BOMBARDIER INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

For the three- and six-month periods ended June 30, 2014

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2014
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in millions of U.S. dollars, except per share amounts)

	Notes	Three-month periods ended June 30		Six-month periods ended June 30	
		2014	2013	**2014**	2013
Revenues		**$ 4,891**	$ 4,430	**$ 9,245**	$ 8,769
Cost of sales	10	**4,233**	3,758	**7,994**	7,481
Gross margin		**658**	672	**1,251**	1,288
SG&A		**354**	382	**692**	726
R&D	4	**79**	75	**155**	145
Share of income of joint ventures and associates		**(28)**	(34)	**(50)**	(78)
Other income	5	**(4)**	(8)	**(22)**	(2)
Special items	6	**-**	(31)	**12**	(31)
EBIT		**257**	288	**464**	528
Financing expense	7	**90**	83	**136**	151
Financing income	7	**(49)**	(47)	**(61)**	(80)
EBT		**216**	252	**389**	457
Income taxes		**61**	72	**119**	129
Net income		**$ 155**	$ 180	**$ 270**	$ 328
Attributable to					
Equity holders of Bombardier Inc.		**$ 153**	$ 181	**$ 266**	$ 324
NCI		**2**	(1)	**4**	4
		$ 155	$ 180	**$ 270**	$ 328
EPS (in dollars)	8				
Basic and diluted		**$ 0.08**	$ 0.10	**$ 0.14**	$ 0.18

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions of U.S. dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	**2014**	2013
Net income	**$ 155**	$ 180	**$ 270**	$ 328
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges				
Foreign exchange re-evaluation	**2**	(4)	**2**	2
Net gain (loss) on derivative financial instruments	**34**	(18)	**(90)**	(116)
Reclassification to income or to the related non-financial asset	**43**	(17)	**83**	20
Income taxes	**(25)**	9	**(5)**	28
	54	(30)	**(10)**	(66)
AFS financial assets				
Net unrealized gain (loss)	**-**	(10)	**4**	(7)
CCTD				
Net investments in foreign operations	**29**	1	**39**	(101)
Net gain (loss) on related hedging items	**-**	(18)	**1**	11
	29	(17)	**40**	(90)
Items that are never reclassified to net income				
Retirement benefits				
Net actuarial gains (losses)	**(113)**	328	**(352)**	579
Income taxes	**(12)**	(13)	**6**	(61)
	(125)	315	**(346)**	518
Total OCI	**(42)**	258	**(312)**	355
Total comprehensive income (loss)	**$ 113**	$ 438	**$ (42)**	$ 683
Attributable to				
Equity holders of Bombardier Inc.	**$ 111**	$ 439	**$ (46)**	$ 681
NCI	**2**	(1)	**4**	2
	$ 113	$ 438	**$ (42)**	$ 683

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

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

	Notes	**June 30 2014**	December 31 2013	January 1 2013
Assets				
Cash and cash equivalents		**$ 2,476**	$ 3,397	$ 2,557
Trade and other receivables		**1,637**	1,492	1,311
Inventories	10	**8,909**	8,234	7,540
Other financial assets	11	**568**	637	443
Other assets	12	**902**	881	680
Current assets		**14,492**	14,641	12,531
PP&E		**2,118**	2,066	1,933
Aerospace program tooling		**7,434**	6,606	4,770
Goodwill		**2,368**	2,381	2,316
Deferred income taxes		**1,181**	1,231	1,421
Investments in joint ventures and associates		**293**	318	311
Other financial assets	11	**1,529**	1,568	1,339
Other assets	12	**593**	552	554
Non-current assets		**15,516**	14,722	12,644
		$ 30,008	$ 29,363	$ 25,175
Liabilities				
Trade and other payables		**$ 4,051**	$ 4,089	$ 3,310
Provisions	13	**816**	881	1,000
Advances and progress billings in excess of long-term contract inventories		**2,267**	2,352	1,763
Advances on aerospace programs		**3,702**	3,228	3,053
Other financial liabilities	14	**677**	1,009	455
Other liabilities	15	**2,096**	2,227	2,212
Current liabilities		**13,609**	13,786	11,793
Provisions	13	**569**	584	608
Advances on aerospace programs		**1,558**	1,688	1,600
Long-term debt	16	**7,725**	6,988	5,360
Retirement benefits		**2,469**	2,161	2,999
Other financial liabilities	14	**723**	717	601
Other liabilities	15	**1,033**	990	957
Non-current liabilities		**14,077**	13,128	12,125
		27,686	26,914	23,918
Equity				
Attributable to equity holders of Bombardier Inc.		**2,295**	2,426	1,211
Attributable to NCI		**27**	23	46
		2,322	2,449	1,257
		$ 30,008	$ 29,363	$ 25,175
Commitments and contingencies	21			

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

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

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Retained earnings (deficit)			Accumulated OCI					
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total Equity
As at March 31, 2014	$ 347	$ 1,380	$ 2,663	$ (2,191)	$ 98	$ 9	$ (267)	$ 188	$ 2,227	$ 25	$ 2,252
Total comprehensive income											
Net income	-	-	153	-	-	-	-	-	153	2	155
OCI	-	-	-	(125)	-	-	54	29	(42)	-	(42)
	-	-	153	(125)	-	-	54	29	111	2	113
Dividends	-	-	(48)	-	-	-	-	-	(48)	-	(48)
Share-based expense	-	-	-	-	5	-	-	-	5	-	5
As at June 30, 2014	**$ 347**	**$ 1,380**	**$ 2,768**	**$ (2,316)**	**$ 103**	**$ 9**	**$ (213)**	**$ 217**	**$ 2,295**	**$ 27**	**$ 2,322**
As at March 31, 2013	$ 347	$ 1,345	$ 2,331	$ (2,591)	$ 119	$ 13	$ (233)	$ 84	$ 1,415	$ 49	$ 1,464
Total comprehensive income											
Net income	-	-	181	-	-	-	-	-	181	(1)	180
OCI	-	-	-	315	-	(10)	(30)	(17)	258	-	258
	-	-	181	315	-	(10)	(30)	(17)	439	(1)	438
Options exercised	-	9	-	-	(2)	-	-	-	7	-	7
Dividends	-	-	(52)	-	-	-	-	-	(52)	-	(52)
Shares distributed - PSU plans	-	31	-	-	(31)	-	-	-	-	-	-
Share-based expense	-	-	-	-	6	-	-	-	6	-	6
As at June 30, 2013	$ 347	$ 1,385	$ 2,460	$ (2,276)	$ 92	$ 3	$ (263)	$ 67	$ 1,815	$ 48	$ 1,863

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
For the six-month periods ended
(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.										
	Share capital		**Retained earnings (deficit)**			**Accumulated OCI**					
	Preferred shares	**Common shares**	**Other retained earnings**	**Net actuarial losses**	**Contributed surplus**	**AFS financial assets**	**Cash flow hedges**	**CCTD**	**Total**	**NCI**	**Total Equity**
As at December 31, 2013	$ 347	$ 1,380	$ 2,598	$ (1,970)	$ 92	$ 5	$ (203)	$ 177	$ 2,426	$ 23	$ 2,449
Total comprehensive income											
Net income	-	-	266	-	-	-	-	-	266	4	270
OCI	-	-	-	(346)	-	4	(10)	40	(312)	-	(312)
	-	-	266	(346)	-	4	(10)	40	(46)	4	(42)
Dividends	-	-	(96)	-	-	-	-	-	(96)	-	(96)
Share-based expense	-	-	-	-	11	-	-	-	11	-	11
As at June 30, 2014	**$ 347**	**$ 1,380**	**$ 2,768**	**$ (2,316)**	**$ 103**	**$ 9**	**$ (213)**	**$ 217**	**$ 2,295**	**$ 27**	**$ 2,322**
As at January 1, 2013	$ 347	$ 1,342	$ 2,239	$ (2,794)	$ 109	$ 10	$ (197)	$ 155	$ 1,211	$ 46	$ 1,257
Total comprehensive income											
Net income	-	-	324	-	-	-	-	-	324	4	328
OCI	-	-	-	518	-	(7)	(66)	(88)	357	(2)	355
	-	-	324	518	-	(7)	(66)	(88)	681	2	683
Options exercised	-	12	-	-	(3)	-	-	-	9	-	9
Dividends	-	-	(103)	-	-	-	-	-	(103)	-	(103)
Shares distributed - PSU plans	-	31	-	-	(31)	-	-	-	-	-	-
Share-based expense	-	-	-	-	17	-	-	-	17	-	17
As at June 30, 2013	$ 347	$ 1,385	$ 2,460	$ (2,276)	$ 92	$ 3	$ (263)	$ 67	$ 1,815	$ 48	$ 1,863

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

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

		Three-month periods ended June 30		Six-month periods ended June 30	
	Notes	**2014**	2013	**2014**	2013
Operating activities					
Net income		**$ 155**	$ 180	**$ 270**	$ 328
Non-cash items					
Amortization		**103**	102	**196**	193
Deferred income taxes		**24**	24	**48**	59
Gains on disposals of PP&E	5	**(4)**	-	**(4)**	(1)
Share of income of joint ventures and associates		**(28)**	(34)	**(50)**	(78)
Share-based expense	17	**5**	6	**11**	17
Loss on repurchase of long-term debt	6, 16	**43**	-	**43**	-
Dividends received from joint ventures and associates		**62**	47	**62**	57
Net change in non-cash balances	18	**(259)**	(341)	**(890)**	(667)
Cash flows from operating activities		**101**	(16)	**(314)**	(92)
Investing activities					
Additions to PP&E and intangible assets		**(531)**	(576)	**(1,040)**	(1,104)
Proceeds from disposals of PP&E and intangible assets		**6**	26	**15**	40
Additions to AFS investments in securities		**(53)**	(52)	**(53)**	(122)
Net proceeds from disposal of a business[(1)]		**-**	-	**25**	-
Other		**(1)**	14	**(1)**	(6)
Cash flows from investing activities		**(579)**	(588)	**(1,054)**	(1,192)
Financing activities					
Net proceeds from issuance of long-term debt	16	**1,783**	8	**1,810**	1,978
Repayments of long-term debt	16	**(1,301)**	(17)	**(1,308)**	(27)
Dividends paid[(2)]		**(46)**	(50)	**(92)**	(99)
Other		**(29)**	45	**(11)**	47
Cash flows from financing activities		**407**	(14)	**399**	1,899
Effect of exchange rates on cash and cash equivalents		**59**	(14)	**48**	(71)
Net increase (decrease) in cash and cash equivalents		**(12)**	(632)	**(921)**	544
Cash and cash equivalents at beginning of period		**2,488**	3,733	**3,397**	2,557
Cash and cash equivalents at end of period		**$ 2,476**	$ 3,101	**$ 2,476**	$ 3,101
Supplemental information[(3)(4)]					
Cash paid for					
Interest		**$ 80**	$ 68	**$ 170**	$ 123
Income taxes		**$ 23**	$ 22	**$ 53**	$ 31
Cash received for					
Interest		**$ 100**	$ 12	**$ 110**	$ 19
Income taxes		**$ 3**	$ 1	**$ 4**	$ 2

(1) Represents the balance of sale price related to the sale of the main assets and related liabilities of the Corporation's Flexjet activities.
(2) $5 million and $11 million of dividends paid relate to preferred shares for the three- and six-month periods ended June 30, 2014 ($6 million and $12 million for the three- and six-month periods ended June 30, 2013).
(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, investments in securities, loans and lease receivable after the effect of hedges, if any, the interest portion of a gain related to the resolution of a litigation in connection with part IV of the Quebec Income Tax Act, the Tax on Capital and the interest portion related to the settlement of a cross-currency interest-rate swap.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2014
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

1. BASIS OF PREPARATION

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

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IAS 34, *Interim financial reporting*, as issued by the IASB. The interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Financial Report for the fiscal year ended December 31, 2013.

These interim consolidated financial statements for the three- and six-month periods ended June 30, 2014 were authorized for issuance by the Board of Directors on July 30, 2014.

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

The comparative periods include the results of the Corporation's Flexjet activities which have been disposed of on December 4, 2013.

The Corporation is subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of its foreign operations with non-U.S. dollar functional currencies, mainly the euro, pound sterling and other European currencies, and from transactions denominated in foreign currencies, mainly the Canadian dollar and pound sterling.

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

		Exchange rates as at	
	June 30, 2014	December 31, 2013	January 1, 2013
Euro	**1.3620**	1.3791	1.3194
Canadian dollar	**0.9357**	0.9400	1.0043
Pound sterling	**1.7032**	1.6542	1.6167

	Average exchange rates for the three-month periods ended		Average exchange rates for the six-month periods ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Euro	**1.3714**	1.3066	**1.3706**	1.3144
Canadian dollar	**0.9165**	0.9771	**0.9116**	0.9854
Pound sterling	**1.6820**	1.5360	**1.6683**	1.5464

2. FUTURE CHANGES IN ACCOUNTING POLICIES

Financial instruments
In July 2014, the IASB completed the three-part project to replace IAS 39, *Financial instruments: recognition and measurement* by issuing IFRS 9, *Financial instruments*. IFRS 9, *Financial instruments* includes classification and measurement of financial assets and financial liabilities, a forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new 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 FVTP&L, will be presented in OCI rather than in the statement of income.

IFRS 9 also introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

Lastly, IFRS 9 introduced a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model, represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

IFRS 9 will be effective for the Corporation's fiscal year beginning on January 1, 2018, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

Employee benefits
In November 2013, the IASB amended IAS 19, *Employee benefits*, in order to simplify the accounting for contributions of defined benefit plans that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment will be effective for the Corporation's fiscal year beginning on January 1, 2015, with earlier application permitted. The Corporation has started to assess the impact the adoption of this standard will have on its consolidated financial statements and no significant impact is expected.

Revenue Recognition
In May 2014, the IASB released IFRS 15, *Revenue from contracts with customers,* which supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenues*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 will be effective for the Corporation's fiscal year beginning on January 1, 2017, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

3. 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. BA was also offering Flexjet fractional ownership and flight entitlement programs up to December 4, 2013.	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 same accounting policies as those described in the annual consolidated financial statements for the fiscal year ended December 31, 2013.

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:

						Three-month periods ended June 30
			2014			2013
	BA	BT	Total	BA	BT	Total
Results of operations						
Revenues	**$ 2,512**	**$ 2,379**	**$ 4,891**	$ 2,255	$ 2,175	$ 4,430
Cost of sales	**2,156**	**2,077**	**4,233**	1,922	1,836	3,758
Gross margin	**356**	**302**	**658**	333	339	672
SG&A	**171**	**183**	**354**	189	193	382
R&D	**47**	**32**	**79**	45	30	75
Share of income of joint ventures and associates	**-**	**(28)**	**(28)**	-	(34)	(34)
Other income	**(3)**	**(1)**	**(4)**	(8)	-	(8)
EBIT before special items	**141**	**116**	**257**	107	150	257
Special items(1)	**-**	**-**	**-**	(31)	-	(31)
EBIT	**$ 141**	**$ 116**	**257**	$ 138	$ 150	288
Financing expense			**90**			83
Financing income			**(49)**			(47)
EBT			**216**			252
Income taxes			**61**			72
Net income			**$ 155**			$ 180
Other information						
Net additions to PP&E and intangible assets(2)	**$ 509**	**$ 16**	**$ 525**	$ 534	$ 16	$ 550
Amortization	**$ 74**	**$ 29**	**$ 103**	$ 71	$ 31	$ 102

						Six-month periods ended June 30
			2014			2013
	BA	BT	Total	BA	BT	Total
Results of operations						
Revenues	**$ 4,601**	**$ 4,644**	**$ 9,245**	$ 4,513	$ 4,256	$ 8,769
Cost of sales	**3,958**	**4,036**	**7,994**	3,873	3,608	7,481
Gross margin	**643**	**608**	**1,251**	640	648	1,288
SG&A	**328**	**364**	**692**	347	379	726
R&D	**87**	**68**	**155**	87	58	145
Share of income of joint ventures and associates	**-**	**(50)**	**(50)**	-	(78)	(78)
Other income	**(18)**	**(4)**	**(22)**	(2)	-	(2)
EBIT before special items	**246**	**230**	**476**	208	289	497
Special items(1)	**12**	**-**	**12**	(31)	-	(31)
EBIT	**$ 234**	**$ 230**	**464**	$ 239	$ 289	528
Financing expense			**136**			151
Financing income			**(61)**			(80)
EBT			**389**			457
Income taxes			**119**			129
Net income			**$ 270**			$ 328
Other information						
Net additions to PP&E and intangible assets(2)	**$ 993**	**$ 32**	**$ 1,025**	$ 1,037	$ 27	$ 1,064
Amortization	**$ 137**	**$ 59**	**$ 196**	$ 132	$ 61	$ 193

(1) See Note 6 – Special items for more details.
(2) As per the consolidated statements of cash flows.

The reconciliation of total assets and total liabilities to segmented assets and liabilities is as follows, as at:

	June 30, 2014	December 31, 2013	January 1, 2013
Assets			
Total assets	**$ 30,008**	$ 29,363	$ 25,175
Assets not allocated to segments			
Cash and cash equivalents	**2,476**	3,397	2,557
Income tax receivable[(1)]	**29**	27	-
Deferred income taxes	**1,181**	1,231	1,421
Segmented assets	**26,322**	24,708	21,197
Liabilities			
Total liabilities	**27,686**	26,914	23,918
Liabilities not allocated to segments			
Interest payable[(2)]	**129**	116	66
Income taxes payable[(3)]	**202**	198	109
Long-term debt[(4)]	**7,776**	7,203	5,405
Deferred income taxes[(3)]	**-**	-	46
Segmented liabilities	**$ 19,579**	$ 19,397	$ 18,292
Net segmented assets			
BA	**$ 6,017**	$ 4,921	$ 2,618
BT	**$ 726**	$ 390	$ 287

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

The Corporation's revenues by market segments are as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013 [(1)]	**2014**	2013 [(1)]
BA				
Manufacturing				
Business aircraft	**$ 1,216**	$ 1,259	**$ 2,393**	$ 2,421
Commercial aircraft	**543**	272	**838**	573
Other	**148**	103	**262**	250
Total manufacturing	**1,907**	1,634	**3,493**	3,244
Services[(2)]	**397**	474	**796**	912
Other[(3)]	**208**	147	**312**	357
	2,512	2,255	**4,601**	4,513
BT				
Rolling stock[(4)]	**1,582**	1,340	**3,046**	2,718
Services[(5)]	**439**	391	**881**	761
System and signalling[(6)]	**358**	444	**717**	777
	2,379	2,175	**4,644**	4,256
	$ 4,891	$ 4,430	**$ 9,245**	$ 8,769

(1) Comparative figures have been reclassified to conform to the presentation adopted in the current period.
(2) Includes revenues from parts services, Flexjet fractional ownership and hourly flight entitlement programs' service activities (prior to disposal on December 4, 2013), 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 the other divisions of the Corporation.

4. RESEARCH AND DEVELOPMENT

R&D expense, net of government assistance, was as follows:

		Three-month periods ended June 30				Six-month periods ended June 30		
		2014		2013		**2014**		2013
R&D expenditures	**$**	**510**	$	575	**$**	**984**	$	1,054
Less: development expenditures capitalized to aerospace program tooling		**(472)**		(538)		**(902)**		(982)
		38		37		**82**		72
Add: amortization of aerospace program tooling		**41**		38		**73**		73
	$	**79**	$	75	**$**	**155**	$	145

5. OTHER INCOME

Other income was as follows:

		Three-month periods ended June 30				Six-month periods ended June 30		
		2014		2013		**2014**		2013
Changes in estimates and fair value[1]	**$**	**(4)**	$	(6)	**$**	**(19)**	$	3
Severance and other involuntary termination costs (including changes in estimates)		**8**		(1)		**5**		2
Gains on disposals of PP&E		**(4)**		-		**(4)**		(1)
Other		**(4)**		(1)		**(4)**		(6)
	$	**(4)**	$	(8)	**$**	**(22)**	$	(2)

(1) 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.

6. SPECIAL ITEMS

Special items were as follows:

		Three-month periods ended June 30				Six-month periods ended June 30		
		2014		2013		**2014**		2013
Loss on repurchase of long-term debt[1]	**$**	**43**	$	-	**$**	**43**	$	-
Restructuring charge[2]		**-**		-		**22**		-
Gains on resolution of litigations[3]		**(8)**		(43)		**(18)**		(43)
	$	**35**	$	(43)	**$**	**47**	$	(43)
Of which is presented in								
Special items in EBIT	**$**	**-**	$	(31)	**$**	**12**	$	(31)
Financing expense - loss on repurchase of long-term debt		**43**		-		**43**		-
Financing income - interests related to the resolution of litigations		**(8)**		(12)		**(8)**		(12)
	$	**35**	$	(43)	**$**	**47**	$	(43)

(1) Represents the loss related to the redemption of the €785-million ($1,093 million) Senior Notes. See Note 16 – Long-term debt for more details.

(2) Relates to the BA workforce reduction announced in January 2014 of approximately 1,700 positions, located mostly in Canada and the U.S., affecting both contractual and permanent employees.

(3) Represents a gain at BA upon the successful resolution of a litigation of $18 million in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital, of which $8 million represents the interest portion of the gain for the three-and six-month periods ended June 30, 2014, respectively ($43 million of which $12 million represents the interest portion of the gain for the three- and six-month periods ended June 30, 2013).

7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	**2014**	2013
Financing expense				
Loss on repurchase of long-term debt[1]	**$ 43**	$ -	**$ 43**	$ -
Accretion on net retirement benefit obligations	**19**	28	**38**	57
Amortization of letter of credit facility costs	**3**	4	**7**	8
Accretion on other financial liabilities	**2**	5	**5**	12
Accretion on provisions	**2**	-	**4**	1
Changes in discount rates of provisions	**-**	-	**2**	-
Net loss on certain financial instruments[2]	**-**	7	**-**	-
Other	**10**	6	**15**	9
	79	50	**114**	87
Interest on long-term debt, after effect of hedges	**11**	33	**22**	64
	$ 90	$ 83	**$ 136**	$ 151
Financing income				
Net gain on certain financial instruments[2]	**$ (18)**	$ -	**$ (13)**	$ (10)
Interest related to the resolution of litigations[3]	**(8)**	(12)	**(8)**	(12)
Changes in discount rates of provisions	**-**	(11)	**-**	(11)
Other	**(6)**	(9)	**(10)**	(17)
	(32)	(32)	**(31)**	(50)
Interest on loans and lease receivables, after effect of hedges	**(7)**	(9)	**(15)**	(17)
Interest on cash and cash equivalents	**(7)**	(3)	**(9)**	(7)
Income from investment in securities	**(3)**	(3)	**(6)**	(6)
	(17)	(15)	**(30)**	(30)
	$ (49)	$ (47)	**$ (61)**	$ (80)

(1) Represents the loss related to the redemption of the €785-million ($1,093 million) Senior Notes, which was recorded as a special item. See Note 16 – Long-term debt for more details.

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

(3) Represents the interest portion of a gain of $8 million and $18 million for the three- and six-month periods ended June 30, 2014 upon the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital ($43 million for the three- and six-month periods ended June 30, 2013). The remaining $10 million of the gain was recorded in EBIT as special items for the six-month period ended June 30, 2014 ($31 million for the three- and six-month periods ended June 30, 2013).

Borrowing costs capitalized to PP&E and intangible assets totalled $86 million and $158 million for the three- and six-month periods ended June 30, 2014, using an average capitalization rate of 5.07% and 5.00%, respectively ($69 million and $125 million and 5.98% and 5.70% for the three- and six-month periods ended June 30, 2013, respectively). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

8. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	**2014**	2013
(Number of shares, stock options, PSUs and DSUs, in thousands)				
Net income attributable to equity holders of Bombardier Inc.	**$ 153**	$ 181	**$ 266**	$ 324
Preferred share dividends, including taxes	**(7)**	(8)	**(15)**	(17)
Net income attributable to common equity holders of Bombardier Inc.	**$ 146**	$ 173	**$ 251**	$ 307
Weighted-average number of common shares outstanding	**1,741,774**	1,738,965	**1,741,761**	1,738,646
Net effect of stock options, PSUs and DSUs	**809**	2,177	**839**	1,996
Weighted-average diluted number of common shares	**1,742,583**	1,741,142	**1,742,600**	1,740,642
EPS (in dollars)				
Basic and diluted	**$ 0.08**	$ 0.10	**$ 0.14**	$ 0.18

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 42,003,444 and 44,775,222 stock options, PSUs and DSUs for the three- and six-month periods ended June 30, 2014 (36,939,785 and 37,122,191 stock options, PSUs and DSUs for the three- and six-month periods ended June 30, 2013) 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.

9. FINANCIAL INSTRUMENTS

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

	FVTP&L						
	HFT	Designated	AFS	Amortized cost (1)	DDHR	Total carrying value	Fair value
June 30, 2014							
Financial assets							
Cash and cash equivalents	**$ 2,476**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,476**	**$ 2,476**
Trade and other receivables	**-**	**-**	**-**	**1,637**	**-**	**1,637**	**1,637**
Other financial assets	**50**	**624**	**364**	**450**	**609**	**2,097**	**2,083**
	$ 2,526	**$ 624**	**$ 364**	**$ 2,087**	**$ 609**	**$ 6,210**	**$ 6,196**
Financial liabilities							
Trade and other payables	**$ -**	**$ -**	**n/a**	**$ 4,051**	**$ -**	**$ 4,051**	**$ 4,051**
Long-term debt(2)	**-**	**-**	**n/a**	**7,776**	**-**	**7,776**	**7,954**
Other financial liabilities	**28**	**189**	**n/a**	**798**	**334**	**1,349**	**1,441**
	$ 28	**$ 189**	**n/a**	**$ 12,625**	**$ 334**	**$ 13,176**	**$ 13,446**
December 31, 2013							
Financial assets							
Cash and cash equivalents	$ 3,397	$ -	$ -	$ -	$ -	$ 3,397	$ 3,397
Trade and other receivables	-	-	-	1,492	-	1,492	1,492
Other financial assets	129	673	315	425	663	2,205	2,203
	$ 3,526	$ 673	$ 315	$ 1,917	$ 663	$ 7,094	$ 7,092
Financial liabilities							
Trade and other payables	$ -	$ -	n/a	$ 4,089	$ -	$ 4,089	$ 4,089
Long-term debt(2)	-	-	n/a	7,203	-	7,203	7,346
Other financial liabilities	25	142	n/a	958	386	1,511	1,656
	$ 25	$ 142	n/a	$ 12,250	$ 386	$ 12,803	$ 13,091
January 1, 2013							
Financial assets							
Cash and cash equivalents	$ 2,557	$ -	$ -	$ -	$ -	$ 2,557	$ 2,557
Trade and other receivables	-	-	-	1,311	-	1,311	1,311
Other financial assets	92	697	217	133	643	1,782	1,782
	$ 2,649	$ 697	$ 217	$ 1,444	$ 643	$ 5,650	$ 5,650
Financial liabilities							
Trade and other payables	$ -	$ -	n/a	$ 3,310	$ -	$ 3,310	$ 3,310
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	$ 158	n/a	$ 9,427	$ 126	$ 9,726	$ 9,728

(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

10. INVENTORIES

Inventories were as follows, as at:

	June 30, 2014	December 31, 2013	January 1, 2013
Aerospace programs	**$ 5,061**	$ 4,847	$ 4,345
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**7,960**	7,064	5,387
Less: advances and progress billings	**(6,021)**	(5,406)	(4,014)
	1,939	1,658	1,373
Service contracts			
Cost incurred and recorded margins	**438**	420	408
Less: advances and progress billings	**(10)**	(19)	(15)
	428	401	393
Finished products[1]	**1,481**	1,328	1,429
	$ 8,909	$ 8,234	$ 7,540

(1) Finished products include 8 new aircraft not associated with a firm order and 35 pre-owned aircraft, totalling $462 million as at June 30, 2014 (11 new aircraft and 43 pre-owned aircraft, totalling $535 million as at December 31, 2013 and 3 new aircraft and 74 pre-owned aircraft, totalling $551 million as at January 1, 2013).

Finished products as at June 30, 2014 include $174 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities ($134 million as at December 31, 2013 and $147 million as at January 1, 2013). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled $3,982 million and $7,502 million for the three- and six-month periods ended June 30, 2014 ($3,334 million and $6,732 million for the three- and six-month periods ended June 30, 2013). These amounts include $36 million and $67 million of write-downs for the three- and six-month periods ended June 30, 2014 ($36 million and $66 million for the three- and six-month periods ended June 30, 2013).

11. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	June 30, 2014	December 31, 2013	January 1, 2013
Derivative financial instruments	**$ 659**	$ 792	$ 735
Investments in securities[1][2]	**383**	335	243
Investments in financing structures[1]	**362**	331	329
Long-term contract receivables[3]	**342**	319	-
Aircraft loans and lease receivables[1]	**320**	400	423
Restricted cash	**18**	19	25
Other	**13**	9	27
	$ 2,097	$ 2,205	$ 1,782
Of which current	**$ 568**	$ 637	$ 443
Of which non-current	**1,529**	1,568	1,339
	$ 2,097	$ 2,205	$ 1,782

(1) Carried at fair value, except for $12 million of aircraft loans and lease receivables, $19 million of investments in securities and $46 million of investment in financing structures carried at amortized cost as at June 30, 2014 ($12 million, $20 million and $46 million, respectively, as at December 31, 2013 and $11 million, $26 million and $44 million, respectively, as at January 1, 2013).

(2) Includes $124 million of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at June 30, 2014 ($70 million as at December 31, 2013, and nil as at January 1, 2013).

(3) Represents incentive payments related to the reliability of manufactured trains. The carrying value of the receivable is based on estimates of future variations in the relevant index and reassessment of the achievement of the reliability targets, if any. Also, termination of a related service contract in case of our non-performance would extinguish our right to future payments.

12. OTHER ASSETS

Other assets were as follows, as at:

	June 30, 2014	December 31, 2013	January 1, 2013
Prepaid expenses	**$ 663**	$ 620	$ 366
Sales tax and other taxes	**330**	344	281
Retirement benefits	**178**	174	38
Intangible assets other than aerospace program tooling and goodwill	**169**	186	210
Deferred financing charges	**146**	100	103
Flexjet fractional ownership deferred costs	**-**	-	206
Other	**9**	9	30
	$ 1,495	$ 1,433	$ 1,234
Of which current	**$ 902**	$ 881	$ 680
Of which non-current	**593**	552	554
	$ 1,495	$ 1,433	$ 1,234

13. PROVISIONS

Changes in provisions were as follows, for the three- and six-month periods ended June 30:

		Product warranties		Credit and residual value guarantees		Restructuring, severance and other termination benefits		Other [1]		Total
Balance as at December 31, 2013	$	863	$	463	$	81	$	58	$	1,465
Additions		77		-		28 [2]		2		107
Utilization		(71)		(21)		(27)		(1)		(120)
Reversals		(9)		(2)		(5)		(4)		(20)
Accretion expense		-		2		-		-		2
Effect of changes in discount rates		-		2		-		-		2
Effect of foreign currency exchange rate changes		1		-		-		-		1
Balance as at March 31, 2014	$	861	$	444	$	77	$	55	$	1,437
Additions		76		1		12		6		95
Utilization		(82)		(6)		(28)		(2)		(118)
Reversals		(14)		(3)		(3)		(5)		(25)
Accretion expense		1		1		-		-		2
Effect of foreign currency exchange rate changes		(5)		-		(1)		-		(6)
Balance as at June 30, 2014	$	837	$	437	$	57	$	54	$	1,385
Of which current	$	686	$	56	$	53	$	21	$	816
Of which non-current		151		381		4		33		569
	$	837	$	437	$	57	$	54	$	1,385

		Product warranties		Credit and residual value guarantees		Restructuring, severance and other termination benefits		Other [1]		Total
Balance as at January 1, 2013	$	907	$	483	$	127	$	91	$	1,608
Additions		106		12		4		2		124
Utilization		(83)		(2)		(11)		(4)		(100)
Reversals		(42)		-		(1)		(4)		(47)
Accretion expense		-		1		-		-		1
Effect of foreign currency exchange rate changes		(17)		-		(3)		(2)		(22)
Balance as at March 31, 2013	$	871	$	494	$	116	$	83	$	1,564
Additions		102		4		-		4		110
Utilization		(98)		(8)		(19)		(7)		(132)
Reversals		(4)		(7)		-		(5)		(16)
Effect of changes in discount rates		(1)		(10)		-		-		(11)
Effect of foreign currency exchange rate changes		2		-		1		2		5
Balance as at June 30, 2013	$	872	$	473	$	98	$	77	$	1,520
Of which current	$	723	$	70	$	94	$	36	$	923
Of which non-current		149		403		4		41		597
	$	872	$	473	$	98	$	77	$	1,520

(1) Includes litigations and claims, as well as environmental liabilities.
(2) See Note 6 – Special items for more details on the addition related to BA restructuring charges.

14. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	June 30, 2014	December 31, 2013	January 1, 2013
Government refundable advances	**$ 482**	$ 481	$ 398
Derivative financial instruments	**362**	411	141
Lease subsidies	**189**	142	158
Sale and leaseback obligations	**174**	138	168
Vendor non-recurring costs	**58**	38	53
Current portion of long-term debt	**51**	215	45
Other	**84**	301	93
	$ 1,400	$ 1,726	$ 1,056
Of which current	**$ 677**	$ 1,009	$ 455
Of which non-current	**723**	717	601
	$ 1,400	$ 1,726	$ 1,056

15. OTHER LIABILITIES

Other liabilities were as follows, as at:

	June 30, 2014	December 31, 2013	January 1, 2013
Employee benefits	**$ 746**	$ 750	$ 645
Accruals for long-term contract costs	**582**	630	677
Supplier contributions to aerospace programs	**564**	529	364
Deferred revenues	**431**	460	499
Income and other taxes payable	**280**	368	252
Deferred income taxes	**-**	-	46
Flexjet fractional ownership deferred revenues	**-**	-	241
Other	**526**	480	445
	$ 3,129	$ 3,217	$ 3,169
Of which current	**$ 2,096**	$ 2,227	$ 2,212
Of which non-current	**1,033**	990	957
	$ 3,129	$ 3,217	$ 3,169

16. LONG-TERM DEBT

In April 2014, the Corporation issued, at par, unsecured Senior Notes comprised of $600 million, bearing interest at 4.75%, due on April 15, 2019 and $1,200 million, bearing interest at 6.00%, due on October 15, 2022.

The Corporation used the net proceeds of $1,774 million to finance the redemption of the €785-million ($1,093 million) Senior Notes due November 15, 2016 pursuant to an optional redemption exercised on April 4, 2014, to finance the repayment of the $162-million Notes due May 1, 2014 with the remainder being for general corporate purposes.

Following the redemption of the €785-million ($1,093 million) Senior Notes, the Corporation recorded in financing expense a related loss of $43 million, which is treated as a special item (see Note 6 – Special items for more details).

In addition, in May 2014, the Corporation entered into interest-rate swap agreements to convert the interest rate of the $1,200-million 6.00% Senior Notes from fixed to variable 3-month Libor + 3.5557.

17. SHARE-BASED PLANS

PSU and DSU plans
The number of PSUs and DSUs has varied as follows:

				Three-month periods ended June 30
		2014		2013
	PSU	**DSU**	PSU	DSU
Balance at beginning of period	**23,533,254**	**8,184,982**	23,900,453	6,680,859
Granted	**5,072**	**16,599**	259,867	91,479
Performance adjustment	**-**	**-**	(1,543,133)	(333,900)
Exercised	**-**	**-**	(5,805,119)	-
Cancelled	**(6,558,145)**	**(1,484,798)**	(327,634)	-
Balance at end of period	**16,980,181**	**6,716,783** (1)	16,484,434	6,438,438 (1)

				Six-month periods ended June 30
		2014		2013
	PSU	**DSU**	PSU	DSU
Balance at beginning of period	**23,596,681**	**8,169,850**	24,179,840	6,673,447
Granted	**106,641**	**31,731**	259,867	98,891
Performance adjustment	**-**	**-**	(1,543,133)	(333,900)
Exercised	**-**	**-**	(5,805,119)	-
Cancelled	**(6,723,141)**	**(1,484,798)**	(607,021)	-
Balance at end of period	**16,980,181**	**6,716,783** (1)	16,484,434	6,438,438 (1)

(1) Of which 2,480,303 DSUs are vested as at June 30, 2014 (2,530,975 as at June 30, 2013).

The compensation expense, with respect to the PSU and DSU plans, amounted to $3 million and $7 million during the three- and six-month periods ended June 30, 2014 ($5 million and $14 million during the three- and six-month periods ended June 30, 2013).

Share option plans
The number of options issued and outstanding to purchase Class B Shares (Subordinate Voting) has varied as follows:

		Three-month periods ended June 30		**Six-month periods ended June 30**
	2014	2013	**2014**	2013
Balance at beginning of period	**29,424,687**	27,419,880	**29,355,757**	28,490,089
Granted	**-**	709,523	**188,092**	709,523
Exercised	**(23,000)**	(2,159,904)	**(23,000)**	(2,909,764)
Cancelled	**(278,676)**	(139,800)	**(336,269)**	(405,149)
Expired	**(671,250)**	(469,750)	**(732,819)**	(524,750)
Balance at end of period	**28,451,761**	25,359,949	**28,451,761**	25,359,949

A compensation expense of $2 million and $4 million was recorded during the three- and six-month periods ended June 30, 2014 with respect to share option plans ($1 million and $3 million for the three- and six-month periods ended June 30, 2013).

18. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	**2014**	2013
Trade and other receivables	**$ 28**	$ (90)	**$ (167)**	$ (102)
Inventories	**(204)**	(403)	**(676)**	(752)
Other financial assets and liabilities, net	**133**	124	**(2)**	169
Other assets	**(53)**	(152)	**(80)**	(277)
Trade and other payables	**124**	140	**(49)**	329
Provisions	**(46)**	(51)	**(75)**	(72)
Advances and progress billings in excess of long-term contract inventories	**(146)**	101	**(76)**	(69)
Advances on aerospace programs	**(46)**	(134)	**343**	(132)
Retirement benefits liability	**(34)**	36	**(23)**	49
Other liabilities	**(15)**	88	**(85)**	190
	$ (259)	$ (341)	**$ (890)**	$ (667)

19. CREDIT FACILITIES

In March 2014, the availability periods of the BT and the BA letter of credit facilities were extended by one year to May 2017 and June 2017, respectively. In addition, the maturity dates of the BT €500-million ($681-million) and the $750-million unsecured revolving credit facilities were also extended by one year to March 2016 and June 2017, respectively. Also, in June 2014, the availability period of the PSG facility was extended by one year to June 2015.

20. 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 principal 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 probabilities, 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. 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 fair value for items recorded at FVTP&L and AFS are as follows:

Aircraft loans and lease receivables and investments in financing structures – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate fair value. 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 assumptions to take into account factors that market participants would consider when pricing these financial assets. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves reflecting specific factors of the current aircraft market and a balanced market in the medium and long term.

Investments in securities **–** The Corporation uses discounted cash flow models to estimate the fair value of unquoted investments in fixed-income securities, using market data such as interest-rate.

Lease subsidies – The Corporation uses an internal valuation model based on stochastic simulations to estimate fair value of lease subsidies incurred in connection with the sale of commercial aircraft. 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 rating.

Derivative financial instruments – 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 such as interest rates, credit spreads and foreign exchange spot rate to estimate the fair value of forward agreements and interest-rate derivatives.

The Corporation uses an option-adjusted spread model and a discounted cash flow model to estimate the fair value of call features on long-term debt, using market data such as interest-rate swap curves and external quotations.

The methods and assumptions used to measure fair value for items recorded at amortized cost 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, certain investments in financing structures, 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, because they bear variable interest-rate or because the terms and conditions are comparable to current market terms and conditions for similar items.

Long-term contract receivables – The Corporation uses discounted cash flow analyses to estimate the fair value using market data for interest rates.

Long-term debt – The fair value of long-term debt is estimated using public quotations, when available, 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 using market data for interest rates and credit spreads.

Fair value hierarchy

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis categorized using the fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs from observable markets other than quoted prices included in Level 1, including indirectly observable data (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows, as at June 30, 2014:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	$ 308	$ -	$ -	$ 308
Derivative financial instruments[1]	659	-	659	-
Investments in securities	349 [2]	87	262	-
Investments in financing structures	316	-	150	166
	$ 1,632	$ 87	$ 1,071	$ 474
Financial liabilities				
Lease subsidies	$ (189)	$ -	$ -	$ (189)
Derivative financial instruments[1]	(362)	-	(362)	-
	$ (551)	$ -	$ (362)	$ (189)

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

Changes in the fair value of Level 3 financial instruments were as follows, for the three- and six-month periods ended:

	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Balance as at December 31, 2013	**$ 388**	**$ 135**	**$ (142)**
Net gains (losses) and interest included in net income[(1)]	**16**	**22**	**(3)**
Issuances	**2**	**-**	**-**
Settlements	**(8)**	**-**	**6**
Balance as at March 31, 2014	**$ 398**	**$ 157**	**$ (139)**
Net gains (losses) and interest included in net income[(1)]	**25**	**10**	**(18)**
Issuances	**2**	**-**	**(38)**
Settlements	**(117)**	**(1)**	**6**
Balance as at June 30, 2014	**$ 308**	**$ 166**	**$ (189)**

	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Balance as at January 1, 2013	$ 412	$ 135	$ (158)
Net gains and interest included in net income[(1)]	1	5	2
Issuances	3	-	-
Settlements	(7)	-	9
Balance as at March 31, 2013	$ 409	$ 140	$ (147)
Net losses and interest included in net income[(1)]	-	-	(8)
Issuances	5	-	-
Settlements	(11)	(1)	11
Balance as at June 30, 2013	$ 403	$ 139	$ (144)

(1) Of which an amount of $5 million and $8 million represents realized gains for the three- and six-month periods ended June 30, 2014 (nil and $9 million represents realized losses for the three- and six-month periods ended June 30, 2013).

Main assumptions developed internally for Level 3 hierarchy

When measuring Level 3 financial instruments at fair value, some assumptions are not derived from an observable market. The main assumptions developed internally relate to credit risks of customers without published credit rating and marketability adjustments to discount rates specific to our financial assets.

These main assumptions are as follows as at June 30, 2014:

Main assumptions (weighted average)	**Aircraft loans and lease receivables**	**Investments in financing structures**	**Lease subsidies**
Internally assigned credit rating	Between BB to CCC (B+)	Between BB- to CCC+ (B+)	Between BB- to CCC (B+)
Discount rate adjustments for marketability	Between 2.66% and 4.44% (4.09%)	Between 1.33% and 6.21% (4.84%)	n/a

Also, aircraft residual value curves are important inputs in assessing the fair value of certain financial instruments. These curves are prepared by management based on information obtained from external appraisals and reflect specific factors of the current aircraft market and a balanced market in the medium and long term.

Sensitivity to selected changes of assumptions for Level 3 hierarchy
These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. 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 June 30, 2014:

Impact on EBT			**Change of assumptions**		
Change in fair value recognized in EBT for the :					
Gain (loss)	**Three-month period ended June 30, 2014**	**Six-month period ended June 30, 2014**	**Decrease in aircraft residual value curves by 5%**	**Downgrade the internally assigned credit rating of unrated customers by 1 notch**	**Increase the marketability adjustments by 100 bps**
Aircraft loans and lease receivables	$ 18	$ 27	$ (5)	$ (14)	$ (17)
Investment in financing structures	$ 8	$ 27	$ (4)	$ (11)	$ (12)
Lease subsidies	$ (17)	$ (19)	n/a	$ 3	n/a

n/a: not applicable

21. COMMITMENTS AND CONTINGENCIES

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

	June 30, 2014	December 31, 2013	January 1, 2013
Aircraft sales			
Residual value	**$ 1,808**	$ 1,828	$ 1,812
Credit	**1,277**	1,297	1,218
Mutually exclusive exposure[1]	**(632)**	(639)	(594)
Total credit and residual value exposure	**$ 2,453**	$ 2,486	$ 2,436
Trade-in commitments	**$ 3,566**	$ 3,416	$ 3,098
Conditional repurchase obligations	**$ 345**	$ 472	$ 489
Other			
Credit	**$ 48**	$ 48	$ 47
Performance guarantees	**$ 42**	$ 43	$ 41

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

Provisions for anticipated losses amounted to $437 million as at June 30, 2014 ($463 million as at December 31, 2013 and $483 million as at January 1, 2013) have been established to cover the risks from these guarantees. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $189 million as at June 30, 2014 ($142 million as at December 31, 2013 and $158 million as at January 1, 2013).

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

While the Corporation cannot predict the final outcome of all legal proceedings pending as at June 30, 2014, 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.

S-Bahn claim

On March 4, 2013, S-Bahn Berlin GMBH (“SB”) filed a claim against Bombardier Transportation GmbH, a wholly owned subsidiary of the Corporation, in the Berlin District Court (“Landgericht Berlin”), concerning the trains of the 481 Series delivered to SB between 1996 and 2004.

This lawsuit alleges damages of an aggregate value of €348 million ($474 million) related to allegedly defective wheels and braking systems. The claim is for payment of €241 million ($328 million) and also for a declaratory judgment obliging the Corporation to compensate SB for further damages. SB currently alleges such further damages to be €107 million ($146 million).

It is the Corporation’s position that this claim i) is filed in absence of any defect, ii) is not founded on any enforceable warranty, iii) is filed after the expiry of any statute of limitations and iv) is based on inapplicable standards. The lawsuit contains allegations against the Corporation which the Corporation rejects as unfounded and defamatory.

The Corporation intends to vigorously defend its position and will undertake all actions necessary to protect its reputation.

Investigation in Brazil

On March 20, 2014, Bombardier Transportation Brasil Ltda (“BT Brazil”), a wholly owned subsidiary of the Corporation, received notice that it was among the 18 companies and over 100 individuals named in administrative proceedings initiated by governmental authorities in Brazil, including the Administrative Council for Economic Protection (“CADE”), and the Sao Paulo Public Prosecutor’s office, following previously disclosed investigations carried on by such governmental authorities with respect to allegations of cartel activity in the public procurement of railway equipment and the construction and maintenance of railway lines in Sao Paulo and other areas.

Companies found to have engaged in unlawful cartel conduct are subject to administrative fines, state actions for repayment of overcharges and potentially disqualification for a certain period. The Corporation and BT Brazil continue to cooperate with investigations relating to the administrative proceedings and intend to defend themselves vigorously.

22. EVENTS AFTER THE REPORTING DATE

In July 2014, the Corporation announced a new organizational structure comprised of four business segments: Bombardier Transportation, Bombardier Business Aircraft, Bombardier Commercial Aircraft and Bombardier Aerostructures and Engineering Services. A detailed implementation plan will be developed over the next few months and the new structure will be in place January 1, 2015. It is estimated that the restructuring of BA will result in a reduction of approximately 1,800 indirect positions.

As part of its reorganization initiatives, BT is implementing further cost reduction measures which include savings in non-product-related costs including travelling expenses, a general hiring freeze for all indirect functions as well as the reduction of approximately 1,000 indirect positions by the end of 2014.

Combined with the implementation of OneBT, the recent BT reorganization, the new Aerospace organizational structure will enable the Corporation to be more agile and flexible in addressing customer needs while increasing focus on growth areas.

The Corporation is in the process of assessing the impacts of these restructuring initiatives on this year’s financial results and expect to record restructuring charges during fiscal 2014.