CONSOLIDATED FINANCIAL STATEMENTS

FOR FISCAL YEARS 2012 AND 2011

(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

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See MD&A for the abbreviations used in the consolidated financial statements.

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 International Accounting Standards Board. The MD&A has been prepared in accordance with the requirements of Canadian Securities Administrators. 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 MD&A 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 Canadian 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 2012. 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 end of the fiscal year 2012. 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, FCPA, FCA
Senior Vice President and
Chief Financial Officer

February 20, 2013

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, 2012, 2011 and February 1, 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for fiscal years ended December 31, 2012 and 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, as issued by the International Accounting Standards Board, 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

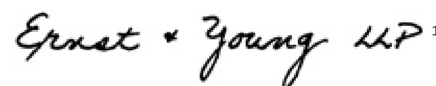
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and International Standards on auditing. Those standards require that we comply with ethical requirements 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, 2012, 2011 and February 1, 2011, and its financial performance and its cash flows for fiscal years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.



Ernst & Young LLP[1]
Montréal, Canada

February 20, 2013

1 CPA auditor, CA, public accountancy permit no. A112431

CONSOLIDATED STATEMENTS OF INCOME

For the fiscal years ended December 31
(in millions of U.S. dollars, except per share amounts)

	Notes	2012	2011[1]
Revenues	5	**$ 16,768**	$ 18,347
Cost of sales	5, 16	**14,269**	15,444
Gross margin		**2,499**	2,903
SG&A	5	**1,443**	1,439
R&D	5, 6	**299**	271
Share of income of associates	5	**(45)**	(4)
Other income	5, 7	**(33)**	(5)
Special items	5, 8	**140**	–
EBIT		**695**	1,202
Financing expense	9	**596**	681
Financing income	9	**(599)**	(519)
EBT		**698**	1,040
Income taxes	11	**100**	203
Net income		**$ 598**	$ 837
Attributable to			
Equity holders of Bombardier Inc.		**$ 588**	$ 837
NCI		**10**	–
		$ 598	$ 837
EPS (in dollars)	12		
Basic and diluted		**$ 0.32**	$ 0.47

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 December 31
(in millions of U.S. dollars)

	2012	2011[1]
Net income	$ 598	$ 837
OCI		
Items that may be reclassified to net income		
Net change in cash flow hedges		
Foreign exchange re-evaluation	(5)	16
Net gain (loss) on derivative financial instruments designated as cash flow hedges	163	(128)
Reclassification to income or to the related non-financial asset[2,3]	25	(40)
Income taxes	(64)	54
	119	(98)
AFS financial assets		
Net unrealized gain	6	26
Reclassification to income	(29)	(5)
Income taxes	6	(4)
	(17)	17
CCTD		
Net investments in foreign operations	75	(90)
Net gain (loss) on related hedging items	(18)	50
	57	(40)
Items that are never reclassified to net income		
Retirement benefits		
Net actuarial gains (losses)	172	(1,489)
Income taxes	(25)	234
	147	(1,255)
Total OCI	306	(1,376)
Total comprehensive income (loss)	$ 904	$ (539)
Attributable to		
Equity holders of Bombardier Inc.	$ 891	$ (535)
NCI	13	(4)
	$ 904	$ (539)

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Includes $22 million of gain reclassified to the related non-financial asset for fiscal year 2012 ($104 million of gain for fiscal year 2011).
3 $2 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 fiscal year 2013.

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

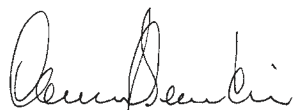
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at
(in millions of U.S. dollars)

	Notes	December 31, 2012	December 31, 2011	February 1, 2011
Assets				
Cash and cash equivalents	14	**$ 2,896**	$ 3,372	$ 4,195
Trade and other receivables	15	**1,525**	1,408	1,377
Inventories	16	**7,729**	7,398	7,307
Other financial assets	17	**443**	526	705
Other assets	18	**683**	559	648
Current assets		**13,276**	13,263	14,232
Invested collateral	30	**–**	–	676
PP&E	19	**2,028**	1,864	1,878
Aerospace program tooling	20	**4,770**	3,168	2,088
Goodwill	20	**2,325**	2,253	2,358
Deferred income taxes	11	**1,452**	1,506	1,294
Other financial assets	17	**1,316**	1,305	1,104
Other assets	18	**623**	505	462
Non-current assets		**12,514**	10,601	9,860
		$ 25,790	$ 23,864	$ 24,092
Liabilities				
Trade and other payables	22	**$ 3,553**	$ 3,210	$ 3,073
Provisions	23	**1,062**	1,078	1,198
Advances and progress billings in excess of long-term contract inventories	16	**2,015**	1,885	2,370
Advances on aerospace programs		**3,053**	2,788	2,989
Other financial liabilities	25	**455**	732	860
Other liabilities	26	**2,236**	2,262	2,214
Current liabilities		**12,374**	11,955	12,704
Provisions	23	**524**	594	614
Advances on aerospace programs		**1,600**	1,266	1,193
Non-current portion of long-term debt	24	**5,360**	4,748	4,645
Retirement benefits	21	**2,997**	3,226	1,975
Other financial liabilities	25	**601**	502	532
Other liabilities	26	**957**	902	908
Non-current liabilities		**12,039**	11,238	9,867
		24,413	23,193	22,571
Equity				
Attributable to equity holders of Bombardier Inc.		**1,331**	639	1,454
Attributable to NCI		**46**	32	67
		1,377	671	1,521
		$ 25,790	$ 23,864	$ 24,092
Commitments and contingencies	37			

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

On behalf of the Board of Directors,



Laurent Beaudoin, C.C., FCPA, FCA
Director

L. Denis Desautels, O.C., FCPA, FCA
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal years ended December 31
(in millions of U.S. dollars)

	Notes	2012	2011[1]
Operating activities			
Net income		**$ 598**	$ 837
Non-cash items			
Amortization		**371**	333
Impairment charges on PP&E	8	**9**	–
Deferred income taxes	11	**(27)**	66
Gain on disposals of PP&E and intangible assets	7	**(6)**	(3)
Share-based expense	28	**7**	38
Net change in non-cash balances	29	**396**	(1,028)
Cash flows from operating activities		**1,348**	243
Investing activities			
Additions to PP&E and intangible assets		**(2,140)**	(1,500)
Proceeds from disposals of PP&E and intangible assets		**51**	25
Proceeds from disposal of invested collateral		**–**	705
Proceeds from disposal of AFS investments in securities		**133**	–
Other		**6**	(28)
Cash flows from investing activities		**(1,950)**	(798)
Financing activities			
Proceeds from issuance of long-term debt		**509**	122
Repayments of long-term debt		**(186)**	(15)
Dividends paid[2]		**(249)**	(156)
Purchase of Class B shares held in trust under the PSU plan		**–**	(58)
Repurchase of Class B shares	27	**–**	(14)
Purchase of NCI		**–**	(61)
Other		**3**	(45)
Cash flows from financing activities		**77**	(227)
Effect of exchange rate on cash and cash equivalents		**49**	(41)
Net decrease in cash and cash equivalents		**(476)**	(823)
Cash and cash equivalents at beginning of year		**3,372**	4,195
Cash and cash equivalents at end of year		**$ 2,896**	$ 3,372
Supplemental information[3,4]			
Cash paid for			
Interest		**$ 259**	$ 238
Income taxes		**$ 101**	$ 115
Cash received for			
Interest		**$ 97**	$ 40
Income taxes		**$ 19**	$ 20

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 $25 million of dividends paid relate to preferred shares for fiscal year 2012 ($20 million for fiscal year 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 debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, invested collateral, investments in securities, loans and lease receivable after the effect of hedges, if any, a gain on the sale of AFS investments in securities and the interest portion of a gain related to the resolution of a litigation in connection with part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations.

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, 2011	$ 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)
Total comprehensive income				
Net income	–	–	588	–
OCI	–	–	–	147
	-	–	588	147
Options exercised	–	5	–	–
Dividends				
Common shares	–	–	(177)	–
Preferred shares	–	–	(29)	–
Capital distribution	–	–	–	–
Shares distributed - PSU plans	–	14	–	–
Share-based expense	–	–	–	–
Purchase of NCI	–	–	(3)	–
As at December 31, 2012	**$ 347**	**$ 1,342**	**$ 2,652**	**$ (3,086)**

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
$ 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
–	–	–	–	588	10	598
–	(17)	119	54	303	3	306
–	(17)	119	54	891	13	904
(2)	–	–	–	3	–	3
–	–	–	–	(177)	–	(177)
–	–	–	–	(29)	–	(29)
–	–	–	–	–	(2)	(2)
(14)	–	–	–	–	–	–
7	–	–	–	7	–	7
–	–	–	–	(3)	3	–
$ 109	**$ 10**	**$ (197)**	**$ 154**	**$ 1,331**	**$ 46**	**$ 1,377**

NOTES

TO 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 Corporation carries out its operations in two distinct segments, the aerospace segment (BA) and the transportation segment (BT). The main activities of the Corporation are described in Note 5 – Segment disclosure.

Effective December 31, 2011, the Corporation changed its financial year-end from January 31 to December 31. Before the change of year-end, the Corporation was consolidating the operations of BT on a calendar year basis, i.e. with a one-month lag with the remainder of its operations. As a result, the comparative period ended December 31, 2011 is comprised of 11 months of results of BA and 12 months of results of BT.

The amounts presented in the financial statements for fiscal year 2011 are not entirely comparable as a result of this change of financial year-end.

The Corporation's consolidated financial statements for fiscal years 2012 and 2011 were authorized for issuance by the Board of Directors on February 20, 2013.

STATEMENT OF COMPLIANCE

The Corporation's consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IFRS, as issued by the IASB.

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.
Bombardier Aerospace Corporation	U.S.
Learjet Inc.	U.S.

Revenues of these subsidiaries combined with those of Bombardier Inc. totalled 65% of consolidated revenues for fiscal year 2012 (67% for fiscal year 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, pound sterling, various other 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 2012	December 31 2011	February 1 2011	**2012**	2011
Euro	**1.3194**	1.2939	1.3715	**1.2860**	1.3978
Canadian dollar	**1.0043**	0.9791	0.9978	**1.0008**	1.0124
Pound sterling	**1.6167**	1.5490	1.6040	**1.5854**	1.6068

REVENUE RECOGNITION

Long-term contracts – Revenues from long-term contracts related to designing, engineering or manufacturing specifically 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. 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.

When a contract covers a number of products, the construction of each product is treated as a separate contract when (1) separate proposals have been submitted for each product, (2) each product has been subject to separate negotiation, and (3) the costs and revenues of each product can be identified. A group of contracts, whether with a single customer or with several customers, are treated as a single contract when (1) the group of contracts is negotiated as a single package, (2) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin, and (3) the contracts are performed concurrently or in a continuous sequence.

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 sales, 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 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.

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 assets and liabilities 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. On initial recognition, 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 classified, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 on monetary investments, such as 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 mid-price information in the case of quoted securities. When the Corporation has a surplus in a defined benefit plan, the value of any plan asset recognized is restricted to the asset ceiling i.e. 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 and are never reclassified to net income.
- 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, at least annually, and changes are accounted for prospectively. The amortization expense and impairments are recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying asset. Amortization of assets under construction begins when the asset is ready for its intended use.

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

INTANGIBLE ASSETS

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

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

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

Amortization of aerospace program tooling begins at the date of 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	Expected number of aircraft to be produced[1]
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 at December 31, 2012, 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 eight years.

The amortization methods and estimated useful lives are reviewed on a regular basis, at least annually, 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 to 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 or CGU 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.

Residual value guarantees provide protection, through contractually limited payments, to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value. In most cases, these guarantees are provided as part of a financing arrangement.

Restructuring provisions – Restructuring provisions are recognized only when the Corporation has an actual or a constructive obligation. The Corporation has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline. Furthermore, the affected employees or worker councils must have been notified of the plan's main features.

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. Compensation expense 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. The other two parts, impairment of financial assets and hedge accounting, are still under development. The IASB is also currently considering making limited modifications to the first part of IFRS 9, *Financial instruments*.

The first part of 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, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value, 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 the 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 to assess 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 is effective January 1, 2013 for the Corporation. The adoption of this standard has no impact on the consolidated financial statements of the Corporation.

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. IFRS 11 classifies joint arrangements into two types: joint ventures and joint operations. Joint ventures are arrangements whereby the parties have rights to the net assets, while joint operations are arrangements whereby the parties have rights to the assets and obligations for the liabilities. The standard eliminates choices in the reporting of joint arrangements by requiring the use of the equity method to account for interests in joint ventures, and by requiring joint operators to recognize assets and liabilities in relation to their interests in the arrangements. IFRS 11 is effective January 1, 2013 for the Corporation.

The Corporation has completed its assessment of the impact of the adoption of this standard, and a large part of its investments in joint arrangements qualify as joint ventures, currently accounted for under the proportionate consolidation method, and will be accounted for under IFRS 11 using the equity method of accounting. Under the equity method of accounting, the Corporation's share of net assets, net income and OCI of joint ventures will be presented as one-line items on the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income, respectively. In addition, the consolidated statement of cash flows under the equity method of accounting 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.

The impact of adopting IFRS 11, *Joint arrangements* on the Corporation's consolidated financial statements is detailed hereafter.

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 is effective January 1, 2013 for the Corporation. The Corporation is collecting the information for disclosures in its annual consolidated financial statements for fiscal year 2013.

FAIR VALUE MEASUREMENT

In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 is effective January 1, 2013 for the Corporation. The Corporation is currently assessing the impact of the adoption of this standard.

3 FUTURE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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 items within OCI that may be reclassified to the statement of income. The amendments also reaffirmed existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are effective January 1, 2013 for the Corporation. The presentation of the Corporation consolidated financial statement is not impacted by these amendments as the items within OCI that may be reclassified to the statement of income are already disclosed 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). Under the current IAS 19, *Employee benefits* the interest income is presented separately from interest expense and calculated based on the expected return on the 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 amendments to IAS 19 are effective January 1, 2013 for the Corporation.

IMPACT OF ADOPTING THE ABOVE-MENTIONED STANDARDS EFFECTIVE JANUARY 1, 2013

The following tables summarize the Corporation retroactive restatements to its consolidated financial statements resulting from the adoption of the amended IAS 19, *Employee benefits* and IFRS 11, *Joint arrangements*.

The impacts on the consolidated statements of income are as follows, for fiscal year:

				2012
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Revenues	$ 16,768	$ (354)	$ –	$ 16,414
Cost of sales	14,269	(230)	14	14,053
Gross margin	2,499	(124)	(14)	2,361
SG&A	1,443	(8)	7	1,442
R&D	299	–	–	299
Share of income of joint ventures and associates	(45)	(108)	–	(153)
Other income	(33)	–	–	(33)
Special items	140	–	–	140
EBIT	695	(8)	(21)	666
Financing expense	596	–	(301)	295
Financing income	(599)	12	427	(160)
EBT	698	(20)	(147)	531
Income taxes	100	(20)	(16)	64
Net income	$ 598	$ –	$ (131)	$ 467
EPS (in dollars)				
Basic and diluted	$ 0.32			$ 0.25

The joint arrangement restatements relate to the above-mentioned requirement to account for investments in joint ventures using the equity method of accounting under IFRS 11 instead of using the proportionate consolidation method.

The employee benefits restatements essentially relate to the above mentioned requirement to calculate the interest expense and income component on a net basis using the post-employment benefit obligation discount rate.

The impacts on the consolidated statements of financial position are as follows, as at:

				December 31, 2012
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Assets				
Cash and cash equivalents	$ 2,896	$ (339)	$ –	$ 2,557
Other current assets	10,380	(406)	–	9,974
Investments in joint ventures and associates	66	245		311
Other non-current assets	12,448	(134)	–	12,314
	$ 25,790	$ (634)	$ –	$ 25,156
Liabilities				
Current liabilities	$ 12,374	$ (636)	$ –	$ 11,738
Retirement benefits	2,997	–	2	2,999
Other non-current liabilities	9,042	–	–	9,042
	24,413	(636)	2	23,779
Equity	1,377	2	(2)	1,377
	$ 25,790	$ (634)	$ –	$ 25,156

				December 31, 2011
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Assets				
Cash and cash equivalents	$ 3,372	$ (480)	$ –	$ 2,892
Other current assets	9,891	(163)	–	9,728
Investments in joint ventures and associates	37	238	–	275
Other non-current assets	10,564	(129)	–	10,435
	$ 23,864	$ (534)	$ –	$ 23,330
Liabilities				
Current liabilities	$ 11,955	$ (538)	$ –	$ 11,417
Retirement benefits	3,226	–	5	3,231
Other non-current liabilities	8,012	–	–	8,012
	23,193	(538)	5	22,660
Equity	671	4	(5)	670
	$ 23,864	$ (534)	$ –	$ 23,330

3 FUTURE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The impacts on the consolidated equity position are as follows, as at:

	December 31 2012	December 31 2011
Equity as presented	**$ 1,377**	$ 671
Restatements to prior periods	**(1)**	(31)
Net income		
Employee benefits	**(131)**	(57)
OCI		
Employee benefits	**132**	87
Equity as restated	**$ 1,377**	$ 670

The employee benefit restatement on the Corporation's consolidated statements of financial position is not significant because the cumulative impact of the higher net interest expense under the revised standard is mostly offset by the reversal of accumulated actuarial losses on plan assets previously recognized in AOCI.

The impacts on the consolidated statements of cash flows are as follows, for fiscal year:

				2012
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Cash flow from operating activities	$ 1,348	$ 90	$ –	$ 1,438
Cash flow from investing activities	(1,950)	51	–	(1,899)
Cash flow from financing activities	77	4	–	81
Effect of exchange rate	49	(4)	–	45
Net increase (decrease) in cash and cash equivalents	(476)	141	–	(335)
Cash and cash equivalents at beginning of year	3,372	(480)	–	2,892
Cash and cash equivalents at end of year	$ 2,896	$ (339)	$ –	$ 2,557

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; and
- 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 regarding 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 plan 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 plan 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 plan are based on the existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and in-force collective agreements. The budget and strategic plan are subject to approval at various levels, including senior management and the

Board of Directors. Management uses the budget and strategic plan 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 plan 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 and BA has some long-term maintenance service contracts with customers. 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.

Estimated revenues at completion are adjusted for change orders, claims, penalties and contract terms that provide for the adjustment of prices. Management applies 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.

Estimated contract costs at completion incorporate forecasts for material and labour usage and costs, foreign exchange rates (including the effect of hedges) and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers. Management applies judgment to determine the probability that the Corporation will incur additional costs from delays or other penalties and such costs, if probable, are also included in estimated costs at completion.

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 using the percentage-of-completion method would have decreased BT's gross margin for fiscal year 2012 by approximately $75 million.

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 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 plan for each family of aircraft.

Sensitivity analysis

The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

An increase of 100-basis points in the discount rate used to perform the impairment test would not have resulted in an impairment charge in fiscal year 2012.

A 10% decrease in the expected future net cash inflow for all programs, evenly distributed over future periods, would not have resulted in an impairment charge in fiscal year 2012.

GOODWILL

The recoverable amount of the BT operating 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. During the fourth quarter of fiscal year 2012, the Corporation completed an impairment test and no impairment was identified. The recoverable amount was calculated based on fair value less costs to sell using a discounted cash flow model.

Estimated future cash flows are based on the budget and strategic plan for the first three years and a constant growth rate of 1% is applied to derive estimated cash flows beyond the initial three-year period. For the purpose of this test, management used a 15-year period to project future cash flows.

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 in fiscal year 2012 was 6.8%. A 100-basis points change in the post-tax discount rate would not have resulted in an impairment charge in fiscal year 2012.

4 USE OF ESTIMATES AND JUDGMENT (CONTINUED)

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 plan 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. 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.

Sensitivity analysis

The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

Assuming a decrease of 1% in the residual value curves of all aircraft as at December 31, 2012, EBIT for fiscal year 2012 would have been negatively impacted by $12 million.

Assuming a decrease of 100-basis points in interest rates as at December 31, 2012, EBT would have been negatively impacted by $13 million for fiscal year 2012. Assuming an increase of 100-basis points in interest rates as at December 31, 2012, EBT for fiscal year 2012 would have been positively impacted by $19 million.

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 rates of return on plan assets, compensation and pre-retirement benefit 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, 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. As the Canadian high quality corporate bond market, as defined under IFRS, includes relatively few medium and long maturity bonds, we established the discount rates for our Canadian pension and other post-employment plans by constructing a yield curve for the medium- and long-term range of the curve from the limited observation points for AA rated corporate bonds. Therefore, as at December 31, 2012, the discount rates were based on observed market rates for AA corporate bonds with maturities less than six years and on rates from the extrapolated yield curve for years thereafter, calculated by adding an average spread to provincial bond yields at three maturity ranges. The extrapolated curve as at December 31, 2011 was constructed by estimating credit spreads for AA rated bonds at each maturity point of the curve by reference to yields on A and AAA rated corporate bonds.

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, in the context of the current economic conditions. See Note 21 – 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. Each reportable segment offers different products and services and requires different technology and marketing strategies.

BA	BT
BA is a world leader in the design, manufacture and support of innovative aviation products. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets, as well as specialized and amphibious aircraft. BA also offers aftermarket services as well as *Flexjet* fractional ownership and flight entitlement programs.	BT is a 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 and EBIT before special items. 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:

			2012			2011[1]
	BA	BT	Total	BA	BT	Total
Results of operations						
Revenues	$ 8,628	$ 8,140	$ 16,768	$ 8,594	$ 9,753	$ 18,347
Cost of sales	7,418	6,851	14,269	7,355	8,089	15,444
Gross margin	1,210	1,289	2,499	1,239	1,664	2,903
SG&A	699	744	1,443	621	818	1,439
R&D	155	144	299	122	149	271
Share of income of associates	–	(45)	(45)	–	(4)	(4)
Other income	(26)	(7)	(33)	(6)	1	(5)
EBIT before special items	382	453	835	502	700	1,202
Special items[2]	(23)	163	140	–	–	–
EBIT	$ 405	$ 290	695	$ 502	$ 700	1,202
Financing expense			596			681
Financing income			(599)			(519)
EBT			698			1,040
Income taxes			100			203
Net income			$ 598			$ 837
Other information						
Net additions to PP&E and intangible assets[3]	$ 1,971	$ 118	$ 2,089	$ 1,320	$ 155	$ 1,475
Amortization	$ 242	$ 129	$ 371	$ 195	$ 138	$ 333
Impairment charges on PP&E	$ –	$ 9	$ 9	$ –	$ –	$ –

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 See Note 8 - Special items for more details.
3 As per the consolidated statements of cash flows.

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 2012		December 31 2011		February 1 2011
Assets						
Total assets	**$**	**25,790**	$	23,864	$	24,092
Assets not allocated to segments:						
Cash and cash equivalents		**2,896**		3,372		4,195
Invested collateral		**–**		–		676
Deferred income taxes		**1,452**		1,506		1,294
Segmented assets		**21,442**		18,986		17,927
Liabilities						
Total liabilities		**24,413**		23,193		22,571
Liabilities not allocated to segments:						
Interest payable[1]		**66**		59		89
Income taxes payable[2]		**116**		104		93
Long-term debt[3]		**5,405**		4,941		4,662
Deferred income taxes[2]		**46**		67		53
Segmented liabilities	**$**	**18,780**	$	18,022	$	17,674
Net segmented assets						
BA	**$**	**2,730**	$	1,010	$	1,171
BT	**$**	**(68)**	$	(46)	$	(918)

1 Included in trade and other payables.
2 Included in other liabilities.
3 The current portion of long-term debt is included in other financial liabilities.

The Corporation's revenues by market segments are as follows, for fiscal years:

		2012		2011[1]
BA				
Manufacturing				
Business aircraft	**$**	**4,590**	$	4,262
Commercial aircraft		**1,115**		1,721
Other		**521**		507
Total manufacturing		**6,226**		6,490
Services[2]		**1,718**		1,522
Other[3]		**684**		582
		8,628		8,594
BT				
Rolling stock[4]		**5,384**		6,855
Services[5]		**1,478**		1,409
System and signalling[6]		**1,278**		1,489
		8,140		9,753
	$	**16,768**	$	18,347

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 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.
3 Includes mainly sales of pre-owned aircraft.
4 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.
5 Comprised of revenues from fleet maintenance, refurbishment and overhaul, and material solutions.
6 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[1]		PP&E and intangible assets as at[2]		
	2012	2011[3]	**December 31 2012**	December 31 2011	February 2011
North America					
United States	**$ 5,011**	$ 4,330	**$ 1,517**	$ 1,150	$ 689
Canada	**1,130**	1,289	**3,565**	2,595	2,087
Mexico	**124**	58	**106**	39	35
	6,265	5,677	**5,188**	3,784	2,811
Europe					
Germany	**1,716**	1,835	**1,214**	1,211	1,296
United Kingdom	**1,472**	1,813	**1,501**	1,136	976
France	**897**	1,289	**52**	54	84
Other	**2,779**	3,245	**1,184**	1,141	1,196
	6,864	8,182	**3,951**	3,542	3,552
Asia-Pacific					
China	**761**	1,150	**104**	96	73
India	**345**	425	**34**	40	54
Other	**1,024**	1,151	**24**	17	13
	2,130	2,726	**162**	153	140
Other					
Russia	**270**	218	**1**	1	–
Other	**1,239**	1,544	**33**	32	64
	1,509	1,762	**34**	33	64
	$ 16,768	$ 18,347	**$ 9,335**	$ 7,512	$ 6,567

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 fiscal years:

	2012	2011[1]
R&D expenditures	**$ 1,901**	$ 1,351
Less: development expenditures capitalized to aerospace program tooling	**(1,728)**	(1,171)
	173	180
Add: amortization of aerospace program tooling	**126**	91
	$ 299	$ 271

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

7 OTHER INCOME

Other income was as follows, for fiscal years:

		2012		2011[1]
Changes in estimates and fair value[2]	$	(23)	$	(10)
Gain on disposals of PP&E and intangible assets		(6)		(3)
Severance and other involuntary termination costs (including changes in estimates)[3]		–		7
Other		(4)		1
	$	(33)	$	(5)

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.
3 Excludes those presented in special items.

8 SPECIAL ITEMS

Special items comprise items which do not reflect, in management's opinion, the Corporation's core performance such as the impact of restructuring charges, significant impairment charges and reversals thereof, as well as other unusual items.

Special items were as follows, for fiscal years:

		2012		2011[1]
BT restructuring charges[2]	$	119	$	–
Gain on resolution of a litigation[3]		(40)		–
Loss related to flooding in New Jersey, U.S.		19		–
Foreign exchange hedging loss[4]		25		–
	$	123	$	–
Of which is presented in				
Special items in EBIT	$	140	$	–
Financing income - interest related to the resolution of a litigation		(17)		–
	$	123	$	–

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Includes $9 million of impairment charges on PP&E.
3 Represents a gain of $40 million upon the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations, of which $17 million represents the interest portion of the gain.
4 Relates to a change of currency for a large contract.

During the fourth quarter, BT announced measures to improve its competitiveness and cost structure. These measures include the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by approximately 1,200 employees, including Aachen. A restructuring charge of $119 million related to these planned measures was recorded during fiscal year 2012.

9 FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows, for fiscal years:

		2012		2011[1]
Financing expense				
Accretion on retirement benefit obligations	$	**441**	$	418
Accretion on other financial liabilities		**28**		24
Amortization of letter of credit facility costs		**20**		41
Changes in discount rates for provisions		**5**		36
Accretion on provisions		**2**		18
Other		**27**		22
		523		559
Interest on long-term debt – after effect of hedges		**73**		122
	$	**596**[2]	$	681[2]
Financing income				
Expected return on pension plan assets	$	**(427)**	$	(418)
Net gain on certain financial instruments[3]		**(47)**		(19)
Interest related to the resolution of a litigation[4]		**(17)**		–
Other		**(9)**		(1)
		(500)		(438)
Interest on loans and lease receivables - after effect of hedges		**(37)**		(33)
Income from investment in securities[5]		**(35)**		(12)
Interest on cash and cash equivalents		**(27)**		(33)
Interest on invested collateral		**–**		(3)
	$	**(599)**[6]	$	(519)[6]

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Of which $116 million represents the interest expense calculated using the effective interest rate method for financial liabilities classified as other than HFT for fiscal year 2012 ($157 million for fiscal year 2011).
3 Net gains on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.
4 Represents the interest portion of a gain of $40 million upon the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations. The remaining $23 million of the gain was recorded in special items.
5 Includes a gain of $22 million on a sale of a zero coupon bond investment classified as AFS, prior to its maturity.
6 Of which $13 million represents the interest income calculated using the effective interest rate method for financial assets classified as L&R for fiscal year 2012 ($13 million for fiscal year 2011).

Borrowing costs capitalized to PP&E and intangible assets totalled $178 million for fiscal year 2012, using an average capitalization rate of 5.65% ($88 million and 5.35% for fiscal year 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).

10 EMPLOYEE BENEFIT COSTS

Employee benefit costs[1] were as follows, for fiscal years:

	Notes		2012		2011[2]
Wages, salaries and other employee benefits		$	**5,527**	$	5,185
Retirement benefits[3]	21		**391**		250
Share-based expense	28		**7**		38
Restructuring, severance and other involuntary termination costs	7, 8		**110**		7
		$	**6,035**	$	5,480

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.

11 INCOME TAXES

ANALYSIS OF INCOME TAX EXPENSE

Details of income tax expense were as follows, for fiscal years:

		2012		2011[1]
Current income taxes	$	127	$	137
Deferred income taxes		(27)		66
	$	100	$	203

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

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

		2012		2011[1]
EBT	$	698	$	1,040
Canadian statutory tax rate		26.8%		28.4%
Income tax expense at statutory rate		187		295
Increase (decrease) resulting from				
Recognition of previously unrecognized tax losses or temporary differences		(261)		(204)
Non-recognition of tax benefits related to tax losses and temporary differences		131		98
Effect of substantively enacted income tax rate changes and tax status changes in certain entities		15		11
Permanent differences		(36)		(3)
Write-down of deferred income tax assets		76		–
Income tax rates differential of foreign subsidiaries and other investees		(21)		(1)
Other		9		7
Income tax expense	$	100	$	203
Effective tax rate		14.3%		19.5%

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

The Corporation's applicable Canadian statutory tax rate is the Federal and Provincial combined tax rate applicable in the jurisdiction in which the Corporation operates. The decrease in this rate is mainly due to the reduction of the Federal tax rate applicable to the Corporation for fiscal year 2012 from 16.5% to 15.0%.

Details of deferred income tax expense were as follows, for the fiscal years:

		2012		2011[1]
Origination and reversal of temporary differences	$	12	$	161
Recognition of previously unrecognized tax losses or temporary differences		(261)		(204)
Change in unrecognized tax benefits related to tax losses and temporary differences		131		98
Effect of substantively enacted income tax rate changes and tax status changes in certain entities		15		11
Write-down of deferred income tax assets		76		–
	$	(27)	$	66

1 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, 2012		December 31, 2011		February 1, 2011	
	Asset	**Liability**	Asset	Liability	Asset	Liability
Operating tax losses carried forward	**$ 1,788**	**$ –**	$ 1,502	$ –	$ 1,261	$ –
Retirement benefits	**713**	**–**	894	–	523	–
Advance and progress billings in excess of long-term contract inventories and advances on aerospace programs	**900**	**–**	847	–	412	–
Inventories	**288**	**(46)**	401	(67)	445	(53)
Provisions	**411**	**–**	463	–	461	–
Other financial assets and other assets	**(174)**	**–**	(353)	–	(170)	–
PP&E	**(35)**	**–**	(11)	–	31	–
Other financial liabilities and other liabilities	**77**	**–**	148	–	186	–
Intangible assets	**(591)**	**–**	(372)	–	(145)	–
Other	**169**	**–**	128	–	142	–
	3,546	**(46)**	3,647	(67)	3,146	(53)
Unrecognized deferred tax assets	**(2,094)**	**–**	(2,141)	–	(1,852)	–
	$ 1,452	**$ (46)**	$ 1,506	$ (67)	$ 1,294	$ (53)

The changes in the net deferred income tax asset were as follows, for the fiscal years:

	2012	2011[1]
Balance at beginning of year, net	**$ 1,439**	$ 1,241
In net income	**27**	(66)
In OCI		
Retirement benefits	**(25)**	234
Cash flow hedges	**(64)**	54
AFS financial assets	**6**	(4)
Other[2]	**23**	(20)
Balance at end of year, net	**$ 1,406**	$ 1,439

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 $7,646 million as at December 31, 2012, of which $2,087 million relates to retirement benefits that will reverse through OCI ($7,825 million as at December 31, 2011 of which $2,208 million relates to retirement benefits that will reverse through OCI and $6,698 million as at February 1, 2011 of which $1,518 million relates to retirement benefits that will reverse through OCI). Of these amounts, approximately $7,184 million as at December 31, 2012 has no expiration date ($7,792 million as at December 31, 2011 and $6,670 million as at February 1, 2011) and approximately $1,566 million relates to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income ($964 million as at December 31, 2011 and $1,167 million as at February 1, 2011).

In addition, the Corporation has $360 million in unused investment tax credits, most of which can be carried forward for 20 years and $50 million in net capital losses carried forward for which deferred tax assets have not been recognized ($206 million and $48 million as at December 31, 2011). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

Net deferred tax assets of $823 million were recognized as at December 31, 2012 ($544 million as at December 31, 2011) in jurisdictions that incurred losses this fiscal year or in the preceding fiscal year. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable the Corporation will realize the benefits of these deductible differences and operating tax losses carried forward. See Note 4 – Use of estimates and judgment, for more information on how the Corporation determines the extent to which deferred income tax assets are recognized.

11 INCOME TAXES (CONTINUED)

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, unless it is probable that these temporary differences will reverse. 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 $269 million as at December 31, 2012 ($225 million as at December 31, 2011).

12 EARNINGS PER SHARE

Basic and diluted EPS were computed as follows, for fiscal years:

		2012		2011[1]
Net income attributable to equity holders of Bombardier Inc.	**$**	**588**	$	837
Preferred share dividends, including taxes		**(29)**		(25)
Net income attributable to common equity holders of Bombardier Inc.	**$**	**559**	$	812
Weighted-average number of common shares outstanding		**1,730,767,249**		1,724,886,650
Net effect of stock options, PSUs and DSUs		**7,082,124**		18,988,650
Weighted-average diluted number of common shares		**1,737,849,373**		1,743,875,300
EPS (in dollars)				
Basic and diluted	**$**	**0.32**	$	0.47

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 30,353,637 stock options, PSUs and DSUs for fiscal year 2012 (23,359,926 stock options, PSUs and DSUs for fiscal year 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.

13 FINANCIAL INSTRUMENTS

Net gains (losses) on financial instruments recognized in income were as follows, for fiscal years:

		2012		2011[1]
Financial instruments measured at amortized cost				
L&R - impairment charges	**$**	**(9)**	$	(16)
Financial instruments measured at fair value				
AFS - gains from derecognition	**$**	**29**	$	5
FVTP&L - changes in fair value				
Designated as FVTP&L				
Financial assets[2]	**$**	**23**	$	28
Financial liabilities	**$**	**20**	$	7
Required to be classified as HFT				
Derivatives not designated in hedging relationships	**$**	**(15)**	$	(21)
Other[3]	**$**	**65**	$	(15)

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Excluding the interest income portion related to the invested collateral of nil for fiscal year 2012 ($3 million for fiscal year 2011).
3 Excluding the interest income portion related to cash and cash equivalents of $27 million for the fiscal year 2012 ($33 million for fiscal year 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, 2012							
Financial assets							
Cash and cash equivalents	$ 2,896	$ –	$ –	$ –	$ –	$ 2,896	$ 2,896
Trade and other receivables	–	–	–	1,525	–	1,525	1,525
Other financial assets	92	669	217	138	643	1,759	1,759
	$ 2,988	$ 669	$ 217	$ 1,663	$ 643	$ 6,180	$ 6,180
Financial liabilities							
Trade and other payables	$ –	$ 1	n/a	$ 3,552	$ –	$ 3,553	$ 3,553
Long-term debt[2]	–	–	n/a	5,405	–	5,405	5,272
Other financial liabilities	15	158	n/a	712	126	1,011	1,146
	$ 15	$ 159	n/a	$ 9,669	$ 126	$ 9,969	$ 9,971
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[2]	–	–	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
February 1, 2011							
Financial assets							
Cash and cash equivalents	$ 4,195	$ –	$ –	$ –	$ –	$ 4,195	$ 4,195
Trade and other receivables	–	–	–	1,377	–	1,377	1,377
Invested collateral	–	676	–	–	–	676	676
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[2]	–	–	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

1 Financial assets are classified as L&R and financial liabilities as other than HFT.
2 Includes the current portion of long-term debt.

n/a: Not applicable

13 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, 2012		December 31, 2011		February 1, 2011	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges						
Cross-currency interest-rate swaps	**$ 17**	**$ 6**	$ 12	$ 39	$ 22	$ 68
Interest-rate swaps	**394**	**–**	297	–	80	–
	411	**6**	309	39	102	68
Derivative financial instruments designated as cash flow hedges[1]						
Forward foreign exchange contracts	**232**	**120**	195	284	390	509
Derivative financial instruments designated as hedges of net investment						
Cross-currency interest-rate swaps	**–**	**–**	–	–	–	36
Derivative financial instruments classified as HFT[2]						
Forward foreign exchange contracts	**13**	**12**	19	14	9	48
Interest-rate cap	**–**	**–**	–	–	–	–
Interest-rate swaps	**–**	**2**	–	4	–	6
Embedded derivative financial instruments						
Foreign exchange	**3**	**1**	4	3	16	8
Call options on long-term debt	**76**	**–**	21	–	40	–
Financing rate commitments	**–**	**–**	–	–	–	2
	92	**15**	44	21	65	64
Total derivative financial instruments	**$ 735**	**$ 141**	$ 548	$ 344	$ 557	$ 677
Non-derivative financial instruments designated as hedges of net investment						
Long-term debt	**$ –**	**$ 1,042**	$ –	$ 1,029	$ –	$ 715

1 The maximum length of time of derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 19 months as of December 31, 2012.
2 Held as economic hedges, except for embedded derivative financial instruments.

The net gains on hedging instruments designated in fair value hedge relationships and net losses on the related hedged items attributable to the hedged risk recognized in financing expense, amounted to $101 million and $95 million respectively for fiscal year 2012 ($311 million and $304 million respectively for fiscal year 2011).

The methods and assumptions used to measure the fair value of financial instruments are described in Note 33 – Fair value of financial instruments.

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows, as at:

		December 31 2012		December 31 2011		February 1 2011
Cash	**$**	**1,255**	$	1,091	$	1,529
Cash equivalents						
Term deposits		**656**		750		832
Money market funds		**985**		1,531		1,834
Cash and cash equivalents	**$**	**2,896**	$	3,372	$	4,195

See Note 30 – Credit facilities for details on covenants related to cash and cash equivalents.

15 TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows, as at:

					Past due but not impaired[3]					
		Total		Not past due as at		less than 90 days		more than 90 days		Impaired[4]
December 31, 2012[1,2]										
Trade receivables, gross	**$**	**1,443**	**$**	**855**	**$**	**295**	**$**	**254**	**$**	**39**
Allowance for doubtful accounts		**(34)**		**–**		**–**		**–**		**(34)**
		1,409	**$**	**855**	**$**	**295**	**$**	**254**	**$**	**5**
Other		**116**								
Total	**$**	**1,525**								
December 31, 2011[1,2]										
Trade receivables, gross	$	1,341	$	928	$	205	$	162	$	46
Allowance for doubtful accounts		(42)		–		–		–		(42)
		1,299	$	928	$	205	$	162	$	4
Other		109								
Total	$	1,408								
February 1, 2011[1]										
Trade receivables, gross	$	1,293	$	846	$	183	$	211	$	53
Allowance for doubtful accounts		(52)		–		–		–		(52)
		1,241	$	846	$	183	$	211	$	1
Other		136								
Total	$	1,377								

1 Of which $389 million and $551 million are denominated in euros and other foreign currencies, respectively, as at December 31, 2012 ($415 million and $349 million, respectively, as at December 31, 2011 and $472 million and $393 million, respectively, as at February 1, 2011).
2 Of which $240 million represents customer retentions relating to long-term contracts as at December 31, 2012 based on normal terms and conditions ($172 million as at December 31, 2011).
3 Of which $480 million of trade receivables relates to BT long-term contracts as at December 31, 2012, of which $244 million were more than 90 days past due ($272 million as at December 31, 2011 of which $137 million was more than 90 days past due and $330 million as at February 1, 2011, of which $196 million was 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.
4 Of which a gross amount of $34 million in trade receivables are individually impaired as at December 31, 2012 ($39 million as at December 31, 2011 and $45 million as at February 1, 2011).

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

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. Further information on financial risk is provided in Note 32 – Financial risk management.

Allowance for doubtful accounts – Changes in the allowance for doubtful accounts were as follows, for fiscal years:

	2012	2011
Balance at beginning of year	**$ (42)**	$ (52)
Provision for doubtful accounts	**(9)**	(11)
Amounts written-off	**15**	5
Recoveries	**2**	–
Effect of foreign currency exchange rate changes	**–**	16
Balance at end of year	**$ (34)**	$ (42)

OFF-BALANCE SHEET FACTORING FACILITIES

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 €886 million ($1,169 million) were outstanding under such facilities as at December 31, 2012 (€580 million ($751 million) as at December 31, 2011 and €248 million ($340 million) as at February 1, 2011). Trade receivables of €963 million ($1,238 million) were sold to these facilities during fiscal year 2012 (€581 million ($812 million) during fiscal year 2011).

16 INVENTORIES

Inventories were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Aerospace programs	**$ 4,345**	$ 3,845	$ 4,146
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**5,893**	6,286	5,213
Less: advances and progress billings	**(4,334)**	(4,549)	(3,736)
	1,559	1,737	1,477
Service contracts			
Cost incurred and recorded margins	**412**	380	512
Less: advances and progress billings	**(16)**	(45)	(73)
	396	335	439
Finished products[1]	**1,429**	1,481	1,245
	$ 7,729	$ 7,398	$ 7,307

1 Finished products include three new aircraft not associated with a firm aircraft order and 74 pre-owned aircraft, totalling $551 million as at December 31, 2012 (five new aircraft and 95 pre-owned aircraft, totalling $691 million as at December 31, 2011 and eight new aircraft and 68 pre-owned aircraft, totalling $532 million as at February 1, 2011).

Finished products as at December 31, 2012 include $147 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities ($162 million as at December 31, 2011 and $209 million as at February 1, 2011). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled $13,062 million for fiscal year 2012 ($14,381 million for fiscal year 2011). These amounts include $104 million of write-downs for fiscal year 2012 ($66 million for fiscal year 2011) and $11 million of reversal of write-down for fiscal year 2012 (nil for fiscal year 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 $6,365 million as at December 31, 2012 ($6,479 million as at December 31, 2011 and $6,179 million as at February 1, 2011). Revenues include revenues from BT long-term contracts, which amounted to $6,190 million for fiscal year 2012 ($7,537 million for fiscal year 2011).

17 OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Derivative financial instruments[1]	**$ 735**	$ 548	$ 557
Aircraft loans and lease receivables[2,3]	**427**	472	432
Investments in securities[2,4]	**243**	423	415
Investments in financing structures[2]	**240**	243	242
Servicing fees	**57**	57	49
Restricted cash	**31**	51	58
Other	**26**	37	56
	$ 1,759	$ 1,831	$ 1,809
Of which current	**$ 443**	$ 526	$ 705
Of which non-current	**1,316**	1,305	1,104
	$ 1,759	$ 1,831	$ 1,809

1 See Note 13 – Financial instruments.
2 Carried at fair value, except for $11 million of aircraft loans and lease receivables, $26 million of investments in securities and $44 million of investment in financing structure carried at amortized cost as at December 31, 2012 ($32 million, $24 million and $42 million, respectively, as at December 31, 2011 and $25 million, $27 million and $55 million, respectively, as at February 1, 2011).
3 Financing with four airlines represents 60% of the total aircraft loans and lease receivables as at December 31, 2012 (three airlines represented 47% as at December 31, 2011 and 46% as at February 1, 2011). 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 nil securities ceded as collateral for guarantees issued in connection with the sale of aircraft as at December 31, 2012 ($167 million as at December 31, 2011 and $152 million as at February 1, 2011).

18 OTHER ASSETS

Other assets were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Prepaid expenses	$ 367	$ 298	$ 327
Sales tax and other taxes	281	185	183
Intangible assets other than aerospace program tooling and goodwill[1]	212	227	243
Flexjet fractional ownership deferred costs	206	186	156
Deferred financing charges	103	85	65
Investments in associates[2]	66	37	57
Retirement benefits[3]	38	13	29
Other	33	33	50
	$ 1,306	$ 1,064	$ 1,110
Of which current	$ 683	$ 559	$ 648
Of which non-current	623	505	462
	$ 1,306	$ 1,064	$ 1,110

1 See Note 20 – Intangible assets.
2 The Corporation has pledged shares in associates, with a carrying value of $60 million as at December 31, 2012 ($30 million as at December 31, 2011 and $33 million as at February 1, 2011).
3 See Note 21 – Retirement benefits.

19 PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows, as at:

	Land	Buildings	Equipment	Construction in progress	Other	Total
Cost						
Balance as at December 31, 2011	$ 95	$ 2,002	$ 1,189	$ 163	$ 561	$ 4,010
Additions	7	106	70	221	12	416
Disposals	(5)	(4)	(47)	–	(85)	(141)
Transfers	–	34	162	(178)	(18)	–
Effect of foreign currency exchange rate changes	2	28	13	1	1	45
Balance as at December 31, 2012	$ 99	$ 2,166	$ 1,387	$ 207	$ 471	$ 4,330
Accumulated amortization and impairment						
Balance as at December 31, 2011	$ –	$ (1,097)	$ (764)	$ –	$ (285)	$ (2,146)
Amortization	–	(61)	(110)	–	(14)	(185)
Impairment	–	(2)	(7)	–	–	(9)
Disposals	–	3	31	–	29	63
Transfers	–	–	(2)	–	2	–
Effect of foreign currency exchange rate changes	–	(18)	(7)	–	–	(25)
Balance as at December 31, 2012	$ –	$ (1,175)	$ (859)	$ –	$ (268)	$ (2,302)
Net carrying value	$ 99	$ 991	$ 528	$ 207	$ 203	$ 2,028

	Land	Buildings	Equipment	Construction in progress	Other	Total
Cost						
Balance as at February 1, 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
Accumulated amortization and impairment						
Balance as at February 1, 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

Included in the above table are assets under finance lease, where the Corporation is the lessee, presented in Other, with cost and accumulated amortization amounting to $170 million and $77 million, respectively, as at December 31, 2012 ($214 million and $88 million as at December 31, 2011 and $185 million and $75 million as at February 1, 2011).

19 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Also included in the previous table are aircraft under operating leases where the Corporation is the lessor, presented in Other, with a cost and accumulated amortization amounting to $51 million and $12 million, respectively, as at December 31, 2012 ($88 million and $10 million as at December 31, 2011 and $144 million and $22 million as at February 1, 2011). Rental income from operating leases and amortization of assets under operating leases amounted to $10 million and $5 million, respectively, for fiscal year 2012 ($14 million and $6 million, respectively, for fiscal year 2011).

20 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 December 31, 2011	$ 1,091	$ 5,105	$ 6,196	$ 2,253	$ 704	$ 9,153
Additions	163	1,565	1,728	–	43	1,771
Disposals	–	–	–	–	(4)	(4)
Effect of foreign currency exchange rate changes	–	–	–	72	11	83
Balance as at December 31, 2012	$ 1,254	$ 6,670	$ 7,924	$ 2,325	$ 754	$ 11,003
Accumulated amortization and impairment						
Balance as at December 31, 2011	$ (588)	$ (2,440)	$ (3,028)	$ –	$ (477)	$ (3,505)
Amortization	(16)	(110)	(126)	–	(60)	(186)
Disposals	–	–	–	–	3	3
Effect of foreign currency exchange rate changes	–	–	–	–	(8)	(8)
Balance as at December 31, 2012	$ (604)	$ (2,550)	$ (3,154)	$ –	$ (542)	$ (3,696)
Net carrying value	$ 650	$ 4,120	$ 4,770	$ 2,325	$ 212	$ 7,307

1 Presented in Note 18 – Other assets.
2 Includes internally generated intangible assets with a cost and accumulated amortization of $325 million and $207 million, respectively, as at December 31, 2012 ($294 million and $176 million as at December 31, 2011 and $433 million and $328 million as at February 1, 2011).
3 Includes intangible assets under development with a cost of $4,059 million as at December 31, 2012 ($2,489 million as at December 31, 2011 and $1,347 million as at February 1, 2011).

	Aerospace program tooling			Goodwill	Other[1,2]	Total
	Acquired	Internally generated	Total[3]			
Cost						
Balance as at February 1, 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 February 1, 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

1 Presented in Note 18 – Other assets.
2 Includes internally generated intangible assets with a cost and accumulated amortization of $325 million and $207 million, respectively, as at December 31, 2012 ($294 million and $176 million as at December 31, 2011 and $433 million and $328 million as at February 1, 2011).
3 Includes intangible assets under development with a cost of $4,059 million as at December 31, 2012 ($2,489 million as at December 31, 2011 and $1,347 million as at February 1, 2011).

AEROSPACE PROGRAM TOOLING

The net carrying value of aerospace program tooling comprises $2,766 million for commercial aircraft and $2,004 million for business aircraft as at December 31, 2012 ($1,851 million and $1,317 million, respectively, as at December 31, 2011 and $1,249 million and $839 million, respectively, as at February 1, 2011).

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. During the fourth quarter of fiscal year 2012 the Corporation completed an impairment test. The Corporation did not identify any impairment.

21 RETIREMENT BENEFITS

DEFINED BENEFIT PLANS

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

The following table provides the components of the retirement benefits costs and financing expense and financing income, for fiscal years:

	2012		2011[1]	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
EBIT or capitalized costs[2]				
Current service costs	**$ 292**	**$ 12**	$ 201	$ 9
Past service costs (credits)	**9**	**4**	3	(1)
Curtailments	**–**	**–**	(10)	–
Settlements	**(18)**	**–**	(3)	(1)
	283	**16**	191	7
Financing expense and financing income				
Accretion on retirement benefit obligations	**424**	**17**	402	16
Expected return on pension plan assets	**(427)**	**–**	(418)	–
	(3)	**17**	(16)	16
Total retirement benefits costs	**$ 280**	**$ 33**	$ 175	$ 23

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.

Changes in the cumulative amount of net actuarial losses recognized in OCI, and presented as a separate component of deficit, were as follows, for fiscal years:

Gains (losses)	
Balance as at February 1, 2011	$ (1,978)
Actuarial losses, net	(1,728)
Reversal of asset ceiling and additional liability	178
Effect of exchange rate changes	61
Income taxes	234
Balance as at December 31, 2011	(3,233)
Actuarial gains, net	229
Effect of exchange rate changes	(57)
Income taxes	(25)
Balance as at December 31, 2012	**$ (3,086)**

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. The cumulative net actuarial losses, before income taxes, recognized directly in OCI since February 1, 2010 amounted to $3,432 million.

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

	2012		2011	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
Change in benefit obligation				
Obligation at beginning of year	**$ 9,242**	**$ 365**	$ 7,762	$ 327
Accretion	**424**	**17**	402	16
Current service costs	**292**	**12**	201	9
Plan participants' contributions	**40**	**–**	38	–
Past service costs	**15**	**8**	3	–
Actuarial losses	**76**	**19**	1,372	35
Benefits paid	**(296)**	**(15)**	(268)	(11)
Curtailments	**–**	**–**	(10)	–
Settlements	**(85)**	**–**	(4)	(2)
Effect of exchange rate changes	**277**	**10**	(254)	(9)
Obligation at end of year	**$ 9,985**	**$ 416**	$ 9,242	$ 365
Change in plan assets				
Fair value at beginning of year	**$ 6,395**	**$ –**	$ 6,322	$ –
Employer contributions	**404**	**15**	373	12
Plan participants' contributions	**40**	**–**	38	–
Expected return	**427**	**–**	418	–
Actuarial (losses) gains	**324**	**–**	(321)	–
Benefits paid	**(296)**	**(15)**	(268)	(11)
Settlements	**(67)**	**–**	(1)	(1)
Effect of exchange rate changes	**207**	**–**	(166)	–
Fair value at end of year	**$ 7,434**	**$ –**	$ 6,395	$ –

21 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, 2012		December 31, 2011		February 1, 2011	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Funded status - deficit						
Present value of obligations of funded plans	**$ 9,249**	**$ –**	$ 8,673	$ –	$ 7,171	$ –
Fair value of plan assets	**(7,434)**	**–**	(6,395)	–	(6,322)	–
	1,815	**–**	2,278	–	849	–
Present value of obligations of unfunded plans	**736**	**416**	569	365	591	327
Unrecognized past service credits[1]	**(7)**	**(1)**	–	1	–	2
Impact of asset ceiling test	**–**	**–**	–	–	97	–
Liability arising from minimum funding requirement[1]	**–**	**–**	–	–	80	–
Net amount recognized	**$ 2,544**	**$ 415**	$ 2,847	$ 366	$ 1,617	$ 329
Amounts included in						
Retirement benefit						
Liability	**$ 2,582**	**$ 415**	$ 2,860	$ 366	$ 1,646	$ 329
Asset[2]	**(38)**	**–**	(13)	–	(29)	–
Net liability	**$ 2,544**	**$ 415**	$ 2,847	$ 366	$ 1,617	$ 329

1 Comprises the effect of exchange rate changes.
2 Presented in Note 18 – Other assets.

The following table presents the allocation of benefit obligation and plan assets by major countries, as at:

	December 31, 2012		December 31, 2011		February 1, 2011	
	Benefit obligation	**Plan assets**	Benefit obligation	Plan assets	Benefit obligation	Plan assets
Canada	**$ 5,230**	**$ 3,685**	$ 5,019	$ 3,125	$ 3,929	$ 3,078
U.K.	**3,137**	**2,951**	2,855	2,496	2,605	2,483
U.S.	**900**	**513**	864	521	677	497
Germany	**518**	**–**	389	–	428	–
Switzerland	**390**	**250**	301	222	277	228
Other	**226**	**35**	179	31	173	36
	$ 10,401	**$ 7,434**	$ 9,607	$ 6,395	$ 8,089	$ 6,322

Plan assets are held in trust and their weighted-average allocations were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Cash and cash equivalents	**2%**	3%	3%
Publicly traded investments			
Equity securities	**48%**	46%	54%
Fixed-income securities	**41%**	41%	37%
Global infrastructure and real estate assets	**9%**	10%	6%

Actual return on plan assets was $751 million for fiscal year 2012 ($97 million for fiscal year 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, 2012 and 2011 and February 1, 2011.

Contributions to funded defined benefit pension plans and benefit payments related to unfunded defined benefit pension plans are estimated at $458 million for fiscal year 2013, compared to actual contributions of $404 million for fiscal year 2012. Benefit payments to other retirement benefit plans are estimated at $16 million for fiscal year 2013, compared to actual benefits paid of $15 million for fiscal year 2012.

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, 2012		December 31, 2011		February 1, 2011	
(in percentage)	**Pension benefits**	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit cost						
Discount rate	**4.44%**	**4.25%**	5.40%	5.40%	5.64%	5.74%
Expected long-term rate of return on plan assets	**6.47%**	**n/a**	6.89%	n/a	7.00%	n/a
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%
Benefit obligation						
Discount rate	**4.25%**	**4.38%**	4.44%	4.25%	5.40%	5.40%
Rate of compensation increase	**3.35%**	**3.25%**	3.71%	3.50%	3.72%	3.50%
Inflation rate	**2.19%**	**n/a**	2.24%	n/a	2.61%	n/a
Ultimate health care cost trend rate	**n/a**	**5.00%**	n/a	5.00%	n/a	5.00%

n/a: Not applicable

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

Increase (decrease)	**Retirement benefit cost for fiscal year 2012**	**Net retirement benefit liability as at December 31, 2012**
Discount rate	$ (15)	$ (446)
Expected return on plan assets	$ (17)	n/a
Rate of compensation increase	$ 10	$ 91
Inflation rate	$ 8	$ 127

n/a: Not applicable

As at December 31, 2012, the healthcare 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% and to decrease progressively to 5% by calendar year 2017 and then remain at that level for all participants. A one percentage point change in assumed healthcare cost trend rates would have the following effects as at December 31, 2012 and for fiscal year 2012:

	One percentage point increase	**One percentage point decrease**
Effect on the net retirement benefit liability	$ 45	$ (39)
Effect on the retirement benefit cost	$ 4	$ (3)

21 RETIREMENT BENEFITS (CONTINUED)

The following table presents the impact of actuarial gains (losses) arising on plan assets and defined benefit obligation, as at:

	December 31 2012	December 31 2011	January 31 2011	February 1 2010
Present value of defined benefit obligation	$ 10,401	$ 9,607	$ 8,089	$ 7,217
Fair value of plan assets	(7,434)	(6,395)	(6,322)	(5,181)
Deficit	$ 2,967	$ 3,212	$ 1,767	$ 2,036
Actuarial gains (losses) arising on[1]				
Plan assets	$ 324	$ (321)	$ 323	n/a
Defined benefit obligation	$ (95)	$ (1,407)	$ (162)	n/a

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
n/a: Not applicable

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 contributions pension plans, which correspond to the benefit cost recognized, amounted to $78 million for fiscal year 2012 ($52 million for fiscal year 2011). Contributions to defined contribution pension plans are estimated at $77 million for fiscal year 2013.

22 TRADE AND OTHER PAYABLES

Trade and other payables were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Trade payables	$ 2,641	$ 2,144	$ 2,045
Accrued liabilities	548	582	597
Interest	66	59	89
Other	298	425	342
	$ 3,553	$ 3,210	$ 3,073

23 PROVISIONS

Changes in provisions were as follows, for fiscal years 2012 and 2011:

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other[1]	Total
Balance as at December 31, 2011	$ 1,073	$ 456	$ 38	$ 105	$ 1,672
Additions	308	7	120[2]	27	462
Utilization	(365)	(2)	(24)	(12)	(403)
Reversals	(66)	(65)	(10)	(29)	(170)
Accretion expense	1	1	–	–	2
Effect of changes in discount rates	–	5	–	–	5
Effect of foreign currency exchange rate changes	15	–	3	–	18
Balance as at December 31, 2012	$ 966	$ 402	$ 127	$ 91	$ 1,586
Of which current	$ 818	$ 73	$ 122	$ 49	$ 1,062
Of which non-current	148	329	5	42	524
	$ 966	$ 402	$ 127	$ 91	$ 1,586

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other[1]	Total
Balance as at February 1, 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

1 Includes litigations and claims, as well as environmental liabilities.
2 See Note 8 – Special items for more details on the addition related to BT restructuring charges.

24 LONG-TERM DEBT

Long-term debt was as follows, as at:

			Interest rate			December 31 2012	December 31 2011	February 1 2011
	Amount in currency of origin	Currency	Contractual[1]	After effect of fair value hedges	Maturity	Amount	Amount	Amount
Senior notes	785	EUR	7.25%	3-month Libor + 4.83	Nov. 2016	**$ 1,162**	$ 1,146	$ 1,152
	650	USD	7.50%	3-month Libor + 4.19	Mar. 2018	**724**	714	660
	850	USD	7.75%	3-month Libor + 4.14	Mar. 2020	**978**	962	864
	780	EUR	6.13%	3-month Euribor + 2.87	May 2021	**1,183**	1,082	1,042
	500	USD	5.75%	n/a	Mar. 2022	**492**	–	–
Notes	151	USD	6.75%	3-month Libor + 2.26	n/a	**–**	153	158
	162	USD	6.30%	3-month Libor + 1.59	May 2014	**171**	176	178
	250	USD	7.45%	n/a	May 2034	**247**	247	247
Debentures	150	CAD	7.35%	n/a	Dec. 2026	**150**	146	149
Other[2]	Various[3]	Various	Various[3]	n/a	2013-2026	**298**	315	212
						$ 5,405	$ 4,941	$ 4,662
Of which current[4]						**$ 45**	$ 193	$ 17
Of which non-current						**5,360**	4,748	4,645
						$ 5,405	$ 4,941	$ 4,662

1 Interests on long-term debt as at December 31, 2012 is payable semi-annually, except for the other debts for which the timing of interest payments is variable.
2 Includes obligations under finance leases.
3 The notional amount of other long-term debt is $298 million as at December 31, 2012 ($315 million as at December 31, 2011 and $212 million as at February 1, 2011). The contractual interest rate, which represents a weighted average rate, is 4.54% as at December 31, 2012 (4.39% as at December 31, 2011 and 5.54% as at February 1, 2011).
4 See Note 25 – Other financial liabilities.

n/a: Not applicable

All Senior notes and Notes rank pari-passu and are unsecured.

For issuance of long-term debt subsequent to the reporting date, see Note 39 – Events after the reporting date.

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, as at:

	December 31 2012	December 31 2011	February 1 2011
Within one year	**$ 45**	$ 189	$ 17
Between one and five years	**1,358**	1,360	404
More than five years	**3,522**	3,001	4,151
	$ 4,925	$ 4,550	$ 4,572

25 OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Government refundable advances	**$ 398**	$ 317	$ 284
Sale and leaseback obligations	**168**	163	216
Lease subsidies[1]	**158**	140	161
Derivative financial instruments[2]	**141**	344	677
Vendor non-recurring costs	**53**	13	15
Current portion of long-term debt[3]	**45**	193	17
Other	**93**	64	22
	$ 1,056	$ 1,234	$ 1,392
Of which current	**$ 455**	$ 732	$ 860
Of which non-current	**601**	502	532
	$ 1,056	$ 1,234	$ 1,392

1 The amount contractually required to be paid is $203 million as at December 31, 2012 ($158 million as at December 31, 2011 and $215 million as at February 1, 2011).
2 See Note 13 – Financial instruments.
3 See Note 24 – Long-term debt.

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.

26 OTHER LIABILITIES

Other liabilities were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Accruals for long-term contract costs	**$ 705**	$ 816	$ 796
Employee benefits[1]	**654**	672	714
Deferred revenues	**499**	424	450
Supplier contributions to aerospace programs	**364**	348	314
Flexjet fractional ownership deferred revenues	**241**	212	196
Income and other taxes payable	**239**	216	166
Deferred income taxes[2]	**46**	67	53
Other	**445**	409	433
	$ 3,193	$ 3,164	$ 3,122
Of which current	**$ 2,236**	$ 2,262	$ 2,214
Of which non-current	**957**	902	908
	$ 3,193	$ 3,164	$ 3,122

1 Comprises all employee benefits excluding those related to retirement benefits, which are reported in the line items Retirement benefits and in Other assets (see Note 21 – Retirement benefits).
2 See Note 11 – Income taxes.

27 SHARE CAPITAL

PREFERRED SHARES

The preferred shares authorized were as follows, as at December 31, 2012, December 31, 2011 and February 1, 2011:

	Authorized for the specific series
Series 2 Cumulative Redeemable Preferred Shares	12,000,000
Series 3 Cumulative Redeemable Preferred Shares	12,000,000
Series 4 Cumulative Redeemable Preferred Shares	9,400,000

The preferred shares issued and fully paid were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Series 2 Cumulative Redeemable Preferred Shares	**9,692,521**[1]	9,464,920	9,464,920
Series 3 Cumulative Redeemable Preferred Shares	**2,307,479**[1]	2,535,080	2,535,080
Series 4 Cumulative Redeemable Preferred Shares	**9,400,000**	9,400,000	9,400,000

1 During fiscal year 2012, 227,601 Series 3 Cumulative Redeemable Preferred Shares were converted to Series 2 Cumulative Redeemable Preferred Shares.

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 fourteen days before the conversion date that, at such time, 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 set between 50% to 100% of the Canadian prime rate, and adjusted as follows. 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, 2017 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 fourteen days before the conversion date that, at such time, 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, 2012 and including July 31, 2017, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 3.134% or $0.7835 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.195875 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 Amalgamation.

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.
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).
Dividend:	After payment of the priority dividend on the Class B Shares (Subordinate Voting) mentioned below, the Class A Shares (Multiple Voting) shall share equally, share for share, with respect to any additional dividends which may be declared in respect of the Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting). These dividends, if declared, shall be payable quarterly on the last day of March, June, September and December of each year.

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:	The holders of Class B Shares (Subordinate Voting) are entitled, in priority to the holders of Class A Shares (Multiple Voting) to non-cumulative dividends of $0.0015625 Cdn per share, 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. After payment of said priority dividend, the Class B Shares (Subordinate Voting) shall share equally, share for share, with respect to any additional dividends which may be declared in respect of the Class A Shares (Multiple Voting) and the Class B Shares (Subordinate Voting). These dividends, if declared, shall be payable quarterly on the last day of March, June, September and December of each year.

27 SHARE CAPITAL (CONTINUED)

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 2012	December 31 2011
Issued and fully paid		
Balance at beginning of year	**314,537,237**	316,109,537
Converted to Class B	**(75)**	(1,572,300)
Balance at end of year	**314,537,162**	314,537,237
Authorized	**1,892,000,000**	1,892,000,000

CLASS B SHARES (SUBORDINATE VOTING)

	December 31 2012	December 31 2011
Issued and fully paid		
Balance at beginning of year	**1,438,677,056**	1,436,997,894
Issuance of shares	**1,687,250**	2,112,862
Repurchase of shares	**–**	(2,006,000)
Converted from Class A	**75**	1,572,300
	1,440,364,381	1,438,677,056
Held in trust under the PSU plan		
Balance at beginning of year	**(29,325,303)**	(27,459,675)
Purchased	**–**	(8,275,000)
Distributed	**4,783,276**	6,409,372
Balance at end of year	**(24,542,027)**	(29,325,303)
Balance at end of year	**1,415,822,354**	1,409,351,753
Authorized	**1,892,000,000**	1,892,000,000

During fiscal year 2012, no Class B Shares (Subordinate Voting) were repurchased and cancelled (2,006,000 were repurchased and cancelled for a total amount of $14 million during fiscal year 2011).

DIVIDENDS

Dividends declared were as follows:

	Dividend declared for fiscal years				Dividend declared after	
	December 31, 2012		December 31, 2011		December 31, 2012	
		Total		Total		Total
	Per share (Cdn$)	(in millions of U.S.$)	Per share (Cdn$)	(in millions of U.S.$)	Per share (Cdn$)	(in millions of U.S.$)
Class A common shares	**0.10**	**$ 31**	0.10	$ 32	0.03	$ 8
Class B common shares	**0.10**	**146**	0.10	147	0.03	37
		177		179		45
Series 2 Preferred Shares	**0.75**	**8**	0.69	7	0.13	1
Series 3 Preferred Shares	**1.05**	**3**	1.32	3	0.20	1
Series 4 Preferred Shares	**1.56**	**18**	1.56	15	0.39	3
		29		25		5
		$ 206		$ 204		$ 50

28 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 fiscal year 2012, a combined value of $50 million of DSUs and PSUs were authorized for issuance (a combined total of 8,835,000 PSUs and DSUs were authorized for issuance during fiscal year 2011).

The number of PSUs and DSUs has varied as follows, for fiscal years:

	2012		2011	
	PSU	**DSU**	PSU	DSU
Balance at beginning of year	**19,149,004**	**4,367,000**	18,225,184	2,966,000
Granted	**10,248,069**	**2,638,352**	6,824,306	1,562,000
Performance adjustment	**47,359**	**10,960**	1,156,478	–
Exercised	**(4,783,276)**	**(43,865)**	(6,409,372)	–
Cancelled	**(481,316)**	**(299,000)**	(647,592)	(161,000)
Balance at end of year	**24,179,840**	**6,673,447**[1]	19,149,004	4,367,000

1 Of which 1,175,984 DSUs are vested as at December 31, 2012.

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, 2010 and December 31, 2012, the vesting dates range from June 8, 2013 to August 14, 2015.

The weighted-average grant date fair value of PSUs and DSUs granted during fiscal year 2012 was $3.68 ($7.04 during fiscal year 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.

From time to time, the Corporation provides 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 27 – 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 nil was recorded during fiscal year 2012 with respect to the PSU and DSU plans ($31 million during fiscal year 2011). This compensation expense of nil is due to the revision, in the second quarter of fiscal year 2012, of assumptions related to future performance.

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, 67,207,682 were available for issuance under these share option plans as at December 31, 2012.

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.

28 SHARE-BASED PLANS (CONTINUED)

The summarized information on the current share option plan is as follows, as at December 31, 2012:

	Issued and outstanding			Exercisable	
Exercise price range (Cdn$)	**Number of options**	**Weighted-average remaining life (years)**	**Weighted-average exercise price (Cdn$)**	**Number of options**	**Weighted-average exercise price (Cdn$)**
2 to 4	2,393,552	3.44	3.45	2,393,552	3.45
4 to 6	10,153,204	5.84	4.03	–	–
6 to 8	3,344,845	5.43	7.01	–	–
	15,891,601			2,393,552	

The number of options issued and outstanding under the current share option plan has varied as follows, for fiscal years:

	2012		2011	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**9,724,983**	**5.22**	6,388,414	4.22
Granted	**6,512,071**	**3.64**	3,598,000	6.99
Cancelled	**(345,453)**	**5.27**	(261,431)	5.13
Balance at end of year	**15,891,601**	**4.57**	9,724,983	5.22
Options exercisable at end of year	**2,393,552**	**3.45**	–	–

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, 2012, target prices ranged between $4.50 Cdn and $8 Cdn.

The summarized information on the performance share option plan is as follows, as at December 31, 2012:

	Issued and outstanding				Exercisable	
Exercise price range (Cdn$)	**Number of options**	**Weighted-average target price (Cdn$)**	**Weighted-average remaining life (years)**	**Weighted-average exercise price (Cdn$)**	**Number of options**	**Weighted-average exercise price (Cdn$)**
2 to 4	3,463,100	4.51	0.45	3.24	3,453,100	3.23
4 to 6	4,279,188	6.02	1.45	5.51	4,199,188	5.50
8 to 10	4,856,200	8.00	2.44	8.53	–	–
	12,598,488				7,652,288	

The weighted-average share price of options exercised during fiscal year 2012 was $3.83 ($6.70 during fiscal year 2011).

The number of options has varied as follows, for fiscal years:

	2012		2011	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**15,797,863**	**5.60**	26,497,775	5.06
Exercised	**(1,687,250)**	**2.55**	(2,112,862)	3.11
Cancelled	**(989,125)**	**6.50**	(630,550)	6.44
Expired	**(523,000)**	**2.93**	(7,956,500)	4.40
Balance at end of year	**12,598,488**	**6.05**	15,797,863	5.60
Options exercisable at end of year	**7,652,288**	**4.48**	10,358,663	4.14

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.

All options issued and outstanding expired or were cancelled during fiscal year 2012.

SHARE-BASED COMPENSATION EXPENSE FOR OPTIONS

The weighted-average grant date fair value of stock options granted during fiscal year 2012 was $1.21 per option ($2.43 per option for fiscal year 2011). The fair value of each option granted was determined using a Black-Scholes option pricing model, which incorporates the share price at the grant date, and the following weighted-average assumptions, for fiscal years:

	2012	2011
Risk-free interest rate	**1.51%**	2.21%
Expected life	**5 years**	5 years
Expected volatility in market price of shares	**44.95%**	44.53%
Expected dividend yield	**2.46%**	1.81%

A compensation expense of $7 million was recorded during fiscal year 2012 with respect to share option plans ($7 million during fiscal year 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 $8 million for fiscal year 2012 ($7 million for fiscal year 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.

29 NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows, for fiscal years:

	2012	2011
Trade and other receivables	$ (95)	$ (87)
Inventories	(205)	(148)
Other financial assets and liabilities, net	60	(193)
Other assets	(222)	(8)
Trade and other payables	348	156
Provisions	(106)	(97)
Advances and progress billings in excess of related long-term contract inventories	102	(436)
Advances on aerospace programs	599	(128)
Retirement benefits liability	(88)	(178)
Other liabilities	3	91
	$ 396	$ (1,028)

30 CREDIT FACILITIES

LETTER OF CREDIT FACILITIES

The letter of credit facilities and their maturities were as follows, as at:

	Amount committed	Letters of credit issued	Amount available	Maturity (calendar year)
December 31, 2012				
BT facility	$ 4,486[1]	$ 3,291	$ 1,195	2017[2]
BA facility	600	430	170	2015[3]
PSG facility	900	339	561	2013[4]
	$ 5,986	$ 4,060	$ 1,926	
December 31, 2011				
BT facility	$ 4,399[1]	$ 3,805	$ 594	2016
BA facility	600	264	336	2014
PSG facility	900	318	582	2012[4]
	$ 5,899	$ 4,387	$ 1,512	
February 1, 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	

1 €3,400 million as at December 31, 2012 and 2011 (€3,800 million as at February 1, 2011).
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 2017. The facility can be extended in April 2013 for a 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 a 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 2012, the facility was extended until June 2013 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 $985 million were outstanding under various bilateral agreements as at December 31, 2012 ($753 million as at December 31, 2011 and $708 million as at February 1, 2011).

The Corporation also uses numerous bilateral bonding facilities with insurance companies to support BT's operations. An amount of $2.3 billion was outstanding under such facilities as at December 31, 2012 ($2.1 billion as at December 31, 2011 and $2.0 billion as at February 1, 2011).

REVOLVING CREDIT FACILITIES

The Corporation has a $750-million unsecured revolving credit facility ("revolving credit facility") that matures in June 2015 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar cash 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. In addition, in March 2012, the Corporation entered into a three-year unsecured revolving credit facility ("BT revolving credit facility") amounting to €500 million ($660 million), available to BT for cash drawings. The facility matures in March 2015 and bears interest at Euribor plus a margin.

FINANCIAL COVENANTS

The Corporation is subject to various financial covenants under the BA and BT letter of credit facilities and the two unsecured revolving credit facilities, 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, as well as a maximum net debt to EBITDA ratio, all calculated based on an adjusted consolidated basis, i.e. excluding BT. The BT letter of credit and BT revolving credit facility include financial covenants requiring minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on BT stand-alone 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 31 – Capital management or to the specific terms used in the MD&A. In addition, the Corporation must maintain a minimum BT liquidity of €600 million ($792 million) at the end of each 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, 2012 and 2011 and February 1, 2011.

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

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.

31 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 over the medium to long term.

The Corporation modified its global metrics to align them to those the Corporation's believe should be used to assess its creditworthiness. Adjusted EBIT and EBITDA now exclude special items such as the impact of restructuring charges, significant impairment charges and reversals thereof, as well as other unusual items.

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 fiscal year 2012.

		2012		2011
Adjusted EBIT[1]	**$**	**957**	$	1,271
Adjusted interest[2]	**$**	**289**	$	271
Adjusted EBIT to adjusted interest ratio		**3.3**		4.7
Adjusted debt[3]	**$**	**5,671**	$	5,263
Adjusted EBITDA[4]	**$**	**1,388**	$	1,657
Adjusted debt to adjusted EBITDA ratio[5]		**4.1**		3.2

1 Represents EBIT before special items 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 adjustment for operating leases.
3 Represents long-term debt adjusted for the fair value of derivatives (or settled derivatives) designated in related hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.
4 Represents adjusted EBIT plus amortization and impairment of PP&E, including amortization adjustment for operating leases.
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 $3.0 billion as at December 31, 2012 ($3.2 billion as at December 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. 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.

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 30 – Credit facilities for a description of bank covenants.

32 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 commercial aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from 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 money market funds based on pre-established consolidated counterparty risk limits per financial institution and fund.

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.

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 13 – Financial instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows, as at:

	December 31 2012	December 31 2011	February 1 2011
Aircraft loans and lease receivables	**$ 395**	$ 432	$ 397
Derivative financial instruments	**$ 656**	$ 523	$ 501
Investments in securities	**$ 196**	$ 341	$ 325
Investments in financing structures	**$ 194**	$ 192	$ 205

Credit quality – The credit quality, using external and internal credit rating system, of financial assets that are neither past due nor impaired is usually investment grade, except for BA receivables, 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 37 – Commitment and contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

32 FINANCIAL RISK MANAGEMENT (CONTINUED)

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, the funding of product developments and other financial commitments. The Corporation also 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, 2012:

	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	$ 2,896	$ 2,896	$ –	$ –	$ –	$ –	$ –	$ 2,896
Trade and other receivables	$ 1,525	1,401	41	14	32	–	37	1,525
Other financial assets[1]	$ 1,024	90	170	93	422	433	57	1,265
Assets		4,387	211	107	454	433	94	5,686
Trade and other payables	$ 3,553	3,500	8	7	2	–	36	3,553
Other financial liabilities[1]	$ 870	283	160	148	375	333	–	1,299
Long-term debt								
Principal	$ 5,405	45	225	1,133	3,104	418	–	4,925
Interest		332	659	639	891	325	–	2,846
Liabilities		4,160	1,052	1,927	4,372	1,076	36	12,623
Net amount		$ 227	$ (841)	$ (1,820)	$ (3,918)	$ (643)	$ 58	$ (6,937)

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, 2012:

	Nominal value (USD equivalent)					Undiscounted cash flows[1]	
		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	$11,740	$ 215	$ 31	$ –	$ –	$ –	$ 246
Interest-rate derivatives	3,727	99	81	131	82	35	428
	$15,467	$ 314	$ 112	$ 131	$ 82	$ 35	$ 674
Derivative financial liabilities							
Forward foreign exchange contracts	$ 8,415	$ (129)	$ (4)	$ –	$ –	$ –	$ (133)
Interest-rate derivatives	15	–	14	(23)	–	–	(9)
	$ 8,430	$ (129)	$ 10	$ (23)	$ –	$ –	$ (142)
Net amount		$ 185	$ 122	$ 108	$ 82	$ 35	$ 532

1 Amounts denominated in foreign currency are translated at the period end exchange rate.

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, Swiss franc 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.

32 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 fiscal year 2012 is before giving effect to cash flow hedge relationships.

		Effect on EBT				
	Variation	CAD/USD	GBP/USD	EUR/USD	EUR/CHF	Other
Gain (loss)	+10%	$ 16	$ (2)	$ 7	$ –	$ (6)

The following impact on OCI for fiscal year 2012 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/CHF	Other
Gain (loss)	+10%	$ 182	$ 54	$ 78	$ 109	$ (53)

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 rate (see Note 24 – 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 and cross currency interest-rate swap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which include 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 asset/liability management matching, consistent with the objective to reduce risks arising from interest rate 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, 2012 and December 31, 2011, the impact on EBT would have been a negative adjustment of $74 million for December 31, 2012 ($52 million for December 31, 2011).

33 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, certain investments in securities, 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 ratings. 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 published credit ratings.

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 and a discounted cash flow model to estimate the fair value of call feature on long-term debt, using market data such as interest-rate swap curves and external quotations.

Long-term debt – The fair value of long-term debt is estimated using public quotations or discounted cash flow analyses, based on the current corresponding borrowing rate for similar types of borrowing arrangements.

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).

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2012:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	$ 416	$ –	$ –	$ 416
Derivative financial instruments[1]	735	–	735	–
Servicing fees	57	–	–	57
Investments in securities	202[2]	32	170	–
Investments in financing structures	196	–	150	46
	$ 1,606	$ 32	$ 1,055	$ 519
Financial liabilities				
Lease subsidies	$ 158	$ –	$ –	$ 158
Derivative financial instruments[1]	141	–	141	–
	$ 299	$ –	$ 141	$ 158

1 Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and embedded derivatives.
2 Excludes $15 million of investments carried at cost.

Changes in fair value of Level 3 financial instruments were as follows, for fiscal years 2012 and 2011:

	Aircraft loans and lease receivables	Servicing fees	Investment in financing structures	Lease subsidies
Balance as at February 1, 2011	$ 407	$ 49	$ 37	$ (161)
Gains and interests 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)
Gains (losses) and interests included in net income	11	1	1	(26)
Issuances	3	–	(6)	(38)
Settlements	(38)	(1)	–	46
Balance as at December 31, 2012	**$ 416**	**$ 57**	**$ 46**	**$ (158)**

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, 2012:

Impact on EBT	Change in fair value		Change of assumption
Gain (loss)	Change in fair value recognized in net income during fiscal year 2012	Downgrade the internally assigned credit rating of unrated customers by 1 notch	Increase the liquidity risk by 100 bps
Aircraft loans and lease receivables	$ (23)	$ (15)	$ (22)

34 INVESTMENTS IN JOINT VENTURES

In the normal course of business, the Corporation carries out a portion of its business through joint ventures, mainly in BT. The Corporation's pro rata share of revenues and net income of joint ventures was as follows, for fiscal years:

		2012		2011[1]
Revenues	**$**	**517**	$	547
Cost of sales		**393**		371
Gross margin		**124**		176
SG&A		**8**		7
EBIT		**116**		169
Financing income		**(12)**		(11)
EBT		**128**		180
Income taxes		**20**		34
Net income	**$**	**108**	$	146

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

The Corporation's pro rata share of assets and liabilities of joint ventures was as follows, as at:

		December 31 2012		December 31 2011		February 1 2011
Cash and cash equivalents	**$**	**339**	$	480	$	636
Other current assets	**$**	**406**	$	163	$	152
Non-current assets	**$**	**134**	$	129	$	134
Current liabilities	**$**	**636**	$	538	$	723

35 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 transaction with associates, for fiscal years:

		2012				2011[1]		
		Joint ventures		**Associates**		Joint ventures		Associates
Sales of products and services, and other income	**$**	**77**	**$**	**44**	$	59	$	218
Purchase of products and services, and other expenses	**$**	**2**	**$**	**49**	$	10	$	95

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

35 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	December 31, 2012		December 31, 2011		February 1, 2011	
	Joint ventures	**Associates**	Joint ventures	Associates	Joint ventures	Associates
Receivables	**$ 73**	**$ 28**	$ 59	$ 32	$ 93	$ 36
Payables	**$ 4**	**$ 28**	$ 1	$ 2	$ 3	$ 2
Advances and progress billings in excess of long-term contract inventories	**$ –**	**$ –**	$ –	$ –	$ –	$ 60

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 fiscal years:

	2012	2011[1]
Share-based payments	**$ 12**	$ 13
Salaries, bonuses and other short-term benefits	**9**	12
Retirement benefits	**4**	4
Other long-term benefits	**1**	1
	$ 26	$ 30

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

36 UNCONSOLIDATED SPECIAL PURPOSE ENTITIES

The following table presents the assets and liabilities of unconsolidated special purpose entities ("SPEs") in which the Corporation had a significant exposure, as at:

	December 31, 2012		December 31, 2011		February 1, 2011	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Financing structures related to the sale of commercial aircraft	**$ 8,365**	**$ 5,973**	$ 9,071	$ 6,603	$ 9,992	$ 7,293

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 $381 million was recorded as provisions and related liabilities as at December 31, 2012 ($1.9 billion and $350 million, respectively, as at December 31, 2011 and $2.0 billion and $439 million, respectively, as at February 1, 2011). The Corporation's maximum exposure under these guarantees is included in Note 37 – Commitments and contingencies.

The Corporation concluded that it did not control these SPEs.

37 COMMITMENTS AND CONTINGENCIES

The Corporation enters into various sale support arrangements, including credit and residual value guarantees and financing rate commitments, mostly provided in connection with sales of commercial aircraft and related financing 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 36 – 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 2012	December 31 2011	February 1 2011
Aircraft sales			
Residual value (a)	**$ 1,812**	$ 2,108	$ 2,239
Credit (a)	**1,218**	1,389	1,453
Mutually exclusive exposure[1]	**(594)**	(771)	(806)
Total credit and residual value exposure	**$ 2,436**	$ 2,726	$ 2,886
Trade-in commitments (b)	**$ 3,098**	$ 1,619	$ 1,214
Conditional repurchase obligations (c)	**$ 489**	$ 457	$ 446
Other[2]			
Credit and residual value (e)	**$ 47**	$ 156	$ 159
Performance guarantees (f)	**$ 41**	$ 36	$ 34

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 $402 million as at December 31, 2012 ($456 million as at December 31, 2011 and $493 million as at February 1, 2011) 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 $158 million as at December 31, 2012 ($140 million as at December 31, 2011 and $161 million as at February 1, 2011). 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 2025. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 67% of the total maximum credit risk as at December 31, 2012 (66% as at December 31, 2011 and 64% as at February 1, 2011).

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.

37 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 2012	December 31 2011	February 1 2011
Less than 1 year	**$ 41**	$ 59	$ 58
From 1 to 5 years	**850**	840	758
From 5 to 10 years	**855**	1,094	1,257
From 10 to 15 years	**66**	115	166
	$ 1,812	$ 2,108	$ 2,239

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 2012	December 31 2011	February 1 2011
Less than 1 year	**$ 373**	$ 694	$ 468
From 1 to 3 years	**1,361**	330	417
Thereafter	**1,364**	595	329
	$ 3,098	$ 1,619	$ 1,214

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 2012	December 31 2011	February 1 2011
Less than 1 year	**$ 248**	$ 348	$ 197
From 1 to 3 years	**232**	35	140
Thereafter	**9**	74	109
	$ 489	$ 457	$ 446

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 $359 million as at December 31, 2012 ($396 million as at December 31, 2011 and $498 million as at February 1, 2011). 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 price 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, 2012 and 2011 and as at February 1, 2011. This guarantee matures in 2025. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements for BT, amounting to nil as at December 31, 2012 ($109 million as at December 31, 2011 and $112 million as at February 1, 2011). These guarantees expired 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 cases to the warranty period.

The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to $41 million as at December 31, 2012 ($36 million as at December 31, 2011 and $34 million as at February 1, 2011), 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 2012	December 31 2011	February 1 2011
Within 1 year	**$ 130**	$ 100	$ 108
Between 1 and 5 years	**249**	216	248
More than 5 years	**268**	271	227
	$ 647	$ 587	$ 583

Rent expense was $141 million for fiscal year 2012 ($123 million for fiscal year 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 2012	December 31 2011	February 1 2011
Within 1 year	**$ 7,062**	$ 5,669	$ 5,975
Between 1 and 5 years	**3,943**	3,912	3,711
More than 5 years	**361**	464	426
	$ 11,366	$ 10,045	$ 10,112

The purchase obligations of the Corporation include capital commitments for the purchase of PP&E and intangible assets amounting to $292 million and $356 million, respectively, as at December 31, 2012 ($195 million and $50 million as at December 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, 2012, 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.

38 RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period, mainly a reclassification from advances and progress billings in excess of long-term contract inventories to other liabilities, and from other income to share of income of associates.

39 EVENTS AFTER THE REPORTING DATE

In January 2013, the Corporation issued, at par, unsecured Senior Notes comprised of $750 million, bearing interest at 4.25% per year, due on January 15, 2016 and $1,250 million, bearing interest at 6.125% per year, due on January 15, 2023.

The Corporation intends to use the net proceeds of $1,973 million for general corporate purposes.