangement. The fair value of aircraft is estimated using aircraft residual value curves adjusted to reflect the specific factors of the current aircraft market. We also use internal assumptions to determine the credit risk of customers without published credit ratings. The estimates are reviewed on a quarterly basis.

Sensitivity analysis

Our main exposures to changes in value of credit and residual value guarantees are related to the residual value curves of the underlying aircraft and interest rates. The following are presented in isolation from one another.

Assuming a decrease of 1% in the residual value curves as at December 31, 2011, EBIT would have been negatively impacted by $16 million for the fiscal year ended December 31, 2011.

Assuming an increase of 100-basis point in interest rates as at December 31, 2011, EBT would have been positively impacted by $5 million for the fiscal year ended December 31, 2011.

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 and pre-retirement benefits increases, inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. Discount rates are reviewed on a quarterly basis. As most other assumptions and estimates are long term in nature, we assess events and circumstances that could require a change in other assumptions or estimates on a quarterly basis.

Discount rates are used to determine the present value of the expected future benefit payments and represent the market rates for high quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit obligations. A lower discount rate increases the benefit obligation and generally increases the cost of pension and other retirement benefits.

Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long term investment returns and target asset allocations. A lower expected rate of return increases the cost of pension and other retirement benefits.

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

A sensitivity analysis is presented in the Retirement Benefits section in Overview. Details regarding assumptions used are provided in note 20 – Retirement benefits, to the consolidated financial statements.

CONTROLS AND PROCEDURES

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

DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to our internal controls over financial reporting that occurred during the quarter and fiscal year ended December 31, 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 with non-U.S. dollar functional currencies, 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 foreign exchange rates used to translate assets and liabilities into U.S. dollars were as follows as at:

	December 31, 2011	January 31, 2011	Increase (decrease)
Euro	**1.2939**	1.3715	(6%)
Canadian dollar	**0.9791**	0.9978	(2%)
Pound sterling	**1.5490**	1.6040	(3%)

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

	December 31, 2011	January 31, 2011	Increase (decrease)
Euro	**1.3394**	1.3428	(0%)
Canadian dollar	**0.9765**	0.9953	(2%)
Pound sterling	**1.5728**	1.5799	(0%)

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

	December 31, 2011	January 31, 2011	Increase (decrease)
Euro	**1.3978**	1.3202	6%
Canadian dollar	**1.0124**	0.9750	4%
Pound sterling	**1.6068**	1.5438	4%

INVESTOR INFORMATION

AUTHORIZED, ISSUED AND OUTSTANDING SHARE DATA AS AT FEBRUARY 29, 2012

	Authorized	Issued and outstanding
Class A Shares (Multiple Voting)[1]	1,892,000,000	314,537,162
Class B Shares (Subordinate Voting)[2]	1,892,000,000	1,409,355,652[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 Ten votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).
2 Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions.
3 Net of 29,321,479 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 June 17, 2011 to June 16, 2012, of up to 2,006,000 Class B Shares (Subordinate Voting) and up to 438,263 Class A Shares (Multiple Voting) (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 DSU plan (see note 27 – Share-based plans).

During the second quarter of fiscal year ended December 31, 2011, 2,006,000 Class B Shares (Subordinate Voting) were repurchased and cancelled, for a total amount of $14 million (3,000,000 Class B Shares [Subordinate Voting], for a total amount of $16 million during the first quarter of fiscal year ended January 31, 2011).

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 DECEMBER 31, 2011

Options issued and outstanding under the share option plans	27,249,846
PSUs and DSUs issued and outstanding under the PSU and DSU plans	23,516,004
Class B Shares held in trust to satisfy PSU obligations	(29,321,479)

EXPECTED ISSUANCE DATE OF OUR FINANCIAL REPORTS FOR THE NEXT 12 MONTHS

First Quarterly Report, for the period ending March 31, 2012	May 10, 2012
Second Quarterly Report, for the period ending June 30, 2012	August 9, 2012
Third Quarterly Report, for the period ending September 30, 2012	November 7, 2012
Financial Report, for the fiscal year ending December 31, 2012	February 28, 2013

Information

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SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from, and should be read in conjunction with the consolidated financial statements for fiscal years ended January 31, 2010, January 31, 2011 and December 31, 2011.

The table below provides selected financial information for the last three fiscal years. The comparative information for the fiscal year ended January 31, 2010 has been prepared in accordance with Canadian GAAP and has not been restated in accordance with IFRS. Consequently, the information is not entirely comparable.

(in millions of U.S. dollars, except per share amounts)		IFRS	Canadian GAAP
For fiscal years ended	**December 31 2011**[1]	January 31 2011	January 31 2011
Revenues	**$18,347**	$17,892	$19,366
Net income attributable to equity holders of Bombardier Inc.	**$ 837**	$ 762	$ 698
EPS (in U.S. dollars):			
Basic	**$ 0.47**	$ 0.43	$ 0.39
Diluted	**$ 0.47**	$ 0.42	$ 0.39
Cash dividends declared per share (in Canadian dollars):			
Class A Shares (Multiple Voting)	**$ 0.10**	$ 0.10	$ 0.10
Class B Shares (Subordinate Voting)	**$ 0.10**	$ 0.10	$ 0.10
Series 2 Preferred Shares	**$ 0.69**	$ 0.66	$ 0.59
Series 3 Preferred Shares	**$ 1.32**	$ 1.32	$ 1.32
Series 4 Preferred Shares	**$ 1.56**	$ 1.56	$ 1.56

1 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

(in millions of U.S. dollars)			IFRS
As at	**December 31 2011**	January 31 2011	February 1 2010
Total assets	**$23,864**	$24,092	$22,120
Non-current financial liabilities	**$ 5,250**	$ 5,177	$ 4,692

The quarterly data table is shown hereafter.

February 29, 2012

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

QUARTERLY DATA (UNAUDITED)

(The quarterly data has been prepared in accordance with IAS 34, Interim financial reporting)

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

For the fiscal years ended	Total[1]	Fourth quarter[2]	Third quarter
Revenues			
BA	$ 8,594	$ 2,016	$ 2,305
BT	9,753	2,300	2,318
	$ 18,347	$ 4,316	$ 4,623
EBIT			
BA	$ 502	$ 127	$ 129
BT	700	166	172
	1,202	293	301
Financing expense[3]	681	156	192
Financing income[3]	(519)	(123)	(134)
EBT	1,040	260	243
Income taxes	203	46	51
Net income	$ 837	$ 214	$ 192
Attributable to:			
Equity holders of Bombardier Inc.	$ 837	$ 213	$ 194
NCI	–	1	(2)
	$ 837	$ 214	$ 192
EPS (in dollars):			
Basic	$ 0.47	$ 0.12	$ 0.11
Diluted	$ 0.47	$ 0.12	$ 0.11
Market price range of Class B Shares (in Canadian dollars)			
High	$ 7.29	$ 4.40	$ 5.84
Low	$ 3.30	$ 3.30	$ 3.42

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 The fourth quarter ended December 31, 2011 comprises two months of BA's results and three months of BT's results.
3 The amounts presented on a yearly basis do not correspond to the sum of the four quarters as certain reclassifications to quarterly figures from/to financing income and financing expense are required on a cumulative basis.

December 31, 2011		January 31, 2011				
Second quarter	**First quarter**	Total	Fourth quarter	Third quarter	Second quarter	First quarter
$2,085	**$2,188**	$ 8,809	$3,091	$1,829	$1,932	$1,957
2,662	**2,473**	9,083	2,495	2,168	2,113	2,307
$4,747	**$4,661**	$17,892	$5,586	$3,997	$4,045	$4,264
$ 105	**$ 141**	$ 554	$ 222	$ 98	$ 101	$ 133
191	**171**	651	205	152	148	146
296	**312**	1,205	427	250	249	279
179	**177**	684	184	182	179	164
(144)	**(141)**	(476)	(146)	(121)	(113)	(121)
261	**276**	997	389	189	183	236
50	**56**	222	94	42	45	41
$ 211	**$ 220**	$ 775	$ 295	$ 147	$ 138	$ 195
$ 210	**$ 220**	$ 762	$ 289	$ 145	$ 134	$ 194
1	**–**	13	6	2	4	1
$ 211	**$ 220**	$ 775	$ 295	$ 147	$ 138	$ 195
$ 0.12	**$ 0.12**	$ 0.43	$ 0.16	$ 0.08	$ 0.07	$ 0.11
$ 0.12	**$ 0.12**	$ 0.42	$ 0.16	$ 0.08	$ 0.07	$ 0.11
$ 7.25	**$ 7.29**	$ 6.24	$ 6.02	$ 5.33	$ 5.50	$ 6.24
$ 5.54	**$ 5.65**	$ 4.25	$ 4.54	$ 4.25	$ 4.31	$ 5.05

HISTORICAL FINANCIAL SUMMARY

(In millions of U.S. dollars, except per share amounts, number of common shares and shareholders of record)

	IFRS		Canadian GAAP		
For the fiscal years ended	December 31 2011[1]	January 31 2011	January 31 2010	January 31 2009	January 31 2008
Revenues					
BA	$ 8,594	$ 8,809	$ 9,357	$ 9,965	$ 9,713
BT	9,753	9,083	10,009	9,756	7,793
	$18,347	$17,892	$19,366	$19,721	$17,506
EBIT before special items					
BA	$ 502	$ 554	$ 473	$ 896	$ 563
BT	700	651	625	533	347
	1,202	1,205	1,098	1,429	910
Special items					
BT	–	–	–	–	162
EBIT					
BA	502	554	473	896	563
BT	700	651	625	533	185
	1,202	1,205	1,098	1,429	748
Financing expense	681	684	279	408	526
Financing income	(519)	(476)	(96)	(270)	(225)
EBT	1,040	997	915	1,291	447
Income taxes	203	222	208	265	122
Net income	$ 837	$ 775	$ 707	$ 1,026	$ 325
Attributable to:					
Equity holders of Bombardier Inc.	$ 837	$ 762	$ 698	$ 1,008	$ 317
NCI	–	13	9	18	8
	$ 837	$ 775	$ 707	$ 1,026	$ 325
EPS (in dollars):					
Basic	$ 0.47	$ 0.43	$ 0.39	$ 0.57	$ 0.17
Diluted	$ 0.47	$ 0.42	$ 0.39	$ 0.56	$ 0.16

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

HISTORICAL FINANCIAL SUMMARY (CONTINUED)

(In millions of U.S. dollars, except per share amounts, number of common shares and shareholders of record)

	IFRS		Canadian GAAP		
For the fiscal years ended	December 31 2011[1]	January 31 2011	January 31 2010	January 31 2009	January 31 2008
General information					
Export revenues from Canada	$ 5,602	$ 6,112	$ 6,435	$ 7,002	$ 6,670
Net additions to PP&E and intangible assets	$ 1,475	$ 1,125	$ 767	$ 567	$ 417
Amortization	$ 333	$ 371	$ 498	$ 555	$ 512
Dividend per common share (in Canadian dollars)					
Class A	$ 0.10	$ 0.10	$ 0.10	$ 0.08	$ –
Class B	$ 0.10	$ 0.10	$ 0.10	$ 0.08	$ –
Dividend per preferred share (in Canadian dollars)					
Series 2	$ 0.69	$ 0.66	$ 0.59	$ 1.15	$ 1.52
Series 3	$ 1.32	$ 1.32	$ 1.32	$ 1.32	$ 1.34
Series 4	$ 1.56	$ 1.56	$ 1.56	$ 1.56	$ 1.56
Market price ranges (in Canadian dollars)					
Class A					
High	$ 7.29	$ 6.24	$ 5.63	$ 9.00	$ 7.00
Low	$ 3.41	$ 4.28	$ 2.29	$ 3.25	$ 4.10
Close	$ 4.06	$ 5.72	$ 5.04	$ 3.85	$ 4.96
Class B					
High	$ 7.29	$ 6.24	$ 5.64	$ 8.97	$ 6.97
Low	$ 3.30	$ 4.25	$ 2.22	$ 3.17	$ 4.06
Close	$ 4.06	$ 5.70	$ 5.04	$ 3.80	$ 4.95
As at					
Number of common shares (in millions)	1,724	1,726	1,730	1,730	1,731
Book value per common share (in dollars)	$ 0.17	$ 0.64	$ 1.94	$ 1.27	$ 1.60
Shareholders of record	13,427	13,591	13,666	13,540	13,843

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

Bombardier Inc.'s CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures and internal controls over financial reporting as of the end of the fiscal year ended December 31, 2011. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures and internal controls over financial reporting were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework. In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of the fiscal year ended December 31, 2011. In compliance with the Canadian Securities Administrators' National Instrument 52-109, Bombardier Inc.'s CEO and CFO have provided a certification related to Bombardier Inc.'s annual disclosure to the Canadian Securities Administrators, including the consolidated financial statements and MD&A.

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

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

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

Pierre Beaudoin President and Chief Executive Officer	Pierre Alary, FCA Senior Vice President and Chief Financial Officer

February 29, 2012

INDEPENDENT AUDITORS’ REPORT TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the accompanying consolidated financial statements of Bombardier Inc. which comprise the consolidated statements of financial position as at December 31, 2011, January 31, 2011 and February 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the fiscal years ended December 31, 2011 and January 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the consolidated financial statements

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

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bombardier Inc. as at December 31, 2011, January 31, 2011 and February 1, 2010, and its financial performance and its cash flows for the fiscal years ended December 31, 2011 and January 31, 2011 in accordance with International Financial Reporting Standards.


[1]

Ernst & Young LLP
Chartered Accountants
Montréal, Canada

February 29, 2012

1 CA auditor permit no. 15859

CONSOLIDATED STATEMENTS OF INCOME

For the fiscal years ended
(In millions of U.S. dollars, except per share amounts)

	Notes	December 31, 2011[1]	January 31, 2011
Revenues	5	**$18,347**	$17,892
Cost of sales	5, 15	**15,444**	14,955
Gross margin		**2,903**	2,937
SG&A	5	**1,439**	1,377
R&D	5, 6	**271**	319
Other expense (income)	5, 7	**(9)**	36
EBIT		**1,202**	1,205
Financing expense	8	**681**	684
Financing income	8	**(519)**	(476)
EBT		**1,040**	997
Income taxes	10	**203**	222
Net income		**$ 837**	$ 775
Attributable to:			
Equity holders of Bombardier Inc.		**$ 837**	$ 762
NCI		**–**	13
		$ 837	$ 775
EPS (in dollars):	11		
Basic		**$ 0.47**	$ 0.43
Diluted		**$ 0.47**	$ 0.42

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results. See note 1 – Basis of preparation for more details.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the fiscal years ended
(In millions of U.S. dollars)

	December 31, 2011[1]	January 31, 2011
Net income	**$ 837**	$ 775
OCI		
Items that may be reclassified to net income		
Net change in cash flow hedges:		
Foreign exchange re-evaluation	**16**	(6)
Net loss on derivative financial instruments designated as cash flow hedges	**(128)**	(69)
Reclassification to income or to the related non-financial asset[2,3]	**(40)**	(79)
Income taxes	**54**	17
	(98)	(137)
Net unrealized gain on AFS financial assets, net of income tax	**17**	7
CCTD:		
Net investments in foreign operations	**(90)**	187
Net gain (loss) on related hedging items	**50**	(50)
	(40)	137
Items that are never reclassified to net income		
Retirement benefits:		
Net actuarial gains (losses)	**(1,489)**	35
Income taxes	**234**	(40)
	(1,255)	(5)
Total OCI	**(1,376)**	2
Total comprehensive income (loss)	**$ (539)**	$ 777
Attributable to:		
Equity holders of Bombardier Inc.	**$ (535)**	$ 763
NCI	**(4)**	14
	$ (539)	$ 777

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Includes $104 million of gains reclassified to the related non-financial asset for the fiscal year ended December 31, 2011 ($14 million of loss for the fiscal year ended January 31, 2011).
3 $107 million of net deferred loss is expected to be reclassified from OCI to the carrying amount of the related non-financial asset or to income during the fiscal year ending December 31, 2012.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the fiscal years ended
(In millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.			
	Share capital		Deficit	
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses
As at February 1, 2010[1]	$347	$1,324	$1,150	$(1,973)
Total comprehensive income				
Net income	–	–	762	–
OCI	–	–	–	(5)
	-	–	762	(5)
Options exercised	–	6	–	–
Repurchase of share capital	–	(3)	(13)	–
Dividends				
Common shares	–	–	(173)	–
Preferred shares	–	–	(24)	–
Capital injection	–	–	–	–
Shares distributed - PSU plans	–	47	–	–
Shares purchased - PSU plans	–	(50)	–	–
Share-based expense	–	–	–	–
As at January 31, 2011[1]	$347	$1,324	$1,702	$(1,978)
Total comprehensive income				
Net income	–	–	837	–
OCI	–	–	–	(1,255)
	-	–	837	(1,255)
Options exercised	–	9	–	–
Repurchase of share capital	–	(2)	(12)	–
Dividends				
Common shares	–	–	(179)	–
Preferred shares	–	–	(25)	–
Shares distributed - PSU plans	–	50	–	–
Shares purchased - PSU plans	–	(58)	–	–
Share-based expense	–	–	–	–
Purchase of NCI	–	–	(50)	–
As at December 31, 2011	**$347**	**$1,323**	**$2,273**	**$(3,233)**

1 Given effect to all changes in accounting policies upon adoption of IFRS (see note 36 – Adoption of IFRS).

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

	Attributable to equity holders of Bombardier Inc.						
		Accumulated OCI					
Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total Equity
$ 132	$ 3	$ (81)	$ –	$ 902	$ 58	$ 960
–	–	–	–	762	13	775
–	7	(137)	136	1	1	2
–	7	(137)	136	763	14	777
–	–	–	–	6	–	6
–	–	–	–	(16)	–	(16)
–	–	–	–	(173)	(8)	(181)
–	–	–	–	(24)	–	(24)
–	–	–	–	–	3	3
(48)	–	–	–	(1)	–	(1)
–	–	–	–	(50)	–	(50)
47	–	–	–	47	–	47
$ 131	$ 10	$ (218)	$ 136	$ 1,454	$ 67	$ 1,521
–	–	–	–	837	–	837
–	17	(98)	(36)	(1,372)	(4)	(1,376)
–	17	(98)	(36)	(535)	(4)	(539)
(1)	–	–	–	8	–	8
–	–	–	–	(14)	–	(14)
–	–	–	–	(179)	–	(179)
–	–	–	–	(25)	–	(25)
(50)	–	–	–	–	–	–
–	–	–	–	(58)	–	(58)
38	–	–	–	38	–	38
–	–	–	–	(50)	(31)	(81)
$ 118	**$ 27**	**$ (316)**	**$ 100**	**$ 639**	**$ 32**	**$ 671**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at
(In millions of U.S. dollars)

	Notes	December 31, 2011	January 31, 2011	February 1, 2010
Assets				
Cash and cash equivalents	13	**$ 3,372**	$ 4,195	$ 3,372
Trade and other receivables	14	**1,408**	1,377	1,141
Inventories	15	**7,398**	7,307	7,630
Other financial assets	16	**526**	705	537
Other assets	17	**559**	648	519
Current assets		**13,263**	14,232	13,199
Invested collateral	29	**–**	676	682
PP&E	18	**1,864**	1,878	1,674
Aerospace program tooling	19	**3,168**	2,088	1,385
Goodwill	19	**2,253**	2,358	2,247
Deferred income taxes	10	**1,506**	1,294	1,373
Other financial assets	16	**1,305**	1,104	1,003
Other assets	17	**505**	462	557
Non-current assets		**10,601**	9,860	8,921
		$23,864	$24,092	$22,120
Liabilities				
Trade and other payables	21	**$ 3,210**	$ 3,073	$ 3,045
Provisions	22	**1,078**	1,198	1,140
Advances and progress billings in excess of long-term contract inventories	15	**1,949**	2,421	1,899
Advances on aerospace programs		**2,788**	2,989	3,055
Other financial liabilities	24	**732**	860	537
Other liabilities	25	**2,198**	2,163	1,987
Current liabilities		**11,955**	12,704	11,663
Provisions	22	**594**	614	675
Advances on aerospace programs		**1,266**	1,193	1,373
Non-current portion of long-term debt	23	**4,748**	4,645	4,134
Retirement benefits	20	**3,226**	1,975	2,181
Other financial liabilities	24	**502**	532	558
Other liabilities	25	**902**	908	576
Non-current liabilities		**11,238**	9,867	9,497
		23,193	22,571	21,160
Equity				
Attributable to equity holders of Bombardier Inc.		**639**	1,454	902
Attributable to NCI		**32**	67	58
		671	1,521	960
		$23,864	$24,092	$22,120
Commitments and contingencies	35			

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

On behalf of the Board of Directors,

Laurent Beaudoin, C.C., FCA
Director

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal years ended
(In millions of U.S. dollars)

	Notes	December 31, 2011[1]	January 31, 2011
Operating activities			
Net income		**$ 837**	$ 775
Non-cash items:			
Amortization		**333**	371
Deferred income taxes	10	**66**	67
Gains on disposals of PP&E	7	**(3)**	(11)
Share-based expense	27	**38**	47
Gain on repurchase of long-term debt	8	**–**	(22)
Impairment charge on PP&E	7	**–**	8
Net change in non-cash balances related to operations	28	**(1,028)**	457
Cash flows from operating activities		**243**	1,692
Investing activities			
Additions to PP&E and intangible assets		**(1,500)**	(1,146)
Disposals of PP&E and intangible assets		**25**	21
Proceeds from disposal of invested collateral		**705**	–
Other		**(28)**	(100)
Cash flows from investing activities		**(798)**	(1,225)
Financing activities			
Proceeds from issuance of long-term debt		**122**	2,625
Repayments of long-term debt		**(15)**	(2,125)
Dividends paid[2]		**(156)**	(197)
Purchase of Class B shares held in trust under the PSU plan		**(58)**	(50)
Repurchase of Class B shares	26	**(14)**	(16)
Purchase of NCI		**(61)**	–
Other		**(45)**	17
Cash flows from financing activities		**(227)**	254
Effect of exchange rate on cash and cash equivalents		**(41)**	102
Net increase (decrease) in cash and cash equivalents		**(823)**	823
Cash and cash equivalents at beginning of year		**4,195**	3,372
Cash and cash equivalents at end of year		**$ 3,372**	$ 4,195
Supplemental information[3,4]			
Cash paid for:			
Interest		**$ 238**	$ 224
Income taxes		**$ 115**	$ 132
Cash received for:			
Interest		**$ 40**	$ 169
Income taxes		**$ 20**	$ 8

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 $20 million of dividends paid relate to preferred shares for the fiscal year ended December 31, 2011 ($24 million for the fiscal year ended January 31, 2011).
3 Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.
4 Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debt or credit facilities. Interest received comprises interest received related to cash and cash equivalents, invested collateral and aircraft loans and lease receivables, after the effect of hedges, if any.

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

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2011 and January 31, 2011
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

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

1 BASIS OF PREPARATION

Bombardier Inc. is incorporated under the laws of Canada. The consolidated financial statements include the accounts of Bombardier Inc. and its subsidiaries ("the Corporation"). The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services. The main activities of the Corporation are described in note 5 – Segment disclosure.

On November 30, 2011, the Corporation's Board of Directors approved the change of financial year-end from January 31 to December 31. This change of year-end reporting date was effective in December 2011, and the annual period ended December 31, 2011 comprises 11 months of BA's results. As BT already reports its results using a December 31 year-end, the change had no impact on BT, as the annual period ended December 31, 2011 still comprises 12 months of BT's results. As a result, the Corporation ceased to consolidate the operations of BT with a one-month lag with the remainder of its operations.

The amounts presented in the financial statements for the fiscal years ended December 31, 2011 and January 31, 2011 are not entirely comparable as a result of this change of financial year-end.

STATEMENT OF COMPLIANCE

The Corporation's consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IFRS including IFRS 1, First-time adoption of IFRS, as issued by the IASB. Canadian GAAP has become IFRS effective February 1, 2010 for the Corporation. Note 36 – Adoption of IFRS explains how the transition from Canadian GAAP to IFRS affected the Corporation's reported equity as at February 1, 2010 and January 31, 2011, as well as the financial performance and cash flows for the fiscal year ended January 31, 2011.

The Corporation's consolidated financial statements for the fiscal year ended December 31, 2011 were authorized for issuance by the Board of Directors on February 29, 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 their respective segment, are as follows:

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

Revenues of these subsidiaries combined with those of Bombardier Inc. totalled 72% of consolidated revenues for the fiscal year ended December 31, 2011 (70% for the fiscal year ended January 31, 2011).

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 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 asset and liability, as well as financial liabilities designated as hedges of the Corporation's net investments in foreign operations, which are recognized in OCI. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rate in effect at the date the fair value is determined. Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.

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

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

			Exchange rates as at	Average exchange rates for fiscal years	
	December 31, 2011	January 31, 2011	February 1, 2010	**December 31, 2011**	January 31, 2011
Euro	**1.2939**	1.3715	1.3870	**1.3978**	1.3202
Canadian dollar	**0.9791**	0.9978	0.9390	**1.0124**	0.9750
Pound sterling	**1.5490**	1.6040	1.6008	**1.6068**	1.5438

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

Other – Revenues from the 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 goods have been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT ASSISTANCE AND REFUNDABLE ADVANCES

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

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

INCOME TAXES

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

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

Deferred income tax 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 fiscal year.

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

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, 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 plus, in the case of financial instruments not at FVTP&L, transaction costs that are directly attributable to the acquisition or issue of financial instruments. Subsequent to initial recognition, financial instruments are measured according to the category to which they are 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 and money market funds, with maturities of three months or less from the date of acquisition.

Derivative financial instruments – Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest-rate market risks, generally through forward foreign exchange contracts, interest-rate swap agreements, 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 recognizing the gains and losses on them on a different basis; or (iii) the financial asset and financial liability are part of a group of financial assets, financial liabilities, or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The Corporation has designated as FVTP&L 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, except for foreign exchange gains and losses monetary investments, such as on fixed-income investments which are recognized in income. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

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

d) L&R

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

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

e) Other than HFT financial liabilities

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

HEDGE ACCOUNTING

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

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

Fair value hedges – The Corporation generally applies fair value hedge accounting to certain interest-rate derivatives and forward foreign exchange contracts hedging the exposures to changes in the fair value of recognized 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hedge of net investments in foreign operations **–** The Corporation generally 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 instrument that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when corresponding exchange gains or losses arising from the translation of the foreign operations are recorded in net income.

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

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

LEASES

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

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

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

INVENTORY VALUATION

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

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

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

RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

Retirement 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 year.
- 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.
- A constructive obligation is recorded as a defined benefit obligation when there is no realistic alternative but to pay employee benefits.
- 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 liability or retirement benefit asset. 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 liability.

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

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

The amortization method and useful lives are reviewed on a regular basis 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	Method	Estimated useful life
Aerospace program tooling	Unit of production[1]	Expected number of aircraft to be produced[2]
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 $130 million instead of $91 million for the fiscal year ended December 31, 2011.
2 As at December 31, 2011, the remaining number of units to fully amortize the aerospace program tooling, except for aerospace program tooling under development, is expected to be produced over the next 9 years.

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 capitalized 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.

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

PROVISIONS

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

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

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

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (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. Costs incurred to set up an efficient manufacturing process in the early phase of an aircraft program are not considered unavoidable costs related to a specific contract. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

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

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

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, 2015, 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* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor 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 joint ventures. IFRS 11 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. Although the Corporation has not completed its assessment, it expects that a large part of its investments in joint ventures, currently accounted for under the proportionate consolidation method, will be accounted for using the equity method of accounting 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. In addition, the statement of cash flows under the equity method will include the cash flows between the Corporation and its joint ventures, and not the Corporation's proportionate share of the joint ventures' cash flows.

DISCLOSURE OF INTERESTS IN OTHER ENTITIES

In May 2011, the IASB released IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 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 started to assess the impact the adoption of this standard will have on its consolidated financial statements and the Corporation does not expect to be significantly impacted.

FINANCIAL STATEMENT PRESENTATION

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation does not expect any changes to its consolidated financial statement presentation from this amendment as the items within OCI that may be reclassified to the statement of income are already grouped together.

EMPLOYEE BENEFITS

In June 2011, the IASB amended IAS 19, *Employee Benefits*. Among other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendment to IAS 19 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has started to assess the impact of the adoption of this standard on its consolidated financial statements and this amendment should result in a higher net financing expense for the Corporation.

4 USE OF ESTIMATES AND JUDGMENT

The application of the Corporation's accounting policies requires management to use estimates and judgments that can have a significant effect on the revenues, expenses, comprehensive income, assets and liabilities recognized and disclosures made in the consolidated financial statements. Estimates and judgments are significant when:

- the outcome is highly uncertain at the time the estimates are made; or
- if different estimates or judgments could reasonably have been used that would have had a material impact on the consolidated financial statements.

Management's best estimates 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 budget and strategic plans cover a three-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. Management prepares a budget and strategic plans on an annual basis, using a process whereby a detailed one-year budget and two-year strategic plan are prepared by each business unit and then consolidated at the segment and Corporation levels. Cash flows and profitability included in the budget 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 budget and strategic plans as well as additional projections or assumptions to derive the expected results for periods thereafter. Management then tracks performance as compared to the budget and strategic 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 financial information must be revised.

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

Long-term contracts – BT conducts most of its business under long-term 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. In addition, BA has limited long-term maintenance service contracts with customers.

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

Sensitivity analysis – A 1% increase in the estimated future costs to complete all ongoing production contracts accounted for under the percentage-of-completion method would have decreased BT's gross margin by approximately $68 million for the fiscal year ended December 31, 2011.

4. USE OF ESTIMATES AND JUDGMENT (CONTINUED)

Aerospace program tooling **–** Aerospace program tooling amortization and the calculation of recoverable amounts used in impairment testing require estimates of the expected number of aircraft to be delivered 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 budget and 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 amount was calculated as at February 1, 2010 based on fair value less costs to sell using a discounted cash flow model. During the fiscal years ended January 31, 2011 and December 31, 2011, the Corporation concluded that all criteria for using the recoverable amount from a previous period were met and the impairment assessments were performed carrying forward the recoverable amount calculated as at February 1, 2010.

Estimated future cash flows for the first three years were based on the budget and strategic plans. A growth rate of 1% was applied to the last year of the strategic plan to derive estimated cash flows beyond the initial three-year period. The post-tax discount rate is also a key estimate in the discounted cash flow model and is based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount as at February 1, 2010 was 7.4%.

Valuation of deferred income tax assets **–** To determine the extent to which deferred income tax assets can be recognized, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget and strategic 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 expected to be paid under credit and residual value guarantees. The value is calculated using estimates of fair values of aircraft, current market assumptions for interest rates, published credit ratings when available, default probabilities from rating agencies and the likelihood that the residual value guarantee will be called upon at the expiry of the financing arrangement. 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 credit ratings. The estimates are reviewed on a quarterly basis.

Sensitivity analysis – The Corporation's main exposures to changes in value of credit and residual value guarantees are related to the residual value curves of the underlying aircraft and interest rates. The following are presented in isolation from one another.

Assuming a decrease of 1% in the residual value curves as at December 31, 2011, EBIT would have been negatively impacted by $16 million for the fiscal year ended December 31, 2011.

Assuming an increase of 100 basis points in interest rates as at December 31, 2011, EBT would have been positively impacted by $5 million for the fiscal year ended December 31, 2011.

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 and pre-retirement benefit increases and inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. Discount rates are reviewed on a quarterly basis. As most other assumptions and estimates are long term in nature, management assesses events and circumstances that could require a change in other assumptions or estimates on a quarterly basis.

Discount rates represent the market rates for high quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit obligations. Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long-term investment returns and target asset allocations. Expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases. See note 20 – Retirement benefits for further details regarding assumptions used and sensitivity to changes in critical actuarial assumptions.

5 SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT.

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

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

Management assesses segment performance based on EBIT. Corporate charges are allocated to segments mostly based on each segment's revenues. The segmented results of operations and other information are as follows for fiscal years ended:

		December 31, 2011[1]			January 31, 2011	
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$8,594**	**$9,753**	**$18,347**	$8,809	$9,083	$17,892
Cost of sales	**7,355**	**8,089**	**15,444**	7,495	7,460	14,955
Gross margin	**1,239**	**1,664**	**2,903**	1,314	1,623	2,937
SG&A	**621**	**818**	**1,439**	623	754	1,377
R&D	**122**	**149**	**271**	172	147	319
Other expense (income)	**(6)**	**(3)**	**(9)**	(35)	71	36
EBIT	**$ 502**	**$ 700**	**1,202**	$ 554	$ 651	1,205
Financing expense			**681**			684
Financing income			**(519)**			(476)
EBT			**1,040**			997
Income taxes			**203**			222
Net income			**$ 837**			$ 775
Other information						
Net additions to PP&E and intangible assets	**$1,320**	**$ 155**	**$ 1,475**	$1,008	$ 117	$ 1,125
Amortization	**$ 195**	**$ 138**	**$ 333**	$ 245	$ 126	$ 371
Impairment charge on PP&E	**$ –**	**$ –**	**$ –**	$ –	$ 8	$ 8

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

5. SEGMENT DISCLOSURE (CONTINUED)

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

	December 31, 2011	January 31, 2011	February 1, 2010
Assets			
Total assets	**$23,864**	$24,092	$22,120
Assets not allocated to segments:			
Cash and cash equivalents	**3,372**	4,195	3,372
Invested collateral	**–**	676	682
Deferred income taxes	**1,506**	1,294	1,373
Segmented assets	**18,986**	17,927	16,693
Liabilities			
Total liabilities	**23,193**	22,571	21,160
Liabilities not allocated to segments:			
Interest payable[1]	**59**	89	56
Income taxes payable[2]	**104**	93	97
Long-term debt	**4,941**	4,662	4,145
Deferred income taxes[2]	**67**	53	65
Segmented liabilities	**$18,022**	$17,674	$16,797
Net segmented assets			
BA	**$ 1,010**	$ 1,171	$ 545
BT	**$ (46)**	$ (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 market segments are as follows for the fiscal years ended:

	December 31, 2011[3]	January 31, 2011
BA		
Manufacturing		
Business aircraft	**$ 4,262**	$ 4,021
Commercial aircraft	**1,721**	2,157
Other	**507**	559
Total manufacturing	**6,490**	6,737
Services[4]	**1,522**	1,564
Other[5]	**582**	508
	8,594	8,809
BT		
Rolling stock[6]	**6,855**	6,385
Services[7]	**1,409**	1,308
Systems and signalling[8]	**1,489**	1,390
	9,753	9,083
	$18,347	$17,892

3 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
4 Includes revenues from parts services, *Flexjet* fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training) and Specialized Aircraft Solutions and Military Aviation Training.
5 Includes mainly sales of pre-owned aircraft.
6 Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls and bogies.
7 Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.
8 Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance systems, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.

5. SEGMENT DISCLOSURE (CONTINUED)

The Corporation's revenues and PP&E and intangible assets are, allocated to countries, as follows:

	Revenues for fiscal years ended[1]		PP&E and intangible assets as at[2]		
	December 31, 2011[3]	January 31, 2011	**December 31, 2011**	January 31, 2011	February 1, 2010
North America					
United States	**$ 4,330**	$ 3,896	**$1,150**	$ 689	$ 545
Canada	**1,289**	1,038	**2,595**	2,087	1,498
Mexico	**58**	31	**39**	35	24
	5,677	4,965	**3,784**	2,811	2,067
Europe					
Germany	**1,835**	1,302	**1,211**	1,296	1,402
United Kingdom	**1,813**	1,583	**495**	526	838
France	**1,289**	1,404	**54**	84	53
Other	**3,245**	4,069	**1,782**	1,646	1,063
	8,182	8,358	**3,542**	3,552	3,356
Asia-Pacific					
China	**1,150**	921	**96**	73	68
India	**425**	465	**40**	54	50
Other	**1,151**	1,201	**17**	13	11
	2,726	2,587	**153**	140	129
Other					
Russia	**218**	602	**1**	–	–
Other	**1,544**	1,380	**32**	64	10
	1,762	1,982	**33**	64	10
	$18,347	$17,892	**$7,512**	$6,567	$5,562

1 Allocated to countries based on the location of the customer.
2 PP&E and intangible assets, excluding goodwill, are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.
3 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

6 RESEARCH AND DEVELOPMENT

R&D expense, net of government assistance, was as follows for the fiscal years ended:

	December 31, 2011[4]	January 31, 2011
R&D expenditures	**$ 1,351**	$1,022
Less: development expenditures capitalized to aerospace program tooling	**(1,171)**	(829)
	180	193
Add: amortization of aerospace program tooling	**91**	126
	$ 271	$ 319

4 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

7 OTHER EXPENSE (INCOME)

Other expense (income) was as follows for the fiscal years ended:

	December 31, 2011[1]	January 31, 2011
Changes in estimates and fair value[2]	$ (10)	$ (14)
Severance and other involuntary termination costs (including changes in estimates)	7	27
Gains on disposal of PP&E	(3)	(11)
Impairment charge on PP&E	–	8
Other	(3)	26
	$ (9)	$ 36

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Includes net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding losses (gains) arising from changes in interest rates.

8 FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows for the fiscal years ended:

	December 31, 2011[3]	January 31, 2011
Financing expense		
Accretion on retirement benefit obligations	$ 418	$ 417
Amortization of letter of credit facility costs	46	39
Changes in discount rates for provisions	36	1
Accretion on other financial liabilities	20	26
Accretion on provisions	18	25
Other	21	20
	559	528
Interest on long-term debt—after effect of hedges	122	156
	$ 681[4]	$ 684[4]
Financing income		
Expected return on pension plan assets	$ (418)	$ (373)
Net gain on certain financial instruments[5]	(19)	(9)
Gain on repurchase of long-term debt	–	(22)
Other	(13)	(11)
	(450)	(415)
Interest on loans and lease receivables—after effect of hedges	(33)	(33)
Interest on cash and cash equivalents	(33)	(19)
Interest on invested collateral	(3)	(9)
	$ (519)[6]	$ (476)[6]

3 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
4 Of which $157 million represents the interest expense calculated using the effective interest rate method for financial liabilities classified as other than HFT for the fiscal year ended December 31, 2011 ($194 million for the fiscal year ended January 31, 2011).
5 Net gain on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.
6 Of which $13 million represents the interest income calculated using the effective interest rate method for financial assets classified as L&R for the fiscal year ended December 31, 2011 ($21 million for the fiscal year ended January 31, 2011).

Borrowing costs capitalized to PP&E and intangible assets totalled $88 million for the fiscal year ended December 31, 2011, using an average capitalization rate of 5.35% ($63 million and 5.52% for the fiscal year ended January 31, 2011). 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).

9 EMPLOYEE BENEFIT COSTS

Employee benefit costs[1] were as follows for the fiscal years ended:

	Notes	**December 31, 2011[2]**	January 31, 2011
Wages, salaries and other employee benefits		**$5,185**	$4,739
Retirement benefits[3]	20	**250**	310
Share-based expense	27	**38**	47
Severance and other involuntary termination costs	7	**7**	27
		$5,480	$5,123

1 Employee benefit costs include costs capitalized as part of the cost of inventories and other self-constructed assets.
2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
3 Includes defined benefit and defined contribution plans.

10 INCOME TAXES

ANALYSIS OF INCOME TAX EXPENSE

Details of income tax expense were as follows for the fiscal years ended:

	December 31, 2011[4]	January 31, 2011
Current income taxes	**$137**	$155
Deferred income taxes	**66**	67
	$203	$222

4 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

10. INCOME TAXES (CONTINUED)

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

	December 31, 2011[1]	January 31, 2011
EBT	**$ 1,040**	$ 997
Canadian statutory rate	**28.4%**	30.0%
Income tax expense at statutory rate	**295**	299
Increase (decrease) resulting from:		
Recognition of previously unrecognized tax losses or temporary differences	**(204)**	(146)
Non-recognition of tax benefits related to tax losses and temporary differences	**98**	53
Effect of substantively enacted income tax rate changes and tax status changes in certain entities	**11**	4
Permanent differences	**(3)**	7
Write down of deferred income tax assets	**–**	9
Other	**6**	(4)
Income tax expense	**$ 203**	$ 222
Effective tax rate	**19.5%**	22.3%

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

The applicable statutory tax rates are 28.4% for the fiscal year ended December 31, 2011 and 30.0% for the fiscal year ended January 31, 2011. The Corporation's applicable tax rate is the Canadian combined rate applicable in the jurisdictions in which the Corporation operates. The decrease is mainly due to the reduction of the Federal income tax rate applicable to the Corporation for the fiscal year ended December 31, 2011 from 17.9% to 16.5%.

Details of deferred income tax expense were as follows for the fiscal years ended:

	December 31, 2011[2]	January 31, 2011
Origination and reversal of temporary differences	**$ 161**	$ 147
Recognition of previously unrecognized tax losses, tax credits and temporary differences	**(204)**	(146)
Change in unrecognized tax benefits related to tax losses and temporary differences	**98**	53
Effect of substantively enacted income tax rate changes and tax status	**11**	4
Write-down of deferred income tax assets	**–**	9
	$ 66	$ 67

2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

DEFERRED INCOME TAXES

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

	December 31, 2011		January 31, 2011		February 1, 2010	
	Asset	Liability	Asset	Liability	Asset	Liability
Operating tax losses carried forward	$ 1,502	$ –	$ 1,261	$ –	$ 1,226	$ –
Retirement benefits	894	–	523	–	578	–
Advance and progress billings in excess of long-term contract inventories and advances on aerospace programs	847	–	412	–	400	–
Inventories	499	(67)	540	(53)	609	(65)
Provisions	463	–	461	–	370	–
Other financial assets and Other assets	(353)	–	(170)	–	(246)	–
PP&E	(273)	–	(108)	–	(77)	–
Other financial liabilities and Other liabilities	148	–	186	–	96	–
Intangible assets	(110)	–	(6)	–	48	–
Other	30	–	47	–	116	–
	3,647	(67)	3,146	(53)	3,120	(65)
Unrecognized deferred tax assets	(2,141)	–	(1,852)	–	(1,747)	–
	$ 1,506	$(67)	$ 1,294	$(53)	$ 1,373	$(65)

The details of changes to deferred income taxes were as follows for the fiscal years ended:

	December 31, 2011[1]	January 31, 2011
Balance at beginning of year, net	$1,241	$1,308
In net income	(66)	(67)
In OCI		
Retirement benefits	234	(40)
Cash flow hedges	54	17
Other[2]	(24)	23
Balance at end of year, net	$1,439	$1,241

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Other mainly comprises foreign exchange rate effects.

The net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to $7,825 million as at December 31, 2011, of which $2,208 million relates to retirement benefits that will reverse through OCI ($6,698 million as at January 31, 2011 of which $1,518 million relates to retirement benefits that will reverse through OCI and $6,400 million as at February 1, 2010 of which $1,607 million relates to retirement benefits that will reverse through OCI). Of these amounts, approximately $7,792 million as at December 31, 2011 have no expiration date ($6,670 million as at January 31, 2011 and $6,383 million as at February 1, 2010) and approximately $964 million relate to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income ($1,167 million as at January 31, 2011 and $1,160 million as at February 1, 2010).

In addition, the Corporation has $206 million of unused investment tax credits, most of which can be carried forward for 20 years and $48 million of net capital losses carried forward for which deferred tax assets have not been recognized ($128 million and $66 million as at January 31, 2011). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

No deferred tax liabilities have been recognized on undistributed earnings of the Corporation's foreign subsidiaries and joint ventures when they are considered to be indefinitely reinvested. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to corporation and/or withholding taxes. Taxable temporary differences for which a deferred tax liability was not recognized amount to approximately $225 million.

11 EARNINGS PER SHARE

Basic and diluted EPS were computed as follows for the fiscal years ended:

	December 31, 2011[1]	January 31, 2011
(Number of shares, stock options, PSUs and DSUs, in thousands)		
Net income attributable to equity holders of Bombardier Inc.	**$ 837**	$ 762
Preferred share dividends, including taxes	**(25)**	(24)
Net income attributable to common equity holders of Bombardier Inc.	**$ 812**	$ 738
Weighted-average number of common shares outstanding	**1,724,889**	1,727,200
Net effect of stock options, PSUs and DSUs	**18,989**	17,934
Weighted-average diluted number of common shares	**1,743,878**	1,745,134
EPS (in dollars):		
Basic	**$ 0.47**	$ 0.43
Diluted	**$ 0.47**	$ 0.42

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

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 23,359,926 stock options for the fiscal year ended December 31, 2011 (23,063,554 stock options for the fiscal year ended January 31, 2011) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) or predetermined financial performance targets had not been met.

12 FINANCIAL INSTRUMENTS

Net gains (losses) on financial instruments recognized in income were as follows for the fiscal years ended:

	December 31, 2011[2]	January 31, 2011
Financial instruments measured at amortized cost		
L&R - impairment charges	**$ (16)**	$ (6)
Other than HFT - gains (losses) from derecognition	**$ –**	$ 22
Financial instruments measured at fair value		
AFS - gains (losses) from derecognition	**$ 5**	$ (2)
FVTP&L - changes in fair value		
Designated as FVTP&L	**$ 35[3]**	$ (2)[3]
Required to be classified as HFT		
Derivatives not designated in hedging relationships[4]	**$ (21)**	$ (10)
Other[5]	**$ (15)**	$ 35

2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
3 Excluding the interest income portion related to the invested collateral of $3 million for the fiscal year ended December 31, 2011 ($9 million for the fiscal year ended January 31, 2011).
4 Incurred in connection with economic hedges.
5 Excluding the interest income portion related to cash and cash equivalents of $33 million for the fiscal year ended December 31, 2011 ($19 million for the fiscal year ended January 31, 2011).

CARRYING AMOUNTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	FVTP&L						
	HFT	Designated	AFS	Amortized cost[1]	DDHR	Total carrying value	Fair value
December 31, 2011							
Financial assets							
Cash and cash equivalents	**$3,372**	**$ –**	**$ –**	**$ –**	**$ –**	**$3,372**	**$3,372**
Trade and other receivables	**–**	**–**	**–**	**1,408**	**–**	**1,408**	**1,408**
Other financial assets	**44**	**698**	**399**	**186**	**504**	**1,831**	**1,830**
	$3,416	**$ 698**	**$ 399**	**$1,594**	**$504**	**$6,611**	**$6,610**
Financial liabilities							
Trade and other payables	**$ –**	**$ –**	**n/a**	**$3,210**	**$ –**	**$3,210**	**$3,210**
Long-term debt	**–**	**–**	**n/a**	**4,941**	**–**	**4,941**	**4,649**
Other financial liabilities	**21**	**140**	**n/a**	**557**	**323**	**1,041**	**1,118**
	$ 21	**$ 140**	**n/a**	**$8,708**	**$323**	**$9,192**	**$8,977**
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	$3,073	$ –	$3,073	$3,073
Long-term debt	–	–	n/a	4,662	–	4,662	4,747
Other financial liabilities	64	161	n/a	537	613	1,375	1,431
	$ 64	$ 161	n/a	$8,272	$613	$9,110	$9,251
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	$3,036	$ –	$3,045	$3,045
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	$7,628	$364	$8,274	$8,191

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

12. FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVES AND HEDGING ACTIVITIES

The carrying amounts of all derivative and non-derivative financial instruments in a hedge relationship were as follows as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges						
Cross-currency interest-rate swap	$ 12	$ 39	$ 22	$ 68	$ 13	$ 48
Interest-rate swap	297	–	80	–	140	–
	309	39	102	68	153	48
Derivative financial instruments designated as cash flow hedges[1]						
Forward foreign exchange contracts	195	284	390	509	245	278
Derivative financial instruments designated as hedges of net investment						
Cross-currency interest-rate swap	–	–	–	36	–	38
Derivative financial instruments classified as HFT[2]						
Forward foreign exchange contracts	19	14	9	48	31	53
Interest-rate swap	–	4	–	6	–	7
Cross-currency interest-rate swap	–	–	–	–	21	–
Embedded derivative financial instruments:						
Foreign exchange	4	3	16	8	26	8
Call options on long-term debt	21	–	40	–	20	–
Financing rate commitments	–	–	–	2	–	9
	44	21	65	64	98	77
Total derivative financial instruments	$548	$ 344	$557	$677	$496	$441
Non-derivative financial instruments designated as hedges of net investment						
Long-term debt	$ –	$1,029	$ –	$715	$ –	$399

1 The maximum length of time of the derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 22 months as of December 31, 2011.
2 Held as economic hedges, except for embedded derivative financial instruments.

The net gains on the hedging instruments designated in fair value hedge relationships and the net losses on the related hedged items attributable to the hedged risk recognized in financing expense, amounted to $311 million and $304 million respectively for the fiscal year ended December 31, 2011 ($123 million and $119 million respectively for the fiscal year ended January 31, 2011).

The methods and assumptions used to measure the fair value of financial instruments are described in note 32 – Fair value of financial instruments.

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Cash	**$1,091**	$ 1,529	$ 649
Cash equivalents			
Term deposits	**750**	832	714
Money market funds	**1,531**	1,834	2,009
Cash and cash equivalents	**$3,372**	$ 4,195	$3,372

See note 29 – Credit facilities for details on covenants related to cash and cash equivalents.

14 TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Trade receivables[1,2]	**$1,341**	$1,293	$1,103
Other	**109**	136	90
	1,450	1,429	1,193
Allowance for doubtful accounts	**(42)**	(52)	(52)
	$1,408	$1,377	$1,141

1 Of which $415 million and $349 million are denominated in euro and other foreign currencies, respectively, as at December 31, 2011 ($472 million and $393 million, respectively, as at January 31, 2011 and $312 million and $443 million, respectively, as at February 1, 2010).
2 Of which $172 million represents customer retentions relating to long-term contracts as at December 31, 2011 based on normal terms and conditions.

Allowance for doubtful accounts – Changes in the allowance for doubtful accounts were as follows as at:

	December 31, 2011	January 31, 2011
Balance at beginning of year	**$(52)**	$(52)
Provision for doubtful accounts	**(11)**	(4)
Amounts written off	**5**	4
Effect of foreign currency exchange rate changes	**16**	–
Balance at end of year	**$(42)**	$(52)

Receivables that are past due but not impaired – The trade receivables that are past due but not impaired for BA amounted to $94 million, of which $25 million were more than 90 days past due as at December 31, 2011 ($63 million as at January 31, 2011, of which $14 million were more than 90 days past due and $53 million as at February 1, 2010, of which $14 million were more than 90 days past due).

In addition, $272 million of trade receivables related to BT long-term contracts are past due but not impaired as at December 31, 2011, of which $137 million were more than 90 days past due ($330 million as at January 31, 2011 of which $196 million were more than 90 days past due and $350 million as at February 1, 2010, of which $160 million were more than 90 days past due). BT assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole.

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

Receivables that are impaired – The Corporation has determined that a gross amount of $38 million of trade receivables are individually impaired as at December 31, 2011 ($43 million as at January 31, 2011 and $38 million as at February 1, 2010). The factors that the Corporation considers to classify trade receivables as impaired are as follows: the customer is in bankruptcy or under administration, payments are in dispute, or payments are in arrears for over 90 days.

Further information on financial risk is provided in note 31 – Financial risk management.

FACTORING

In the normal course of its business, BT has factoring facilities in Europe to which it can sell, without recourse, qualifying trade receivables. Trade receivables of €580 million ($751 million) were outstanding under such facilities as at December 31, 2011 (€248 million [$340 million] as at January 31, 2011 and €140 million [$194 million] as at February 1, 2010). Trade receivables of €581 million ($812 million) were sold to these facilities during the fiscal year ended December 31, 2011 (€442 million [$584 million] during the fiscal year ended January 31, 2011).

15 INVENTORIES

Inventories were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Aerospace programs	**$ 3,845**	$ 4,146	$ 4,748
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**6,510**	5,452	5,190
Less: advances and progress billings	**(4,773)**	(3,975)	(4,070)
	1,737	1,477	1,120
Service contracts			
Cost incurred and recorded margins	**380**	512	616
Less: advances and progress billings	**(45)**	(73)	(85)
	335	439	531
Finished products[1]	**1,481**	1,245	1,231
	$ 7,398	$ 7,307	$ 7,630

1 Finished products include 5 new aircraft not associated with a firm aircraft order and 95 pre-owned aircraft, totalling $691 million as at December 31, 2011 (8 new aircraft and 68 pre-owned aircraft, totalling $532 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 December 31, 2011 include $162 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 $14,381 million for the fiscal year ended December 31, 2011 ($13,606 million for the fiscal year ended January 31, 2011). These amounts include $66 million of write-down for the fiscal year ended December 31, 2011 ($48 million for the fiscal year ended January 31, 2011).

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

Advances and progress billings received on long-term contracts in progress were $6,767 million as at December 31, 2011 ($6,469 million as at January 31, 2011 and $6,054 million as at February 1, 2010). Revenues include revenues from BT long-term contracts, which amounted to $7,537 million for the fiscal year ended December 31, 2011 ($7,002 million for the fiscal year ended January 31, 2011).

16 OTHER FINANCIAL ASSETS

Other financial assets were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Derivative financial instruments[1]	**$ 548**	$ 557	$ 496
Aircraft loans and lease receivables[2,3]	**472**	432	312
Investments in securities[2,4]	**423**	415	328
Investments in financing structures[2]	**243**	242	233
Servicing fees	**57**	49	48
Restricted cash	**51**	58	40
Other	**37**	56	83
	$1,831	$1,809	$1,540
Of which current	**$ 526**	$ 705	$ 537
Of which non-current	**1,305**	1,104	1,003
	$1,831	$1,809	$1,540

1 See note 12 – Financial instruments.
2 Carried at fair value, except for $32 million of aircraft loans and lease receivables, $24 million of investments in securities and $42 million of investments in financing structure carried at amortized cost as at December 31, 2011 ($25 million, $27 million and $55 million, respectively, as at January 31, 2011 and $32 million, nil and $53 million, respectively, as at February 1, 2010).
3 Financing with three airlines represents 47% of the total aircraft loans and lease receivables as at December 31, 2011 (three airlines represented 46% as at January 31, 2011 and 55% as at February 1, 2010). Aircraft loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors.
4 Includes $167 million of securities ceded as collateral for guarantees issued in connection with the sale of aircraft as at December 31, 2011 ($152 million as at January 31, 2011 and $148 million as at February 1, 2010).

17 OTHER ASSETS

Other assets were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Prepaid expenses	**$ 298**	$ 327	$ 226
Intangible assets other than aerospace program tooling and goodwill[5]	**227**	243	256
Flexjet fractional ownership deferred costs	**186**	156	227
Sales tax and other taxes	**185**	183	137
Deferred financing charges	**85**	65	99
Investments in associates[6]	**37**	57	40
Retirement benefits[7]	**13**	29	44
Other	**33**	50	47
	$1,064	$1,110	$1,076
Of which current	**$ 559**	$ 648	$ 519
Of which non-current	**505**	462	557
	$1,064	$1,110	$1,076

5 See note 19 – Intangible assets.
6 The Corporation has pledged shares in investees subject to significant influence, with a carrying value of $30 million as at December 31, 2011 ($33 million as at January 31, 2011 and $26 million as at February 1, 2010).
7 See note 20 – Retirement benefits.

18 PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows as at:

	Land	Buildings	Equipment	Construction in progress	Other	Total
Cost						
Balance as at January 31, 2011	**$102**	**$ 2,046**	**$1,181**	**$ 175**	**$ 564**	**$ 4,068**
Additions	**–**	**45**	**61**	**128**	**72**	**306**
Disposals	**(2)**	**(44)**	**(138)**	**–**	**(75)**	**(259)**
Transfers	**–**	**22**	**111**	**(138)**	**5**	**–**
Effect of foreign currency exchange rate changes	**(5)**	**(67)**	**(26)**	**(2)**	**(5)**	**(105)**
Balance as at December 31, 2011	**$ 95**	**$ 2,002**	**$1,189**	**$ 163**	**$ 561**	**$ 4,010**
Depreciation and impairment						
Balance as at January 31, 2011	**$ –**	**$(1,121)**	**$ (788)**	**$ –**	**$(281)**	**$(2,190)**
Amortization	**–**	**(60)**	**(102)**	**–**	**(16)**	**(178)**
Disposals	**–**	**42**	**117**	**–**	**12**	**171**
Effect of foreign currency exchange rate changes	**–**	**42**	**9**	**–**	**–**	**51**
Balance as at December 31, 2011	**$ –**	**$(1,097)**	**$ (764)**	**$ –**	**$(285)**	**$(2,146)**
Net carrying value	**$ 95**	**$ 905**	**$ 425**	**$ 163**	**$ 276**	**$ 1,864**
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
Depreciation 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 carrying value	$102	$ 925	$ 393	$ 175	$ 283	$ 1,878

Included in the above table are assets under finance lease, where the Corporation is the lessee, presented in Other, with cost and accumulated depreciation amounting to $214 million and $88 million, respectively, as at December 31, 2011 ($185 million and $75 million as at January 31, 2011 and $147 million and $68 million as at February 1, 2010).

Also included in the above table are aircraft under operating leases where the Corporation is the lessor, presented in Other, with a cost and accumulated depreciation amounting to $88 million and $10 million, respectively, as at December 31, 2011 ($144 million and $22 million as at January 31, 2011 and $60 million and $15 million as at February 1, 2010). Rental income from operating leases and depreciation of assets under operating leases amounted to $14 million and $6 million respectively for the fiscal year ended December 31, 2011 ($11 million and $10 million, respectively, for the fiscal year ended January 31, 2011).

19 INTANGIBLE ASSETS

Intangible assets were as follows as at:

	Aerospace program tooling			Goodwill	Other[1,2]	Total
	Acquired	Internally generated	Total[3]			
Cost						
Balance as at January 31, 2011	**$ 949**	**$ 4,076**	**$ 5,025**	**$2,358**	**$ 864**	**$ 8,247**
Additions	**142**	**1,029**	**1,171**	**–**	**49**	**1,220**
Disposals	**–**	**–**	**–**	**–**	**(182)**	**(182)**
Effect of foreign currency exchange rate changes	**–**	**–**	**–**	**(105)**	**(27)**	**(132)**
Balance as at December 31, 2011	**$1,091**	**$ 5,105**	**$ 6,196**	**$2,253**	**$ 704**	**$ 9,153**
Accumulated amortization and impairment						
Balance as at January 31, 2011	**$ (578)**	**$(2,359)**	**$(2,937)**	**$ –**	**$(621)**	**$(3,558)**
Amortization	**(10)**	**(81)**	**(91)**	**–**	**(59)**	**(150)**
Disposals	**–**	**–**	**–**	**–**	**182**	**182**
Effect of foreign currency exchange rate changes	**–**	**–**	**–**	**–**	**21**	**21**
Balance as at December 31, 2011	**$ (588)**	**$(2,440)**	**$(3,028)**	**$ –**	**$(477)**	**$(3,505)**
Net carrying value	**$ 503**	**$ 2,665**	**$ 3,168**	**$2,253**	**$ 227**	**$ 5,648**
Cost						
Balance as at February 1, 2010	$ 814	$ 3,382	$ 4,196	$2,247	$ 820	$ 7,263
Additions	135	694	829	–	47	876
Disposals	–	–	–	–	(3)	(3)
Effect of foreign currency exchange rate changes	–	–	–	111	–	111
Balance as at January 31, 2011	$ 949	$ 4,076	$ 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 carrying value	$ 371	$ 1,717	$ 2,088	$2,358	$ 243	$ 4,689

1 Presented in note 17 – Other assets.
2 Includes internally generated intangible assets with a cost and accumulated amortization of $294 million and $176 million, respectively, as at December 31, 2011 ($433 million and $328 million as at January 31, 2011 and $273 million and $228 million as at February 1, 2010).
3 Includes intangible assets under development with a cost of $2,489 million as at December 31, 2011 ($1,347 million as at January 31, 2011 and $949 million as at February 1, 2010).

19. INTANGIBLE ASSETS (CONTINUED)

AEROSPACE PROGRAM TOOLING

The net carrying value of aerospace program tooling comprises $1,851 million for commercial aircraft and $1,317 million for business aircraft as at December 31, 2011 ($1,249 million and $839 million, respectively, as at January 31, 2011 and $789 million and $596 million, respectively, as at February 1, 2010).

GOODWILL

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT reportable segment as a group of CGUs. The Corporation carried out an impairment test as of February 1, 2010. During the fourth quarters of the fiscal years ended December 31, 2011 and January 31, 2011 the Corporation completed an impairment assessment carrying forward the recoverable amount calculated as at February 1, 2010. The Corporation did not identify any impairment.

20 RETIREMENT BENEFITS

DEFINED BENEFIT PLANS

The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering the 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 health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the components of the retirement benefits costs and financing expense and financing income for the fiscal years ended:

	December 31, 2011[1]		January 31, 2011	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
EBIT or capitalized costs[2]				
Current service cost	**$ 201**	**$ 9**	$ 201	$ 9
Past service costs (credit)	**3**	**(1)**	3	(1)
Curtailment	**(10)**	**–**	4	–
Settlement	**(3)**	**(1)**	(1)	–
Other	**–**	**–**	1	–
	191	**7**	208	8
Financing expense and financing income				
Accretion on retirement benefit obligations	**402**	**16**	399	18
Expected return on pension plan assets	**(418)**	**–**	(373)	–
	(16)	**16**	26	18
Total retirement benefits costs	**$ 175**	**$23**	$ 234	$26

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Costs capitalized as part of the cost of inventories and other self-constructed assets.

Net actuarial losses of $1,489 million recognized directly in OCI in the fiscal year ended December 31, 2011 include $1,728 million of actuarial losses, a gain of $178 million resulting from the reversal of asset ceiling and additional liability arising from the minimum funding requirement and a gain of $61 million related to foreign exchange re-evaluation of plans not denominated in the functional currency of the operation to which they relate (net actuarial gains of $35 million in the fiscal year ended January 31, 2011, include $161 million of actuarial gains, a loss of $70 million resulting from the asset ceiling and additional liability arising from the minimum funding requirement and a loss of $56 million related to foreign exchange re-evaluation).

20. RETIREMENT BENEFITS (CONTINUED)

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

	December 31, 2011		January 31, 2011	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
Change in benefit obligation				
Obligation at beginning of year	**$ 7,762**	**$327**	$ 6,919	$ 298
Accretion	**402**	**16**	399	18
Current service cost	**201**	**9**	201	9
Plan participants' contributions	**38**	**–**	35	–
Past service cost	**3**	**–**	3	–
Actuarial losses (gains)	**1,372**	**35**	165	(3)
Benefits paid	**(268)**	**(11)**	(260)	(13)
Curtailment	**(10)**	**–**	4	–
Settlement	**(4)**	**(2)**	(8)	–
Other	**–**	**–**	2	–
Effect of exchange rate changes	**(254)**	**(9)**	302	18
Obligation at end of year	**$ 9,242**	**$365**	$ 7,762	$ 327
Change in plan assets				
Fair value at beginning of year	**$ 6,322**	**$ –**	$ 5,181	$ –
Employer contributions	**373**	**12**	419	13
Plan participants' contributions	**38**	**–**	35	–
Expected return	**418**	**–**	373	–
Actuarial (losses) gains	**(321)**	**–**	323	–
Benefits paid	**(268)**	**(11)**	(260)	(13)
Settlement	**(1)**	**(1)**	(7)	–
Other	**–**	**–**	1	–
Effect of exchange rate changes	**(166)**	**–**	257	–
Fair value at end of year	**$ 6,395**	**$ –**	$ 6,322	$ –

20. RETIREMENT BENEFITS (CONTINUED)

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

	December 31, 2011		January 31, 2011		February 1, 2010	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Funded status - deficit						
Present value of obligations of funded plans	**$ 8,673**	**$ –**	$ 7,171	$ –	$ 6,339	$ –
Fair value of plan assets	**(6,395)**	**–**	(6,322)	–	(5,181)	–
	2,278	**–**	849	–	1,158	–
Present value of obligations of unfunded plans	**569**	**365**	591	327	580	298
Unrecognized past service credits	**–**	**1**	–	2	–	3
Impact of asset ceiling test	**–**	**–**	97	–	8	–
Liability arising from minimum funding requirement[1]	**–**	**–**	80	–	90	–
Net amount recognized	**$ 2,847**	**$366**	$ 1,617	$329	$ 1,836	$301
Amounts included in:						
Retirement benefit						
liability	**$ 2,860**	**$366**	$ 1,646	$329	$ 1,880	$301
asset[2]	**(13)**	**–**	(29)	–	(44)	–
Net liability	**$ 2,847**	**$366**	$ 1,617	$329	$ 1,836	$301

1 Comprises the effect of exchange rate changes.
2 Presented in note 17 – Other assets.

The following table presents the allocation by major countries as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Benefit obligation	**Plan assets**	Benefit obligation	Plan assets	Benefit obligation	Plan assets
Canada	**$5,019**	**$3,125**	$3,929	$3,078	$ 3,324	$2,462
U.K.	**2,855**	**2,496**	2,605	2,483	2,466	2,077
U.S.	**864**	**521**	677	497	602	423
Germany	**389**	**–**	428	–	406	–
Switzerland	**301**	**222**	277	228	237	186
Other	**179**	**31**	173	36	182	33
	$9,607	**$6,395**	$8,089	$6,322	$ 7,217	$5,181

Plan assets are held in trust and their weighted-average allocations were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Cash and cash equivalents	3%	3%	5%
Publicly traded investments:			
Equity securities	46%	54%	55%
Fixed-income securities	41%	37%	35%
Global infrastructure and real estate assets	10%	6%	5%

Actual return on plan assets was $97 million for the fiscal year ended December 31, 2011 ($696 million for the fiscal year ended January 31, 2011). Plan assets did not include any of the Corporation's shares, nor any property occupied by the Corporation or other assets used by the Corporation as at December 31, 2011, January 31, 2011 and February 1, 2010.

Contributions to funded defined benefit pension plans and benefit payments related to unfunded defined benefit pension plans are estimated at $394 million for calendar year 2012, compared to actual contributions of $373 million for the fiscal year ended December 31, 2011. Benefit payments to other retirement benefit plans are estimated at $14 million for calendar year 2012, compared to actual benefits paid of $12 million for the fiscal year ended December 31, 2011.

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

	December 31, 2011		January 31, 2011		February 1, 2010	
(in percentage)	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit cost						
Discount rate	5.40%	5.40%	5.64%	5.74%	n/a	n/a
Expected long-term rate of return on plan assets	6.89%	n/a	7.00%	n/a	n/a	n/a
Rate of compensation increase	3.72%	3.50%	3.73%	3.50%	n/a	n/a
Inflation rate	2.61%	n/a	2.71%	n/a	n/a	n/a
Ultimate health care cost trend rate	n/a	5.00%	n/a	5.00%	n/a	n/a
Benefit obligation						
Discount rate	4.44%	4.25%	5.40%	5.40%	5.64%	5.74%
Rate of compensation increase	3.71%	3.50%	3.72%	3.50%	3.73%	3.50%
Inflation rate	2.24%	n/a	2.61%	n/a	2.71%	n/a
Ultimate health care cost trend rate	n/a	5.00%	n/a	5.00%	n/a	5.00%

n/a: Not applicable

During the fourth quarter of the fiscal year ended December 31, 2011, the Corporation changed certain estimates for future discretionary increase in benefits of certain of its defined benefit pension plans. This change resulted in a pre-tax increase of $235 million in the pension benefits liability which was accounted for in OCI in accordance with the Corporation's accounting policy for actuarial gains and losses.

20. RETIREMENT BENEFITS (CONTINUED)

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 the year ended December 31, 2011	Net retirement benefit liability as at December 31, 2011
Discount rate	$(12)	$(396)
Expected return on plan asset	$(15)	n/a
Rate of compensation increase	$ 9	$ 89
Inflation rate	$ 8	$ 118

n/a: Not applicable

As at December 31, 2011, the health care cost trend rate for retirement benefits other than pension, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 7.5% and to decrease progressively to 5% by calendar year 2018 and then remain at that level for all participants. A one percentage point change in assumed health care cost trend rates would have the following effects as at December 31, 2011 and for the fiscal year ended December 31, 2011:

	One percentage point increase	One percentage point decrease
Effect on the net retirement benefit liability	$33	$(29)
Effect on the retirement benefit cost	$ 3	$ (2)

Changes in the cumulative amount of net actuarial losses recognized in OCI, and presented as a separate component of retained earnings (deficit), were as follows for the fiscal years ended:

Gains (losses)	
February 1, 2010 - Transition adjustment, net of taxes	$(1,973)[1]
Net actuarial gains	35
Incomes taxes	(40)
January 31, 2011	(1,978)
Net actuarial losses	(1,489)
Incomes taxes	234
December 31, 2011	**$(3,233)**

1 Net of income taxes of $177 million.

As permitted under IFRS 1, the Corporation has not determined the amount of actuarial gains and losses that would have been recognized in OCI prior to the adoption of IFRS on February 1, 2010.

DEFINED CONTRIBUTION PENSION PLANS

The Corporation also offers Canadian and Foreign defined contribution plans covering a portion of its employees. Defined contribution plan formulas are based on a percentage of salary.

Contributions to defined contribution pension plans, which correspond to the benefit cost recognized, amounted to $52 million for the fiscal year ended December 31, 2011 ($50 million for the fiscal year ended January 31, 2011). Contributions to defined contribution pension plans are estimated at $51 million for calendar year 2012.

21 TRADE AND OTHER PAYABLES

Trade and other payables were as follows as at:

	December 31 2011	January 31 2011	February 1 2010
Trade payables	**$2,144**	$2,045	$2,139
Accrued liabilities	**582**	597	543
Interest	**59**	89	56
Other	**425**	342	307
	$3,210	$3,073	$3,045

22 PROVISIONS

Changes in provisions were as follows for the fiscal years ended:

	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	**485**	**–**	**32**	**23**	**540**
Utilization	**(437)**	**(60)**	**(37)**	**(16)**	**(550)**
Reversals	**(59)**	**(27)**	**(26)**	**(29)**	**(141)**
Accretion expense	**1**	**16**	**–**	**1**	**18**
Effect of changes in discount rates	**1**	**34**	**–**	**1**	**36**
Effect of foreign currency exchange rate changes	**(38)**	**–**	**(1)**	**(4)**	**(43)**
Balance as at December 31, 2011	**$ 1,073**	**$456**	**$ 38**	**$ 105**	**$ 1,672**
Of which current	**$ 929**	**$ 52**	**$ 33**	**$ 64**	**$ 1,078**
Of which non-current	**144**	**404**	**5**	**41**	**594**
	$ 1,073	**$456**	**$ 38**	**$ 105**	**$ 1,672**
Balance as at February 1, 2010	$ 1,009	$536	$ 82	$ 188	$ 1,815
Additions	460	12	38	59	569
Utilization	(299)	(42)	(35)	(80)	(456)
Reversals	(83)	(31)	(16)	(38)	(168)
Accretion expense	4	20	–	1	25
Effect of changes in discount rates	3	(2)	–	–	1
Effect of foreign currency exchange rate changes	26	–	1	(1)	26
Balance as at January 31, 2011	$ 1,120	$493	$ 70	$ 129	$ 1,812
Of which current	$ 985	$ 85	$ 64	$ 64	$ 1,198
Of which non-current	135	408	6	65	614
	$ 1,120	$493	$ 70	$ 129	$ 1,812

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

23 LONG-TERM DEBT

Long-term debt was as follows as at:

	Amount in currency of origin C2011/ 2011/2010	Currency	Interest rate: Contractual C2011/ 2011/2010[1,2]	Interest rate: After effect of fair value hedges	Maturity	December 31 2011 Amount	January 31 2011 Amount	February 1 2010 Amount
Senior notes	nil/nil/679	EUR	nil/nil/3.90%[3]	n/a	n/a	**$ –**	$ –	$ 933
	nil/nil/385	USD	8.00%	3-month Libor + 2.91	n/a	**–**	–	429
	785	EUR	7.25%	3-month Libor + 4.83	Nov. 2016	**1,146**	1,152	1,128
	650/ 650/nil	USD	7.50%	3-month Libor + 4.19	Mar. 2018	**714**	660	–
	850/ 850/nil	USD	7.75%	3-month Libor + 4.14	Mar. 2020	**962**	864	–
	780/ 780/nil	EUR	6.13%	3-month Euribor + 2.87	May 2021	**1,082**	1,042	–
Notes	151/ 151/550	USD	6.75%	3-month Libor + 2.26	May 2012	**153**	158	585
	162/162/ 500	USD	6.30%	3-month Libor + 1.59	May 2014	**176**	178	546
	250	USD	7.45%	n/a	May 2034	**247**	247	247
Debentures	150	CAD	7.35%	n/a	Dec. 2026	**146**	149	139
Other[4]	315/ 212/138[5]	Various	4.39%/ 5.54%/7.42%	n/a	2012-2026	**315**	212	138
						$ 4,941	$ 4,662	$ 4,145
Of which current[6]						**$ 193**	$ 17	$ 11
Of which non-current						**4,748**	4,645	4,134
						$ 4,941	$ 4,662	$ 4,145

1 As at December 31, 2011, the contractual interest rates are fixed, except for a portion of our other long-term debts which are variable.
2 For variable-rate debt, the interest rate represents the average rate for the fiscal year. Interest on long-term debt as at December 31, 2011 is payable semi-annually, except for the other debts for which the timing of interest payments is variable.
3 Floating rate Senior notes.
4 Includes obligations under finance leases.
5 Amounts are expressed in U.S. dollars.
6 See note 24 – Other financial liabilities.
n/a: Not applicable
C2011 refers to December 31, 2011, 2011 refers to January 31, 2011, and 2010 refers to February 1, 2010.

All Senior notes and notes rank pari-passu and are unsecured.

The carrying value of long-term debt includes principal repayments, transaction costs, unamortized discounts and the basis adjustments related to derivatives designated in fair value hedge relationships. The following table presents the contractual principal repayments of the long-term debt:

	December 31, 2011	January 31, 2011	February 1, 2010
Within one year	**$ 189**	$ 17	$ 11
Between one and five years	**1,360**	404	2,414
More than five years	**3,001**	4,151	1,570
	$4,550	$4,572	$3,995

24 OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Derivative financial instruments[1]	**$ 344**	$ 677	$ 441
Government refundable advances	**317**	284	238
Current portion of long-term debt[2]	**193**	17	11
Sale and leaseback obligations	**163**	216	179
Lease subsidies[3]	**140**	161	196
Vendor non-recurring costs	**13**	15	9
Other	**64**	22	21
	$1,234	$1,392	$1,095
Of which current	**$ 732**	$ 860	$ 537
Of which non-current	**502**	532	558
	$1,234	$1,392	$1,095

1 See note 12 – Financial instruments.
2 See note 23 – Long-term debt.
3 The amount contractually required to be paid is $158 million as at December 31, 2011 ($215 million as at January 31, 2011, and $228 million as at February 1, 2010).

SALE AND LEASEBACK OBLIGATIONS

The Corporation has set up sale and leaseback facilities, which may be used to sell pre-owned business aircraft. For accounting purposes, amounts outstanding under these arrangements are considered financial obligations secured by the pre-owned business aircraft. The arrangements are generally for a term no longer than 24 months. The Corporation may settle the obligation at any time during the arrangement.

25 OTHER LIABILITIES

Other liabilities were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Accruals for long-term contract costs	**$ 816**	$ 796	$ 675
Employee benefits[1]	**672**	714	544
Supplier contributions to aerospace programs	**348**	314	150
Income and other taxes payable	**216**	166	203
Flexjet fractional ownership deferred revenues	**212**	196	306
Deferred income taxes[2]	**67**	53	65
Other	**769**	832	620
	$3,100	$3,071	$2,563
Of which current	**$2,198**	$2,163	$1,987
Of which non-current	**902**	908	576
	$3,100	$3,071	$2,563

1 Comprised of all employee benefits excluding those related to retirement benefits, which are reported under retirement benefits (see note 20–Retirement benefits).
2 See note 10–Income taxes.

26 SHARE CAPITAL

PREFERRED SHARES

The preferred shares authorized and issued and fully paid were as follows as at December 31, 2011, January 31, 2011 and February 1, 2010:

	Authorized for the specific series	Issued and fully paid
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

Series 2 Cumulative Redeemable Preferred Shares	
Redemption:	Redeemable, at the Corporation's option, at $25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than $24.90 Cdn per share or more than $25.10 Cdn per share.

Series 3 Cumulative Redeemable Preferred Shares	
Redemption:	Redeemable, at the Corporation's option, at $25.00 Cdn per share on August 1, 2012 and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one for one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2007 and including July 31, 2012, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.267% or $1.31675 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.32919 Cdn, if declared. For each succeeding five year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

Series 4 Cumulative Redeemable Preferred Shares	
Redemption:	The Corporation may, subject to certain provisions, on not less than 30 nor more than 60 days' notice, redeem for cash the Series 4 Cumulative Redeemable Preferred Shares at $25.00 Cdn if redeemed on or after March 31, 2011.
Conversion:	The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of $2.00 Cdn and 95% of the weighted average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or $1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.390625 Cdn per share.

COMMON SHARES

All common shares are without nominal or par value.

Class A Shares (Multiple Voting)	
Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

26. SHARE CAPITAL (CONTINUED)

Class B Shares (Subordinate Voting)	
Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.
Dividend:	Annual non-cumulative preferential dividend of $0.0015625 Cdn per share, in priority to the Class A Shares (Multiple Voting), payable quarterly on the last day of March, June, September and December of each year at a rate of $0.000390625 Cdn per share, if declared.

The change in the number of common shares issued and fully paid, and in the number of common shares authorized, was as follows as at:

CLASS A SHARES (MULTIPLE VOTING)

	December 31, 2011	January 31, 2011
Issued and fully paid		
Balance at beginning of year	**316,109,537**	316,231,937
Converted to Class B	**(1,572,300)**	(122,400)
Balance at end of year	**314,537,237**	316,109,537
Authorized	**1,892,000,000**	1,892,000,000

CLASS B SHARES (SUBORDINATE VOTING)

	December 31, 2011	January 31, 2011
Issued and fully paid		
Balance at beginning of year	**1,436,997,894**	1,438,517,706
Issuance of shares	**2,112,862**	1,357,788
Repurchase of shares	**(2,006,000)**	(3,000,000)
Converted from Class A	**1,572,300**	122,400
	1,438,677,056	1,436,997,894
Held in trust under the PSU plan		
Balance at beginning of year	**(27,459,674)**	(25,098,637)
Purchased	**(8,275,000)**	(10,539,000)
Distributed	**6,413,195**	8,177,963
Balance at end of year	**(29,321,479)**	(27,459,674)
Balance at end of year	**1,409,355,577**	1,409,538,220
Authorized	**1,892,000,000**	1,892,000,000

During the fiscal year ended December 31, 2011, 2,006,000 Class B Shares (Subordinate Voting) were repurchased and cancelled in connection with the DSU plan, for a total amount of $14 million (3,000,000 Class B Shares [Subordinate Voting] and $16 million during the fiscal year ended January 31, 2011).

DIVIDENDS

Dividends declared were as follows:

	Dividend declared for the fiscal years ended				Dividend declared after	
	December 31, 2011		January 31, 2011		December 31, 2011	
	Per share (Cdn$)	Total (in millions of U.S.$)	Per share (Cdn$)	Total (in millions of U.S.$)	Per share (Cdn$)	Total (in millions of U.S.$)
Class A common shares	**0.10**	**$ 32**	0.10	$ 31	0.03	$ 7
Class B common shares	**0.10**	**147**	0.10	142	0.03	36
		179		173		43
Series 2 preferred shares	**0.69**	**7**	0.66	6	0.13	1
Series 3 preferred shares	**1.32**	**3**	1.32	3	0.33	1
Series 4 preferred shares	**1.56**	**15**	1.56	15	0.39	4
		25		24		6
		$ 204		$197		$49

27 SHARE-BASED PLANS

PSU AND DSU PLANS

The Board of Directors of the Corporation approved a PSU plan under which PSUs may be granted to executives and other designated employees. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting). The Board of Directors of the Corporation has also approved a DSU plan under which DSUs may be granted to senior officers. The DSU plan is similar to the PSU plan, except that their exercise can only occur upon retirement or termination of employment. During the fiscal year ended December 31, 2011, a combined total of 8,835,000 PSUs and DSUs were authorized for issuance (a combined total of 10,576,000 PSUs and DSUs during the fiscal year ended January 31, 2011).

The number of PSUs and DSUs has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	PSU	DSU	PSU	DSU
Balance at beginning of year	**18,225,184**	**2,966,000**	15,888,267	1,124,000
Granted	**6,824,306**	**1,562,000**	8,181,500	1,842,000
Performance adjustment	**1,156,478**	**–**	2,725,988	–
Exercised	**(6,413,195)**	**–**	(8,177,963)	–
Cancelled	**(643,769)**	**(161,000)**	(392,608)	–
Balance at end of year	**19,149,004**	**4,367,000**	18,225,184	2,966,000

PSUs and DSUs granted will vest if a financial performance threshold is met. The conversion ratio for vested PSUs and DSUs ranges from 70% to 150%. PSUs and DSUs generally vest three years following the grant date if the financial performance thresholds are met. For grants issued between February 1, 2009 and December 31, 2011, the vesting dates range from June 10, 2012 to June 10, 2014.

The weighted-average grant date fair value of PSUs and DSUs granted during the fiscal year ended December 31, 2011 was $7.04 ($4.31 during the fiscal year ended January 31, 2011). The fair value of each PSU and DSU granted was measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange and is based on the PSUs and DSUs that are expected to vest.

27. SHARE-BASED PLANS (CONTINUED)

The Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (Subordinate Voting) of the Corporation in the open market (see note 26 – Share capital) in connection with the PSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of $31 million was recorded during the fiscal year ended December 31, 2011 with respect to the PSU and DSU plans ($39 million during the fiscal year ended January 31, 2011).

SHARE OPTION PLANS

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 70,135,175 were available for issuance under these share option plans as at December 31, 2011.

Current share option plan – Effective June 1, 2009, the Corporation amended the share option plan for key employees for options granted after this date. The most significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted.
- The options vest at the expiration of the third year following the grant date.
- The options terminate no later than seven years after the grant date.

The summarized information on the current share option plan is as follows as at December 31, 2011:

		Issued and outstanding	
Exercise price range (Cdn$)	**Number of options**	**Weighted-average remaining life (years)**	**Weighted-average exercise price (Cdn$)**
2 to 4	2,435,983	4.44	3.45
4 to 6	3,805,000	5.45	4.72
6 to 8	3,484,000	6.44	7.01
	9,724,983		

The number of options issued and outstanding under the current share option plan has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**6,388,414**	**4.22**	2,580,000	3.45
Granted	**3,598,000**	**6.99**	3,870,000	4.72
Cancelled	**(261,431)**	**5.13**	(61,586)	3.45
Balance at end of year	**9,724,983**	**5.22**	6,388,414	4.22
Options exercisable at end of year	**–**	**–**	–	–

Performance share option plan – For options issued to key employees after May 27, 2003, and before June 1, 2009, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted. These options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective. The options terminate no later than seven years after the grant date. As at December 31, 2011, target prices ranged between $4 Cdn and $11 Cdn.

27. SHARE-BASED PLANS (CONTINUED)

The summarized information on the performance share option plan is as follows as at December 31, 2011:

	Issued and outstanding					Exercisable
Exercise price range (Cdn$)	Number of options	Weighted-average target price (Cdn$)	Weighted-average remaining life (Cdn$)	Weighted-average exercise price (Cdn$)	Number of options	Weighted-average exercise price (Cdn$)
2 to 4	5,712,725	4.41	1.09	2.98	5,637,725	2.99
4 to 6	4,805,938	6.01	2.45	5.50	4,785,938	5.50
6 to 8	90,000	8.00	3.46	7.90	67,500	7.90
8 to 10	5,189,200	8.00	3.44	8.53	3,891,900	8.53
	15,797,863				14,383,063	

The weighted average share price of options exercised during the fiscal year ended December 31, 2011 was $6.70 ($5.13 during the fiscal year ended January 31, 2011).

The number of options has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Number of options	Weighted-average exercise price (Cdn$)	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**26,497,775**	**5.06**	31,254,075	4.90
Exercised	**(2,112,862)**	**3.11**	(1,357,788)	3.32
Cancelled	**(630,550)**	**6.44**	(860,000)	5.04
Expired	**(7,956,500)**	**4.40**	(2,538,512)	3.99
Balance at end of year	**15,797,863**	**5.60**	26,497,775	5.06
Options exercisable at end of year	**14,383,063**	**5.35**	14,240,338	4.75

Prior share option plans – For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options are all vested, and terminate no later than 10 years after the grant date.

The number of options issued, outstanding and exercisable amounted to 1,727,000 as at December 31, 2011, and the exercise prices of these options range from $12 Cdn to $15 Cdn with a weighted-average remaining life of 0.23 years and a weighted-average exercise price of $14.58 Cdn (1,828,000 options and $14.58 Cdn as at January 31, 2011 and 2,143,000 options and $14.58 Cdn as at February 1, 2010). For options ranging from $15 Cdn to $25 Cdn, the number of options issued, outstanding and exercisable amounted to 1,197,000 and $21.63 Cdn as at January 31, 2011 and 3,024,000 options and $20.45 Cdn as at February 1, 2010).

The number of options cancelled and expired amounted to 111,000 and 1,187,000 with a weighted-average exercise price of $15.08 Cdn and $21.64 Cdn, respectively, for the fiscal year ended December 31, 2011 (260,500 and 1,881,500 options and $14.26 Cdn and $19.57 Cdn for the fiscal year ended January 31, 2011).

27. SHARE-BASED PLANS (CONTINUED)

SHARE-BASED COMPENSATION EXPENSE FOR OPTIONS

The weighted-average grant date fair value of stock options granted during the fiscal year ended December 31, 2011 was $2.43 per option ($1.63 per option for the fiscal year ended January 31, 2011). The fair value of each option granted was determined using a modified Black-Scholes option pricing model, which incorporates target prices related to the performance share option plan in the fair value calculation for options issued before June 1, 2009, the share price at the grant date, and the following weighted-average assumptions for the fiscal years ended:

	December 31, 2011	January 31, 2011
Risk-free interest rate	**2.21%**	2.65%
Expected life	**5 years**	5 years
Expected volatility in market price of shares	**44.53%**	48.04%
Expected dividend yield	**1.81%**	2.09%

A compensation expense of $7 million was recorded during the fiscal year ended December 31, 2011 with respect to share option plans ($8 million during the fiscal year ended January 31, 2011).

EMPLOYEE SHARE PURCHASE PLAN

Under the employee share purchase plan, employees of the Corporation are eligible to purchase Class B Shares (Subordinate Voting) of the Corporation up to a maximum of 20% of their base salary to a yearly maximum of $30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to $7 million for the fiscal year ended December 31, 2011 ($6 million for the fiscal year ended January 31, 2011). Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

28 NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

Net change in non-cash balances related to operations was as follows for the fiscal years ended:

	December 31, 2011	January 31, 2011
Trade and other receivables	**$ (87)**	$(190)
Inventories	**(148)**	303
Other financial assets and liabilities, net	**(193)**	26
Other assets	**(8)**	(43)
Trade and other payables	**156**	(32)
Provisions	**(97)**	(28)
Advances and progress billings in excess of related long-term contract inventories	**(422)**	392
Advances on aerospace programs	**(128)**	(247)
Retirement benefits liability	**(178)**	(209)
Other liabilities	**77**	485
	$(1,028)	$ 457

29 CREDIT FACILITIES

LETTER OF CREDIT FACILITIES

In May 2011 and June 2011, the Corporation renewed the BT and the BA letter of credit facilities, respectively. The letter of credit facilities and their maturities were as follows as at:

	Amount committed	Letters of credit issued	Amount available	Maturity (calendar year)
December 31, 2011				
BT facility	**$4,399[1]**	**$3,805**	**$ 594**	**2016[2]**
BA facility	**600**	**264**	**336**	**2014[3]**
PSG facility	**900**	**318**	**582**	**2012[4]**
	$5,899	**$4,387**	**$1,512**	
January 31, 2011				
BT facility	$5,212[1]	$3,633	$1,579	2013
BA facility	600	211	389	2011
PSG facility	900	352	548	2011[4]
	$6,712	$4,196	$2,516	
February 1, 2010				
BT facility	$5,201[1]	$3,921	$1,280	2013
BA facility	600	484	116	2011
PSG facility	900	377	523	2010[4]
	$6,701	$4,782	$1,919	

1 €3,400 million as at December 31, 2011 (€3,800 million as at January 31, 2011 and €3,750 million as at February 1, 2010).
2 The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment amount of the facility, plus a two-year amortizing period during which new letters of credit cannot be issued. The final maturity date of the facility is May 2016. The facility can be extended in May 2012 and May 2013 each for an additional year subject to approval by a majority of the bank syndicate members.
3 The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment of the facility. The facility can be extended annually on the anniversary date for an additional year subject to approval by a majority of the bank syndicate members.
4 The performance security guarantee facility ("PSG facility") is renewed and extended annually if mutually agreed. In June 2011, the facility was extended until June 2012 and is intended to be renewed in annual increments thereafter. If the facility is not extended, the letters of credit issued under this facility will amortize over their maturity.

In addition to the outstanding letters of credit shown in the above table, letters of credit of $753 million were outstanding under various bilateral agreements as at December 31, 2011 ($708 million as at January 31, 2011 and $453 million as at February 1, 2010).

The Corporation also uses numerous bilateral facilities with insurance companies to support BT's operations. An amount of $2.1 billion was outstanding under such facilities as at December 31, 2011 ($2.0 billion as at January 31, 2011 and $1.5 billion as at February 1, 2010).

REVOLVING CREDIT FACILITY

In June 2011, the Corporation also renewed its unsecured revolving credit facility, increasing the amount available from $500 million to $750 million. The $750-million unsecured revolving credit facility matures in June 2014 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar drawing) plus a margin based on the Corporation's credit ratings. This facility is available for cash drawings for the general working capital needs of the Corporation and the unsecured revolving credit facilities were unused since their inception.

FINANCIAL COVENANTS

The Corporation is subject to various financial covenants under its BA and BT letter of credit facilities and its revolving credit facility, which must be met on a quarterly basis. The BA letter of credit and revolving credit facilities include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio all calculated based on an adjusted consolidated basis i.e. excluding BT. The BT financial covenants require minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on BT standalone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics as described in note 30–Capital management or to the specific terms used in the MD&A.

29. CREDIT FACILITIES (CONTINUED)

In addition, the Corporation must maintain a minimum BT liquidity of €600 million ($776 million) at the end of each calendar quarter and a minimum BA liquidity of $500 million at the end of each fiscal quarter. These conditions were all met as at December 31, 2011, January 31, 2011 and February 1, 2010.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met.

INVESTED COLLATERAL

These investments were used as collateral for the previous €3.8-billion ($5.2-billion) BT letter of credit facility and for the previous $600-million BA letter of credit facility. Under the BA and BT letter of credit facilities, invested collateral is no longer required. As a result, the invested collateral required under the previous letter in credit facilities, amounting to €406 million ($584 million) for BT and $121 million for BA, has been released leading to an increase of liquidity during the fiscal year ended December 31, 2011. Invested collateral consisted mainly of bonds (government and agency notes and bonds, corporate bonds and covered bonds), commercial paper and certificates of deposit, held with a custodian.

30 CAPITAL MANAGEMENT

The Corporation's capital management strategy is designed to maintain strong liquidity and to optimize its capital structure in order to reduce costs and improve its ability to seize strategic opportunities. The Corporation analyzes its capital structure using global metrics, which are based on a broad economic view of the Corporation. The Corporation manages and monitors its global metrics such that it can achieve an investment-grade profile.

The Corporation adjusted its global metrics to align them to those that the Corporation's believe should be used to assess its creditworthiness and to reflect the new accounting rules under IFRS:

- Adjusted debt now includes the sale and leaseback obligation, as this obligation is recognized on the consolidated statements of financial position under IFRS. In addition, adjusted debt now excludes:
  - the fair value of derivatives designated in fair value hedge relationships, as such derivatives are related to our interest rate hedging program (i.e. they do not represent a principal repayment obligation); and
  - the net retirement benefit liability which is now monitored separately from our global metrics (see below).
- Adjusted interest was redefined to include interest paid (as per the supplemental information provided in the consolidated statements of cash flows), an interest adjustment for operating leases and accretion expense on sale and leaseback obligations.

Furthermore, the Corporation no longer monitors the capitalization metric as such metrics have become less relevant, in particular in the context of the volatile equity measurement that arises under IFRS.

The Corporation's objectives with regard to its global metrics are as follows:

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

Global metrics – The following global metrics do not represent the ratios required for bank covenants. A reconciliation of the global metrics to the most comparable IFRS financial measures are provided in the Non-GAAP financial measures section of the MD&A for the fiscal year ended December 31, 2011.

GLOBAL METRICS

	December 31, 2011	January 31, 2011
Adjusted EBIT[1]	**$1,271**	$1,262
Adjusted interest[2]	**$ 271**	$ 251
Adjusted EBIT to adjusted interest ratio	**4.7**	5.0
Adjusted debt[3]	**$5,311**	$5,296
Adjusted EBITDA[4]	**$1,657**	$1,683
Adjusted debt to adjusted EBITDA ratio[5]	**3.2**	3.1

1 Represents EBIT plus interest adjustment for operating leases, and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
2 Represents interest paid (as per the supplemental information provided in the consolidated statements of cash flows), plus accretion expense on sale and leaseback obligations and interest adjustments for operating leases.
3 Represents long-term debt adjusted for the fair value of derivatives designated in fair value hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.
4 Represents EBITDA plus amortization and interest, adjusted for operating leases, and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of derivatives before their contractual maturity dates).
5 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

In addition to the above global level metrics, the Corporation separately monitors its net retirement benefit liability which amounted to $3,213 million as at December 31, 2011 ($1,946 million as at January 31, 2011). The measurement of this liability is dependent on numerous key long-term assumptions such as those regarding future compensation increases, inflation rates, mortality rates and current discount rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. For example, discount rates have reached an historical low during the fiscal year ended December 31, 2011 resulting in a net retirement benefit liability increase of $1.5 billion. The Corporation closely monitors the impact of the net retirement benefit liability on its future cash flows and has introduced significant risk mitigation initiatives in recent years in this respect. For details on the increase in the net benefit retirement liability due to changes in discount rate assumptions and risk mitigation initiatives, see the Retirement benefits section of the MD&A.

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

See note 29 – Credit facilities for a description of bank covenants.

31 FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

Credit risk	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Liquidity risk	Risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.
Market risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to foreign exchange risk and interest rate risk.

CREDIT RISK

The Corporation is exposed to credit risk through its normal treasury activities on its derivative financial instruments and other investing activities. The Corporation is also exposed to credit risk through its trade receivables arising from its normal commercial activities. Credit exposures arising from lending activities relate primarily to aircraft loans and lease receivables provided to BA customers in connection with the sale of aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from the treasury activities are managed by a central treasury function in accordance with the Corporate Foreign Exchange Risk Management Policy and Corporate Investment Management Policy (the "Policy"). The objective of the policy is to minimize the Corporation's exposure to credit risk from its treasury activities by ensuring that the Corporation transacts strictly with investment-grade financial institutions and rated money market funds based on pre-established consolidated counterparty risk limits per financial institution and funds.

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

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

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

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maximum exposure to credit risk – The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in note 12 – Financial instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Aircraft loans and lease receivables	**$432**	$397	$279
Derivative financial instruments	**$523**	$501	$450
Investment in securities	**$341**	$325	$279
Investment in financing structures	**$192**	$205	$204

Credit quality – The credit quality, using external and internal credit rating systems, of financial assets that are neither past due nor impaired is usually investment grade, except for BA receivables and aircraft loans and lease receivables and servicing fees. BA receivables are usually not externally or internally quoted, however the credit quality of customers is dynamically reviewed and is based on the Corporation's experience with the customers and payment behaviour. The Corporation usually holds underlying assets or security deposits as collateral or letters of credit for the receivables. The Corporation's customers for aircraft loans and lease receivables are mainly regional airlines with a credit rating below investment grade. The credit quality of the Corporation's aircraft loans and lease receivables portfolio is strongly correlated to the credit quality of the regional airline industry. The financed aircraft is used as collateral to reduce the Corporation's exposure to credit risk.

Refer to note 35 – Commitment and Contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

LIQUIDITY RISK

The Corporation manages liquidity risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows, which is achieved through a detailed forecast of the Corporation's liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, the maturity profile of indebtedness, access to capital markets, the level of customer advances, working capital requirements and the funding of product developments and other financial commitments. The Corporation also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility.

Maturity analysis – The maturity analysis of financial assets and financial liabilities, excluding derivative financial instruments, was as follows as at December 31, 2011:

	Carrying amount	Undiscounted cash flows (before giving effect to the related hedging instruments)						
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	Total
Cash and cash equivalents	$3,372	$3,372	$ –	$ –	$ –	$ –	$ –	$ 3,372
Trade and other receivables	$1,408	1,375	21	–	–	–	12	1,408
Other financial assets[1]	$1,283	170	204	136	324	623	92	1,549
Assets		4,917	225	136	324	623	104	6,329
Trade and other payables	$3,210	3,010	27	2	17	–	154	3,210
Other financial liabilities[1]	$ 697	291	83	153	228	141	–	896
Long-term debt								
Principal	$4,941	189	242	1,118	2,586	415	–	4,550
Interest		293	574	564	738	294	–	2,463
Liabilities		3,783	926	1,837	3,569	850	154	11,119
Net amount		$1,134	$(701)	$(1,701)	$(3,245)	$(227)	$ (50)	$ (4,790)

1 The carrying amount of other financial assets excludes the carrying amount of derivative financial instruments and the carrying amount of other financial liabilities excludes the carrying amount of derivative financial instruments and the current portion of long-term debt.

Other financial liabilities include government refundable advances. Under the respective agreements, the Corporation is required to pay amounts to governments at the time of the delivery of aircraft. Due to uncertainty about the number of aircraft to be delivered and the timing of delivery of aircraft, the amounts shown in the table above may vary.

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows as at December 31, 2011:

	Nominal value (USD equivalent)	Undiscounted cash flows[2]					
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	Total
Derivative financial assets							
Forward foreign exchange contracts	$ 9,884	$ 203	$ 21	$ –	$ –	$ –	$ 224
Interest-rate derivatives	2,822	65	73	106	50	18	312
	$12,706	$ 268	$ 94	$106	$ 50	$18	$ 536
Derivative financial liabilities							
Forward foreign exchange contracts	$ 9,955	$(267)	$ (40)	$ –	$ –	$ –	$(307)
Interest-rate derivatives	1,016	10	11	13	(72)	–	(38)
	$10,971	$(257)	$ (29)	$ 13	$(72)	$ –	$(345)

2 Amounts denominated in foreign currency are translated at the period end exchange rate.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

MARKET RISK

Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks in the ordinary course of business through its international operations, in particular to the Canadian dollar, pound sterling and euro. The Corporation employs various strategies, including the use of derivative financial instruments and by matching asset and liability positions, to mitigate these exposures.

The Corporation's main exposures to foreign currencies are managed by the segments and covered by a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's Foreign Exchange Risk Management Policy (the "FX Policy"). The objective of the FX Policy is to mitigate the impact of foreign exchange movements on the Corporation's consolidated financial statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed pre-set limits. Potential loss is defined as the maximum expected loss that could occur if an unhedged foreign currency exposure was exposed to an adverse change of foreign exchange rates over a one-quarter period. The FX Policy also strictly prohibits any speculative foreign exchange transactions that would result in the creation of an exposure in excess of the maximum potential loss approved by the Board of Directors of the Corporation.

Under the FX Policy, it is the responsibility of the segments' management to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, which has the responsibility to execute the hedge transactions in accordance with the FX Policy.

In order to properly manage their exposures, each segment maintains long-term cash flow forecasts in each currency. BA has adopted a progressive hedging strategy while BT hedges all its identified foreign currency exposures to limit the effect of currency movements on their results. The segments also mitigate foreign currency risks by maximizing transactions in their functional currency for their operations such as material procurement, sale contracts and financing activities.

In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching the long-term debt in foreign currency with long-term assets denominated in the same currency.

The Corporation mainly uses forward foreign exchange contracts to manage the Corporation's exposure from transactions in foreign currencies and to synthetically modify the currency of exposure of certain balance sheet items. The Corporation applies hedge accounting for a significant portion of anticipated transactions and firm commitments denominated in foreign currencies, designated as cash flow hedges. Notably, the Corporation enters into forward foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments.

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

Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in foreign currencies. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments recorded in its statement of financial position. The following impact on EBT for the fiscal year ended December 31, 2011, is before giving effect to cash flow hedge relationships.

						Effect on EBT
		CAD/USD	GBP/USD	EUR/USD	EUR/SEK	Other
Gain (loss)	+10%	$21	$(3)	$14	$25	$19

The following impact on OCI for the fiscal year ended December 31, 2011 is for derivatives designated in a cash flow hedge relationship. For derivatives that qualify for hedge accounting, any change in fair value is mostly offset by the re-measurement of the underlying exposure.

						Effect on OCI before income taxes
	Variation	CAD/USD	GBP/USD	EUR/USD	EUR/SEK	Other
Gain (loss)	+10%	$190	$ 4	$49	$29	$74

Interest rate risk

The Corporation is exposed to fluctuations in its future cash flows arising from changes in interest rates through its variable-rate financial assets and liabilities including long-term debt synthetically converted to variable interest rates (see note 23 – Long-term debt). The Corporation is exposed from time to time to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer in the future. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by a central treasury function as part of an overall risk management policy, by matching asset and liability positions, including the use of financial instruments, such as interest-rate swap agreements. Derivative financial instruments used to synthetically convert interest-rate exposures consist mainly of interest-rate swap agreements, cross currency interest-rate swap agreements and interest-rate cap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, investments in securities, lease subsidies and certain derivative financial instruments.

The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity to ensure proper assets/liabilities management matching, consistent with the objective to reduce risks arising from interest rates movements.

Sensitivity analysis

The interest rate risk primarily relates to financial instruments carried at fair value. Assuming a 100-basis point increase in interest rates impacting the measurement of these financial instruments, excluding derivative financial instruments in a hedge relationship, as of December 31, 2011 and January 31, 2011, the impact on EBT would have been a negative adjustment of $52 million for December 31, 2011 ($69 million for January 31, 2011).

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value amounts disclosed in these consolidated financial statements represent the Corporation's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which the Corporation has immediate access. However, there is no active market for most of the Corporation's financial instruments. In the absence of an active market, the Corporation determines fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, credit spreads, default probability, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable. These calculations represent management's best estimates based on a range of methods and assumptions. Since they are based on estimates, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

METHODS AND ASSUMPTIONS

The methods and assumptions used to measure the fair value are as follows:

Financial instruments whose carrying value approximates fair value – The fair values of trade and other receivables, certain aircraft loans and lease receivables, restricted cash, trade and other payables, and sales and leaseback obligations measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments or because they bear variable interest rates or because the terms and conditions are comparable to current market terms and conditions for similar items.

Aircraft loans and lease receivables designated as FVTP&L – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate the fair value. The fair value is calculated using market data for interest rates, published credit ratings when available, yield curves and default probabilities. The Corporation uses market data to determine the marketability adjustments and also uses internal assumption to take into account factors that market participants would consider when pricing these financial assets. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves reflecting the specific factors of the current aircraft market.

Lease subsidies – The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of lease subsidies incurred in connection with the sale of commercial aircraft. The fair value is calculated using market data for interest rates, published credit ratings when available, default probabilities from rating agencies and the Corporation's credit spread. The Corporation also uses internal assumptions to determine the credit risk of customers without a published credit rating.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments – The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive to sell favourable contracts i.e. taking into consideration the counterparty credit risk, or pays to transfer unfavourable contracts i.e. taking into consideration the Corporation's credit risk, at the reporting dates. The Corporation uses discounted cash flow analyses and market data to estimate the fair value of forward agreements and interest-rate derivatives. The fair value is calculated using market data such as interest rates, credit spreads and foreign exchange spot rates.

The Corporation uses an option-adjusted spread model to estimate the fair value of the call feature on long-term debt, using market data such as interest-rate swap curves and external quotations.

Long-term debt – The fair value of long-term debt is estimated using public quotations or discounted cash flow analyses, based on the current corresponding borrowing rate for similar types of borrowing arrangements.

Government refundable advances and Vendor non-recurring costs – The Corporation uses discounted cash flow analyses to estimate the fair value. The fair value is calculated using market data for interest rates and credit spreads.

FAIR VALUE HIERARCHY

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis categorized using the fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs from observable markets other than quoted prices included in Level 1, including indirectly observable data (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows as at December 31, 2011:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	$ 440	$ –	$ –	$440
Derivative financial instruments[1]	548	–	548	–
Servicing fees	57	–	–	57
Investment in securities	384[2]	155	229	–
Investment in financing structures	201	–	150	51
	$1,630	$155	$927	$548
Financial liabilities				
Lease subsidies	$ 140	$ –	$ –	$140
Derivative financial instruments[1]	344	–	344	–
	$ 484	$ –	$344	$140

1 Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, and cross-currency interest-rate swap agreements and embedded derivatives.
2 Excludes $15 million of investments held at cost.

Changes in fair value of Level 3 financial instruments were as follows for the fiscal years ended December 31, 2011 and January 31, 2011:

	Aircraft loans and lease receivables	Servicing fees	Investment in financing structures	Lease subsidies
Balance as at February 1, 2010	$280	$48	$30	$(196)
Gains (losses) included in net income	18	2	4	(11)
Issuances	131	–	3	(5)
Settlements	(22)	(1)	–	51
Balance as at January 31, 2011	407	49	37	(161)
Gains (losses) included in net income	41	9	12	1
Issuances	38	–	–	(14)
Settlements	(46)	(1)	2	34
Balance as at December 31, 2011	**$440**	**$57**	**$51**	**$(140)**

Sensitivity to selected changes of assumptions for Level 3 hierarchy

When measuring Level 3 financial instruments at fair value, some assumptions may not be derived from an observable market. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at December 31, 2011:

Impact on EBT	Change in carrying value	Change of assumption	
Gain (loss)	Change in fair value recognized in net income during the fiscal year ended December 31, 2011	Downgrade the internally assigned credit rating of unrated customers by 1 notch	Increase the liquidity risk by 100 bps
Aircraft loans and lease receivables	$(10)	$(18)	$(28)

33 TRANSACTIONS WITH RELATED PARTIES

The Corporation's related parties are its joint ventures, associates and key management personnel.

JOINT VENTURES AND ASSOCIATES

The Corporation buys and sells products and services on arm's length terms with some of its joint ventures and associates in the ordinary course of business. The following table presents the portion of these transactions that is attributable to the interests of the other venturers, and transactions with associates for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Joint ventures	**Associates**	Joint ventures	Associates
Sales of products and services, and other income	**$59**	**$218**	$143	$262
Purchase of products and services, and other expenses	**$10**	**$ 95**	$ 12	$ 26

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

	December 31, 2011		January 31, 2011		February 1, 2010	
	Joint ventures	**Associates**	Joint ventures	Associates	Joint ventures	Associates
Receivables	**$59**	**$32**	$93	$36	$31	$14
Payables	**$ 1**	**$ 2**	$ 3	$ 2	$ 4	$ 1
Advances and progress billing in excess of long-term contract inventories	**$ –**	**$ –**	$ –	$60	$ –	$18

33. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL

The annual remuneration and related compensation costs of the executive and non-executive board members and key Corporate management, defined as the President and Chief Executive Officer of Bombardier Inc., the Presidents and Chief Operating Officers of BA and BT, and the Senior Vice Presidents of Bombardier Inc., were as follows for the fiscal years ended:

	December 31, 2011	January 31, 2011
Share-based payments	**$13**	$ 9
Salaries, bonuses and other short-term benefits	**12**	12
Retirement benefits	**4**	4
Other long-term benefits	**1**	1
	$30	$26

34 UNCONSOLIDATED SPECIAL PURPOSE ENTITIES

The following table summarizes the assets and liabilities of unconsolidated SPEs in which the Corporation had a significant exposure as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Financing structures related to the sale of regional aircraft	**$9,071**	**$6,603**	$9,992	$7,293	$10,948	$8,405

The Corporation has provided credit and/or residual value guarantees to certain SPEs created solely to provide financing related to the sale of commercial aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs long-term debt. The Corporation retains certain interests in the form of credit and residual value guarantees, subordinated debt and residual interests. Residual value guarantees typically cover a percentage of the first loss from a guaranteed value upon the sale of the underlying aircraft. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation's maximum potential exposure was $1.9 billion, of which $350 million was recorded as provisions and related liabilities as at December 31, 2011 ($2.0 billion and $439 million, respectively, as at January 31, 2011 and $2.1 billion and $573 million, respectively, as at February 1, 2010). The Corporation's maximum exposure under these guarantees is included in note 35–Commitments and contingencies.

The Corporation concluded that it did not control these SPEs.

35 COMMITMENTS AND CONTINGENCIES

In relation to the sale of commercial aircraft and related financing commitments, the Corporation enters into various sale support arrangements, including credit and residual value guarantees and financing rate commitments. The Corporation is also subject to other off-balance sheet risks described in the following table. These off-balance sheet risks are in addition to the commitments and contingencies described elsewhere in these consolidated financial statements. Some of these off-balance sheet risks are also included in note 34–unconsolidated special purposes entities. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

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

	December 31, 2011	January 31, 2011	February 1, 2010
Aircraft sales			
Credit (a)	**$1,389**	$1,453	$1,524
Residual value (a)	**2,108**	2,239	2,425
Mutually exclusive exposure[1]	**(771)**	(806)	(894)
Total credit and residual value exposure	**$2,726**	$2,886	$3,055
Trade-in commitments (b)	**$1,619**	$1,214	$ 761
Conditional repurchase obligations (c)	**$ 605**	$ 594	599
Other[2]			
Credit and residual value (e)	**$ 156**	$ 159	$ 157
Performance guarantees (f)	**$ 36**	$ 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.
2 The Corporation has also provided other guarantees (see section g) below).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to $456 million as at December 31, 2011 ($493 million as at January 31, 2011 and $536 million as at February 1, 2010) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third-party evaluations adjusted to reflect specific factors of the current aircraft market, and the anticipated proceeds from other assets covering such exposures. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $140 million as at December 31, 2011 ($161 million as at January 31, 2011 and $196 million as at February 1, 2010). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the underlying aircraft and lease subsidies.

AIRCRAFT SALES

a) Credit and residual value guarantees– The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2026. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 66% of the total maximum credit risk as at December 31, 2011 (64% as at January 31, 2011 and 62% as at February 1, 2010).

In addition, the Corporation may provide a guarantee for the residual value of aircraft at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. The arrangements generally include operating restrictions such as maximum usage and minimum maintenance requirements. The guarantee provides for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under such guarantees may be made only upon resale of the underlying aircraft to a third party.

35. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following table summarizes the outstanding residual value guarantees, at the earliest exercisable date, and the period in which they can be exercised as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	**$ 59**	$ 58	$ 35
From 1 to 5 years	**840**	758	634
From 5 to 10 years	**1,094**	1,257	1,415
From 10 to 15 years	**115**	166	341
	$2,108	$2,239	$2,425

b) Trade-in commitments – In connection with the signing of firm orders for the sale of new aircraft, the Corporation enters into specified-price trade-in commitments with certain customers. These commitments give customers the right to trade in their pre-owned aircraft as partial payment for the new aircraft purchased.

The Corporation's trade-in commitments were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	**$ 694**	$ 468	$377
From 1 to 3 years	**330**	417	384
Thereafter	**595**	329	–
	$1,619	$1,214	$761

c) Conditional repurchase obligations – In connection with the sale of new aircraft, the Corporation enters into conditional repurchase obligations with certain customers. Under these obligations, the Corporation agrees to repurchase the initial aircraft at predetermined prices, during predetermined periods or at predetermined dates, conditional upon mutually acceptable agreement for the sale of a new aircraft. At the time the Corporation enters into an agreement for the sale of a subsequent aircraft and the customer exercises its right to partially pay for the subsequent aircraft by trading in the initial aircraft to the Corporation, a conditional repurchase obligation is accounted for as a trade-in commitment.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	**$496**	$345	$524
From 1 to 3 years	**35**	140	40
Thereafter	**74**	109	35
	$605	$594	$599

d) Fractional ownership put options – Under the U.S. *Flexjet* fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled $396 million as at December 31, 2011 ($498 million as at January 31, 2011 and $598 million as at February 1, 2010). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

OTHER GUARANTEES

e) Credit and residual value guarantees – In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to $47 million as at December 31, 2011, as at January 31, 2011 and as at February 1, 2010. This guarantee matures in 2025. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements, amounting to $109 million as at December 31, 2011 ($112 million as at January 31, 2011 and $110 million as at February 1, 2010), in BT. These guarantees are mainly exercisable in 2012.

f) Performance guarantees – In certain projects carried out through consortia or other partnership vehicles in BT, partners may be jointly and severally liable to the customer for a default by the other partners. In such cases partners would normally provide counter indemnities to each other. These obligations and guarantees typically extend until final product acceptance by the customer and in some case to the warranty period.

The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to $36 million as at December 31, 2011 ($34 million as at January 31, 2011 and $42 million as at February 1, 2010), assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's net exposure is not significant, assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

g) Other – In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

OPERATING LEASES

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. Future minimum lease payments, mostly related to buildings and equipment, under non-cancellable operating leases are due as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Within 1 year	**$100**	$108	$ 98
Between 1 and 5 years	**216**	248	258
More than 5 years	**271**	227	230
	$587	$583	$586

Rent expense was $123 million for the fiscal year ended December 31, 2011 ($115 million for the fiscal year ended January 31, 2011).

OTHER COMMITMENTS

The Corporation also has purchase obligations, under various agreements, made in the normal course of business. The purchase obligations are as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Within 1 year	**$ 5,669**	$ 5,975	$5,111
Between 1 and 5 years	**3,912**	3,711	3,333
More than 5 years	**464**	426	398
	$10,045	$10,112	$8,842

The purchase obligations of the Corporation include capital commitments for the purchase of PP&E and intangible assets amounting to $195 million and $50 million, respectively, as at December 31, 2011 ($184 million and $7 million, respectively, as at January 31, 2011).

LITIGATIONS

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

While the Corporation cannot predict the final outcome of legal proceedings pending as at December 31, 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.

36 ADOPTION OF IFRS

The Corporation has adopted IFRS effective for its annual consolidated financial statements beginning February 1, 2011. These consolidated financial statements are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS. For all periods up to and including the fiscal year ended January 31, 2011, the Corporation prepared its consolidated 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 equity as at February 1, 2010 and January 31, 2011, as well as net income, comprehensive income and cash flows for the fiscal year ended January 31, 2011. References to Canadian GAAP in this note refer to Canadian GAAP applicable to the Corporation for reporting periods up to and including the fiscal year ended January 31, 2011.

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, 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. 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.

The Corporation has not modified the choices made with regard to elections under IFRS 1 or its accounting policies under IFRS during the fiscal year ended December 31, 2011, except for the additional exemption for retirement benefits to recognize all cumulative actuarial gains and losses as at February 1, 2010 in retained earnings as described in the following section.

EXEMPTIONS FROM FULL RETROSPECTIVE APPLICATION OF 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.

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.

6. Retirement benefits – The Corporation elected to recognize all cumulative actuarial gains and losses as at February 1, 2010 in retained earnings.

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 period indicated.

RECONCILIATION OF EQUITY

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

RECONCILIATION OF EBIT, NET INCOME AND DILUTED EPS

		Fiscal year ended January 31, 2011				
	Item	BA	BT	EBIT	Net financing expense	Net income
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.

36. ADOPTION OF IFRS (CONTINUED)

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 loss 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 transition date adjustments related to net unrecognized actuarial loss, change of measurement date and asset ceiling and additional liability test, net of income taxes of $177 million, totalled $1,973 million and have been presented as a separate item of the deficit as at February 1, 2010. Cumulative net actuarial gains and losses since February 1, 2010 are also presented in this separate item of the deficit.

The impact on EBT for the fiscal year ended January 31, 2011 was as follows:

Increase in EBIT	$ 97
Increase in net financing expense	(44)
Increase in EBT	$ 53

Actuarial gains and losses

Under Canadian GAAP, actuarial gains and losses were amortized through net 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 net 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.

Under Canadian GAAP, an adjustment arising from the asset ceiling was recognized in net 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 financial 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 fiscal 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. The order backlog under IFRS as at January 31, 2011 increased by $2.6 billion as compared to Canadian GAAP.

The following tables show the restatements in the number of aircraft deliveries for the fiscal 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**

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 net 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 product 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 increased by $252 million, EBIT increased by $24 million and financing expense increased by $7 million for the fiscal year ended January 31, 2011.

36. ADOPTION OF IFRS (CONTINUED)

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 fiscal year ended January 31, 2011.

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 expenses, 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 net 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	Fiscal year ended January 31, 2011
Decrease in amortization resulting from overall lower aerospace program tooling balance	$ 33
Repayments of government refundable advances no longer recorded in EBIT	47
Change in estimates of the liability for government refundable advances	(14)
Foreign exchange loss upon translation of the liability for government refundable advances	(11)
Accretion expense on the liability for government refundable advances	(19)
Additional capitalization of borrowing costs due to a higher capitalization base for programs under development	15
	$ 51

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 now 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 fiscal 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 minimal impact on EBIT.

Under IFRS, lease payments to the facilities are recorded as capital repayments or interest expense, rather than as a lease expense in EBIT under Canadian GAAP. EBIT for the fiscal year ended January 31, 2011 increased by $10 million under IFRS, while interest expense increased by $5 million, resulting in an increase in EBT of $5 million.

E. INCOME TAX IMPACT OF ALL RESTATEMENTS

The restatements to equity as at February 1, 2010 totalling $3,016 million affected the accounting values of assets and liabilities but not their tax bases. Applying the Canadian statutory tax rate of 31.3% to these restatements would trigger the recognition of a deferred income tax asset of $944 million at the transition date. 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 recognize such assets. In connection with IFRS restatements to equity at transition, $207 million of additional deferred income tax assets were recognized.

Applying the Canadian statutory tax rate of 30.0% to the IFRS adjustments for the fiscal 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 were recognized under IFRS during the fiscal year ended January 31, 2011. The additional income tax expense as a result of all restatements for the fiscal year ended January 31, 2011 was $60 million.

36. ADOPTION OF IFRS (CONTINUED)

RECONCILIATIONS 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 fiscal 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**	

1 Restatements include effect of IFRS 1 optional exemptions.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT FEBRUARY 1, 2010 (CONTINUED)

Canadian GAAP line items	Cdn GAAP	Reclassi-fications	Restate-ments	Items	IFRS	IFRS line items
Liabilities						**Liabilities**
Accounts payable and accrued liabilities	7,427	(4,230)	(152)	B, D	3,045	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
		1,989	(2)	D	1,987	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		(937)	A-E	1,150	Deficit - Other earnings
			(1,973)	A, E	(1,973)	Deficit - Net actuarial losses
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 equity holders 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.

36. ADOPTION OF IFRS (CONTINUED)

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 12-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.
- *Flexjet* 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 between cost of sales, SG&A and R&D based on the function of the underlying assets.

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 fiscal year ended January 31, 2011.

RECONCILIATION OF COMPREHENSIVE INCOME

	Item	
Comprehensive income under Canadian GAAP (as reported)		**$799**
Differences on net income		6
Differences on OCI		
Retirement benefits	A	35
Other		(35)
Income tax impact of all restatements	E	(28)
		(28)
Comprehensive income under IFRS		**$777**

36. ADOPTION OF IFRS (CONTINUED)

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

A. RETIREMENT BENEFITS

A net actuarial gain of $35 million was recognized during the fiscal year ended January 31, 2011. This net actuarial gain was comprised of:

Actuarial gains, mainly due to changes in discount rates	$161
Loss arising from variations in the asset ceiling and additional liability	(70)
Foreign exchange losses on the translation of plan assets and liabilities	(56)
Net actuarial gain	$ 35

Actuarial gains and losses are recognized in OCI under IFRS in accordance with the Corporation's choice of accounting policy.

E. INCOME TAX IMPACT OF ALL RESTATEMENTS

The related deferred income tax assets have not been fully recognized in some countries, as it is not probable that all of the income tax benefits will be realized, and additional income tax expense was recorded in other countries.

CHANGES TO THE STATEMENT OF CASH FLOWS FROM CANADIAN GAAP TO IFRS

The net impact on the statement of cash flows as a result of adoption of IFRS was as follows for the fiscal year ended January 31, 2011:

Cash flows from operating activities	$ 14
Cash flows from investing activities	(52)
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 fiscal 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.
- 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 fiscal year ended January 31, 2011, $52 million in government refundable advances was received and classified as cash flows from operating activities under IFRS.

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Bombardier Inc.

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Corporate Director
Lead Director
Bombardier Inc.

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Vice Chairman of the
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Janine Bombardier
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J. Armand Bombardier
Foundation

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Thierry Desmarest
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Daniel Johnson
Counsel
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Jean C. Monty
Corporate Director

Carlos E. Represas
Corporate Director

Jean-Pierre Rosso
Chairman
World Economic
Forum USA Inc.

Heinrich Weiss
Chairman and
Chief Executive Officer
SMS Holding GmbH

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Jean-Pierre Rosso

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Members: André Bérard,
Martha Finn Brooks,
Thierry Desmarest,
Carlos E. Represas

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Daniel Johnson,
Carlos E. Represas

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Bombardier Inc.

Guy C. Hachey
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Chief Operating Officer
Bombardier Aerospace

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Assessment and Pension
Asset Management
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Daniel Desjardins
Senior Vice President and
General Counsel
Bombardier Inc.

John Paul Macdonald
Senior Vice President
Human Resources and
Public Affairs
Bombardier Inc.

Roger Carle
Corporate Secretary
Bombardier Inc.

INVESTOR INFORMATION

STOCK EXCHANGE LISTINGS

Class A and Class B shares	Toronto (Canada)
Preferred shares, Series 2, Series 3 and Series 4	Toronto (Canada)
Stock listing ticker	BBD (Toronto)

FISCAL YEAR 2012 FINANCIAL RESULTS

First quarterly report	May 10, 2012
Second quarterly report	August 9, 2012
Third quarterly report	November 7, 2012
Annual Report, Q4 and 2012 year-end	February 28, 2013

SHAREHOLDERS

If you wish to obtain a copy of this annual report, or other corporate documents, we encourage you to download them from our website at www.bombardier.com, which provides practical, timely and environmentally friendly access. You can, however, order paper copies from our website or by contacting:

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INCORPORATION

The Corporation was incorporated on June 19, 1902, by letters patent and prorogated June 23, 1978, under the Canadian Business Corporations Act.

TRANSFER AGENT AND REGISTRAR

Shareholders with inquiries concerning their shares should contact:

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ANNUAL MEETING

The annual meeting of shareholders will be held on Thursday, May 10, 2012, at 9:30 a.m. at the following address:
Centre Mont-Royal
Auditorium – Level 1
2200 Mansfield Street
Montréal, Québec
Canada H3A 3R8

DUPLICATION: Although Bombardier strives to ensure that registered shareholders receive only one copy of corporate documents, duplication is unavoidable if securities are registered under different names and addresses. If this is the case, please call one of the following numbers: +1 514-982-7555 or +1 800-564-6253 (toll-free, North America only) or send an email to service@computershare.com.

SHARE CAPITAL

Authorized, issued and outstanding as at December 31, 2011

	Authorized	Issued and outstanding
Class A shares	1,892,000,000	314,537,237
Class B shares	1,892,000,000	1,438,677,056[1]
Preferred shares, Series 2	12,000,000	9,464,920
Preferred shares, Series 3	12,000,000	2,535,080
Preferred shares, Series 4	9,400,000	9,400,000

1 Including 29,321,479 shares purchased and held in trust for the performance stock unit plan.

COMMON DIVIDENDS PAYMENT DATES

Payment subject to approval by the Board of Directors

Class A		Class B	
Record date	Payment date	Record date	Payment date
2012-01-13	2012-01-31	2012-01-13	2012-01-31
2012-03-16	2012-03-31	2012-03-16	2012-03-31
2012-06-15	2012-06-30	2012-06-15	2012-06-30
2012-09-14	2012-09-30	2012-09-14	2012-09-30
2012-12-14	2012-12-31	2012-12-14	2012-12-31

PREFERRED DIVIDENDS PAYMENT DATES

Payment subject to approval by the Board of Directors

Series 2[2]			
Record date	Payment date	Record date	Payment date
2011-12-30	2012-01-15	2012-06-29	2012-07-15
2012-01-31	2012-02-15	2012-07-31	2012-08-15
2012-02-29	2012-03-15	2012-08-31	2012-09-15
2012-03-30	2012-04-15	2012-09-28	2012-10-15
2012-04-30	2012-05-15	2012-10-31	2012-11-15
2012-05-31	2012-06-15	2012-11-30	2012-12-15

2 Convertible on August 1, 2012, into Series 3 Cumulative Redeemable Preferred Shares (see note on Share Capital in the Consolidated Financial Statements).

PREFERRED DIVIDENDS PAYMENT DATES

Payment subject to approval by the Board of Directors

Series 3[3]		Series 4	
Record date	Payment date	Record date	Payment date
2012-01-13	2012-01-31	2012-01-13	2012-01-31
2012-04-13	2012-04-30	2012-04-13	2012-04-30
2012-07-13	2012-07-31	2012-07-13	2012-07-31
2012-10-12	2012-10-31	2012-10-12	2012-10-31

3 Convertible on August 1, 2012, into Series 2 Cumulative Redeemable Preferred Shares (see note on Share Capital in the Consolidated Financial Statements).

The *CSeries* family of aircraft, *Learjet 85* aircraft and *Global 7000* and *Global 8000* aircraft programs are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specifications and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind. The configuration and performance of the aircraft may differ from the descriptions and photos provided and, together with any related commitment, representations, guarantee or warranty, shall be determined in a final purchase agreement.

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162
mature trees, equivalent to the area of 11 tennis courts

15,287 kg
of waste, or the contents of one full garbage truck

47,719 kg
of CO_2, equivalent to the annual emissions of 16 cars

658,646 litres
of water, equal to one person's consumption of water in 5 years and 57 days

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BOMBARDIER
the evolution of mobility