

# BOMBARDIER

the evolution of mobility

## SECOND QUARTERLY REPORT

Three-month period ended June 30, 2014

### GLOSSARY

The following table shows the abbreviations used in this report.

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

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The data presented in this MD&A is structured by reportable segment: BA and BT, and then by market segment, which is reflective of our organizational structure.

## IFRS and non-GAAP measures

This MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure (see the Non-GAAP financial measures and Liquidity and capital resources sections in Overview and the Analysis of results sections in BA and BT).

## Materiality for disclosures

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

## FORWARD-LOOKING STATEMENTS

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

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry and rail industry, political instability and force majeure), operational risks (such as risks related to developing new products and services; fixed-price commitments and production and project execution; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; the environment; dependence on certain customers and suppliers; human resources), financing risks (such as risks related to liquidity and access to capital markets, retirement benefit plan risk, exposure to credit risk, certain restrictive debt covenants, financing support provided for the benefit of certain customers and reliance on government support) and market risks (such as risks related to foreign currency fluctuations, changing interest rates, decreases in residual values and increases in commodity prices). For more details, see the Risks and uncertainties section in Other in the MD&A of our financial report for the fiscal year ended December 31, 2013. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

# OVERVIEW

## HIGHLIGHTS

### Results of the quarter

- Revenues of \$4.9 billion, compared to \$4.4 billion for the same period last fiscal year, which represents an increase of 8.9% excluding currency impacts.
- EBIT of \$257 million, or 5.3% of revenues, compared to EBIT before special items<sup>(1)</sup> of \$257 million, or 5.8% and EBIT of \$288 million, or 6.5%, for the same period last fiscal year.
- Net income of \$155 million (diluted EPS of \$0.08), compared to \$180 million (diluted EPS of \$0.10) for the same period last fiscal year.
- Adjusted net income<sup>(1)</sup> of \$192 million (adjusted EPS<sup>(1)</sup> of \$0.10), compared to \$158 million (adjusted EPS of \$0.09) for the same period last fiscal year.
- Net investment of \$525 million in PP&E and intangible assets, including \$436 million related to aerospace program tooling, compared to \$550 million, including \$498 million related to aerospace program tooling, for the same period last fiscal year.
- Free cash flow usage<sup>(1)</sup> of \$424 million, compared to a usage of \$566 million for the same period last fiscal year.
- Available short-term capital resources of \$3.9 billion, including cash and cash equivalents of \$2.5 billion, as at June 30, 2014, compared to \$4.8 billion and \$3.4 billion, respectively, as at December 31, 2013.
- Order backlog of \$75.7 billion as at June 30, 2014, compared to \$69.7 billion as at December 31, 2013.

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.

### New organizational structure

On July 23, 2014 we 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 us to be more agile and flexible in addressing customer needs while increasing focus on growth areas.

We are 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.

### Key events

- On April 9, 2014, the *first Learjet 85* flight test vehicle (FTV1) successfully completed its maiden flight.
- In April 2014, we increased our financial flexibility by issuing an aggregate of \$1.8 billion of unsecured Senior Notes. The net proceeds were used to refinance \$1.3 billion of existing debt and for general corporate purposes.
- On May 29, 2014, an engine-related incident occurred during stationary ground maintenance testing involving CS100 FTV1. Bombardier and Pratt & Whitney have worked on a solution and flight tests are expected to resume in the coming weeks. The targeted EIS dates of the CS100 and CS300 aircraft programs remain unchanged.
- On June 27, 2014, the *Challenger 350* business aircraft entered into service.
- Subsequent to the end of the quarter, we signed letters of intent (LOIs) and a conditional purchase agreement for 66 CSeries aircraft with five customers, bringing the total CSeries firm orders and other agreements to 513 as at the date of this report. These 66 aircraft are not included in the order backlog as at June 30, 2014.

## CONSOLIDATED RESULTS OF OPERATIONS

The results of operations and cash flows for the three- and six-month 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.

### Results of operations

	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	4,233	3,758	7,994	7,481
<b>Gross margin</b>	<b>658</b>	<b>672</b>	<b>1,251</b>	<b>1,288</b>
SG&A	354	382	692	726
R&D	79	75	155	145
Share of income of joint ventures and associates	(28)	(34)	(50)	(78)
Other income	(4)	(8)	(22)	(2)
<b>EBIT before special items<sup>(1)</sup></b>	<b>257</b>	<b>257</b>	<b>476</b>	<b>497</b>
Special items	-	(31)	12	(31)
<b>EBIT</b>	<b>257</b>	<b>288</b>	<b>464</b>	<b>528</b>
Financing expense	90	83	136	151
Financing income	(49)	(47)	(61)	(80)
<b>EBT</b>	<b>216</b>	<b>252</b>	<b>389</b>	<b>457</b>
Income taxes	61	72	119	129
<b>Net income</b>	<b>\$ 155</b>	<b>\$ 180</b>	<b>\$ 270</b>	<b>\$ 328</b>
Attributable to				
Equity holders of Bombardier Inc.	\$ 153	\$ 181	\$ 266	\$ 324
NCI	\$ 2	\$ (1)	\$ 4	\$ 4
<b>EPS (in dollars)</b>				
Basic and diluted	\$ 0.08	\$ 0.10	\$ 0.14	\$ 0.18

### Non-GAAP financial measures<sup>(1)</sup>

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
EBITDA	\$ 360	\$ 390	\$ 660	\$ 721
EBITDA before special items	\$ 360	\$ 359	\$ 672	\$ 690
Adjusted net income	\$ 192	\$ 158	\$ 343	\$ 314
Adjusted EPS	\$ 0.10	\$ 0.09	\$ 0.19	\$ 0.17

### Revenues, EBIT margin and EBIT margin before special items

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
<b>Revenues</b>				
BA	\$ 2,512	\$ 2,255	\$ 4,601	\$ 4,513
BT	\$ 2,379	\$ 2,175	\$ 4,644	\$ 4,256
Consolidated	\$ 4,891	\$ 4,430	\$ 9,245	\$ 8,769
<b>EBIT margin</b>				
BA	5.6%	6.1%	5.1%	5.3%
BT	4.9%	6.9%	5.0%	6.8%
Consolidated	5.3%	6.5%	5.0%	6.0%
<b>EBIT margin before special items<sup>(1)</sup></b>				
BA	5.6%	4.7%	5.3%	4.6%
BT	4.9%	6.9%	5.0%	6.8%
Consolidated	5.3%	5.8%	5.1%	5.7%

<sup>(1)</sup> Refer to the Non-GAAP financial measures section for details, definitions and reconciliations of these metrics to the most comparable IFRS measures.

## ***Analysis of consolidated results***

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

### ***Net financing expense***

Net financing expense amounted to \$41 million and \$75 million for the three- and six-month periods ended June 30, 2014, compared to \$36 million and \$71 million for the corresponding periods last fiscal year.

The \$5-million increase for the three-month period is mainly due to:

- a loss on repurchase of long-term debt<sup>(1)</sup> (\$43 million).

Partially offset by:

- a net gain on certain financial instruments compared to a net loss in the corresponding period last fiscal year (\$25 million); and
- higher borrowing costs capitalized to PP&E and intangible assets (\$17 million).

The \$4-million increase for the six-month period is mainly due to:

- a loss on repurchase of long-term debt<sup>(1)</sup> (\$43 million); and
- an unfavourable variance related to changes in discount rates for provisions (\$13 million).

Partially offset by:

- higher borrowing costs capitalized to PP&E and intangible assets (\$33 million); and
- lower accretion on retirement benefit obligations (\$19 million).

<sup>(1)</sup> Following the redemption of the €785-million (\$1.1 billion) Senior Notes, we recorded in financing expense a related loss of \$43 million, which is treated as a special item.

### ***Income taxes***

The effective income tax rates for the three- and six-month periods ended June 30, 2014 were 28.2% and 30.6%, respectively, compared to the statutory income tax rate in Canada of 26.8%. For the three-month period, the higher effective income tax rate is mainly due to permanent differences partially offset by the positive net impact of the recognition of previously unrecognized income tax benefits related to tax losses and temporary differences. For the six-month period, the higher effective income tax rate is mainly due to the negative net impact of the non-recognition of income tax benefits related to tax losses and temporary differences.

The effective income tax rate for the three- and six-month periods ended June 30, 2013 were 28.6% and 28.2%, respectively, compared to the statutory income tax rate in Canada of 26.8%. The higher effective income tax rates are mainly due to the negative net impact of the non-recognition of income tax benefits related to tax losses and temporary differences, partially offset by income tax rate differential of foreign subsidiaries and other investees.

## LIQUIDITY AND CAPITAL RESOURCES

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Segmented free cash flow usage <sup>(1)</sup>				
BA	\$ (363)	\$ (459)	\$ (908)	\$ (920)
BT	(47)	(21)	(303)	(94)
Segmented free cash flow usage	(410)	(480)	(1,211)	(1,014)
Net income taxes and net interest paid <sup>(2)</sup>	(14)	(86)	(128)	(142)
Free cash flow usage	(424)	(566)	(1,339)	(1,156)
Add back: Net additions to PP&E and intangible assets	525	550	1,025	1,064
Cash flows from operating activities	\$ 101	\$ (16)	\$ (314)	\$ (92)

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and the Analysis of results sections in BA and BT for reconciliations to the most comparable IFRS measures.

<sup>(2)</sup> Not allocated to reportable segments.

### Variation in cash and cash equivalents

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Balance at the beginning of period	\$ 2,488	\$ 3,733	\$ 3,397	\$ 2,557
Net proceeds from issuance of long-term debt	1,783	8	1,810	1,978
Free cash flow usage <sup>(1)</sup>	(424)	(566)	(1,339)	(1,156)
Repayments of long-term debt	(1,301)	(17)	(1,308)	(27)
Dividends paid	(46)	(50)	(92)	(99)
Net variation in AFS investments in securities	(53)	(52)	(53)	(122)
Effect of exchange rate changes on cash and cash equivalents	59	(14)	48	(71)
Net proceeds from disposal of a business <sup>(2)</sup>	-	-	25	-
Other	(30)	59	(12)	41
Balance at the end of period	\$ 2,476	\$ 3,101	\$ 2,476	\$ 3,101

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and the Analysis of results sections in BA and BT for reconciliations to the most comparable IFRS measures.

<sup>(2)</sup> Represents the balance of sale price related to the sale of the main assets and related liabilities of our Flexjet activities.

### Available short-term capital resources

	June 30, 2014	As at December 31, 2013
Cash and cash equivalents	\$ 2,476	\$ 3,397
Available revolving credit facility	1,431	1,440
Available short-term capital resources	\$ 3,907	\$ 4,837

Our available short-term capital resources include cash and cash equivalents and the amounts available under our two unsecured revolving credit facilities. These facilities are available for cash drawings for the general needs of the Corporation. Under these facilities, we must meet the same financial covenants as for our BA and BT letter of credit facilities.

In March 2014, we extended the availability periods of our BT and BA letter of credit facilities by an additional year to May 2017 and June 2017, respectively. 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.

In April 2014, we issued, at par, unsecured Senior Notes comprised of \$600 million, bearing interest at 4.75%, due on April 15, 2019 and \$1.2 billion, bearing interest at 6.00%, due on October 15, 2022.

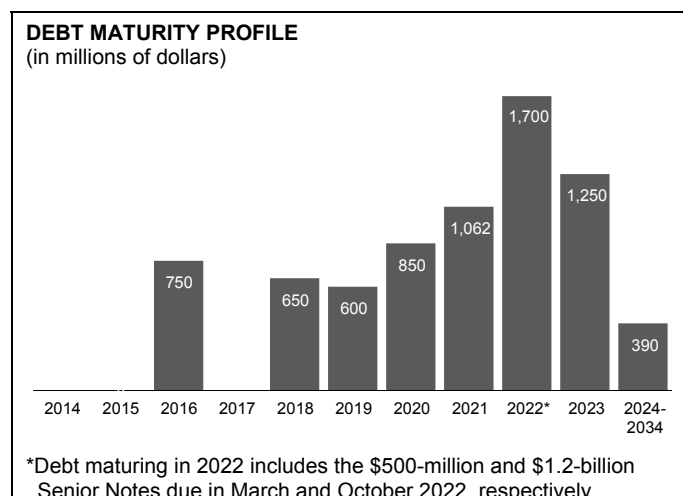
We used the net proceeds of \$1.8 billion to finance the redemption of the €785-million (\$1.1 billion) Senior Notes due November 15, 2016 pursuant to an optional redemption exercised on April 4, 2014, to finance the repayment of the \$162-million Notes due May 1, 2014 with the remainder being for general corporate purposes.

We have improved our financial flexibility as a result of this transaction by extending by approximately one year the weighted average maturity of our debt to 6.9 years.

In May 2014, we entered into interest-rate swap agreements to convert the interest rate of the \$1.2-billion 6.00% Senior Notes from fixed to variable 3-month Libor +3.5557.

In June 2014, the availability period of the PSG facility was extended by one year to June 2015.

We consider that our expected cash flows from operating activities, combined with our available short-term capital resources of \$3.9 billion, will enable the development of new products to enhance our competitiveness and support our growth; will allow the payment of dividends, if and when declared by the Board of Directors; and will enable us to meet all other expected financial requirements in the foreseeable future.



## CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation. We believe that these metrics should be used to assess the creditworthiness of the Corporation. We manage and monitor our global metrics so as to achieve an investment-grade profile over the medium to long term.

Reconciliations of these measures to the most comparable IFRS financial measures are in the Non-GAAP financial measures section. The adjusted EBIT and adjusted EBITDA exclude special items, such as restructuring charges, significant impairment charges and reversals, as well as other significant unusual items, which we believe are not representative of our core performance.

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

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

#### Global metrics<sup>(1)</sup>

	June 30 2014	December 31 2013	Explanation of significant variances
<b>Interest coverage ratio</b>			
Adjusted EBIT <sup>(2)</sup>	\$ 1,039	\$ 967	Deteriorated due to higher interest paid partially offset by higher Adjusted EBIT.
Adjusted interest <sup>(2)</sup>	\$ 396	\$ 346	
<b>Adjusted EBIT to adjusted interest ratio</b>	<b>2.6</b>	<b>2.8</b>	
<b>Financial leverage ratio</b>			
Adjusted debt	\$ 8,469	\$ 7,912	Deteriorated due to the issuance of \$1.8 billion of long term debt in April 2014, partially offset by the repayment of approximately \$1.3 billion of existing debt and higher Adjusted EBITDA.
Adjusted EBITDA <sup>(2)</sup>	\$ 1,530	\$ 1,454	
<b>Adjusted debt to adjusted EBITDA ratio</b>	<b>5.5</b>	<b>5.4</b>	

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

<sup>(2)</sup> For the four-quarter trailing periods.

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

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to \$2.3 billion as at June 30, 2014 (\$2.0 billion as at December 31, 2013). The measurement of this liability is dependent on numerous key long-term assumptions such as current discount rates, future compensation increases, inflation rates and mortality 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 \$304-million increase in the net retirement benefit liability is explained as follows:

#### Variation in net retirement benefit liability

Balance as at December 31, 2013	\$ 1,987 <sup>(1)</sup>
Changes in discount rates	845
Actuarial gains on pension plan assets	(379)
Employer contributions	(211)
Service costs	133
Net actuarial gains on defined benefit obligations	(93)
Accretion on net retirement benefit obligation	38
Changes in foreign exchange rates	(6)
Other	(23)
<b>Balance as at June 30, 2014</b>	<b>\$ 2,291 <sup>(1)</sup></b>

<sup>(1)</sup> Includes retirement benefit assets of \$178 million as at June 30, 2014 (\$174 million as at December 31, 2013).



## NON-GAAP FINANCIAL MEASURES

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

Non-GAAP financial measures	
EBITDA	Earnings before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets.
EBIT before special items	EBIT excluding the impact of restructuring charges, significant impairment charges and reversals, as well as other significant unusual items.
EBITDA before special items	EBIT before special items, amortization and impairment charges on PP&E and intangible assets.
Adjusted net income	Net income excluding special items, accretion on net retirement benefit obligations, certain net gains and losses arising from changes in measurement of provisions and of financial instruments carried at FVTP&L and the related tax impacts of these items.
Adjusted EPS	EPS calculated based on adjusted net income attributable to equity holders of Bombardier Inc., using the treasury stock method, giving effect to the exercise of all dilutive elements.
Free cash flow	Cash flows from operating activities less net additions to PP&E and intangible assets.
Adjusted debt	Long-term debt as presented in our consolidated statements of financial position adjusted for the fair value of derivatives (or settled derivatives) designated in related hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.
Adjusted EBIT	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).
Adjusted EBITDA	Adjusted EBIT plus amortization and impairment charges on PP&E and intangible assets, and amortization adjustment for operating leases.
Adjusted interest	Interest paid, as per the supplemental information provided in the consolidated statements of cash flows, plus accretion expense on sale and leaseback obligations and interest adjustment for operating leases.

We believe that providing certain non-GAAP performance measures in addition to IFRS measures provides users of our interim consolidated financial statements with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of the business. For these reasons a significant number of users of our MD&A analyze our results based on these performance measures. EBIT before special items, EBITDA before special items, adjusted net income and adjusted EPS exclude items that do not reflect, in our opinion, our core performance and help users of our MD&A to better analyze our results, enabling better comparability of our results from one period to another and with peers.

Non-GAAP measures are mainly derived from the interim consolidated financial statements but do not have standardized meanings prescribed by IFRS. The exclusion of certain items from non-GAAP performance measures does not imply that these items are necessarily non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities in our industry may define the above measures differently than we do. In those cases, it may be difficult to use similarly named non-GAAP measures of other entities to compare the performance of those entities to our performance.

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

- EBIT before special items to EBIT – see the Results of operations table in BA and the Consolidated results of operations section; and
- free cash flow usage to cash flows from operating activities – see the respective Free cash flow usage tables in BA and in BT and the Reconciliation of segmented free cash flow usage to cash flow from operating activities table in the Liquidity and capital resources section.

## Reconciliation of EBITDA before special items and EBITDA to EBIT

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
<b>EBIT</b>	<b>\$ 257</b>	<b>\$ 288</b>	<b>\$ 464</b>	<b>\$ 528</b>
Amortization	103	102	196	193
<b>EBITDA</b>	<b>360</b>	<b>390</b>	<b>660</b>	<b>721</b>
Special items				
Restructuring charge <sup>(1)</sup>	-	-	22	-
Gains on resolution of litigations in connection with capital tax <sup>(2)</sup>	-	(31)	(10)	(31)
<b>EBITDA before special items</b>	<b>\$ 360</b>	<b>\$ 359</b>	<b>\$ 672</b>	<b>\$ 690</b>

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

<sup>(2)</sup> Represents gains at BA upon the successful resolution of litigations in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

## Reconciliation of adjusted net income to net income

	Three-month periods ended June 30			
	2014	2013		
	(per share)	(per share)		
<b>Net income</b>	<b>\$ 155</b>	<b>\$ 180</b>		
Adjustments to EBIT related to special items	-	(31)		(0.02)
Adjustments to net financing expense related to:				
Loss on repurchase of long-term debt	43	-		-
Accretion on net retirement benefit obligations	19	28		0.02
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	(18)	(4)		-
Interest portion of gains related to special items	(8)	(12)		(0.01)
Tax impact of special and other adjusting items	1	(3)		-
<b>Adjusted net income</b>	<b>\$ 192</b>	<b>\$ 158</b>		

## Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Three-month periods ended June 30	
	2014	2013
<b>Diluted EPS</b>	<b>\$ 0.08</b>	<b>\$ 0.10</b>
Impact of special and other adjusting items	0.02	(0.01)
<b>Adjusted EPS</b>	<b>\$ 0.10</b>	<b>\$ 0.09</b>

## Reconciliation of adjusted net income to net income

	Six-month periods ended June 30			
	2014	2013		
	(per share)	(per share)		
<b>Net income</b>	<b>\$ 270</b>	<b>\$ 328</b>		
Adjustments to EBIT related to special items	12	(31)		(0.02)
Adjustments to net financing expense related to:				
Loss on repurchase of long-term debt	43	-		-
Accretion on net retirement benefit obligations	38	57		0.03
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	(11)	(21)		(0.01)
Interest portion of gains related to special items	(8)	(12)		(0.01)
Tax impact of special and other adjusting items	(1)	(7)		-
<b>Adjusted net income</b>	<b>\$ 343</b>	<b>\$ 314</b>		

## Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Six-month periods ended June 30	
	2014	2013
<b>Diluted EPS</b>	<b>\$ 0.14</b>	<b>\$ 0.18</b>
Impact of special and other adjusting items	0.05	(0.01)
<b>Adjusted EPS</b>	<b>\$ 0.19</b>	<b>\$ 0.17</b>

## Reconciliation of adjusted debt to long-term debt

	As at	
	June 30, 2014	December 31, 2013
Long-term debt	\$ 7,776	\$ 7,203
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	(356)	(293)
Long-term debt, net	7,420	6,910
Sale and leaseback obligations	174	138
Operating lease obligations <sup>(1)</sup>	875	864
Adjusted debt	\$ 8,469	\$ 7,912

<sup>(1)</sup> Discounted using the average five-year U.S. Treasury Notes plus the average credit spread, given our credit rating, for the corresponding period.

## Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

	Four-quarter trailing periods ended	
	June 30, 2014	December 31, 2013
EBIT	\$ 859	\$ 923
Special items <sup>(1)</sup>	13	(30)
Interest received	127	36
Interest adjustment for operating leases <sup>(2)</sup>	40	38
Adjusted EBIT	1,039	967
Amortization adjustment for operating leases <sup>(3)</sup>	97	96
Amortization	394	391
Adjusted EBITDA	\$ 1,530	\$ 1,454

<sup>(1)</sup> Refer to Reconciliation of EBITDA before special items and EBITDA to EBIT above for details on these special items.

<sup>(2)</sup> Represents the interest cost of a debt equivalent to operating lease obligations included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related period, given our credit rating.

<sup>(3)</sup> Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

## Reconciliation of adjusted interest to interest paid

	Four-quarter trailing periods ended	
	June 30, 2014	December 31, 2013
Interest paid	\$ 350	\$ 303
Accretion expense on sale and leaseback obligations	6	5
Interest adjustment for operating leases <sup>(1)</sup>	40	38
Adjusted interest	\$ 396	\$ 346

<sup>(1)</sup> Represents the interest cost of a debt equivalent to operating lease obligations included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related period, given our credit rating.

## CONSOLIDATED FINANCIAL POSITION

	June 30 2014	December 31 2013	Increase (decrease)		Explanation of significant variances other than foreign exchange
			Foreign exchange impact	Variance excluding foreign exchange	
Cash and cash equivalents	\$ 2,476	\$ 3,397	\$ 48	\$ (969)	See the Variation in cash and cash equivalents table and Free cash flow in BA and BT for details
Trade and other receivables	1,637	1,492	-	145	Mainly due to higher level in BT
Gross inventories	14,940	13,659	(30)	1,311	\$ 946 Increase in BT following ramp-up of production ahead of deliveries 365 Increase in BA primarily due to an increase in aerospace program work-in-process mainly in the large business aircraft category as well as an increase in the finished products mainly in the medium and light business aircraft category
Advances and progress billings related to long-term contracts	(8,298)	(7,777)	37	484	Higher advances and progress billings on new orders and existing contracts
Advances on aerospace programs	(5,260)	(4,916)	-	344	Mainly due to higher order intake than deliveries in the medium business and commercial aircraft categories offset by lower advances for the large business aircraft category
PP&E	2,118	2,066	(4)	56	\$ 151 Net additions (95) Amortization
Aerospace program tooling	7,434	6,606	-	828	\$ 901 Net additions (73) Amortization
Goodwill	2,368	2,381	(24)	11	No significant variance
Deferred income tax asset	1,181	1,231	(5)	(45)	Mainly due to utilization of deferred tax assets
Investments in joint ventures & associates	293	318	(12)	(13)	No significant variance
Other financial assets	2,097	2,205	4	(112)	\$ (135) Decrease in assets related to derivative financial instruments
Other assets	1,495	1,433	(2)	64	\$ 44 Increase in deferred financing charges 43 Increase in prepaid expenses
Trade and other payables	(4,051)	(4,089)	2	(40)	\$ (185) Lower level in BA 145 Higher level in BT
Provisions	(1,385)	(1,465)	(5)	(75)	Mainly due to utilization of provisions for credit and residual value guarantees and a net decrease in provisions for product warranties and restructuring, severance and other termination benefits
Long-term debt	(7,725)	(6,988)	(12)	749	Mainly due to the issuance of \$1.8 billion of Senior Notes, partially offset by the redemption of the €785-million Senior Notes (\$1.1 billion)
Retirement benefit liability	(2,469)	(2,161)	6	302	See the Variation in net retirement benefit liability table for details
Other financial liabilities	(1,400)	(1,726)	-	(326)	\$ (162) Redemption of the \$162-million Notes (49) Decrease in liabilities related to derivative financial instruments
Other liabilities	(3,129)	(3,217)	(14)	(74)	\$ (85) Decrease in income and other taxes payable
Equity	(2,322)	(2,449)	not applicable	(127)	\$ (312) OCI - mainly due to net actuarial losses on retirement benefits 270 Net income (96) Dividends 11 Share-based expense

# AEROSPACE

## HIGHLIGHTS

### Results of the quarter

- Revenues of \$2.5 billion, compared to \$2.3 billion for the same period last fiscal year.
- EBIT of \$141 million, or 5.6% of revenues, compared to EBIT before special items<sup>(1)</sup> of \$107 million, or 4.7%, and EBIT of \$138 million, or 6.1%, for the same period last fiscal year.
- EBITDA<sup>(1)</sup> of \$215 million, or 8.6% of revenues, compared to EBITDA before special items<sup>(1)</sup> of \$178 million, or 7.9%, for the same period last fiscal year.
- Free cash flow usage<sup>(1)</sup> of \$363 million, compared to a usage of \$459 million for the same period last fiscal year.
- Net investment of \$509 million in PP&E and intangible assets, including \$436 million related to aerospace program tooling, compared to \$534 million for the same period last fiscal year, including \$498 million related to aerospace program tooling.
- 62 aircraft deliveries, compared to 57 for the same period last fiscal year.
- 48 net orders (book-to-bill ratio<sup>(2)</sup> of 0.8), compared to 82 net orders for the same period last fiscal year.
- Order backlog of \$38.1 billion as at June 30, 2014, compared to \$37.3 billion as at December 31, 2013.

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview and the Analysis of results section for definitions of these metrics and reconciliations to the most comparable IFRS measures.

<sup>(2)</sup> Defined as net orders received over aircraft deliveries, in units.

### Key events

#### Business aircraft

- On April 9, 2014, the first *Learjet 85* flight test vehicle (FTV1) successfully completed its maiden flight.
- On June 27, 2014, the *Challenger 350* aircraft entered into service.

#### Commercial aircraft

- On May 18, 2014, the fourth *CSeries* flight test vehicle (FTV4) successfully completed its maiden flight.
- On May 29, 2014, an engine-related incident occurred during stationary ground maintenance testing involving CS100 FTV1. Bombardier and Pratt & Whitney have worked on a solution and flight tests are expected to resume in the coming weeks. The targeted EIS dates of the CS100 and CS300 aircraft programs remain unchanged.
- In June 2014, we signed a firm order with an undisclosed customer for 16 *CRJ900 NextGen* aircraft, with options for an additional eight. Based on list price, the firm order is valued at \$727 million.
- Subsequent to the end of the quarter, we signed letters of intent (LOIs) and a conditional purchase agreement for 66 *CSeries* aircraft with five customers, bringing the total *CSeries* firm orders and other agreements to 513 as at the date of this report. These 66 aircraft are not included in the order backlog as at June 30, 2014.

#### Customer services

- On July 14, 2014, we launched our *Smart Parts* cost-per-flight-hour program for *CSeries* aircraft operators. Transport Canada, the European Aviation Safety Agency (EASA) and the U.S. Federal Aviation Administration (FAA) recently approved the *CSeries* aircraft maintenance program.
- On July 14, 2014, we appointed Flight Training Alliance, a newly formed joint venture between CAE and Lufthansa Flight Training, as our exclusive Authorized Training Provider for *CSeries* aircraft pilot and cabin crew training worldwide. CAE has built the first *CSeries* aircraft simulator. We also announced Lufthansa Technical Training as our exclusive Authorized Training Provider for maintenance training on the *CSeries* aircraft worldwide.

# INDUSTRY AND ECONOMIC ENVIRONMENT

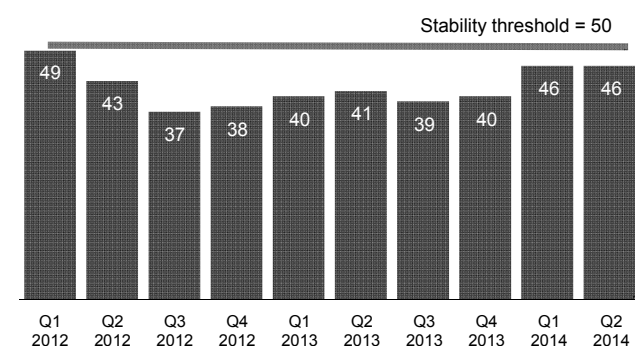
## Business aircraft

There have been some improvements in market indicators; however, there are no significant changes in the overall market conditions.

Industry confidence<sup>(1)</sup> remained stable during the second quarter but is still below the threshold of market stability. The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet has been trending downwards over the last three quarters and stands at 12.1% as at June 30, 2014. We consider this level of pre-owned inventory to be within the normal range for the overall market. The level of light pre-owned aircraft inventory has been decreasing since the fourth quarter of 2013. The level of large pre-owned aircraft inventory has increased in the last two quarters but remains below what we consider to be the normal range for the overall market. In the five-month period ended May 31, 2014, business jet utilization in the U.S. increased slightly compared to the same periods in the last three years. Business jet utilization in Europe increased slightly in the six-month period ended June 30, 2014 compared to the same period last year but is slightly lower than the same periods in 2012 and 2011.

<sup>(1)</sup> As measured by the UBS Business Jet Market Index.

**UBS BUSINESS JET MARKET INDEX<sup>(1)</sup>**  
(average on a 100-point scale)

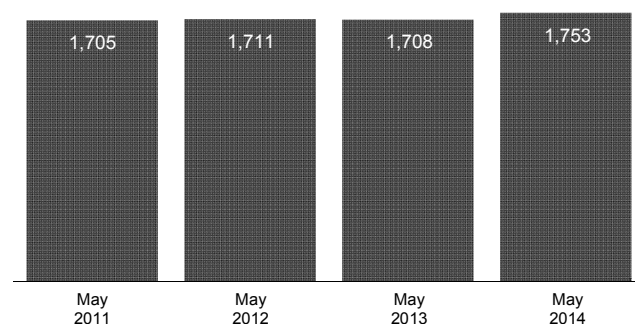


Source: UBS

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

### U.S. BUSINESS JET UTILIZATION

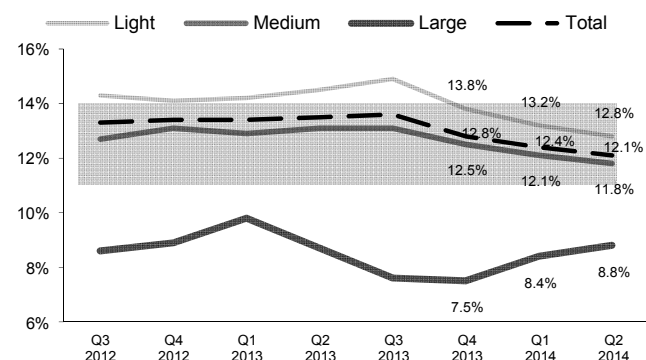
(for the five-month periods ended; in thousands of departures and arrivals for all business jets)



Source: latest data available from the U.S. Federal Aviation Administration (FAA) website

### PRE-OWNED BUSINESS JET INVENTORY

(as a percentage of total business jet fleet, excluding very light jets)

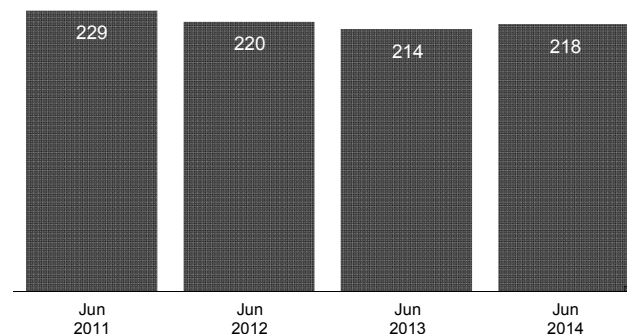


Sources: JETNET and Ascend (including draft data from Ascend Online for the second quarter of 2014).

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

### EUROPEAN BUSINESS JET UTILIZATION

(for the six-month periods ended; in thousands of departures and arrivals for all business jets)



Source: latest data available from Eurocontrol

## ***Commercial aircraft***

Overall passenger traffic indicators improved in the second quarter of 2014 compared to the same period last year.

Scheduled domestic and international commercial air travel, measured by revenue passenger kilometres (“RPK”)<sup>(1)</sup>, were 5.6% and 6.5% higher, respectively, during the year-to-date period ended May 31, 2014 compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors<sup>(1)</sup> of 80.0% and 78.1%, respectively, during the year-to-date period ended May 2014, compared to the 79.2% and 77.9% respective levels experienced during the same period ended May 2013.<sup>(2)</sup>

Regional passenger traffic measured by RPK for the four leading U.S. network carriers<sup>(3)</sup> and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., our largest market, remained essentially unchanged during the year-to-date period ended June 30, 2014 compared to the same period last year. These airlines achieved an average passenger load factor of 80.7% during the year-to-date period ended June 2014, up from the 78.3% experienced during the same period ended June 2013.

International Air Transport Association (“IATA”) predicts that airline financial performance will continue to improve in 2014 compared to 2013. In June 2014, IATA forecast commercial airline profits of \$18.0 billion for 2014, well ahead of 2013 profits of \$10.6 billion, but somewhat down from the \$18.7 billion previously projected in its March 2014 Financial Forecast. The decrease in forecast was due to slower growth in China and other emerging economies and sustained high fuel costs.<sup>(4)</sup> North American airlines are forecast to generate the highest profits in terms of absolute dollars and percentage of revenues. Asia-Pacific airlines will generate the second highest profits in terms of dollars, followed by European airlines, but will have lower profit margins as a percentage of revenues than airlines in the Middle East and Latin America.<sup>(5)</sup>

<sup>(1)</sup> Refer to the table next page for definitions of these measures.

<sup>(2)</sup> Per IATA's May 2014 Air Passenger Market Analysis report.

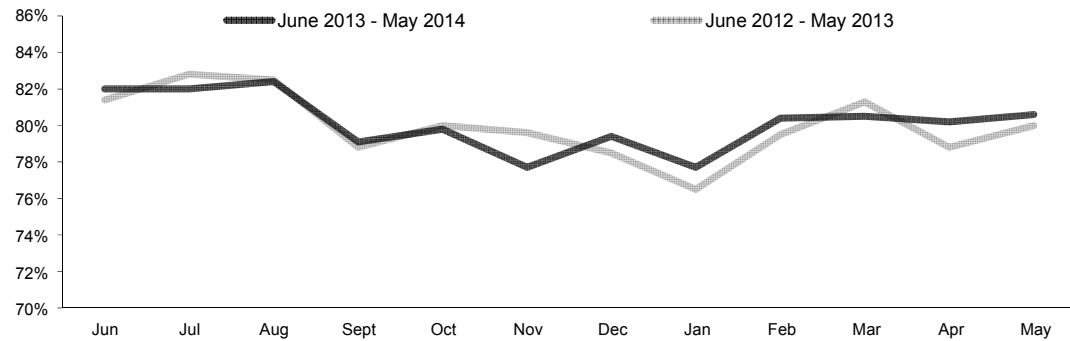
<sup>(3)</sup> Delta Air Lines, American Airlines, United Airlines, and Alaska Air.

<sup>(4)</sup> Per IATA's May-June 2014 Airlines Financial Monitor report.

<sup>(5)</sup> As stated in the IATA June 2014 Economic Performance of the Airline Industry.

### DOMESTIC PASSENGER LOAD FACTOR

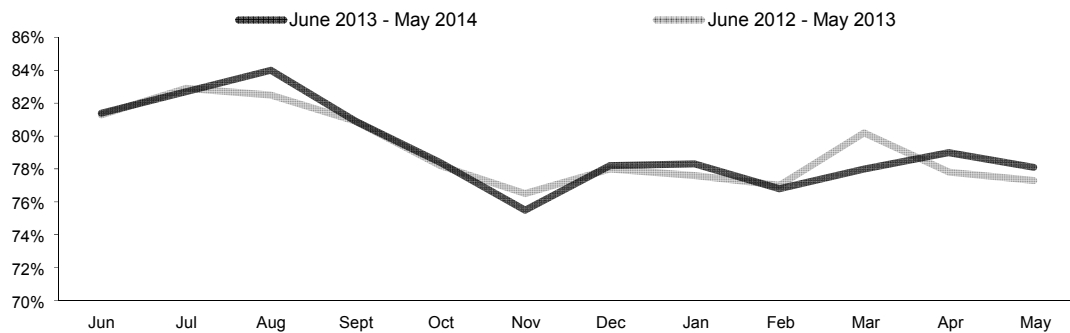
(as a percentage of available seat kilometres in the month)



Source: latest available data from IATA statistics for domestic air travel.

### INTERNATIONAL PASSENGER LOAD FACTOR

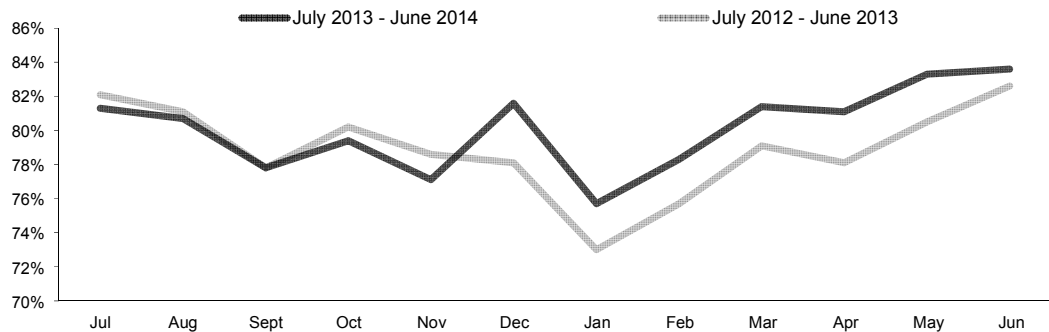
(as a percentage of available seat kilometres in the month)



Source: latest available data from IATA statistics for international air travel.

### U.S. REGIONAL PASSENGER LOAD FACTOR FOR THE FOUR LEADING U.S. NETWORK CARRIERS AND THEIR AFFILIATES

(as a percentage of available seat kilometres in the month)



Source: U.S. regional load factors published by the four leading U.S. network carriers (Delta Air Lines, American Airlines, United Airlines, and Alaska Air) and their affiliates.

### Passenger load factor

is defined as the percentage of available seat kilometres used (revenue passenger kilometres divided by available seat kilometres).

**Revenue passenger kilometres (RPK)** is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported one kilometre.

**Available seat kilometres** are measured as the number of seats multiplied by the kilometres flown, whether a passenger occupied the seat or not.

## Update on our 20-year market forecasts

In July 2014, we released our Business Aircraft Market Forecast and Commercial Aircraft Market Forecast for the 20-year period from calendar years 2014 to 2033.

Our Business Aircraft Market Forecast estimates 22,000 aircraft deliveries in the light to large categories representing a decrease of 2,000 aircraft compared to our previous forecast for calendar years 2013 to 2032, mainly due to the light aircraft category remaining persistently sluggish since the economic downturn. The 20-year deliveries are valued at an estimated \$617 billion<sup>(1)</sup>, compared to the \$650 billion previously forecasted.



Our Commercial Aircraft Market Forecast predicts 13,100 aircraft deliveries for 20- to 149-seat commercial aircraft in the next 20 years, a slightly higher level of deliveries compared to last year's 20-year forecast of 12,800 deliveries. The 20-year deliveries are valued at more than \$658 billion<sup>(1)</sup>, compared to the \$646 billion previously forecasted.

In summary, we remain confident in the strong, long-term potential of the aircraft industry in all segments in which we compete. New aircraft orders are supported by continued demand from established markets, such as North America and Europe, and growth in emerging markets. China is expected to be the second largest region in terms of commercial aircraft deliveries and the third for business aircraft over the next 20 years.

<sup>(1)</sup> Unit values are based on Business & Commercial Aviation magazine 2013 list prices expressed in US\$.

## ANALYSIS OF RESULTS

### Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013 <sup>(1)</sup>	2014	2013 <sup>(1)</sup>
Revenues				
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 <sup>(2)</sup>	397	474	796	912
Other <sup>(3)</sup>	208	147	312	357
Total revenues	2,512	2,255	4,601	4,513
Cost of sales	2,156	1,922	3,958	3,873
Gross margin	356	333	643	640
SG&A	171	189	328	347
R&D	47	45	87	87
Other income <sup>(4)</sup>	(3)	(8)	(18)	(2)
EBIT before special items <sup>(5)</sup>	141	107	246	208
Special items <sup>(6)</sup>	-	(31)	12	(31)
EBIT	141	138	234	239
Amortization <sup>(7)</sup>	74	71	137	132
EBITDA <sup>(5)</sup>	\$ 215	\$ 209	\$ 371	\$ 371
EBITDA before special items <sup>(5)</sup>	\$ 215	\$ 178	\$ 383	\$ 340
(as a percentage of total revenues)				
Gross margin	14.2%	14.8%	14.0%	14.2%
EBIT before special items	5.6%	4.7%	5.3%	4.6%
EBIT	5.6%	6.1%	5.1%	5.3%
EBITDA before special items	8.6%	7.9%	8.3%	7.5%
EBITDA	8.6%	9.3%	8.1%	8.2%

<sup>(1)</sup> Comparative revenue figures have been reclassified to conform to the presentation adopted in the current period.

<sup>(2)</sup> 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.

<sup>(3)</sup> Includes mainly sales of pre-owned aircraft.

<sup>(4)</sup> Includes i) net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding the losses (gains) arising from changes in interest rates; ii) severance and other involuntary termination costs (including changes in estimates); and iii) gains on disposals of PP&E; except when such items are reported as special items.

<sup>(5)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

<sup>(6)</sup> The special items for the six-month period ended June 30, 2014 relate to a \$22-million expense for the workforce reduction announced in January 2014 of approximately 1,700 positions, located mostly in Canada and the U.S., and a \$10-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital. The special item for the three- and six-month periods ended June 30, 2013 related to a gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

<sup>(7)</sup> Amortization is included in cost of sales, SG&A and R&D expense based on the underlying function of the asset.

## Total aircraft deliveries

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2014	2013	2014	2013
Business aircraft	38	45	81	84
Commercial aircraft	23	12	36	25
Amphibious aircraft	1	-	1	1
	62	57	118	110

## Manufacturing revenues

The \$273-million increase for the three-month period is mainly due to:

- higher revenues from commercial aircraft (\$271 million), mainly due to higher deliveries of regional jets; and
- higher other manufacturing revenues (\$45 million), mainly due to one more delivery of amphibious aircraft.

Partially offset by:

- lower revenues from business aircraft (\$43 million), mainly due to lower deliveries of medium business aircraft, including the impact of the transition to the *Challenger 350* aircraft, partially offset by higher deliveries of large business aircraft.

The \$249-million increase for the six-month period is mainly due to:

- higher deliveries of regional jets, partially offset by lower deliveries of turboprops (\$265 million).

Partially offset by:

- lower revenues from business aircraft (\$28 million), mainly due to lower deliveries of medium business aircraft, including the impact of the transition to the *Challenger 350* aircraft, partially offset by higher deliveries of large business aircraft.

## Services revenues

The \$77-million decrease for the three-month period is mainly due to the sale of Flexjet's fractional ownership and hourly flight entitlement programs' service activities in the fourth quarter of 2013, partially offset by higher revenues from our Specialized Aircraft Solutions activities.

The \$116-million decrease for the six-month period is mainly due to the sale of Flexjet's fractional ownership and hourly flight entitlement programs' service activities in the fourth quarter of 2013, partially offset by higher volume of activities from parts services, product support and Specialized Aircraft Solutions.

## Other revenues

The \$61-million increase for the three-month period is mainly due to higher deliveries and favorable mix of pre-owned business aircraft, partially offset by the sale of Flexjet's pre-owned fractional shares activities in the fourth quarter of 2013.

The \$45-million decrease for the six-month period is mainly due to the sale of Flexjet's pre-owned fractional shares activities in the fourth quarter of 2013, partially offset by higher deliveries and favorable mix of pre-owned business aircraft.

## EBIT margin

The EBIT margin percentage for the three-month period ended June 30, 2014 decreased by 0.5 percentage points compared to the corresponding period last year. The EBIT margin before special items (see explanation of special items below) for the three-month period increased by 0.9 percentage points mainly as a result of:

- higher absorption of lower SG&A expense; and
- costs incurred in Canadian dollars translated at lower exchange rates, after giving effect to hedges.

Partially offset by:

- the mix of commercial versus business aircraft deliveries; and
- higher write-down of inventory to net realizable value for the *C-Series* aircraft program.<sup>(1)</sup>

<sup>(1)</sup> Early production units in a new aircraft program require higher costs than units produced later in the program and the selling prices of early units are generally lower.

The EBIT margin percentage for the six-month period ended June 30, 2014 decreased by 0.2 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items below) for the six-month period increased by 0.7 percentage points mainly as a result of:

- higher absorption of lower SG&A expense;
- costs incurred in Canadian dollars translated at lower exchange rates, after giving effect to hedges; and
- a net positive variance of provisions for credit and residual guarantees and other financial assets recognized in other income mainly due to improved credit ratings for certain customers.

Partially offset by:

- lower net selling prices for business aircraft; and
- higher write-down of inventory to net realizable value for the *CSeries* aircraft program.<sup>(1)</sup>

For the six-month period ended June 30, 2014, special items impacted the EBIT margin negatively by 0.2 percentage points. The special items relate to a \$22-million restructuring expense for the workforce reduction announced in January 2014 of approximately 1,700 positions, partially offset by a \$10-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

For the three- and six-month periods ended June 30, 2013, a special item positively impacted the EBIT margin by 1.4 and 0.7 percentage points, respectively, related to a \$31-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

<sup>(1)</sup> Early production units in a new aircraft program require higher costs than units produced later in the program and the selling prices of early units are generally lower.

## Free cash flow

### Free cash flow usage<sup>(1)</sup>

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
EBIT	\$ 141	\$ 138	\$ 234	\$ 239
Amortization	74	71	137	132
EBITDA	215	209	371	371
Other non-cash items				
Gains on disposals of PP&E	-	-	-	(1)
Share-based expense	3	3	6	8
Dividends received from joint ventures and associates	2	-	2	-
Net change in non-cash balances	(74)	(137)	(294)	(261)
Cash flows from operating activities	146	75	85	117
Net additions to PP&E and intangible assets	(509)	(534)	(993)	(1,037)
Free cash flow usage <sup>(1)</sup>	\$ (363)	\$ (459)	\$ (908)	\$ (920)

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

The \$96-million improvement for the three-month period is mainly due to:

- a positive period-over-period variation in net change in non-cash balances (\$63 million) (see explanation below); and
- lower net additions to PP&E and intangible assets (\$25 million).

The \$12-million improvement for the six-month period is mainly due to:

- lower net additions to PP&E and intangible assets (\$44 million).

Partially offset by:

- a negative period-over-period variation in net change in non-cash balances (\$33 million) (see explanation below).

### Net change in non-cash balances

For the three-month period ended June 30, 2014, the \$74-million cash outflow is mainly due to:

- an increase in aerospace program work-in-process inventories, mainly in the medium business aircraft category.

Partially offset by:

- a decrease in finished product inventories, mainly due to a lower level of business aircraft not associated with a firm order.

For the three-month period ended June 30, 2013, the \$137-million cash outflow was mainly due to:

- an increase in aerospace program work-in-process inventories, mainly in the large business aircraft category; and
- a net decrease in advances on aerospace programs.

Partially offset by:

- an increase in liabilities related to supplier contributions to aerospace programs.

For the six-month period ended June 30, 2014, the \$294-million cash outflow is mainly due to:

- an increase in aerospace program work-in-process inventories mainly in the large business aircraft category;
- an increase in finished product inventories, mainly in the medium and light business aircraft categories; and
- a decrease in trade and other payables.

Partially offset by:

- an increase in advances on aerospace programs mainly resulting from higher order intake than deliveries in the medium business aircraft category and commercial aircraft, partially offset by lower advances for the large business aircraft category.

For the six-month period ended June 30, 2013, the \$261-million cash outflow was mainly due to:

- an increase in aerospace program work-in-process inventories, mainly in the medium and large business aircraft categories; and
- a decrease in advances on aerospace programs mainly resulting from lower order intake than deliveries for business aircraft, partly offset by higher order intake than deliveries in commercial aircraft.

Partially offset by:

- an increase in trade and other payables; and
- an increase in liabilities related to supplier contributions to aerospace programs.

## Product development

### Investment in product development

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Program tooling <sup>(1)</sup>	\$ 471	\$ 538	\$ 901	\$ 982
R&D expense <sup>(2)</sup>	6	7	14	14
	\$ 477	\$ 545	\$ 915	\$ 996
As a percentage of manufacturing revenues	25.0%	33.4%	26.2%	30.7%

<sup>(1)</sup> Net amount capitalized in aerospace program tooling.

<sup>(2)</sup> Excluding amortization of aerospace program tooling of \$41 million and \$73 million, respectively, for the three- and six-month periods ended June 30, 2014 (\$38 million and \$73 million, respectively, for the three- and six-month periods ended June 30, 2013), as the related investments are already included in aerospace program tooling.

Our program tooling additions essentially relate to the development of the *CSeries* family of aircraft, the *Global 7000* and *Global 8000* aircraft programs as well as the *Learjet 85* aircraft.

On July 15, 2014, we launched a new version of the *Q400 NextGen* aircraft, a cargo-passenger configuration which can accommodate 50 to 68 passengers and offers up to 8,200 lb. of cargo capacity. The aircraft offers airlines operational flexibility in short-haul markets and provides opportunities for airlines operating routes with medium and low passenger loads that have cargo revenue potential.

The following tables explain the key elements of our product development process and the status of our most significant programs under development.

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

THE CSERIES AIRCRAFT PROGRAMS	
The <i>CS100</i> aircraft program is in the product certification phase, and the <i>CS300</i> aircraft program has transitioned from the detailed design phase to the product definition release phase. The EIS for the <i>CS100</i> aircraft is targeted for the second half of 2015 and the <i>CS300</i> aircraft's EIS will follow approximately six months afterwards.	
Production and testing	<p>On May 29, 2014, an engine-related incident occurred during stationary ground maintenance testing involving FTV1. Bombardier and Pratt &amp; Whitney have worked on a solution and flight tests are expected to resume in the coming weeks.</p> <p>While the flight test program is interrupted, the <i>CSeries</i> team is performing other on-the-ground tests, including the Electro-Magnetic Interference (EMI) and lightning tests and has been upgrading the aircraft to the latest software.</p> <p>The initial on-the-ground, flight and aircraft structural test performance results are in line with our expectations and no major design changes have been identified. The data received to date confirms that the aircraft development programs are on track to reach key performance targets.<sup>(1)</sup></p> <p>FTV5, which is in fabrication and assembly, will join the flight test program in the coming months. Additionally, we have commenced the assembly of the first <i>CS100</i> production aircraft.</p> <p>The first of the two FTVs for the <i>CS300</i> aircraft program is now assembled, has been powered up and will be handed off to the flight test team soon.</p>
Suppliers	Both our internal and external suppliers are fabricating production components. Components and systems continue to be tested worldwide.

<sup>(1)</sup> Key performance targets under certain operating conditions when compared to aircraft currently in production for flights of 500 nautical miles. See the *CSeries* family of aircraft program disclaimer at the end of this MD&A.

### THE LEARJET 85 AIRCRAFT PROGRAM

The *Learjet 85* aircraft program is in the product certification phase. An update on the EIS date of the *Learjet 85* aircraft will be provided once our review of the flight test program timeline has been completed.

Production and testing	FTV1 successfully completed its maiden flight on April 9, 2014. Additional flights have since occurred. The flights are proceeding as expected.
Suppliers	All suppliers are progressing with the fabrication and delivery of components to the final assembly line. Components and systems continue to be tested worldwide.

### THE GLOBAL 7000 AND GLOBAL 8000 AIRCRAFT PROGRAMS

The *Global 7000* and *Global 8000* aircraft programs have started the transition from the detailed design phase to the product definition release phase and EIS is scheduled in 2016 and 2017, respectively.

Production and testing	Our product development team and our suppliers' representatives, co-located at our Aerospace Product Development Centre in Montréal, are making progress as planned, with the majority of the production drawings already released. The experimental and ground test teams are progressing on the design and build of the various ground test rigs that will be used throughout the development and certification of the aircraft.
Suppliers	Both our internal and external major structural suppliers are active in the fabrication of production parts and have prepared their assembly tools and facilities to build FTVs. The assembly of the cockpit, wings, centre and rear fuselages of FTV1 is ongoing. System suppliers are commissioning test rigs and fabricating parts for the FTVs.
Facilities	Assembly tools and equipment are being installed and validated at our final assembly line in Toronto, Canada.

### THE CHALLENGER 350 AIRCRAFT PROGRAM

As planned, the *Challenger 350* aircraft program has entered into service in the second quarter of 2014.

Following the certification from Transport Canada and the U.S. FAA in June 2014, the aircraft entered into service on June 27, 2014.

### Carrying amount of program tooling<sup>(1)</sup>

	June 30, 2014	December 31, 2013
<b>Business aircraft</b>	<b>\$ 3,332</b>	<b>\$ 2,860</b>
<b>Commercial aircraft</b>		
<i>CRJ Series</i>	<b>404</b>	435
<i>CSeries</i>	<b>3,698</b>	3,311
	<b>\$ 7,434</b>	<b>\$ 6,606</b>

<sup>(1)</sup> Capitalized borrowing costs included in the aerospace program tooling balance amounted to \$744 million as at June 30, 2014 (\$609 million as at December 31, 2013).

## Aircraft deliveries

### Business aircraft deliveries

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2014	2013	2014	2013
<b>Light</b>				
<i>Learjet 70/75 and Learjet 40 XR/45 XR</i>	<b>2</b>	-	<b>8</b>	1
<i>Learjet 60 XR</i>	-	4	-	6
<b>Medium</b>				
<i>Challenger 300/350</i>	<b>9</b>	16	<b>23</b>	30
<i>Challenger 605</i>	<b>8</b>	11	<b>14</b>	16
<b>Large</b>				
<i>Global 5000/Global 6000</i>	<b>19</b>	14	<b>36</b>	31
	<b>38</b>	<b>45</b>	<b>81</b>	<b>84</b>

Deliveries of business aircraft in the three-month period decreased by 16% compared to the same period last year, mainly due to the transition to the *Challenger 350* aircraft, which entered into service on June 27, 2014. In addition, there were lower than anticipated deliveries of the *Learjet 70/75* aircraft due to an airworthiness directive issued by the U.S. FAA on June 10, 2014 related to an engine fan blade issue. The issue has since been resolved and our customers' affected aircraft have returned to service.

### Commercial aircraft deliveries

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2014	2013	2014	2013
<b>Regional jets</b>				
CRJ700 NextGen	3	-	3	1
CRJ900 NextGen	12	2	20	4
CRJ1000 NextGen	2	4	3	6
<b>Turboprops</b>				
Q400 NextGen	6	6	10	14
	<b>23</b>	<b>12</b>	<b>36</b>	<b>25</b>

The higher deliveries of *CRJ900 NextGen* aircraft in the three- and six-month periods are mainly related to the significant order received from Delta Air Lines, Inc. in December 2012.

## Aircraft orders

### Total aircraft net orders

	June 30, 2014			June 30, 2013		
(in units)	Gross orders	Cancellations	Net orders	Gross orders	Cancellations	Net orders
<b>Three-month periods ended</b>						
Business aircraft	41	(11)	30	65	(18)	47
Commercial aircraft	18	-	18	43	(8)	35
	<b>59</b>	<b>(11)</b>	<b>48</b>	<b>108</b>	<b>(26)</b>	<b>82</b>
<b>Six-month periods ended</b>						
Business aircraft	96	(20)	76	101	(27)	74
Commercial aircraft	62	(1)	61	47	(11)	36
Amphibious aircraft	2	-	2	-	-	-
	<b>160</b>	<b>(21)</b>	<b>139</b>	<b>148</b>	<b>(38)</b>	<b>110</b>

### Business aircraft

The decrease in net order intake for business aircraft in the three-month period is mainly due to two significant orders received during the three-month period ended June 30, 2013 for a total of 32 aircraft in the large and medium business jet categories. This was partially offset by an increase in orders in the light category following the EIS of the *Learjet 70/75* aircraft during the fourth quarter of 2013.

The following significant order was received during the six-month period ended June 30, 2014:

Customer	Firm order	Value <sup>(1)</sup>
<b>First quarter</b>		
Undisclosed customer	3 <i>Global 6000</i>	\$ 537
	2 <i>Global 7000</i>	
	3 <i>Global 8000</i>	

<sup>(1)</sup> Value of firm order based on list prices.

## Commercial aircraft

### Commercial aircraft net orders

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2014	2013	2014	2013
<b>Regional jets</b>				
<i>CRJ700 NextGen</i>	-	-	1	-
<i>CRJ900 NextGen</i>	16	(8)	20	(8)
<i>CRJ1000 NextGen</i>	-	3	-	3
<b>Commercial jets</b>				
<i>CS100</i>	-	-	-	(3)
<i>CS300</i>	-	32	21	32
<b>Turboprops</b>				
<i>Q400 NextGen</i>	2	8	19	12
	18	35	61	36

The decrease in net order intake for commercial aircraft in the three-month period ended June 30, 2014 is mainly due to a significant order received from Ilyushin Finance Co. (IFC) of Russia for 32 *CS300* aircraft during the same period in 2013. This was partially offset by an increase in orders for *CRJ900 NextGen* aircraft during the second quarter of 2014.

The following significant orders were received during the six-month period ended June 30, 2014:

Customer	Firm order	Value <sup>(1)</sup>	Options <sup>(2)</sup>
<b>Second quarter</b>			
Undisclosed customer	16 <i>CRJ900 NextGen</i>	\$ 727	8 <i>CRJ900 NextGen</i>
<b>First quarter</b>			
Al Qahtani Aviation Company (Kingdom of Saudi Arabia)	16 <i>CS300</i>	\$ 1,210	10 <i>CS300</i>

<sup>(1)</sup> Value of firm order based on list prices.

<sup>(2)</sup> Not included in the order backlog.

Subsequent to the end of the quarter, we signed the following firm orders, LOIs and conditional purchase agreement, which are not included in the total order backlog as at June 30, 2014:

#### C-Series aircraft

- Two LOIs were signed with the United Kingdom-based lessor Falko Regional Aircraft Limited for up to 24 *CS100* aircraft;
- A LOI was signed with the Chinese Operator Zhejiang Loong Airlines Co., Ltd. for 20 *CS100* aircraft valued at approximately \$1.28 billion based on list price;
- A LOI was signed with an undisclosed African operator (an existing commercial aircraft customer) for 5 *C-Series* aircraft valued at approximately \$365 million based on list price;
- A LOI was signed with Petra Airlines Ltd. of Jordan for two *CS100* and two *CS300* aircraft valued at approximately \$298 million based on list prices; and
- A conditional purchase agreement was signed with an existing undisclosed customer for 13 *CS300* aircraft, which includes six purchase rights, valued at approximately \$553 million based on list price.

#### Q400 NextGen aircraft

- A firm order was signed with an undisclosed customer for five *Q400 NextGen* aircraft valued at approximately \$168 million based on list price;
- Calgary-based carrier WestJet Encore Ltd. has converted five options for *Q400 NextGen* aircraft into firm orders valued at approximately \$167 million based on list price;
- A LOI was signed with the Middle Eastern operator Falcon Aviation Services LLC for five *Q400 NextGen* aircraft valued at approximately \$160 million based on list price; and
- Two purchase rights were converted to firm orders of the *Q400 NextGen* aircraft, by the Thai carrier Nok Air, valued at approximately \$66 million based on list price.



## Book-to-bill ratio and order backlog

### Book-to-bill ratio<sup>(1)</sup>

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Business aircraft	0.8	1.0	0.9	0.9
Commercial aircraft	0.8	2.9	1.7	1.4
	0.8	1.4	1.2	1.0

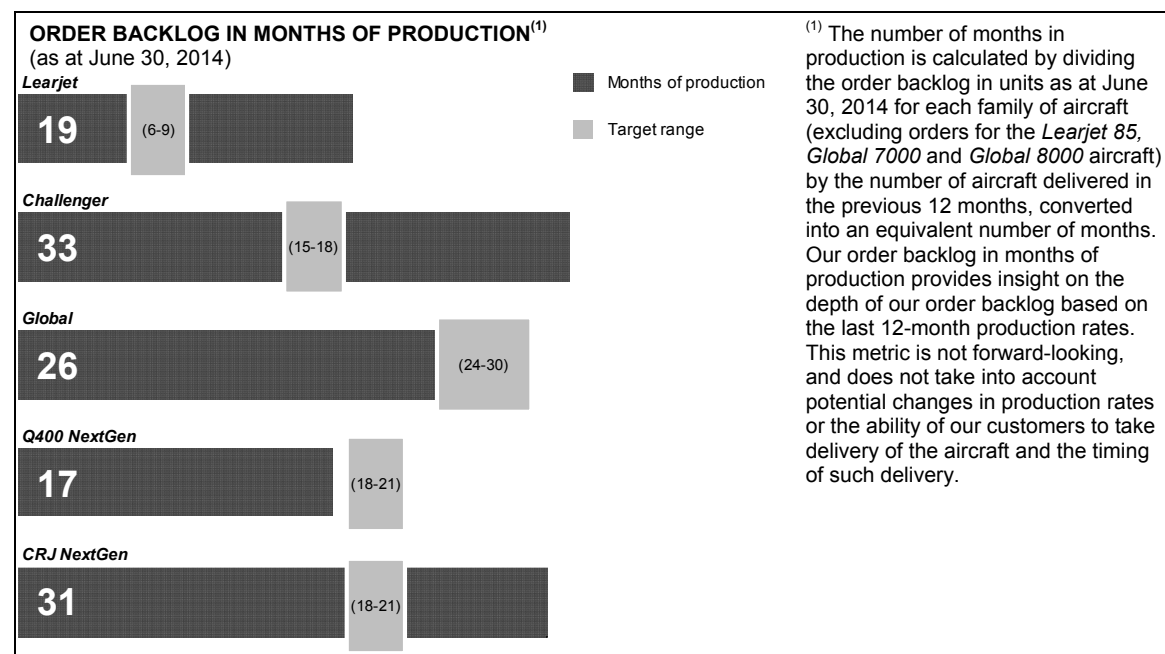
<sup>(1)</sup> Defined as net orders received over aircraft deliveries, in units.

The decrease in the book-to-bill ratio for business aircraft in the three-month period reflects lower orders in the medium and large business aircraft categories. The decrease in the book-to-bill ratio for commercial aircraft for the three-month period reflects lower orders for commercial jets and higher deliveries of regional jets. The overall book-to-bill ratio for the six-month period is above 1.0 and reflects a good order intake for commercial aircraft.

### Order backlog

	As at	
(in billions of dollars)	June 30, 2014	December 31, 2013
Aircraft programs	\$ 34.8	\$ 33.9
Long-term maintenance and spares support agreements	2.9	2.9
Military Aviation Training	0.4	0.5
	\$ 38.1	\$ 37.3

The increase in our order backlog as at June 30, 2014 is mainly a result of the order intake for the *CSeries* family of aircraft. We continue to monitor our order backlog and the production horizon for our programs and to align our production rates to reflect market demand.



## Commercial aircraft order backlog and options

	June 30, 2014		December 31, 2013	
(in units)	Firm orders	Options	Firm orders	Options
<b>Regional jets</b>				
CRJ700 NextGen	14	-	16	-
CRJ900 NextGen	60	81	60	73
CRJ1000 NextGen	32	22	35	22
<b>Commercial jets</b>				
CS100	63 <sup>(1)</sup>	49	63 <sup>(2)</sup>	49
CS300	140 <sup>(1)</sup>	103	119 <sup>(2)</sup>	93
<b>Turboprops</b>				
Q400 NextGen	35	91	26	90
	<b>344</b>	<b>346</b>	<b>319</b>	<b>327</b>

<sup>(1)</sup> The total of 203 orders includes 81 firm orders with conversion rights to the other *CSeries* aircraft model.

<sup>(2)</sup> The total of 182 orders includes 80 firm orders with conversion rights to the other *CSeries* aircraft model.

The total *CSeries* firm order backlog comprises 203 aircraft with 13 customers in 12 countries as at June 30, 2014. As at the date of this report, we have signed firm orders and other agreements<sup>(1)</sup> for a total of 513 *CSeries* aircraft with 20 customers in 17 countries, including 203 firm orders.

<sup>(1)</sup> The other agreements consist of conditional orders, letters of intent, options and purchase rights.

## Expansion of our global presence

In July 2014, we continued to expand our worldwide networks with the opening of a new Regional Support Office in Dubai, United Arab Emirates to serve our commercial aircraft customers throughout the Middle East and surrounding areas.

# TRANSPORTATION

## HIGHLIGHTS

### Results of the quarter

- Revenues increased to \$2.4 billion from \$2.2 billion for the same period last fiscal year which represents a 6.3% increase excluding currency impacts.
- EBIT of \$116 million, or 4.9% of revenues, compared to \$150 million, or 6.9%, for the same period last fiscal year.
- EBITDA<sup>(1)</sup> of \$145 million, or 6.1% of revenues, compared to \$181 million, or 8.3%, for the same period last fiscal year.
- Free cash flow usage<sup>(1)</sup> of \$47 million, compared to a usage of \$21 million for the same period last fiscal year.
- \$1.7 billion in new orders (book-to-bill ratio<sup>(2)</sup> of 0.7), compared to \$3.2 billion for the same period last fiscal year.
- Order backlog of \$37.6 billion as at June 30, 2014, compared to \$32.4 billion as at December 31, 2013.

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview and Analysis of results section for definitions of these metrics and reconciliations to the most comparable IFRS measures.

<sup>(2)</sup> Defined as new orders over revenues.

## INDUSTRY AND ECONOMIC ENVIRONMENT

In the second quarter of 2014 there were significant orders especially in Europe and the Rest of the World region. In the second half of 2014, the overall rail market volume is expected to continue to be strong particularly in the commuter and metro segments.

In Western Europe in the second quarter, investments in the rail industry remained at a similar high volume compared to the same period last fiscal year. Large orders have been awarded in Germany, Switzerland and the U.K. across all segments. Germany, the U.K. and Belgium show a promising outlook for the second half of the year, particularly in the commuter, regional, light rail vehicles as well as the fleet maintenance segments. In Eastern Europe, ageing fleets especially in Hungary, Poland and Czech Republic still denote high potential for service and rolling stock solutions. Furthermore, Turkey is expected to expand its high speed rail network.

In the first half of the year, North America's rail investments have shown a slightly lower level of activity compared to the same period last fiscal year. In the next quarters, the U.S. should markedly increase pace in investments for urban mobility, such as in the cities of New York and Boston. Canada's market activity has been relatively low, but there is upcoming potential for light rail, signalling and service solutions. Mexico remains a promising market with upcoming opportunities regarding metros, commuter and regional trains as well as light rail vehicles in the course of this year.

The strong performance in the Asia-Pacific region over the last year has been mainly driven by the high order volumes in China and Australia. During the second quarter of 2014 we have also seen positive development in Southeast Asia, driven by a contract in Singapore in the metro sector. China, India and Australia remain prospective markets for high investment mostly in the segments of signalling, light rail and metros. China is expected to further invest in the high speed train segment over the upcoming quarters while India's government is expected to place a significant order in the locomotive sector; however concrete timing for the Indian projects remains uncertain.

Compared to the same period last fiscal year, investments in the Rest of the World region showed significant growth in the second quarter of 2014, especially driven by contracts in South Africa, Qatar and Azerbaijan. Due to high political and public interest in rail mobility, as well as rapid urbanization, large projects are expected to be tendered in Russia and the Middle East in the near future. In South America, projects are forecasted in Brazil, Peru, Chile and Colombia, mainly for urban system solutions. As financing is a key challenge, exact dates for tenders are difficult to predict.

## ANALYSIS OF RESULTS

### Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Revenues				
Rolling stock <sup>(1)</sup>	\$ 1,582	\$ 1,340	\$ 3,046	\$ 2,718
Services <sup>(2)</sup>	439	391	881	761
System and signalling <sup>(3)</sup>	358	444	717	777
Total revenues	2,379	2,175	4,644	4,256
Cost of sales	2,077	1,836	4,036	3,608
Gross margin	302	339	608	648
SG&A	183	193	364	379
R&D	32	30	68	58
Share of income of joint ventures and associates	(28)	(34)	(50)	(78)
Other income <sup>(4)</sup>	(1)	-	(4)	-
EBIT	116	150	230	289
Amortization <sup>(5)</sup>	29	31	59	61
EBITDA <sup>(6)</sup>	\$ 145	\$ 181	\$ 289	\$ 350
(as a percentage of total revenues)				
Gross margin	12.7%	15.6%	13.1%	15.2%
EBIT	4.9%	6.9%	5.0%	6.8%
EBITDA	6.1%	8.3%	6.2%	8.2%

<sup>(1)</sup> 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.

<sup>(2)</sup> Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.

<sup>(3)</sup> Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance services, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.

<sup>(4)</sup> Includes i) severance and other involuntary termination costs (including changes in estimates), ii) losses (gains) on sale of PP&E.

<sup>(5)</sup> Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset.

<sup>(6)</sup> Non-GAAP financial measures. Refer to Non-GAAP financial measures sections in Overview for definitions of these metrics.

### Revenues by geographic region

	Three-month periods ended June 30				Six-month periods ended June 30			
	2014		2013		2014		2013	
Europe <sup>(1)</sup>	\$ 1,601	67%	\$ 1,446	67%	\$ 3,122	67%	\$ 2,845	67%
North America	402	17%	394	18%	824	18%	765	18%
Asia-Pacific <sup>(1)</sup>	244	10%	196	9%	424	9%	408	9%
Rest of world <sup>(1) (2)</sup>	132	6%	139	6%	274	6%	238	6%
	\$ 2,379	100%	\$ 2,175	100%	\$ 4,644	100%	\$ 4,256	100%

<sup>(1)</sup> The increases in Europe reflect positive currency impacts of \$95 million and \$150 million, respectively, for the three- and six-month periods ended June 30, 2014, while the increases in Asia-Pacific reflect negative currency impacts of \$18 million and \$26 million respectively, and the variances in the Rest of world region reflect negative currency impacts of \$10 million and \$16 million respectively.

<sup>(2)</sup> The Rest of world region includes South America, Central America, Africa, the Middle East and the CIS.

## Revenues excluding currency impact<sup>(1)</sup>

Three-month periods ended June 30					
	2014		2013	Variance	
	Revenues	Currency impact	Revenues excluding currency impact	Revenues	
Revenues					
Rolling stock	\$ 1,582	\$ 58	\$ 1,524	\$ 1,340	\$ 184
Services	439	15	424	391	33
System and signalling	358	(6)	364	444	(80)
	\$ 2,379	\$ 67	\$ 2,312	\$ 2,175	\$ 137

Six-month periods ended June 30					
	2014		2013	Variance	
	Revenues	Currency impact	Revenues excluding currency impact	Revenues	
Revenues					
Rolling stock	\$ 3,046	\$ 91	\$ 2,955	\$ 2,718	\$ 237
Services	881	25	856	761	95
System and signalling	717	(8)	725	777	(52)
	\$ 4,644	\$ 108	\$ 4,536	\$ 4,256	\$ 280

<sup>(1)</sup> The results of operations of entities using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. The impact of lower exchange rates of foreign currencies compared to the U.S. dollar negatively affects revenues and positively affects expenses, while higher exchange rates have the opposite impacts (defined as "negative currency impact" and "positive currency impact"). See the Foreign exchange rates section in Other for the average exchange rates used to translate revenues and expenses.

The following analysis is based on revenues excluding the impact of foreign exchange.

Total revenues for the three- and six-month periods ended June 30, 2014, have increased by \$137 million, or 6.3%, and \$280 million, or 6.6%, respectively, compared to the same periods last fiscal year. In the three-month period, the increase was mostly related to ramp-up in production related to contracts in Europe, while for the six-month period, it was driven by ramp-up in production related to contracts in all regions.

### Rolling stock revenues

The \$184-million increase for the three-month period is mainly explained by higher activities in Europe due to ramp-up of production related to some commuter and regional train, locomotive, intercity and high-speed train contracts, partially offset by some metro contracts nearing completion (\$169 million).

The \$237-million increase for the six-month period is mainly explained by:

- higher activities in Europe and the Rest of world region mainly due to ramp-up in production related to some commuter and regional train, intercity and high speed train, locomotive and metro contracts in Europe as well as some commuter and regional train, locomotive and propulsion and control contracts in the Rest of world region (\$264 million).

Partially offset by:

- lower activities in Asia-Pacific following completion of some high-speed train and light rail vehicle contracts, partly offset by ramp-up in production related to some commuter and regional train and metro contracts (\$35 million).

### Service revenues

The \$33-million increase for the three-month period is mainly due to higher activities in Asia-Pacific (\$31 million).

The \$95-million increase for the six-month period is mainly due to higher activities in Asia-Pacific, Europe and North America (\$109 million).

### System and signalling revenues

The \$80-million and \$52-million decrease for the three- and six-month periods respectively are mainly due to:

- lower activities in Europe, mostly due to finalization of a systems project (\$117 million and \$140 million respectively).

Partially offset by:

- higher activities in the Rest of world region, Asia-Pacific and North America, mostly due to increased activities in systems and in signalling contracts (\$37 million and \$88 million respectively).

### EBIT margin

The EBIT margin for the three-month period decreased by 2.0 percentage points mainly as a result of:

- a lower gross margin in system and signalling due to the finalization of a major systems project which had a favourable impact on the contract mix in the comparative period; and
- a lower share of income of joint ventures and associates.

Partially offset by:

- a higher gross margin in rolling stock due to a favourable contract mix in the quarter; and
- higher absorption of lower SG&A expenses.

The EBIT margin for the six-month period decreased by 1.8 percentage points mainly as a result of:

- a lower gross margin in system and signalling due to the finalization of a major systems project which had a favourable impact on the contract mix in the comparative period;
- a lower share of income of joint ventures and associates; and
- higher R&D expenses.

Partially offset by:

- higher absorption of lower SG&A expenses.

## Free Cash Flow

### Free cash flow usage<sup>(1)</sup>

	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
EBIT	\$ 116	\$ 150	\$ 230	\$ 289
Amortization	29	31	59	61
EBITDA	145	181	289	350
Other non-cash items				
Share of income of joint ventures and associates	(28)	(34)	(50)	(78)
Gains on disposals of PP&E	(4)	-	(4)	-
Share-based expense	2	3	5	9
Dividends received from joint ventures and associates	60	47	60	57
Net change in non-cash balances	(206)	(202)	(571)	(405)
Cash flows from operating activities	(31)	(5)	(271)	(67)
Net additions to PP&E and intangible assets	(16)	(16)	(32)	(27)
Free cash flow usage	\$ (47)	\$ (21)	\$ (303)	\$ (94)

<sup>(1)</sup> Non-GAAP financial measures. Refer to Non-GAAP financial measures sections in Overview for definitions of these metrics.

The \$26-million deterioration for the three-month period is mainly due to:

- lower EBITDA (\$36 million).

Partially offset by:

- higher dividends received from joint ventures and associates (\$13 million).

The \$209-million deterioration for the six-month period is mainly due to:

- a negative period-over-period variation in net change in non-cash balances (\$166 million) (see explanation below); and
- lower EBITDA (\$61 million).

Partially offset by:

- lower negative impact arising from other non-cash items (\$20 million), mainly from lower share of income of joint ventures and associates.

### **Net change in non-cash balances**

For the three-month period ended June 30, 2014, the \$206-million cash outflow is mainly due to:

- an increase in inventories following ramp-up of production ahead of deliveries.

Partially offset by:

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

For the three-month period ended June 30, 2013, the \$202-million cash outflow was mainly due to:

- an increase in inventories following ramp-up of production ahead of deliveries; and
- an increase in trade and other receivables.

Partially offset by:

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

For the six-month period ended June 30, 2014, the \$571-million cash outflow is mainly due to:

- an increase in inventories following ramp-up of production ahead of deliveries;
- a reduction in other liabilities; and
- an increase in trade and other receivables.

Partially offset by:

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

For the six-month period ended June 30, 2013, the \$405-million cash outflow was mainly due to:

- an increase in inventories following ramp-up of production ahead of deliveries.

Partially offset by:

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



## Orders and backlog

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

Order intake (in billions of dollars)	Three-month periods ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Rolling stock	\$ 0.7	\$ 2.2	\$ 5.7	\$ 3.3
Services	0.6	0.7	3.2	1.3
System and signalling	0.4	0.3	0.8	0.6
	\$ 1.7	\$ 3.2	\$ 9.7	\$ 5.2
Book-to-bill ratio <sup>(1)</sup>	0.7	1.5	2.1	1.2

<sup>(1)</sup> Ratio of new orders over revenues.

The order intakes for the three- and six-month periods ended June 30, 2014 reflect negative currency impacts of \$29 million and \$248 million, respectively.

In the second quarter of 2014, we won several small and medium orders across various regions and product segments and maintained a leading position in the rail industry.<sup>(1)</sup> The significant orders obtained during the six-month period ended June 30, 2014 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value
<b>Second quarter</b>					
Undisclosed				Rolling stock	\$ 338
Railpool GmbH	Germany	TRAXX locomotives	35	Rolling stock	\$ 184
Virgin Trains	U.K.	Extension of fleet maintenance	n/a	Services	\$ 175
<b>First quarter</b>					
State of Queensland	Australia	Construction of a depot and fleet maintenance	n/a	Services	\$ 1,700 <sup>(2)</sup>
		Electrical Multiple Units (EMUs)	450	Rolling stock	\$ 1,000 <sup>(2)</sup>
Transport for London (TfL)	U.K.	AVENTRA trains	585	Rolling stock	\$ 1,400
		Construction of a depot and fleet maintenance	n/a	Services	\$ 700
Transnet Freight Rail (TFR)	South Africa	TRAXX locomotives	240	Rolling stock	\$ 1,200
San Francisco Bay Area Rapid Transit District (BART)	U.S.	Metro cars	365	Rolling stock	\$ 639
Deutsche Bahn AG (DB)	Germany	TALENT 2 EMUs	107	Rolling stock	\$ 203

<sup>(1)</sup> Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.

<sup>(2)</sup> Contract signed as part of a consortium. Only the value of our share is stated.

n/a: Not applicable

Subsequent to the end of the second quarter, we received an order from SNCF, France, for 22 additional Francilien commuter EMUs valued at approximately \$218 million, which is not included in our order backlog as at June 30, 2014.

### Order backlog

(in billions of dollars)	As at	
	June 30, 2014	December 31, 2013
Rolling stock	\$ 23.6	\$ 21.1
Services	9.9	7.4
System and signalling	4.1	3.9
	\$ 37.6	\$ 32.4

The \$5.2 billion increase in order backlog is mainly due to very large orders obtained across various regions and product segments in the six-month period.

# OTHER

## OFF-BALANCE SHEET ARRANGEMENTS

### ***Factoring facilities***

In the normal course of its business, BT has set up factoring facilities in Europe, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €969 million (\$1.3 billion) were outstanding under such facilities as at June 30, 2014 (€1.1 billion (\$1.5 billion) as at December 31, 2013). During the three- and six-month periods ended June 30, 2014, trade receivables of €281 million (\$385 million) and €512 million (\$702 million), respectively, were sold to these facilities (€211 million (\$276 million) and €463 million (\$609 million), respectively, during the three- and six-month periods ended June 30, 2013).

### ***Other arrangements***

In the normal course of operations, we maintain other off-balance sheet arrangements including credit and residual value guarantees, financing commitments and financing structures related to the sale of commercial aircraft. There was no significant change in these arrangements during the six-month period ended June 30, 2014. Refer to the Off-balance sheet arrangements section of the Financial Report for the year ended December 31, 2013 in Other for a description of these arrangements, and to Note 21, Commitments and Contingencies, to the interim consolidated financial statements for further details.

## RISKS AND UNCERTAINTIES

We operate in industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties that could materially affect our business, financial condition and results of operations are described in the Financial Report for the fiscal year ended December 31, 2013 in Other, but are not necessarily the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely affect our business.

There was no significant change to these risks and uncertainties during the six-month period ended June 30, 2014, other than those described elsewhere in this MD&A. Also refer to Note 21, Commitments and contingencies, to the interim consolidated financial statements for information regarding current litigation proceedings including the S-Bahn claim and the allegations of cartel activity in Brazil.

## ACCOUNTING AND REPORTING DEVELOPMENTS

### **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 our fiscal year beginning on January 1, 2018, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our 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 our fiscal year beginning on January 1, 2015, with earlier application permitted. We have started to assess the impact the adoption of this standard will have on our 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 our fiscal year beginning on January 1, 2017, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

## **CONTROLS AND PROCEDURES**

No changes were made to our internal controls over financial reporting during the six-month period ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## FOREIGN EXCHANGE RATES

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

The foreign exchange rates used to translate assets and liabilities into U.S. dollars were as follows, as at:

	June 30, 2014	December 31, 2013	Increase (decrease)
Euro	1.3620	1.3791	(1%)
Canadian dollar	0.9357	0.9400	(0%)
Pound sterling	1.7032	1.6542	3%

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows, for the three-month periods ended:

	June 30, 2014	June 30, 2013	Increase (decrease)
Euro	1.3714	1.3066	5%
Canadian dollar	0.9165	0.9771	(6%)
Pound sterling	1.6820	1.5360	10%

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows, for the six-month periods ended:

	June 30, 2014	June 30, 2013	Increase (decrease)
Euro	1.3706	1.3144	4%
Canadian dollar	0.9116	0.9854	(7%)
Pound sterling	1.6683	1.5464	8%

## SELECTED FINANCIAL INFORMATION

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

Fiscal years	2014				2013			2012
	Second	First	Fourth	Third	Second	First	Fourth	Third
Revenues	\$ 4,891	\$ 4,354	\$ 5,324	\$ 4,058	\$ 4,430	\$ 4,339	\$ 4,625	\$ 4,211
Net income (loss)	\$ 155	\$ 115	\$ 97	\$ 147	\$ 180	\$ 148	\$ (4)	\$ 172
EPS (in dollars)								
Basic and diluted	\$ 0.08	\$ 0.06	\$ 0.05	\$ 0.08	\$ 0.10	\$ 0.08	\$ (0.01)	\$ 0.09
Adjusted net income <sup>(1)</sup>	\$ 192	\$ 151	\$ 129	\$ 165	\$ 158	\$ 156	\$ 181	\$ 173
Adjusted EPS (in dollars) <sup>(1)</sup>								
Basic and diluted	\$ 0.10	\$ 0.08	\$ 0.07	\$ 0.09	\$ 0.09	\$ 0.08	\$ 0.10	\$ 0.09

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and reconciliations to the most comparable IFRS measures.

## SHAREHOLDER INFORMATION

### Authorized, issued and outstanding share data, as at July 29, 2014

	Authorized	Issued and outstanding
Class A Shares (multiple voting) <sup>(1)</sup>	1,892,000,000	314,273,255
Class B Shares (subordinate voting) <sup>(2)</sup>	1,892,000,000	1,425,039,717 <sup>(3)</sup>
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

<sup>(1)</sup> Ten votes each, convertible at the option of the holder into one Class B Share (subordinate voting).

<sup>(2)</sup> Convertible at the option of the holder into one Class A Share (multiple voting) under certain conditions.

<sup>(3)</sup> Net of 18,736,908 Class B Shares (subordinate voting) purchased and held in trust in connection with the PSU plan.

### Share option, PSU and DSU data as at June 30, 2014

Options issued and outstanding under the share option plans	28,451,761
PSUs and DSUs issued and outstanding under the PSU and DSU plans	23,696,964
Class B Shares held in trust to satisfy PSU obligations	18,736,908

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

Third Quarterly Report, for the period ending September 30, 2014	October 30, 2014
Financial Report, for the fiscal year ending December 31, 2014	February 12, 2015
First Quarterly Report, for the period ending March 31, 2015	<b>May 7, 2015*</b>
Second Quarterly Report, for the period ending June 30, 2015	July 30, 2015

\*This date has been altered from what was previously proposed.

### Information

Bombardier Inc.  
Investor Relations  
800 René-Lévesque Blvd. West  
Montréal, Québec, Canada H3B 1Y8  
Telephone: +1 514 861 9481, extension 13273  
Fax: +1 514 861 2420  
Email: [investors@bombardier.com](mailto:investors@bombardier.com)

### July 30, 2014

Additional information relating to Bombardier, including the Corporation's financial report and annual information form, are available on SEDAR at [sedar.com](http://sedar.com) or on Bombardier's dedicated investor relations website at [ir.bombardier.com](http://ir.bombardier.com).

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Bombardier Inc., 800 René-Lévesque Blvd. West, Montréal, Québec, Canada H3B 1Y8  
Telephone: +1 514 861 9481; fax: +1 514 861 2420; website: [bombardier.com](http://bombardier.com)

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# 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)

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**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
<b>Gross margin</b>		<b>658</b>	<b>672</b>	<b>1,251</b>	<b>1,288</b>
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)
<b>EBIT</b>		<b>257</b>	<b>288</b>	<b>464</b>	<b>528</b>
Financing expense	7	90	83	136	151
Financing income	7	(49)	(47)	(61)	(80)
<b>EBT</b>		<b>216</b>	<b>252</b>	<b>389</b>	<b>457</b>
Income taxes		61	72	119	129
<b>Net income</b>		<b>\$ 155</b>	<b>\$ 180</b>	<b>\$ 270</b>	<b>\$ 328</b>
Attributable to					
Equity holders of Bombardier Inc.		\$ 153	\$ 181	\$ 266	\$ 324
NCI		2	(1)	4	4
		\$ 155	\$ 180	\$ 270	\$ 328
<b>EPS (in dollars)</b>	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
<b>Net income</b>	<b>\$ 155</b>	<b>\$ 180</b>	<b>\$ 270</b>	<b>\$ 328</b>
<b>OCI</b>				
<b>Items that may be reclassified to net income</b>				
<b>Net change in cash flow hedges</b>				
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)
<b>AFS financial assets</b>				
Net unrealized gain (loss)	-	(10)	4	(7)
<b>CCTD</b>				
Net investments in foreign operations	29	1	39	(101)
Net gain (loss) on related hedging items	-	(18)	1	11
	29	(17)	40	(90)
<b>Items that are never reclassified to net income</b>				
<b>Retirement benefits</b>				
Net actuarial gains (losses)	(113)	328	(352)	579
Income taxes	(12)	(13)	6	(61)
	(125)	315	(346)	518
<b>Total OCI</b>	<b>(42)</b>	<b>258</b>	<b>(312)</b>	<b>355</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 113</b>	<b>\$ 438</b>	<b>\$ (42)</b>	<b>\$ 683</b>
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
<b>Assets</b>				
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
<b>Current assets</b>		<b>14,492</b>	<b>14,641</b>	<b>12,531</b>
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
<b>Non-current assets</b>		<b>15,516</b>	<b>14,722</b>	<b>12,644</b>
		<b>\$ 30,008</b>	<b>\$ 29,363</b>	<b>\$ 25,175</b>
<b>Liabilities</b>				
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
<b>Current liabilities</b>		<b>13,609</b>	<b>13,786</b>	<b>11,793</b>
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
<b>Non-current liabilities</b>		<b>14,077</b>	<b>13,128</b>	<b>12,125</b>
		<b>27,686</b>	<b>26,914</b>	<b>23,918</b>
<b>Equity</b>				
Attributable to equity holders of Bombardier Inc.		2,295	2,426	1,211
Attributable to NCI		27	23	46
		<b>2,322</b>	<b>2,449</b>	<b>1,257</b>
		<b>\$ 30,008</b>	<b>\$ 29,363</b>	<b>\$ 25,175</b>
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)		Contributed surplus	Accumulated OCI			Total	NCI	Total Equity
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses		AFS financial assets	Cash flow hedges	CCTD			
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
<b>As at June 30, 2014</b>	<b>\$ 347</b>	<b>\$ 1,380</b>	<b>\$ 2,768</b>	<b>\$ (2,316)</b>	<b>\$ 103</b>	<b>\$ 9</b>	<b>\$ (213)</b>	<b>\$ 217</b>	<b>\$ 2,295</b>	<b>\$ 27</b>	<b>\$ 2,322</b>
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
<b>As at June 30, 2013</b>	<b>\$ 347</b>	<b>\$ 1,385</b>	<b>\$ 2,460</b>	<b>\$ (2,276)</b>	<b>\$ 92</b>	<b>\$ 3</b>	<b>\$ (263)</b>	<b>\$ 67</b>	<b>\$ 1,815</b>	<b>\$ 48</b>	<b>\$ 1,863</b>

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)		Contributed surplus	Accumulated OCI			Total	NCI	Total Equity
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses		AFS financial assets	Cash flow hedges	CCTD			
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
<b>As at June 30, 2014</b>	<b>\$ 347</b>	<b>\$ 1,380</b>	<b>\$ 2,768</b>	<b>\$ (2,316)</b>	<b>\$ 103</b>	<b>\$ 9</b>	<b>\$ (213)</b>	<b>\$ 217</b>	<b>\$ 2,295</b>	<b>\$ 27</b>	<b>\$ 2,322</b>
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
<b>As at June 30, 2013</b>	<b>\$ 347</b>	<b>\$ 1,385</b>	<b>\$ 2,460</b>	<b>\$ (2,276)</b>	<b>\$ 92</b>	<b>\$ 3</b>	<b>\$ (263)</b>	<b>\$ 67</b>	<b>\$ 1,815</b>	<b>\$ 48</b>	<b>\$ 1,863</b>

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
<b>Operating activities</b>					
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)
<b>Cash flows from operating activities</b>		<b>101</b>	<b>(16)</b>	<b>(314)</b>	<b>(92)</b>
<b>Investing activities</b>					
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 <sup>(1)</sup>		-	-	25	-
Other		(1)	14	(1)	(6)
<b>Cash flows from investing activities</b>		<b>(579)</b>	<b>(588)</b>	<b>(1,054)</b>	<b>(1,192)</b>
<b>Financing activities</b>					
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 <sup>(2)</sup>		(46)	(50)	(92)	(99)
Other		(29)	45	(11)	47
<b>Cash flows from financing activities</b>		<b>407</b>	<b>(14)</b>	<b>399</b>	<b>1,899</b>
Effect of exchange rates on cash and cash equivalents		59	(14)	48	(71)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(12)</b>	<b>(632)</b>	<b>(921)</b>	<b>544</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>2,488</b>	<b>3,733</b>	<b>3,397</b>	<b>2,557</b>
<b>Cash and cash equivalents at end of period</b>		<b>\$ 2,476</b>	<b>\$ 3,101</b>	<b>\$ 2,476</b>	<b>\$ 3,101</b>
<b>Supplemental information<sup>(3)(4)</sup></b>					
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

<sup>(1)</sup> Represents the balance of sale price related to the sale of the main assets and related liabilities of the Corporation's Flexjet activities.

<sup>(2)</sup> \$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).

<sup>(3)</sup> 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.

<sup>(4)</sup> 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 FVTPL, 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
<b>Results of operations</b>						
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
<b>Gross margin</b>	<b>356</b>	<b>302</b>	<b>658</b>	<b>333</b>	<b>339</b>	<b>672</b>
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)
<b>EBIT before special items</b>	<b>141</b>	<b>116</b>	<b>257</b>	<b>107</b>	<b>150</b>	<b>257</b>
Special items <sup>(1)</sup>	-	-	-	(31)	-	(31)
<b>EBIT</b>	<b>\$ 141</b>	<b>\$ 116</b>	<b>257</b>	<b>\$ 138</b>	<b>\$ 150</b>	<b>288</b>
Financing expense			90			83
Financing income			(49)			(47)
<b>EBT</b>			<b>216</b>			<b>252</b>
Income taxes			61			72
<b>Net income</b>			<b>\$ 155</b>			<b>\$ 180</b>
<b>Other information</b>						
Net additions to PP&E and intangible assets <sup>(2)</sup>	\$ 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
<b>Results of operations</b>						
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
<b>Gross margin</b>	<b>643</b>	<b>608</b>	<b>1,251</b>	<b>640</b>	<b>648</b>	<b>1,288</b>
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)
<b>EBIT before special items</b>	<b>246</b>	<b>230</b>	<b>476</b>	<b>208</b>	<b>289</b>	<b>497</b>
Special items <sup>(1)</sup>	12	-	12	(31)	-	(31)
<b>EBIT</b>	<b>\$ 234</b>	<b>\$ 230</b>	<b>464</b>	<b>\$ 239</b>	<b>\$ 289</b>	<b>528</b>
Financing expense			136			151
Financing income			(61)			(80)
<b>EBT</b>			<b>389</b>			<b>457</b>
Income taxes			119			129
<b>Net income</b>			<b>\$ 270</b>			<b>\$ 328</b>
<b>Other information</b>						
Net additions to PP&E and intangible assets <sup>(2)</sup>	\$ 993	\$ 32	\$ 1,025	\$ 1,037	\$ 27	\$ 1,064
Amortization	\$ 137	\$ 59	\$ 196	\$ 132	\$ 61	\$ 193

<sup>(1)</sup> See Note 6 – Special items for more details.

<sup>(2)</sup> 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
<b>Assets</b>			
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 <sup>(1)</sup>	29	27	-
Deferred income taxes	1,181	1,231	1,421
<b>Segmented assets</b>	<b>26,322</b>	<b>24,708</b>	<b>21,197</b>
<b>Liabilities</b>			
Total liabilities	27,686	26,914	23,918
Liabilities not allocated to segments			
Interest payable <sup>(2)</sup>	129	116	66
Income taxes payable <sup>(3)</sup>	202	198	109
Long-term debt <sup>(4)</sup>	7,776	7,203	5,405
Deferred income taxes <sup>(3)</sup>	-	-	46
<b>Segmented liabilities</b>	<b>\$ 19,579</b>	<b>\$ 19,397</b>	<b>\$ 18,292</b>
<b>Net segmented assets</b>			
BA	\$ 6,017	\$ 4,921	\$ 2,618
BT	\$ 726	\$ 390	\$ 287

<sup>(1)</sup> Included in other assets.

<sup>(2)</sup> Included in trade and other payables.

<sup>(3)</sup> Included in other liabilities.

<sup>(4)</sup> 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 <sup>(1)</sup>	2014	2013 <sup>(1)</sup>
<b>BA</b>				
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 <sup>(2)</sup>	397	474	796	912
Other <sup>(3)</sup>	208	147	312	357
	2,512	2,255	4,601	4,513
<b>BT</b>				
Rolling stock <sup>(4)</sup>	1,582	1,340	3,046	2,718
Services <sup>(5)</sup>	439	391	881	761
System and signalling <sup>(6)</sup>	358	444	717	777
	2,379	2,175	4,644	4,256
	\$ 4,891	\$ 4,430	\$ 9,245	\$ 8,769

<sup>(1)</sup> Comparative figures have been reclassified to conform to the presentation adopted in the current period.

<sup>(2)</sup> 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.

<sup>(3)</sup> Includes mainly sales of pre-owned aircraft.

<sup>(4)</sup> 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.

<sup>(5)</sup> Comprised of revenues from fleet maintenance, refurbishment and overhaul, and material solutions.

<sup>(6)</sup> 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 <sup>(1)</sup>	\$ (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)

<sup>(1)</sup> 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 <sup>(1)</sup>	\$ 43	\$ -	\$ 43	\$ -
Restructuring charge <sup>(2)</sup>	-	-	22	-
Gains on resolution of litigations <sup>(3)</sup>	(8)	(43)	(18)	(43)
	\$ 35	\$ (43)	\$ 47	\$ (43)
<b>Of which is presented in</b>				
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)

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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
<b>Financing expense</b>				
Loss on repurchase of long-term debt <sup>(1)</sup>	\$ 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 <sup>(2)</sup>	-	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
<b>Financing income</b>				
Net gain on certain financial instruments <sup>(2)</sup>	\$ (18)	\$ -	\$ (13)	\$ (10)
Interest related to the resolution of litigations <sup>(3)</sup>	(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)

<sup>(1)</sup> 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.

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

<sup>(3)</sup> 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
<b>EPS (in dollars)</b>				
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 <sup>(1)</sup> cost	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 <sup>(2)</sup>	-	-	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 <sup>(2)</sup>	-	-	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 <sup>(2)</sup>	-	-	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	

<sup>(1)</sup> Financial assets are classified as L&R and financial liabilities as other than HFT.

<sup>(2)</sup> 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 <sup>(1)</sup>	1,481	1,328	1,429
	\$ 8,909	\$ 8,234	\$ 7,540

<sup>(1)</sup> 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 <sup>(1) (2)</sup>	383	335	243
Investments in financing structures <sup>(1)</sup>	362	331	329
Long-term contract receivables <sup>(3)</sup>	342	319	-
Aircraft loans and lease receivables <sup>(1)</sup>	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

<sup>(1)</sup> 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).

<sup>(2)</sup> 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).

<sup>(3)</sup> 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
	<b>\$ 1,495</b>	<b>\$ 1,433</b>	<b>\$ 1,234</b>
Of which current	\$ 902	\$ 881	\$ 680
Of which non-current	593	552	554
	<b>\$ 1,495</b>	<b>\$ 1,433</b>	<b>\$ 1,234</b>

### 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 <sup>(1)</sup>	Total
Balance as at December 31, 2013	\$ 863	\$ 463	\$ 81	\$ 58	\$ 1,465
Additions	77	-	28 <sup>(2)</sup>	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 <sup>(1)</sup>	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

<sup>(1)</sup> Includes litigations and claims, as well as environmental liabilities.

<sup>(2)</sup> 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
	<b>\$ 1,400</b>	<b>\$ 1,726</b>	<b>\$ 1,056</b>
Of which current	\$ 677	\$ 1,009	\$ 455
Of which non-current	723	717	601
	<b>\$ 1,400</b>	<b>\$ 1,726</b>	<b>\$ 1,056</b>

## 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
	<b>\$ 3,129</b>	<b>\$ 3,217</b>	<b>\$ 3,169</b>
Of which current	\$ 2,096	\$ 2,227	\$ 2,212
Of which non-current	1,033	990	957
	<b>\$ 3,129</b>	<b>\$ 3,217</b>	<b>\$ 3,169</b>

## 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 <sup>(1)</sup>	16,484,434	6,438,438 <sup>(1)</sup>

	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 <sup>(1)</sup>	16,484,434	6,438,438 <sup>(1)</sup>

<sup>(1)</sup> 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
<b>Financial assets</b>				
Aircraft loans and lease receivables	\$ 308	\$ -	\$ -	\$ 308
Derivative financial instruments <sup>(1)</sup>	659	-	659	-
Investments in securities	349 <sup>(2)</sup>	87	262	-
Investments in financing structures	316	-	150	166
	<b>\$ 1,632</b>	<b>\$ 87</b>	<b>\$ 1,071</b>	<b>\$ 474</b>
<b>Financial liabilities</b>				
Lease subsidies	\$ (189)	\$ -	\$ -	\$ (189)
Derivative financial instruments <sup>(1)</sup>	(362)	-	(362)	-
	<b>\$ (551)</b>	<b>\$ -</b>	<b>\$ (362)</b>	<b>\$ (189)</b>

<sup>(1)</sup> Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements and embedded derivatives.

<sup>(2)</sup> 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 <sup>(1)</sup>	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 <sup>(1)</sup>	25	10	(18)
Issuances	2	-	(38)
Settlements	(117)	(1)	6
<b>Balance as at June 30, 2014</b>	<b>\$ 308</b>	<b>\$ 166</b>	<b>\$ (189)</b>

	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 <sup>(1)</sup>	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 <sup>(1)</sup>	-	-	(8)
Issuances	5	-	-
Settlements	(11)	(1)	11
Balance as at June 30, 2013	\$ 403	\$ 139	\$ (144)

<sup>(1)</sup> 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
<b>Aircraft sales</b>			
Residual value	\$ 1,808	\$ 1,828	\$ 1,812
Credit	1,277	1,297	1,218
Mutually exclusive exposure <sup>(1)</sup>	(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
<b>Other</b>			
Credit	\$ 48	\$ 48	\$ 47
Performance guarantees	\$ 42	\$ 43	\$ 41

<sup>(1)</sup> 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.