BOMBARDIER
the evolution of mobility

THIRD QUARTERLY REPORT

Three-month period ended September 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
		OCI	Other comprehensive income
EBITDA	Earnings before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	PP&E	Property, plant and equipment
		PSG	Performance security guarantee
		PSU	Performance share unit
EBT	Earnings before income taxes	R&D	Research and development
EIS	Entry-into-service	RVG	Residual value guarantee
EPS	Earnings per share attributable to equity holders of Bombardier Inc.	SG&A	Selling, general and administrative
		U.K.	United Kingdom
FVTP&L	Fair value through profit and loss	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 the corporation fulfills its 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 the Corporation's 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

Management determines whether information is material based on whether they 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 the Corporation's objectives, guidance, targets, goals, priorities, its 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; competitive position; and the expected impact of the legislative and regulatory environment and legal proceedings on the Corporation's 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 actual results in future periods to differ materially from forecasted results. While management considers their 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 the Corporation's 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 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 management's expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes 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 $4.1 billion for the same period last fiscal year, which represents an increase of 20% excluding currency impacts.
- EBIT of $171 million, or 3.5% of revenues, and EBIT before special items[(1)] of $291 million, or 5.9% of revenues, compared to EBIT of $210 million, or 5.2%, for the same period last fiscal year.
- Net income of $74 million (diluted EPS of $0.03), compared to $147 million (diluted EPS of $0.08) for the same period last fiscal year.
- Adjusted net income[(1)] of $222 million (adjusted EPS[(1)] of $0.12), compared to $165 million (adjusted EPS of $0.09) for the same period last fiscal year.
- Net investment of $444 million in PP&E and intangible assets, including $365 million related to aerospace program tooling, compared to $596 million, including $511 million related to aerospace program tooling, for the same period last fiscal year.
- Free cash flow usage[(1)] of $368 million, compared to a usage of $522 million for the same period last fiscal year.
- Available short-term capital resources of $3.3 billion, including cash and cash equivalents of $1.9 billion, as at September 30, 2014, compared to $4.8 billion and $3.4 billion, respectively, as at December 31, 2013.
- Order backlog of $72.4 billion as at September 30, 2014, compared to $69.7 billion as at December 31, 2013.

[(1)] 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

As a result of the new organizational structure that was announced on July 23, 2014, management has implemented a plan to reduce workforce at BA by approximately 2,000 employees, mostly in indirect positions. During the third quarter, a related restructuring charge of $63 million was recorded as a special item. This workforce reduction is expected to generate approximately $200 million in annual cost savings.

As part of the reorganization initiatives, BT announced in July further cost reduction measures which include the reduction of worldwide direct and indirect positions by approximately 900 employees, savings in non-product related costs and a general hiring freeze for all indirect functions. A restructuring charge of $57 million related to headcount reduction has been recorded as a special item. These measures are expected to generate approximately $68 million in annual cost savings.

Key events

- On September 7, 2014, the *CSeries* aircraft resumed flight testing with Flight Test Vehicle Two (FTV2), following confirmation by Pratt & Whitney that they have taken appropriate measures to address the issue which led to the engine-related incident, including modification of the engine's oil lubrication system. The EIS for the *CS100* aircraft is targeted for the second half of 2015 and the *CS300* aircraft's EIS will follow approximately six months afterwards.
- In September 2014, a firm order for 40 *CS300* aircraft with options for an additional 10 *CS300* aircraft was signed with a wholly owned affiliate of Macquarie AirFinance. Based on list price, the firm order is valued at $3.1 billion.
- Subsequent to the end of the quarter, BA launched the new *Challenger 650* aircraft, the evolution of the *Challenger 605* aircraft. EIS is scheduled for 2015.

CONSOLIDATED RESULTS OF OPERATIONS

The results of operations and cash flows for the three- and nine-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 September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Revenues	**$ 4,906**	$ 4,058	**$ 14,151**	$ 12,827
Cost of sales	**4,226**	3,479	**12,220**	10,960
Gross margin	**680**	579	**1,931**	1,867
SG&A	**315**	340	**1,007**	1,066
R&D	**80**	65	**235**	210
Share of income of joint ventures and associates	**(14)**	(24)	**(64)**	(102)
Other expense (income)	**8**	(12)	**(14)**	(14)
EBIT before special items[(1)]	**291**	210	**767**	707
Special items	**120**	—	**132**	(31)
EBIT	**171**	210	**635**	738
Financing expense	**66**	58	**185**	209
Financing income	**(15)**	(22)	**(59)**	(102)
EBT	**120**	174	**509**	631
Income taxes	**46**	27	**165**	156
Net income	**$ 74**	$ 147	**$ 344**	$ 475
Attributable to				
Equity holders of Bombardier Inc.	**$ 68**	$ 145	**$ 334**	$ 469
NCI	**$ 6**	$ 2	**$ 10**	$ 6
EPS (in dollars)				
Basic and diluted	**$ 0.03**	$ 0.08	**$ 0.18**	$ 0.26

Non-GAAP financial measures[(1)]

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
EBITDA	**$ 276**	$ 302	**$ 936**	$ 1,023
EBITDA before special items	**$ 396**	$ 302	**$ 1,068**	$ 992
Adjusted net income	**$ 222**	$ 165	**$ 565**	$ 479
Adjusted EPS	**$ 0.12**	$ 0.09	**$ 0.31**	$ 0.26

Revenues, EBIT margin and EBIT margin before special items

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Revenues				
BA	**$ 2,572**	$ 1,999	**$ 7,173**	$ 6,512
BT	**$ 2,334**	$ 2,059	**$ 6,978**	$ 6,315
Consolidated	**$ 4,906**	$ 4,058	**$ 14,151**	$ 12,827
EBIT margin				
BA	**2.9%**	4.3%	**4.3%**	5.0%
BT	**4.2%**	6.0%	**4.7%**	6.5%
Consolidated	**3.5%**	5.2%	**4.5%**	5.8%
EBIT margin before special items[(1)]				
BA	**5.3%**	4.3%	**5.3%**	4.5%
BT	**6.6%**	6.0%	**5.5%**	6.5%
Consolidated	**5.9%**	5.2%	**5.4%**	5.5%

(1) 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 $51 million and $126 million for the three- and nine-month periods ended September 30, 2014, compared to $36 million and $107 million for the corresponding periods last fiscal year.

The $15 million increase for the three-month period is mainly due to:

- a net loss on certain financial instruments compared to a net gain in the corresponding period last fiscal year ($30 million).

Partially offset by:

- lower accretion on retirement benefit obligations ($9 million).

The $19 million increase for the nine-month period is mainly due to:

- a loss on repurchase of long-term debt[(1)] ($43 million);
- a net loss on certain financial instruments compared to a net gain in the corresponding period last fiscal year ($27 million); and
- an unfavourable variance related to changes in discount rates for provisions ($11 million).

Partially offset by:

- higher borrowing costs capitalized to PP&E and intangible assets ($37 million); and
- lower accretion on retirement benefit obligations ($28 million).

[(1)] Following the redemption of the €785 million ($1.1 billion) Senior Notes, a related loss of $43 million was recorded in financing expense and treated as a special item.

Income taxes

The effective income tax rates for the three- and nine-month periods ended September 30, 2014 were 38.3% and 32.4%, 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 the negative impact of the net non-recognition of income tax benefits related to tax losses and temporary differences, partially offset by permanent differences. For the nine-month period, the higher effective income tax rate is mainly due to the negative impact of the net non-recognition of income tax benefits related to tax losses and temporary differences.

The effective income tax rate for the three- and nine-month periods ended September 30, 2013 were 15.5% and 24.7%, respectively, compared to the statutory income tax rate in Canada of 26.8%. For the three-month period, the lower effective income tax rate is mainly due to permanent differences and adjustments to tax provisions, partially offset by the net non-recognition of income tax benefits related to tax losses and temporary differences. For the nine-month period, the lower effective income tax rate is mainly due to the positive impact of income tax rate differential of foreign subsidiaries and other investees, partially offset by the net non-recognition of income tax benefits related to tax losses and temporary differences.

LIQUIDITY AND CAPITAL RESOURCES

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

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Segmented free cash flow usage[1]				
BA	**$ (180)**	$ (406)	**$ (1,088)**	$ (1,326)
BT	**(81)**	(5)	**(384)**	(99)
Segmented free cash flow usage	**(261)**	(411)	**(1,472)**	(1,425)
Net income taxes and net interest paid[2]	**(107)**	(111)	**(235)**	(253)
Free cash flow usage	**(368)**	(522)	**(1,707)**	(1,678)
Add back: Net additions to PP&E and intangible assets	**444**	596	**1,469**	1,660
Cash flows from operating activities	**$ 76**	$ 74	**$ (238)**	$ (18)

[1] 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.

[2] Not allocated to reportable segments.

Variation in cash and cash equivalents

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Balance at the beginning of period	**$ 2,476**	$ 3,101	**$ 3,397**	$ 2,557
Net proceeds from issuance of long-term debt	**5**	2	**1,815**	1,980
Free cash flow usage[1]	**(368)**	(522)	**(1,707)**	(1,678)
Repayments of long-term debt	**(10)**	(9)	**(1,318)**	(36)
Dividends paid	**(45)**	(49)	**(137)**	(148)
Effect of exchange rate changes on cash and cash equivalents	**(117)**	36	**(69)**	(35)
Net variation in AFS investments in securities	**—**	—	**(53)**	(122)
Net proceeds from disposal of a business[2]	**—**	—	**25**	—
Other	**(6)**	31	**(18)**	72
Balance at the end of period	**$ 1,935**	$ 2,590	**$ 1,935**	$ 2,590

[1] 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.

[2] Represents the balance of sale price related to the sale of the main assets and related liabilities of the Corporation's Flexjet activities.

Available short-term capital resources

	September 30, 2014	December 31, 2013
Cash and cash equivalents	**$ 1,935**	$ 3,397
Available revolving credit facility	**1,385**	1,440
Available short-term capital resources	**$ 3,320**	$ 4,837

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

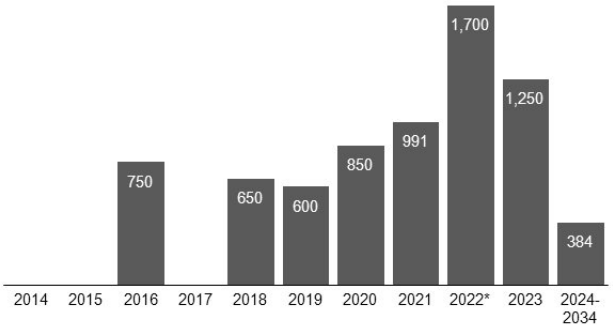
In March 2014, the Corporation extended the availability periods of the BT and BA letter of credit facilities by an additional year to May 2017 and June 2017, respectively. The maturity dates of the BT €500 million ($635 million) and the $750 million unsecured revolving credit facilities were also extended by one year to March 2016 and June 2017, respectively.

In April 2014, the Corporation 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.

The Corporation 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.

Financial flexibility was improved as a result of this transaction by extending by approximately one year the weighted average maturity of the debt to 6.6 years.

DEBT MATURITY PROFILE
(in millions of dollars)



*Debt maturing in 2022 includes the $500 million and $1.2 billion Senior Notes due in March and October 2022, respectively.

In May 2014, the Corporation 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.

Management considers that the Corporation's expected cash flows from operating activities, combined with available short-term capital resources of $3.3 billion, will enable the development of new products to enhance competitiveness and support growth; will allow the payment of dividends, if and when declared by the Board of Directors; and will enable the Corporation to meet all other expected financial requirements in the foreseeable future.

CAPITAL STRUCTURE

Management analyzes the capital structure using global metrics, which are based on a broad economic view of the Corporation, in order to assess the creditworthiness of the Corporation. These global metrics are managed and monitored 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. 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 management does not believe to be representative of the Corporation's core performance.

The Corporation's objectives with regard to global metrics are as follows:

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

Global metrics[1]

	September 30, 2014	December 31, 2013	**Explanation of significant variances**
Interest coverage ratio			Improved due to increased profitability in both manufacturing segments, partially offset by higher interest paid.
Adjusted EBIT[2]	**$ 1,133**	$ 967	
Adjusted interest[2]	**$ 389**	$ 346	
Adjusted EBIT to adjusted interest ratio	**2.9**	2.8	
Financial leverage ratio			Improved due to the repayment of $1.3 billion of existing debt and higher Adjusted EBITDA, partially offset by the issuance of $1.8 billion of long term debt in April 2014.
Adjusted debt	**$ 8,334**	$ 7,912	
Adjusted EBITDA[2]	**$ 1,630**	$ 1,454	
Adjusted debt to adjusted EBITDA ratio	**5.1**	5.4	

[1] Refer to the Non-GAAP financial measures section for definitions and reconciliations to the most comparable IFRS measures.
[2] For the four-quarter trailing periods.

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

In addition to the above global metrics, management separately monitors the Corporation's net retirement benefit liability which amounted to $2.5 billion as at September 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 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 $467 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 [(1)]
Changes in discount rates		1,194
Actuarial gains on pension plan assets		(423)
Employer contributions		(313)
Service costs		187
Changes in foreign exchange rates		(121)
Net actuarial gains on defined benefit obligations		(93)
Accretion on net retirement benefit obligation		57
Other		(21)
Balance as at September 30, 2014	**$**	**2,454** [(1)]

(1) Includes retirement benefit assets of $110 million as at September 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 the 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.

Management believes that providing certain non-GAAP financial measures in addition to IFRS measures provides users of the Corporation's interim consolidated financial statements with enhanced understanding of the 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 the MD&A analyze the Corporation's 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 management's opinion, the Corporation's core performance and help users of the MD&A to better analyze results, enabling better comparability of these results from one period to another and with peers.

Non-GAAP financial 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, management may exclude additional items if they believe doing so would result in a more transparent and comparable disclosure. Other entities in the Corporation's industry may define the above measures differently than management does. 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 the Corporation's 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, BT 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 September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
EBIT	**$ 171**	$ 210	**$ 635**	$ 738
Amortization	**105**	92	**301**	285
EBITDA	**276**	302	**936**	1,023
Special items				
Restructuring charge[1]	**120**	—	**142**	—
Gains on resolution of litigations in connection with capital tax[2]	**—**	—	**(10)**	(31)
EBITDA before special items	**$ 396**	$ 302	**$ 1,068**	$ 992

[1] Relates, for the three-month period ended September 30, 2014, to a $63 million expense for the workforce reduction of approximately 2,000 positions at BA, located mostly in Canada, the U.S. and the U.K., related to the new organizational structure announced in July 2014, and to a $57 million expense related to the reduction of worldwide direct and indirect personnel by approximately 900 employees at BT. Restructuring charges for the nine-month period ended September 30, 2014 also include a $22 million expense for the workforce reduction announced in January 2014 for approximately 1,700 positions at BA, located mostly in Canada and the U.S.

[2] 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 September 30			
	2014		2013	
		(per share)		(per share)
Net income	**$ 74**		$ 147	
Adjustments to EBIT related to special items	**120**	**$ 0.07**	—	$ —
Adjustments to net financing expense related to:				
Accretion on net retirement benefit obligations	**19**	**0.01**	28	0.02
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	**20**	**0.02**	(8)	(0.01)
Tax impact of special and other adjusting items	**(11)**	**(0.01)**	(2)	—
Adjusted net income	**$ 222**		$ 165	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Three-month periods ended September 30	
	2014	2013
Diluted EPS	**$ 0.03**	$ 0.08
Impact of special and other adjusting items	**0.09**	0.01
Adjusted EPS	**$ 0.12**	$ 0.09

Reconciliation of adjusted net income to net income

	Nine-month periods ended September 30			
	2014		2013	
	(per share)			(per share)
Net income	**$ 344**		$ 475	
Adjustments to EBIT related to special items	**132**	**$ 0.08**	(31)	$ (0.02)
Adjustments to net financing expense related to:				
Loss on repurchase of long-term debt	**43**	**0.02**	—	—
Accretion on net retirement benefit obligations	**57**	**0.03**	85	0.05
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	**9**	**0.01**	(29)	(0.01)
Interest portion of gains related to special items	**(8)**	**—**	(12)	(0.01)
Tax impact of special and other adjusting items	**(12)**	**(0.01)**	(9)	(0.01)
Adjusted net income	**$ 565**		$ 479	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Nine-month periods ended September 30	
	2014	2013
Diluted EPS	**$ 0.18**	$ 0.26
Impact of special and other adjusting items	**0.13**	—
Adjusted EPS	**$ 0.31**	$ 0.26

Reconciliation of adjusted debt to long-term debt

		As at
	September 30, 2014	December 31, 2013
Long-term debt	**$ 7,669**	$ 7,203
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	**(320)**	(293)
Long-term debt, net	**7,349**	6,910
Sale and leaseback obligations	**176**	138
Operating lease obligations[(1)]	**809**	864
Adjusted debt	**$ 8,334**	$ 7,912

(1) Discounted using the average five-year U.S. Treasury Notes plus the average credit spread, given the Corporation's credit rating, for the corresponding period.

Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

	Four-quarter trailing periods ended	
	September 30, 2014	December 31, 2013
EBIT	**$ 820**	923
Special items[1]	**133**	(30)
Interest received	**141**	36
Interest adjustment for operating leases[2]	**39**	38
Adjusted EBIT	**1,133**	967
Amortization adjustment for operating leases[3]	**90**	96
Amortization	**407**	391
Adjusted EBITDA	**$ 1,630**	1,454

(1) Refer to Reconciliation of EBITDA before special items and EBITDA to EBIT above for details on the special items for the nine-month periods ended September 30, 2014 and 2013. The special items for the three-month period ended December 31, 2013 relate to an inventory write-down related to the prolonged production pause of the *Learjet 60* program, offset by a gain related to the sale of the main assets and related liabilities of the Corporation's Flexjet activities.

(2) 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 the Corporation's credit rating.

(3) 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	
	September 30, 2014	December 31, 2013
Interest paid	**$ 344**	$ 303
Accretion expense on sale and leaseback obligations	**6**	5
Interest adjustment for operating leases[1]	**39**	38
Adjusted interest	**$ 389**	$ 346

(1) 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 the Corporation's credit rating.

CONSOLIDATED FINANCIAL POSITION

	September 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	**$ 1,935**	$ 3,397	$ (69)	(1,393)	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	(69)	214	Mainly due to higher level in BT
Gross inventories	**14,477**	13,659	(476)	1,294	$ 1,011 Increase in BT following ramp-up of production ahead of deliveries 283 Increase in BA primarily due to an increase in aerospace program work-in-process mainly in the large business aircraft category and an increase in the finished products mainly in the medium and light business aircraft categories partially offset by commercial aircraft
Advances and progress billings related to long-term contracts	**(7,504)**	(7,777)	(433)	160	Higher advances and progress billings on new orders and existing contracts
Advances on aerospace programs	**(5,431)**	(4,916)	—	515	Mainly due to higher order intake than deliveries in the medium business aircraft category and in commercial aircraft offset by lower advances for the large business aircraft category
PP&E	**2,095**	2,066	(51)	80	$ 223 Net additions (143) Amortization
Aerospace program tooling	**7,756**	6,606	—	1,150	$ 1,266 Net additions (116) Amortization
Goodwill	**2,226**	2,381	(166)	11	No significant variance
Deferred income tax asset	**1,199**	1,231	(32)	—	No variance
Investments in joint ventures & associates	**309**	318	(10)	1	No significant variance
Other financial assets	**2,015**	2,205	(26)	(164)	$ (153) Decrease in assets related to derivative financial instruments
Other assets	**1,425**	1,433	(13)	5	No significant variance
Trade and other payables	**(3,999)**	(4,089)	(110)	20	$ (345) Lower level in BA 365 Higher level in BT
Provisions	**(1,425)**	(1,465)	(50)	10	No significant variance
Long-term debt	**(7,619)**	(6,988)	(93)	724	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	**(2,564)**	(2,161)	(73)	476	See the Variation in net retirement benefit liability table for details
Other financial liabilities	**(1,541)**	(1,726)	(18)	(167)	$ (162) Repayment of the $162 million Notes
Other liabilities	**(3,059)**	(3,217)	(112)	(46)	No significant variance
Equity	**(1,932)**	(2,449)	not applicable	(517)	$ (710) OCI - mainly due to net actuarial losses on retirement benefits 344 Net income (144) Dividends (7) Other

AEROSPACE

HIGHLIGHTS

Results of the quarter

- Revenues of $2.6 billion, representing a 29% increase compared to $2.0 billion for the same period last fiscal year.
- EBIT of $74 million, or 2.9% of revenues, and EBIT before special items[(1)] of $137 million, or 5.3% of revenues, compared to EBIT of $86 million, or 4.3%, for the same period last fiscal year.
- EBITDA[(1)] of $150 million, or 5.8% of revenues, and EBITDA before special items[(1)] of $213 million, or 8.3% of revenues, compared to EBITDA[(1)] of $147 million, or 7.4%, for the same period last fiscal year.
- Free cash flow usage[(1)] of $180 million, compared to a usage of $406 million for the same period last fiscal year.
- Net investment of $415 million in PP&E and intangible assets, including $365 million related to aerospace program tooling, compared to $585 million for the same period last fiscal year, including $511 million related to aerospace program tooling.
- 71 aircraft deliveries, compared to 45 for the same period last fiscal year.
- 76 net orders (book-to-bill ratio[(2)] of 1.1), compared to 26 net orders for the same period last fiscal year.
- Order backlog of $37.9 billion as at September 30, 2014, compared to $37.3 billion as at December 31, 2013.

(1) 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.

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

Key events

New organizational structure

- As a result of the new organizational structure that was announced on July 23, 2014, management has implemented a plan to reduce workforce by approximately 2,000 employees, mostly in indirect positions. During the third quarter, a related restructuring charge of $63 million was recorded as a special item. This workforce reduction is expected to generate approximately $200 million in annual cost savings.

Business aircraft

- On September 2, 2014, the *Challenger 350* aircraft, which entered into service in June 2014, was granted full type certification from the European Aviation Safety Agency (EASA).
- On September 12, 2014, the *Learjet 75* and *Learjet 70* aircraft, which entered into service in November and December 2013 respectively, were granted full type certification from the EASA.
- Subsequent to the end of the quarter, BA launched the new *Challenger 650* aircraft, the evolution of the *Challenger 605* aircraft. EIS is scheduled for 2015.

Commercial aircraft

- On September 7, 2014, the *CSeries* aircraft resumed flight testing with Flight Test Vehicle Two (FTV2), following confirmation by Pratt & Whitney that they have taken appropriate measures to address the issue which led to the engine-related incident, including modification of the engine's oil lubrication system. The EIS for the *CS100* aircraft is targeted for the second half of 2015 and the *CS300* aircraft's EIS will follow approximately six months afterwards.
- In September 2014, a firm order for 40 *CS300* aircraft with options for an additional 10 *CS300* aircraft was signed with a wholly owned affiliate of Macquarie AirFinance. Based on list price, the firm order is valued at $3.1 billion.

Expansion of global presence

- During the third quarter, the new manufacturing facility in Casablanca, Morocco has started manufacturing and delivering components.

INDUSTRY AND ECONOMIC ENVIRONMENT

Business aircraft

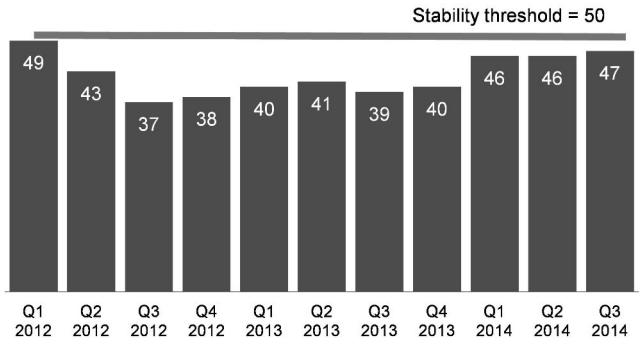
There have been some improvements in market indicators; however, there are no significant changes in the overall market conditions.

Industry confidence[1] increased slightly during the third 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 four quarters and stands at 11.9% as at September 30, 2014. Management considers this level of pre-owned inventory to be within the normal range for the overall market. The levels of light and medium pre-owned aircraft inventory have been decreasing since the fourth quarter of 2013. The level of large pre-owned aircraft inventory has decreased slightly in the third quarter compared to the previous quarter and remains below what management considers to be the normal range for the overall market. In the eight-month period ended August 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 nine-month period ended September 30, 2014 compared to the same period in the last two years but is slightly lower than the same period in 2011.

[1] As measured by the UBS Business Jet Market Index.

UBS BUSINESS JET MARKET INDEX[1]

(average on a 100-point scale)

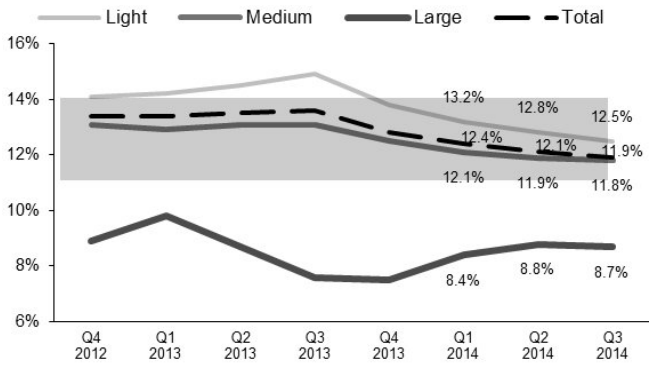


Source: UBS

[1] 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.

PRE-OWNED BUSINESS JET INVENTORY

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

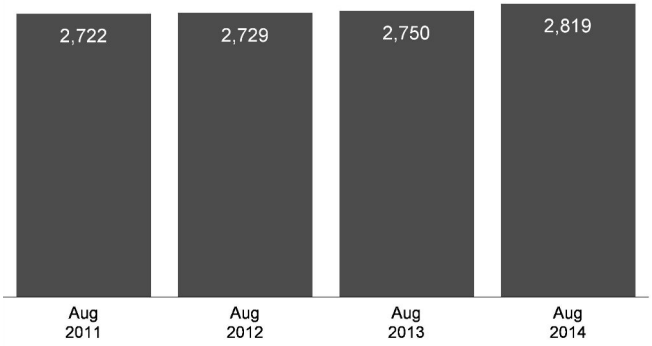


Sources: JETNET and Ascend (including draft data from Ascend Online for the third quarter of 2014).

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

U.S. BUSINESS JET UTILIZATION

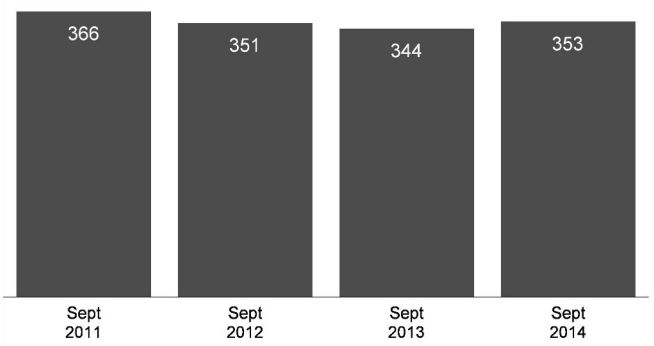
(for the eight-month periods ended; in thousands of departures and arrivals for all business jets)



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

EUROPEAN BUSINESS JET UTILIZATION

(for the nine-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 third quarter of 2014 compared to the same period last year.

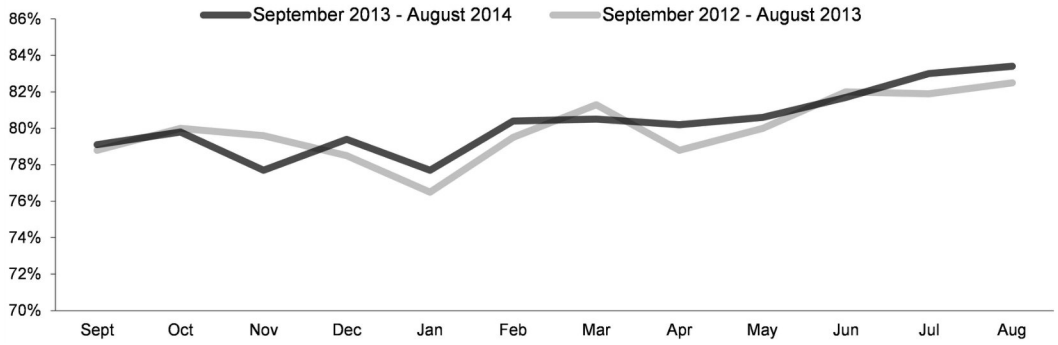
Scheduled domestic and international commercial air travel, measured by revenue passenger kilometres ("RPK") [(1)], were 5.1% and 6.3% higher, respectively, during the year-to-date period ended August 31, 2014 compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors[(1)] of 81.1% and 79.8%, respectively, during the year-to-date period ended August 2014, compared to the 80.4% and 79.8% respective levels experienced during the same period ended August 2013.[(2)]

Regional passenger traffic measured by RPK for the four leading U.S. network carriers[(3)] and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., BA's largest market, remained essentially unchanged during the year-to-date period ended September 30, 2014 compared to the same period last year. These airlines achieved an average passenger load factor of 80.9% during the year-to-date period ended September 2014, up from the 78.9% experienced during the same period ended September 2013.

International Air Transport Association ("IATA") predicts that airline financial performance will continue to improve in 2014 compared to 2013. In its June 2014 semi-annual Economic Performance of the Airline Industry report, IATA forecast commercial airline profits of $18.0 billion for 2014, well ahead of 2013 profits of $10.6 billion.[(4)] 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.

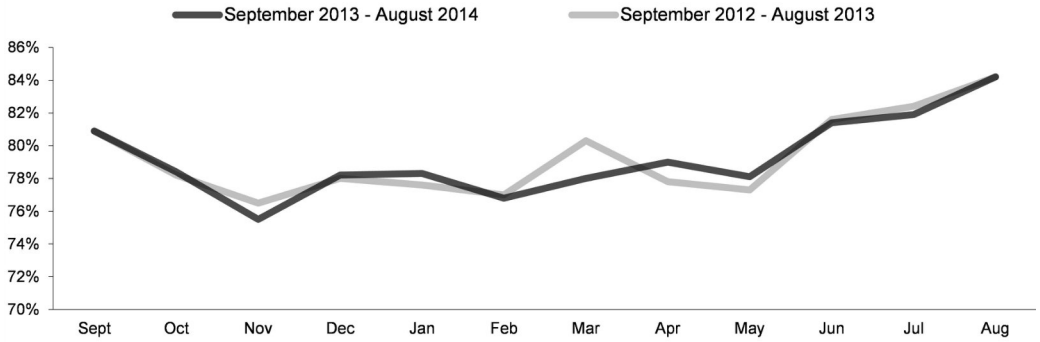
[(1)] Refer to the table next page for definitions of these measures.
[(2)] Per IATA's August 2014 Air Passenger Market Analysis report.
[(3)] Delta Air Lines, American Airlines, United Airlines, and Alaska Air.
[(4)] Per IATA's May-June 2014 Airlines Financial Monitor report.

DOMESTIC PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres in the month)



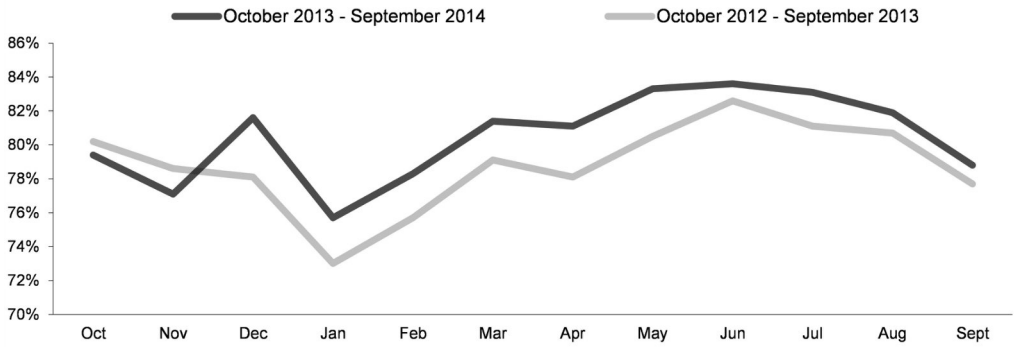
Source: latest available data from IATA statistics for domestic air travel.

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.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013 [1]	**2014**	2013 [1]
Revenues				
Manufacturing				
Business aircraft	**$ 1,313**	$ 1,073	**$ 3,706**	$ 3,494
Commercial aircraft	**615**	208	**1,453**	781
Other	**122**	116	**384**	366
Total manufacturing	**2,050**	1,397	**5,543**	4,641
Services[2]	**404**	477	**1,200**	1,389
Other[3]	**118**	125	**430**	482
Total revenues	**2,572**	1,999	**7,173**	6,512
Cost of sales	**2,217**	1,710	**6,175**	5,583
Gross margin	**355**	289	**998**	929
SG&A	**162**	176	**490**	523
R&D	**51**	39	**138**	126
Other expense (income)[4]	**5**	(12)	**(13)**	(14)
EBIT before special items[5]	**137**	86	**383**	294
Special items[6]	**63**	—	**75**	(31)
EBIT	**74**	86	**308**	325
Amortization[7]	**76**	61	**213**	193
EBITDA[5]	**$ 150**	$ 147	**$ 521**	$ 518
EBITDA before special items[5]	**$ 213**	$ 147	**$ 596**	$ 487
(as a percentage of total revenues)				
Gross margin	**13.8%**	14.5%	**13.9%**	14.3%
EBIT before special items	**5.3%**	4.3%	**5.3%**	4.5%
EBIT	**2.9%**	4.3%	**4.3%**	5.0%
EBITDA before special items	**8.3%**	7.4%	**8.3%**	7.5%
EBITDA	**5.8%**	7.4%	**7.3%**	8.0%

[1] Comparative revenue figures have been reclassified to conform to the presentation adopted in the current period.

[2] Includes revenues from parts services, Flexjet fractional ownership and hourly flight entitlement programs' service activities (prior to disposal on December 4, 2013), product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.

[3] Includes mainly sales of pre-owned aircraft.

[4] 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) losses (gains) on disposals of PP&E; except when such items are reported as special items.

[5] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

[6] The special item for the three- and nine-month periods ended September 30, 2014 relates to a $63 million expense for the workforce reduction of approximately 2,000 positions, located mostly in Canada, the U.S. and the U.K., related to the new organizational structure announced in July 2014. The special items for the nine-month period ended September 30, 2014 also include a $22 million expense for the workforce reduction announced in January 2014 for 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, both recognized in the first quarter. The special item for the nine-month period ended September 30, 2013 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.

[7] 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 September 30		Nine-month periods ended September 30	
(in units)	**2014**	2013	**2014**	2013
Business aircraft	**45**	36	**126**	120
Commercial aircraft	**26**	9	**62**	34
Amphibious aircraft	**—**	—	**1**	1
	71	45	**189**	155

Manufacturing revenues
The $653 million increase for the three-month period is mainly due to:

- higher revenues from commercial aircraft ($407 million), mainly due to higher deliveries of regional jets; and
- higher revenues from business aircraft ($240 million), mainly due to higher deliveries of large business aircraft.

The $902 million increase for the nine-month period is mainly due to:

- higher revenues from commercial aircraft ($672 million), mainly due to higher deliveries of regional jets; and
- higher revenues from business aircraft ($212 million), mainly due to higher deliveries of large and light business aircraft, partially offset by lower deliveries of medium business aircraft, mainly due to the impact of the transition to the *Challenger 350* aircraft.

Services revenues
The $73 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 volume of activities from parts services.

The $189 million decrease for the nine-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 $52 million decrease for the nine-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 decreased by 1.4 percentage points compared to the same period last year. The EBIT margin before special items (see explanation of special items below) for the three-month period increased by 1.0 percentage point mainly as a result of:

- higher absorption of lower SG&A expense; and
- higher margins from commercial aircraft, mainly due to the mix of aircraft.

Partially offset by:

- the mix of commercial versus business aircraft deliveries; and
- an unfavourable impact in other expense (income), mainly due to a net negative variance on aircraft loans and lease receivables carried at fair value.

The EBIT margin percentage for the nine-month period decreased by 0.7 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items below) for the nine-month period increased by 0.8 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:

- lower net selling prices for business aircraft; and
- higher write-down of inventory to net realizable value for the CSeries aircraft program.[(1)]

For the three- and nine-month periods ended September 30, 2014, special items impacted the EBIT margin negatively by 2.4 percentage points and 1.0 percentage point, respectively. The special items relate to a $63 million expense recognized in the third quarter for the workforce reduction of approximately 2,000 positions related to the new organizational structure announced in July 2014, and a $22 million expense recognized in the first quarter for the workforce reduction announced in January 2014 for approximately 1,700 positions, partially offset by a $10 million gain recognized in the first quarter following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital.

(1) 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.

For the nine-month period ended September 30, 2013, a special item positively impacted the EBIT margin by 0.5 percentage points, 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.

Free cash flow

Free cash flow usage[1]

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
EBIT	**$ 74**	$ 86	**$ 308**	$ 325
Amortization	**76**	61	**213**	193
EBITDA	**150**	147	**521**	518
Other non-cash items				
Gains on disposals of PP&E	**—**	—	**—**	(1)
Share-based expense (income)	**(6)**	5	**—**	13
Dividends received from joint ventures and associates	**—**	—	**2**	—
Net change in non-cash balances	**91**	27	**(203)**	(234)
Cash flows from operating activities	**235**	179	**320**	296
Net additions to PP&E and intangible assets	**(415)**	(585)	**(1,408)**	(1,622)
Free cash flow usage[1]	**$ (180)**	$ (406)	**$ (1,088)**	$ (1,326)

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

The $226 million improvement for the three-month period is mainly due to:
- lower net additions to PP&E and intangible assets ($170 million); and
- a positive period-over-period variation in net change in non-cash balances ($64 million) (see explanation below).

The $238 million improvement for the nine-month period is mainly due to:
- lower net additions to PP&E and intangible assets ($214 million); and
- a positive period-over-period variation in net change in non-cash balances ($31 million) (see explanation below).

Net change in non-cash balances

For the three-month period ended September 30, 2014, the $91 million cash inflow is mainly due to:
- an net increase in advances on aerospace programs, mainly in business aircraft; and
- a decrease in finished product and aerospace program inventories, mainly in regional jets.

Partially offset by:
- a decrease in trade and other payables;
- an increase in business aircraft pre-owned aircraft inventories; and
- contributions to retirement benefit plans.

For the three-month period ended September 30, 2013, the $27 million cash inflow was mainly due to:
- an increase in advances on aerospace programs, mainly in the large business aircraft category.

Partially offset by:
- an increase in aerospace program work-in-process inventories, mainly in the light and large business aircraft categories.

For the nine-month period ended September 30, 2014, the $203 million cash outflow is mainly due to:
- a decrease in trade and other payables;
- an increase in aerospace program inventories, mainly in the large business aircraft category;
- contributions to retirement benefit plans; and
- an increase in finished product inventories, mainly in the medium and light business aircraft categories, as well as in pre-owned business aircraft, partially offset by lower finished product inventories in commercial aircraft.

Partially offset by:

- an net increase in advances on aerospace programs, mainly in the medium business aircraft category and in commercial aircraft, partially offset by lower advances for the large business aircraft category.

For the nine-month period ended September 30, 2013, the $234 million cash outflow was mainly due to:

- an increase in aerospace program work-in-process inventories, mainly in the light and large business aircraft categories; and
- an increase in other assets, mainly in prepaid expenses and retirement benefit assets.

Partially offset by:

- an increase in other liabilities, mainly related to supplier contributions to aerospace programs under development;
- an increase in trade and other payables; and
- an increase in advances on aerospace programs in commercial aircraft.

Product development

Investment in product development

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Program tooling[1]	**$ 365**	$ 511	**$ 1,266**	$ 1,493
R&D expense[2]	**8**	7	**22**	21
	$ 373	$ 518	**$ 1,288**	$ 1,514
As a percentage of manufacturing revenues	**18.2%**	37.1%	**23.2%**	32.6%

(1) Net amount capitalized in aerospace program tooling.

(2) Excluding amortization of aerospace program tooling of $43 million and $116 million, respectively, for the three- and nine-month periods ended September 30, 2014 ($32 million and $105 million, respectively, for the three- and nine-month periods ended September 30, 2013), as the related investments are already included in aerospace program tooling.

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.

Subsequent to the end of the quarter, BA launched the new *Challenger 650* aircraft, the evolution of the *Challenger 605* aircraft. *The Challenger 650* aircraft will offer increased performance capabilities from enhanced engines, an entirely new interior and the *Bombardier Vision* flight deck technology. EIS is scheduled for 2015.

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

PRODUCT DEVELOPMENT PROCESS		
Stage		**Description**
Conceptual definition	**JTAP**	**Joint Technical Assessment Phase -** Preliminary review with potential partners and suppliers to analyze technologies desired to build or modify an aircraft.
	JCDP	**Joint Conceptual Definition Phase -** Cooperative effort with potential partners and suppliers to perform a configuration trade-off study and define the system architecture and functionality.
Launch preparation		Continuation of the design definition and technical activities. Creation of a project plan to define the schedule, cost, scope, statement of work and resource requirements for the program.
Preliminary definition	**JDP**	**Joint Definition Phase -** Joint determination with 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**	**Detailed Design Phase -** 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 *CS100* aircraft program is in the product certification phase, and the *CS300* aircraft program is in the product definition release phase and is expected to transition to the product certification phase in the coming weeks. The entry-into-service (EIS) for the *CS100* aircraft is targeted for the second half of 2015 and the *CS300* aircraft's EIS will follow approximately six months afterwards.	
Production and testing	Following the engine-related incident involving the *CSeries* aircraft FTV1 that occurred on May 29, 2014 during stationary ground maintenance testing, confirmation has been received from Pratt & Whitney that they have taken appropriate measures to address the issue, including modification of the engine's oil lubrication system. On September 7, 2014, the *CSeries* aircraft resumed flight testing with FTV2 at BA's facility in Mirabel, Québec. FTV2 is now operating its fly-by-wire system in normal mode and flight testing continues as planned. Following FTV2, FTV4 resumed flight testing on September 15, 2014. FTV4 is currently at the flight test facility in Wichita, Kansas, alongside FTV3, which is expected to resume flight testing in the coming weeks. While the Mirabel facility remains the primary flight test center for the *CSeries* aircraft, the Wichita facility is also being leveraged for flight testing activities that require more favorable climate conditions in order to ramp up these activities. Repairs to the FTV1 structure are now completed. The engines have also been reinstalled on the aircraft. FTV1 is expected to resume flight testing in the coming weeks. FTV5's structural assembly is complete and systems are installed. FTV5 was painted and is now being fitted with a full interior. The first *CS300* FTV is fully assembled and has been powered up. Systems installation on the aircraft is progressing well. The first *CS300* FTV is expected to be handed over to the flight test team in the coming weeks.
	While the flight test program was interrupted, the *CSeries* team completed other on-the-ground tests, including the Electro-Magnetic Interference (EMI), lightning tests and the upgrading of the aircraft to the latest software. On-the-ground structure testing is progressing to plan. The full fatigue and wing fatigue articles have been commissioned and testing has started. The initial on-the-ground, flight and aircraft structural test performance results are in line with 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.[(1)]
	The first *CS100* production aircraft structure assembly is complete. Wiring and systems are presently being installed on the aircraft.
Suppliers	Both internal and external suppliers are fabricating and delivering components to the final assembly line. Components and systems continue to be tested worldwide.

[(1)] 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 review of the flight test program timeline has been completed.	
Production and testing	The flight test program is progressing and FTV1 continues to fly regularly. Results for both flight and ground tests are 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 are transitioning from the detailed design phase to the product definition release phase and EIS is scheduled in 2016 and 2017, respectively.	
Production and testing	The product development team and suppliers' representatives, co-located at the Bombardier 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 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, tailcone and forward, centre and rear fuselages of FTV1 is ongoing.
	Major system level test rigs have been commissioned and are actively being tested for development and certification.
	Engine development is progressing and ground test results are in line with expectations.
Facilities	Assembly tools and equipment are being installed and validated at the final assembly line in Toronto, Canada.

Carrying amount of program tooling[1]

	As at	
	September 30, 2014	December 31, 2013
Business aircraft	**$ 3,499**	$ 2,860
Commercial aircraft		
CRJ Series	**386**	435
CSeries	**3,871**	3,311
	$ 7,756	$ 6,606

(1) Capitalized borrowing costs included in the aerospace program tooling balance amounted to $816 million as at September 30, 2014 ($609 million as at December 31, 2013).

Aircraft deliveries

Business aircraft deliveries

	Three-month periods ended September 30		Nine-month periods ended September 30	
(in units)	**2014**	2013	**2014**	2013
Light				
Learjet 70/75 and Learjet 40 XR/45 XR	**7**	—	**15**	1
Learjet 60 XR	**1**	2	**1**	8
Medium				
Challenger 300/350	**12**	12	**35**	42
Challenger 605	**6**	8	**20**	24
Large				
Global 5000/Global 6000	**19**	14	**55**	45
	45	36	**126**	120

Deliveries of business aircraft in the three-month period increased by 25% compared to the same period last year, mainly due to the transition to the *Learjet 70/75* aircraft, which negatively impacted the deliveries of *Learjet* aircraft in the previous fiscal year as well as higher deliveries in the large business aircraft category. In the nine-month period ended September 30, 2014, there were higher deliveries in the light and large business aircraft categories, offset by lower deliveries in the medium business aircraft category mainly due to the transition to the *Challenger 350* aircraft which entered into service on June 27, 2014.

Commercial aircraft deliveries

	Three-month periods ended September 30		Nine-month periods ended September 30	
(in units)	**2014**	2013	**2014**	2013
Regional jets				
CRJ700 NextGen	**3**	—	**6**	1
CRJ900 NextGen	**15**	3	**35**	7
CRJ1000 NextGen	**1**	1	**4**	7
Turboprops				
Q400 NextGen	**7**	5	**17**	19
	26	9	**62**	34

The higher deliveries of *CRJ900 NextGen* aircraft in the three- and nine-month periods are mainly related to the significant orders received from Delta Air Lines, Inc. and American Airlines Group Inc. in December 2012 and 2013, respectively.

Aircraft orders

Total aircraft net orders

	September 30, 2014			September 30, 2013		
(in units)	**Gross orders**	**Cancellations**	**Net orders**	Gross orders	Cancellations	Net orders
Three-month periods ended						
Business aircraft	**36**	**(15)**	**21**	37	(14)	23
Commercial aircraft	**55**	**—**	**55**	3	—	3
	91	**(15)**	**76**	40	(14)	26
Nine-month periods ended						
Business aircraft	**132**	**(35)**	**97**	138	(41)	97
Commercial aircraft	**117**	**(1)**	**116**	50	(11)	39
Amphibious aircraft	**2**	**—**	**2**	—	—	—
	251	**(36)**	**215**	188	(52)	136

Commercial aircraft

Commercial aircraft net orders

	Three-month periods ended September 30		Nine-month periods ended September 30	
(in units)	**2014**	2013	**2014**	2013
Regional jets				
CRJ700 NextGen	**—**	2	**1**	2
CRJ900 NextGen	**—**	—	**20**	(8)
CRJ1000 NextGen	**—**	—	**—**	3
Commercial jets				
CS100	**—**	—	**—**	(3)
CS300	**40**	—	**61**	32
Turboprops				
Q400 NextGen	**15**	1	**34**	13
	55	3	**116**	39

The increase in the net order intake for commercial aircraft in the three- and nine-month periods ended September 30, 2014 is mainly due to significant orders received for *CS300* commercial jets and *Q400 NextGen* aircraft.

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

Customer	Firm order	Value[1]	Options[2]
Third quarter			
Macquarie AirFinance (Australia)	40 *CS300*	$ 3,140	10 *CS300*
Undisclosed customer	*5 Q400 NextGen*	$ 168	—
WestJet Encore Ltd. (Canada)[3]	*5 Q400 NextGen*	$ 167	—
Second quarter			
Undisclosed customer	16 *CRJ900 NextGen*	$ 727	8 *CRJ900 NextGen*
First quarter			
Al Qahtani Aviation Company (Kingdom of Saudi Arabia)	16 *CS300*	$ 1,210	10 *CS300*

(1) Value of firm order based on list prices.
(2) Not included in the order backlog.
(3) This transaction is a conversion of five options to firm orders.

During the three-month period ended September 30, 2014, the following letters of intent (LOIs) and conditional purchase agreement were signed and are not included in the total order backlog as at September 30, 2014:

***CSeries* 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 $1.3 billion based on list price;
- A LOI was signed with an undisclosed African operator (an existing commercial aircraft customer) for 5 *CSeries* 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. Based on the list price of the aircraft, a firm order for the seven *CSeries* aircraft would be valued at approximately $553 million.

Book-to-bill ratio and order backlog

Book-to-bill ratio[(1)]

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Business aircraft	**0.5**	0.6	**0.8**	0.8
Commercial aircraft	**2.1**	0.3	**1.9**	1.1
	1.1	0.6	**1.1**	0.9

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

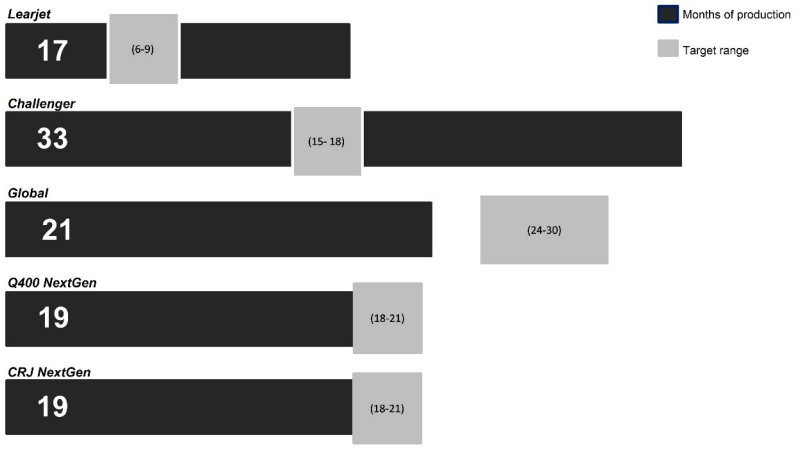
The increase in the book-to-bill ratio for commercial aircraft for the three- and nine-month periods reflects higher orders for *CS300* commercial jets and for turboprops. The overall book-to-bill ratio for the nine-month period is above 1.0 and reflects a good order intake for commercial aircraft.

Order backlog

	As at	
(in billions of dollars)	**September 30, 2014**	December 31, 2013
Aircraft programs	**$ 34.7**	$ 33.9
Long-term maintenance and spares support agreements	**2.8**	2.9
Military Aviation Training	**0.4**	0.5
	$ 37.9	$ 37.3

The order backlog increased during the nine-month period mainly as a result of the order intake for the *CSeries* family of aircraft offset by lower order intake than deliveries of regional jets and large business aircraft. The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand.

ORDER BACKLOG IN MONTHS OF PRODUCTION[1]
(as at September 30, 2014)



(1) The number of months in production is calculated by dividing the order backlog in units as at September 30, 2014 for each family of aircraft (excluding orders for the *Learjet 85, Global 7000* and *Global 8000* aircraft) by the number of aircraft delivered in the previous 12 months, converted into an equivalent number of months. The order backlog in months of production provides insight on the depth of the order backlog based on the last 12-month production rates. This metric is not forward-looking, and does not take into account potential changes in production rates or the ability of customers to take delivery of the aircraft and the timing of such delivery.

Commercial aircraft order backlog and options

			As at	
	September 30, 2014		December 31, 2013	
(in units)	**Firm orders**	**Options**	Firm orders	Options
Regional jets				
CRJ700 NextGen	**11**	**—**	16	—
CRJ900 NextGen	**45**	**81**	60	73
CRJ1000 NextGen	**31**	**22**	35	22
Commercial jets				
CS100	**63** [1]	**49**	63 [2]	49
CS300	**180** [1]	**113**	119 [2]	93
Turboprops				
Q400 NextGen	**43**	**86**	26	90
	373	**351**	319	327

(1) The total of 243 orders includes 86 firm orders with conversion rights to the other *CSeries* aircraft model.
(2) 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 243 aircraft with 14 customers in 13 countries as at September 30, 2014. As at the date of this report, firm orders and other agreements[1] for a total of 563 *CSeries* aircraft have been signed with 21 customers in 18 countries, including 243 firm orders.

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

TRANSPORTATION

HIGHLIGHTS

Results of the quarter

- Revenues increased to $2.3 billion from $2.1 billion for the same period last fiscal year which represents a 12% increase excluding currency impacts.
- EBIT of $97 million, or 4.2% of revenues and EBIT before special items[(1)] of $154 million, or 6.6% of revenues, compared to EBIT of $124 million, or 6.0%, for the same period last fiscal year.
- EBITDA[(1)] of $126 million, or 5.4% of revenues and EBITDA before special items[(1)] of $183 million, or 7.8% of revenues, compared to EBITDA of $155 million, or 7.5%, for the same period last fiscal year.
- Free cash flow usage[(1)] of $81 million, compared to a usage of $5 million for the same period last fiscal year.
- $1.1 billion in new orders (book-to-bill ratio[(2)] of 0.5), compared to $1.7 billion for the same period last fiscal year.
- Order backlog of $34.5 billion as at September 30, 2014, compared to $32.4 billion as at December 31, 2013.

(1) 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.

(2) Defined as new orders over revenues.

Key events

- As part of the reorganization initiatives, BT announced in July further cost reduction measures which include the reduction of worldwide direct and indirect positions by approximately 900 employees, savings in non-product related costs and a general hiring freeze for all indirect functions. A restructuring charge of $57 million related to headcount reduction has been recorded as a special item. These measures are expected to generate approximately $68 million in annual cost savings.
- In October, SNCF received authorization from the French Public Establishment of Railway Safety (EPSF) for the commercial operation of BT’s Régio 2N in single units. This essential step will allow for the progressive deployment of the first Régio 2N vehicles from November.

INDUSTRY AND ECONOMIC ENVIRONMENT

Investments in the overall accessible rail market[(1)] for the year to date 2014 showed solid growth in all regions compared to the same period last year. This also applies for the third quarter in 2014 compared to the third quarter in 2013 with the most significant growth experienced in Western Europe and North America.

In the future, management expects the overall accessible rail market to continue to grow across all segments and regions. The recently issued UNIFE World Rail Market Study corroborates that the rail supply industry remains on track and forecasts that the accessible market in the rail supply industry will continue growing steadily at a rate of 2.7% per annum over the next six years.

In Western Europe the first three quarters of 2014 showed significant growth compared to the same period last year. The growth in the third quarter of 2014 was especially driven by investments in regional and commuter trains. During the next quarters, further large investments are expected in regional and commuter trains in Belgium, UK, France and Germany, which follows the overall trend for high capacity transport solutions. Even though order levels in the Eastern European market were lower in the third quarter of 2014 compared to the same period last fiscal year, the year to date investments remained at a constant level compared to 2013. Ageing fleets especially in Hungary, Poland and Czech Republic denote high potential for services and rolling stock solutions in the coming years. Furthermore, significant orders are expected in Turkey, Poland and Croatia for signalling solutions, while Turkey is also expected to invest in new rolling stock for their high speed network.

North America increased its pace by having a strong third quarter mainly driven by large investments in operation and maintenance contracts in the U.S.. Compared to the same period in 2013, North America's year to date volumes show a positive development in 2014. During the next quarters, investments in North America are expected to continue growing across all segments. While the U.S. and Canada are expected to continue investing in services and signalling contracts, Mexico remains a promising market for metro and commuter trains.

Growth in the Asia-Pacific region for the first three quarters in 2014 compared to the same period last year, has been driven by China, where large orders were awarded in the high speed segment. The outlook for the region remains positive in the short to medium term, as China is expected to show significant growth especially in the segment of commuter and regional trains. In addition, India is planning to develop its freight rail network by investing in locomotives and wagons. In order to react to an increasing urbanization, the Indian market is also expected to grow within the metro segment.

Compared to the same period in 2013, the Rest of world region has shown strong market activities year to date, which were mainly driven by the significant investments in South Africa in the first half of 2014. The outlook for the region remains solid. Significant automated mass transit systems are being tendered in UAE and Saudi Arabia. The strong need for high capacity solutions for rapid urbanization leads to further opportunities for metro trains in Brazil as well as commuter trains in Morocco.

(1) The overall accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Revenues				
Rolling stock[1]	**$ 1,538**	$ 1,313	**$ 4,584**	$ 4,031
Services[2]	**402**	385	**1,283**	1,146
System and signalling[3]	**394**	361	**1,111**	1,138
Total revenues	**2,334**	2,059	**6,978**	6,315
Cost of sales	**2,009**	1,769	**6,045**	5,377
Gross margin	**325**	290	**933**	938
SG&A	**153**	164	**517**	543
R&D	**29**	26	**97**	84
Share of income of joint ventures and associates	**(14)**	(24)	**(64)**	(102)
Other expense (income)[4]	**3**	—	**(1)**	—
EBIT before special items[5]	**154**	124	**384**	413
Special items[6]	**57**	—	**57**	—
EBIT	**97**	124	**327**	413
Amortization[7]	**29**	31	**88**	92
EBITDA[5]	**$ 126**	$ 155	**$ 415**	$ 505
EBITDA before special items[5]	**$ 183**	$ 155	**$ 472**	$ 505
(as a percentage of total revenues)				
Gross margin	**13.9%**	14.1%	**13.4%**	14.9%
EBIT before special items	**6.6%**	6.0%	**5.5%**	6.5%
EBIT	**4.2%**	6.0%	**4.7%**	6.5%
EBITDA before special items	**7.8%**	7.5%	**6.8%**	8.0%
EBITDA	**5.4%**	7.5%	**5.9%**	8.0%

(1) 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.

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

(3) 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 other divisions.

(4) Includes i) severance and other involuntary termination costs (including changes in estimates), ii) losses (gains) on sale of PP&E; except when such items are reported as special items.

(5) Non-GAAP financial measures. Refer to Non-GAAP financial measures sections in Overview for definitions of these metrics.

(6) The special items for the third quarter ended September 30, 2014 relate to a restructuring charge of $57 million related to the reduction of worldwide direct and indirect positions by approximately 900 employees.

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

Revenues by geographic region

	Three-month periods ended September 30				Nine-month periods ended September 30			
	2014		2013		**2014**		2013	
Europe[1]	**$ 1,621**	**69%**	$ 1,352	66%	**$ 4,743**	**68%**	$ 4,197	67%
North America	**310**	**13%**	387	19%	**1,134**	**16%**	1,152	18%
Asia-Pacific[1]	**251**	**11%**	173	8%	**675**	**10%**	581	9%
Rest of world[1] [2]	**152**	**7%**	147	7%	**426**	**6%**	385	6%
	$ 2,334	**100%**	$ 2,059	100%	**$ 6,978**	**100%**	$ 6,315	100%

(1) For the three- and nine-month periods ended September 30, 2014, the increases in Europe reflect positive currency impacts of $34 million and $184 million, respectively, while the increases in Asia-Pacific reflect no currency impact and a negative currency impact of $26 million, respectively, and the increases in the Rest of world region reflect negative currency impacts of $1 million and $17 million, respectively.

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

Revenues excluding currency impact[1]

	Three-month periods ended September 30				
			2014	2013	**Variance**
	Revenues	**Currency impact**	**Revenues excluding currency impact**	Revenues	
Revenues					
Rolling stock	**$ 1,538**	**$ 20**	**$ 1,518**	$ 1,313	**$ 205**
Services	**402**	**12**	**390**	385	**5**
System and signalling	**394**	**1**	**393**	361	**32**
	$ 2,334	**$ 33**	**$ 2,301**	$ 2,059	**$ 242**

	Nine-month periods ended September 30				
			2014	2013	**Variance**
	Revenues	**Currency impact**	**Revenues excluding currency impact**	Revenues	
Revenues					
Rolling stock	**$ 4,584**	**$ 111**	**$ 4,473**	$ 4,031	**$ 442**
Services	**1,283**	**37**	**1,246**	1,146	**100**
System and signalling	**1,111**	**(7)**	**1,118**	1,138	**(20)**
	$ 6,978	**$ 141**	**$ 6,837**	$ 6,315	**$ 522**

[1] 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 nine-month periods ended September 30, 2014, have increased by $242 million, or 12%, and $522 million, or 8%, 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 nine-month period, it was mainly driven by ramp-up in production related to contracts in Europe and Asia-Pacific.

Rolling stock revenues

The $205 million increase for the three-month period is mainly explained by:

- higher activities in Europe and Asia-Pacific mainly due to ramp-up in production related to some commuter and regional train, locomotive, high speed train and metro contracts in Europe as well as some commuter and regional train and metro contracts in Asia-Pacific ($313 million).

Partially offset by:

- lower activities in North America following completion of some commuter and regional train and metro contracts ahead of ramping up of production related to contracts received in past quarters ($90 million).

The $442 million increase for the nine-month period is explained by:

- higher activities in Europe, the Rest of world region and Asia-Pacific 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, some propulsion and controls and locomotive contracts in the Rest of world region, and some commuter and regional train and metro contracts in Asia-Pacific, partly offset by completion of some high-speed and light rail contracts in Asia-Pacific and some commuter and regional train contracts in the Rest of world region and ($524 million).

Partially offset by:

- lower activities in North America following completion of some commuter and regional train and metro contracts, partly offset by ramp-up in production related to some locomotive and light rail contracts ($82 million).

Services revenues
The $5 million increase for the three-month period is mainly due to higher activities in Asia-Pacific ($19 million), partially offset by lower activities in the Rest of world region ($11 million).

The $100 million increase for the nine-month period is mainly due to higher activities in Asia-Pacific, Europe and North America ($125 million), partially offset by lower activities in the Rest of world region ($25 million).

System and signalling revenues
The $32 million increase for the three-month period is mainly due to:

- higher activities in the Rest of world region and North America, mostly due to increased activities ($52 million).

Partially offset by:

- lower activities in Europe, mostly due to finalization of a systems project, and completion of a signalling contract following a joint release agreement with the customer at the end of last fiscal year ($22 million).

The $20 million decrease for the nine-month period is mainly due to:

- lower activities in Europe, mostly due to finalization of a systems project ($163 million).

Partially offset by:

- higher activities in the Rest of world region, North America and Asia-Pacific, mostly due to increased activities ($143 million).

EBIT margin
The EBIT margin for the three-month period decreased by 1.8 percentage points. The EBIT margin before special items (see explanations of special items below) increased by 0.6 percentage points mainly as a result of:

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

Partially offset by:

- a lower gross margin in system and signalling and in services due to an unfavourable contract mix in the quarter; and
- a lower share of income of joint ventures and associates.

The EBIT margin for the nine-month period decreased by 1.8 percentage points. The EBIT margin before special items (see explanations of special items below) decreased by 1.0 percentage point mainly as a result of:

- a lower gross margin in system and signalling due to 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; and
- a higher gross margin in rolling stock due to a favourable contract mix in the current year.

For the three- and nine-month periods, the EBIT margins were negatively impacted by a restructuring charge of $57 million related to measures to further improve competitiveness and cost structure of indirect functions and align capacity, mainly the reduction of worldwide direct and indirect positions by approximately 900 employees, negatively impacting EBIT margin by 2.4 and 0.8 percentage points respectively, and recorded as a special item.

Free Cash Flow

Free cash flow usage[1]

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
EBIT	**$ 97**	$ 124	**$ 327**	$ 413
Amortization	**29**	31	**88**	92
EBITDA	**126**	155	**415**	505
Other non-cash items				
Share of income of joint ventures and associates	**(14)**	(24)	**(64)**	(102)
(Gains) losses on disposals of PP&E	**—**	1	**(4)**	1
Share-based expense (income)	**(6)**	3	**(1)**	12
Dividends received from joint ventures and associates	**1**	40	**61**	97
Net change in non-cash balances	**(159)**	(169)	**(730)**	(574)
Cash flows from operating activities	**(52)**	6	**(323)**	(61)
Net additions to PP&E and intangible assets	**(29)**	(11)	**(61)**	(38)
Free cash flow usage	**$ (81)**	$ (5)	**$ (384)**	$ (99)

[1] Non-GAAP financial measures. Refer to Non-GAAP financial measures section in Overview for definitions of these metrics.

The $76 million deterioration for the three-month period is mainly due to:

- lower dividends received from joint ventures and associates ($39 million);
- lower EBITDA ($29 million); and
- higher net additions to PP&E and intangible assets ($18 million).

Partially offset by:

- a positive period-over-period variation in net change in non-cash balances ($10 million) (see explanation below).

The $285 million deterioration for the nine-month period is mainly due to:

- a negative period-over-period variation in net change in non-cash balances ($156 million) (see explanation below);
- lower EBITDA ($90 million);
- lower dividends received from joint ventures and associates ($36 million); and
- higher net additions to PP&E and intangible assets ($23 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 September 30, 2014, the $159 million cash outflow is mainly due to:

- a reduction in advances and progress billings on existing contracts following deliveries in several contracts;
- an increase in trade and other receivables following deliveries in several contracts; and
- an increase in inventories following ramp-up of production ahead of deliveries.

Partially offset by:

- an increase in trade and other payables;
- a reduction in other financial assets and liabilities; and
- an increase in other liabilities.

For the three-month period ended September 30, 2013, the $169 million cash outflow was mainly due to:

- an increase in inventories following ramp-up of production ahead of deliveries; and
- a decrease in product warranty provisions, mainly for contracts nearing the end of their warranty periods.

Partially offset by:

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

For the nine-month period ended September 30, 2014, the $730 million cash outflow is mainly due to:

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

Partially offset by:

- an increase in trade and other payables;
- a reduction in other financial assets and liabilities; and
- an increase in advances and progress billings on existing contracts and new orders.

For the nine-month period ended September 30, 2013, the $574 million cash outflow was mainly due to:

- an increase in inventories following ramp-up of production ahead of deliveries;
- an increase in trade and other receivables; and
- a decrease in product warranty provisions, mainly for contracts nearing the end of their warranty periods.

Partially offset by:

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

Orders and backlog

Order intake and book-to-bill ratio

	Three-month periods ended September 30		Nine-month periods ended September 30	
Order intake (in billions of dollars)	**2014**	2013	**2014**	2013
Rolling stock	**$ 0.2**	$ 0.7	**$ 5.9**	$ 4.0
Services	**0.7**	0.2	**3.9**	1.5
System and signalling	**0.2**	0.8	**1.0**	1.4
	$ 1.1	$ 1.7	**$ 10.8**	$ 6.9
Book-to-bill ratio[(1)]	**0.5**	0.8	**1.6**	1.1

(1) Ratio of new orders over revenues.

The order intake for the three-month period ended September 30, 2014 reflects a positive currency impact of $141 million, while the order intake for the nine-month period ended September 30, 2014 reflects a negative currency impact of $107 million.

Several small and medium orders across various regions and product segments were won in the third quarter of 2014 and BT maintained a leading position in the rail industry.[(1)]

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

The significant orders obtained during the nine-month period ended September 30, 2014 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value	
Third quarter						
New Jersey Transit Corporation (NJ TRANSIT)	U.S.	Operations and maintenance services	n/a	Services	$ 296	
Société Nationale des Chemins de fer Français (SNCF)	France	Electrical Multiple Units (EMUs)	176	Rolling stock	$ 218	
Second quarter						
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	
First quarter						
State of Queensland	Australia	Construction of a depot and fleet maintenance	n/a	Services	$ 1,700	(1)
		Electrical Multiple Units (EMUs)	450	Rolling stock	$ 1,000	(1)
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	

(1) Contract signed as part of a consortium. Only the value of the Corporation's share is stated.
n/a: Not applicable

Order backlog

	As at	
(in billions of dollars)	**September 30, 2014**	December 31, 2013
Rolling stock	**$ 21.2**	$ 21.1
Services	**9.6**	7.4
System and signalling	**3.7**	3.9
	$ 34.5	$ 32.4

The $2.1 billion increase in order backlog is due to order intake being higher than revenues recorded ($3.8 billion), partially offset by the weakening of some foreign currencies versus the U.S. dollar as at September 30, 2014, compared to December 31, 2013 ($1.7 billion), mainly the euro, Swiss franc, Australian dollar and pound sterling.

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 €848 million ($1.1 billion) were outstanding under such facilities as at September 30, 2014 (€1.1 billion ($1.5 billion) as at December 31, 2013). During the three- and nine-month periods ended September 30, 2014, trade receivables of €296 million ($393 million) and €808 million ($1.1 billion), respectively, were sold to these facilities (€300 million ($396 million) and €763 million ($1.0 billion), respectively, during the three- and nine-month periods ended September 30, 2013).

Other arrangements

In the normal course of operations, the Corporation maintains 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 nine-month period ended September 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

The Corporation operates in industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties that could materially affect the Corporation's 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 it faces. Additional risks and uncertainties not presently known to management, or that management currently believe to be immaterial, may also adversely affect the Corporation's business.

There was no significant change to these risks and uncertainties during the nine-month period ended September 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 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.

CONTROLS AND PROCEDURES

No changes were made to the Corporation's internal controls over financial reporting during the nine-month period ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

FOREIGN EXCHANGE RATES

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

	September 30, 2014	December 31, 2013	Increase (decrease)
Euro	**1.2701**	1.3791	(8%)
Canadian dollar	**0.8962**	0.9400	(5%)
Pound sterling	**1.6227**	1.6542	(2%)

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

	September 30, 2014	September 30, 2013	Increase (decrease)
Euro	**1.3283**	1.3235	0%
Canadian dollar	**0.9205**	0.9623	(4%)
Pound sterling	**1.6728**	1.5495	8%

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

	September 30, 2014	September 30, 2013	Increase (decrease)
Euro	**1.3565**	1.3174	3%
Canadian dollar	**0.9146**	0.9777	(6%)
Pound sterling	**1.6698**	1.5474	8%

SELECTED FINANCIAL INFORMATION

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

Fiscal years	**2014**				2013			2012
	Third	Second	First	Fourth	Third	Second	First	Fourth
Revenues	**$ 4,906**	$ 4,891	$ 4,354	$ 5,324	$ 4,058	$ 4,430	$ 4,339	$ 4,625
Net income (loss)	**$ 74**	$ 155	$ 115	$ 97	$ 147	$ 180	$ 148	$ (4)
EPS (in dollars)								
Basic and diluted	**$ 0.03**	$ 0.08	$ 0.06	$ 0.05	$ 0.08	$ 0.10	$ 0.08	$ (0.01)
Adjusted net income[(1)]	**$ 222**	$ 192	$ 151	$ 129	$ 165	$ 158	$ 156	$ 181
Adjusted EPS (in dollars)[(1)]								
Basic and diluted	**$ 0.12**	$ 0.10	$ 0.08	$ 0.07	$ 0.09	$ 0.09	$ 0.08	$ 0.10

(1) 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 October 28, 2014

	Authorized	Issued and outstanding	
Class A Shares (multiple voting)[1]	1,892,000,000	314,273,255	
Class B Shares (subordinate voting)[2]	1,892,000,000	1,425,065,627	[3]
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	

[1] Ten votes each, convertible at the option of the holder into one Class B Share (subordinate voting).
[2] Convertible at the option of the holder into one Class A Share (multiple voting) under certain conditions.
[3] Net of 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 September 30, 2014

Options issued and outstanding under the share option plans	24,189,618
PSUs and DSUs issued and outstanding under the PSU and DSU plans	22,511,789
Class B Shares held in trust to satisfy PSU obligations	18,736,908

Expected issuance date of financial reports for the next 12 months

Financial Report, for the fiscal year ending December 31, 2014	February 12, 2015
First Quarterly Report, for the period ending March 31, 2015	May 7, 2015
Second Quarterly Report, for the period ending June 30, 2015	July 30, 2015
Third Quarterly Report, for the period ending September 30, 2015	October 29, 2015

Information

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Additional information relating to the Corporation, including the financial report and annual information form, are available on SEDAR at sedar.com or on the Corporation's dedicated investor relations website at ir.bombardier.com.

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Un exemplaire en français est disponible sur demande adressée auprès du service des Relations avec les investisseurs ou sur le site Internet de la Société dédié aux relations avec les investisseurs, à l'adresse ri.bombardier.com.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine-month period ended September 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)

		Three-month periods ended September 30		Nine-month periods ended September 30	
	Notes	**2014**	2013	**2014**	2013
Revenues		**$ 4,906**	$ 4,058	**$ 14,151**	$ 12,827
Cost of sales	10	**4,226**	3,479	**12,220**	10,960
Gross margin		**680**	579	**1,931**	1,867
SG&A		**315**	340	**1,007**	1,066
R&D	4	**80**	65	**235**	210
Share of income of joint ventures and associates		**(14)**	(24)	**(64)**	(102)
Other expense (income)	5	**8**	(12)	**(14)**	(14)
Special items	6	**120**	—	**132**	(31)
EBIT		**171**	210	**635**	738
Financing expense	7	**66**	58	**185**	209
Financing income	7	**(15)**	(22)	**(59)**	(102)
EBT		**120**	174	**509**	631
Income taxes		**46**	27	**165**	156
Net income		**$ 74**	$ 147	**$ 344**	$ 475
Attributable to					
Equity holders of Bombardier Inc.		**$ 68**	$ 145	**$ 334**	$ 475
NCI		**6**	2	**10**	6
		$ 74	$ 147	**$ 344**	$ 475
EPS (in dollars)	8				
Basic and diluted		**$ 0.03**	$ 0.08	**$ 0.18**	$ 0.26

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 September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Net income	**$ 74**	$ 147	**$ 344**	$ 475
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges				
Foreign exchange re-evaluation	**9**	(6)	**11**	(4)
Net gain (loss) on derivative financial instruments	**(153)**	141	**(243)**	25
Reclassification to income or to the related non-financial asset	**50**	(34)	**133**	(14)
Income taxes	**29**	(30)	**24**	(2)
	(65)	71	**(75)**	5
AFS financial assets				
Net unrealized gain (loss)	**—**	2	**4**	(5)
CCTD				
Net investments in foreign operations	**(108)**	104	**(69)**	3
Net gain (loss) on related hedging items	**2**	(19)	**3**	(8)
	(106)	85	**(66)**	(5)
Items that are never reclassified to net income				
Retirement benefits				
Net actuarial gains (losses)	**(250)**	84	**(602)**	663
Income taxes	**23**	(27)	**29**	(88)
	(227)	57	**(573)**	575
Total OCI	**(398)**	215	**(710)**	570
Total comprehensive income (loss)	**$ (324)**	$ 362	**$ (366)**	$ 1,045
Attributable to				
Equity holders of Bombardier Inc.	**$ (325)**	$ 358	**$ (371)**	$ 1,039
NCI	**1**	4	**5**	6
	$ (324)	$ 362	**$ (366)**	$ 1,045

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	**September 30 2014**	December 31 2013	January 1 2013
Assets				
Cash and cash equivalents		**$ 1,935**	$ 3,397	$ 2,557
Trade and other receivables		**1,637**	1,492	1,311
Inventories	10	**8,773**	8,234	7,540
Other financial assets	11	**574**	637	443
Other assets	12	**909**	881	680
Current assets		**13,828**	14,641	12,531
PP&E		**2,095**	2,066	1,933
Aerospace program tooling		**7,756**	6,606	4,770
Goodwill		**2,226**	2,381	2,316
Deferred income taxes		**1,199**	1,231	1,421
Investments in joint ventures and associates		**309**	318	311
Other financial assets	11	**1,441**	1,568	1,339
Other assets	12	**516**	552	554
Non-current assets		**15,542**	14,722	12,644
		$ 29,370	$ 29,363	$ 25,175
Liabilities				
Trade and other payables		**$ 3,999**	$ 4,089	$ 3,310
Provisions	13	**873**	881	1,000
Advances and progress billings in excess of long-term contract inventories		**1,800**	2,352	1,763
Advances on aerospace programs		**3,488**	3,228	3,053
Other financial liabilities	14	**861**	1,009	455
Other liabilities	15	**2,010**	2,227	2,212
Current liabilities		**13,031**	13,786	11,793
Provisions	13	**552**	584	608
Advances on aerospace programs		**1,943**	1,688	1,600
Long-term debt	16	**7,619**	6,988	5,360
Retirement benefits		**2,564**	2,161	2,999
Other financial liabilities	14	**680**	717	601
Other liabilities	15	**1,049**	990	957
Non-current liabilities		**14,407**	13,128	12,125
		27,438	26,914	23,918
Equity				
Attributable to equity holders of Bombardier Inc.		**1,910**	2,426	1,211
Attributable to NCI		**22**	23	46
		1,932	2,449	1,257
		$ 29,370	$ 29,363	$ 25,175
Commitments and contingencies	21			

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

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

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Retained earnings (deficit)			Accumulated OCI					
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total Equity
As at June 30, 2014	$ 347	$ 1,380	$ 2,768	$ (2,316)	$ 103	$ 9	$ (213)	$ 217	$ 2,295	$ 27	$ 2,322
Total comprehensive income											
Net income	—	—	68	—	—	—	—	—	68	6	74
OCI	—	—	—	(227)	—	—	(65)	(101)	(393)	(5)	(398)
	—	—	68	(227)	—	—	(65)	(101)	(325)	1	(324)
Dividends	—	—	(48)	—	—	—	—	—	(48)	—	(48)
Capital distribution	—	—	—	—	—	—	—	—	—	(6)	(6)
Share-based income	—	—	—	—	(12)	—	—	—	(12)	—	(12)
As at September 30, 2014	**$ 347**	**$ 1,380**	**$ 2,788**	**$ (2,543)**	**$ 91**	**$ 9**	**$ (278)**	**$ 116**	**$ 1,910**	**$ 22**	**$ 1,932**
As at June 30, 2013	$ 347	$ 1,385	$ 2,460	$ (2,276)	$ 92	$ 3	$ (263)	$ 67	$ 1,815	$ 48	$ 1,863
Total comprehensive income											
Net income	—	—	145	—	—	—	—	—	145	2	147
OCI	—	—	—	57	—	2	71	83	213	2	215
	—	—	145	57	—	2	71	83	358	4	362
Dividends	—	—	(52)	—	—	—	—	—	(52)	—	(52)
Capital distribution	—	—	—	—	—	—	—	—	—	(29)	(29)
Share-based expense	—	—	—	—	8	—	—	—	8	—	8
As at September 30, 2013	$ 347	$ 1,385	$ 2,553	$ (2,219)	$ 100	$ 5	$ (192)	$ 150	$ 2,129	$ 23	$ 2,152

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

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

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Retained earnings (deficit)			Accumulated OCI					
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total Equity
As at December 31, 2013	$ 347	$ 1,380	$ 2,598	$ (1,970)	$ 92	$ 5	$ (203)	$ 177	$ 2,426	$ 23	$ 2,449
Total comprehensive income											
Net income	—	—	334	—	—	—	—	—	334	10	344
OCI	—	—	—	(573)	—	4	(75)	(61)	(705)	(5)	(710)
	—	—	334	(573)	—	4	(75)	(61)	(371)	5	(366)
Dividends	—	—	(144)	—	—	—	—	—	(144)	—	(144)
Capital distribution	—	—	—	—	—	—	—	—	—	(6)	(6)
Share-based income	—	—	—	—	(1)	—	—	—	(1)	—	(1)
As at September 30, 2014	**$ 347**	**$ 1,380**	**$ 2,788**	**$ (2,543)**	**$ 91**	**$ 9**	**$ (278)**	**$ 116**	**$ 1,910**	**$ 22**	**$ 1,932**
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	—	—	469	—	—	—	—	—	469	6	475
OCI	—	—	—	575	—	(5)	5	(5)	570	—	570
	—	—	469	575	—	(5)	5	(5)	1,039	6	1,045
Options exercised	—	12	—	—	(3)	—	—	—	9	—	9
Dividends	—	—	(155)	—	—	—	—	—	(155)	—	(155)
Capital distribution	—	—	—	—	—	—	—	—	—	(29)	(29)
Shares distributed - PSU plans	—	31	—	—	(31)	—	—	—	—	—	—
Share-based expense	—	—	—	—	25	—	—	—	25	—	25
As at September 30, 2013	$ 347	$ 1,385	$ 2,553	$ (2,219)	$ 100	$ 5	$ (192)	$ 150	$ 2,129	$ 23	$ 2,152

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)

	Notes	Three-month periods ended September 30		Nine-month periods ended September 30	
		2014	2013	**2014**	2013
Operating activities					
Net income		**$ 74**	$ 147	**$ 344**	$ 475
Non-cash items					
Amortization		**105**	92	**301**	285
Deferred income taxes		**11**	36	**59**	95
(Gains) losses on disposals of PP&E	5	**—**	1	**(4)**	—
Share of income of joint ventures and associates		**(14)**	(24)	**(64)**	(102)
Share-based expense (income)	17	**(12)**	8	**(1)**	25
Loss on repurchase of long-term debt	6, 16	**—**	—	**43**	—
Dividends received from joint ventures and associates		**1**	40	**63**	97
Net change in non-cash balances	18	**(89)**	(226)	**(979)**	(893)
Cash flows from operating activities		**76**	74	**(238)**	(18)
Investing activities					
Additions to PP&E and intangible assets		**(444)**	(612)	**(1,484)**	(1,716)
Proceeds from disposals of PP&E and intangible assets		**—**	16	**15**	56
Additions to AFS investments in securities		**—**	—	**(53)**	(122)
Net proceeds from disposal of a business[1]		**—**	—	**25**	—
Other		**(3)**	24	**(4)**	18
Cash flows from investing activities		**(447)**	(572)	**(1,501)**	(1,764)
Financing activities					
Net proceeds from issuance of long-term debt	16	**5**	2	**1,815**	1,980
Repayments of long-term debt	16	**(10)**	(9)	**(1,318)**	(36)
Dividends paid[2]		**(45)**	(49)	**(137)**	(148)
Other		**(3)**	7	**(14)**	54
Cash flows from financing activities		**(53)**	(49)	**346**	1,850
Effect of exchange rates on cash and cash equivalents		**(117)**	36	**(69)**	(35)
Net increase (decrease) in cash and cash equivalents		**(541)**	(511)	**(1,462)**	33
Cash and cash equivalents at beginning of period		**2,476**	3,101	**3,397**	2,557
Cash and cash equivalents at end of period		**$ 1,935**	$ 2,590	**$ 1,935**	$ 2,590
Supplemental information[3][4]					
Cash paid for					
Interest		**$ 103**	$ 109	**$ 273**	$ 232
Income taxes		**$ 27**	$ 20	**$ 80**	$ 51
Cash received for					
Interest		**$ 21**	$ 7	**$ 131**	$ 26
Income taxes		**$ 2**	$ 11	**$ 6**	$ 13

(1) Represents the balance of sale price related to the sale of the main assets and related liabilities of the Corporation's Flexjet activities.
(2) $5 million and $16 million of dividends paid relate to preferred shares for the three- and nine-month periods ended September 30, 2014 ($6 million and $18 million for the three- and nine-month periods ended September 30, 2013).
(3) Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.
(4) Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivable after the effect of hedges, if any, the interest portion of a gain related to the resolution of a litigation in connection with part IV of the Quebec Income Tax Act, the Tax on Capital and the interest portion related to the settlement of a cross-currency interest-rate swap.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine-month period ended September 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 nine-month periods ended September 30, 2014 were authorized for issuance by the Board of Directors on October 29, 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
	September 30, 2014	December 31, 2013	January 1, 2013
Euro	**1.2701**	1.3791	1.3194
Canadian dollar	**0.8962**	0.9400	1.0043
Pound sterling	**1.6227**	1.6542	1.6167

	Average exchange rates for the three-month periods ended		**Average exchange rates for the nine-month periods ended**	
	September 30, 2014	September 30, 2013	**September 30, 2014**	September 30, 2013
Euro	**1.3283**	1.3235	**1.3565**	1.3174
Canadian dollar	**0.9205**	0.9623	**0.9146**	0.9777
Pound sterling	**1.6728**	1.5495	**1.6698**	1.5474

2. FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at FVTP&L, will be presented in OCI rather than in the statement of income.

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

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

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

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

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

3. SEGMENT DISCLOSURE

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

BA	BT
BA is a world leader in the design, manufacture and support of innovative aviation products. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets, as well as specialized and amphibious aircraft. BA also offers aftermarket services. BA was also offering Flexjet fractional ownership and flight entitlement programs up to December 4, 2013.	BT is a world leader in the design, manufacture and support of rail equipment and systems, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

The segmented information is prepared using the same accounting policies as those described in the annual consolidated financial statements for the fiscal year ended December 31, 2013.

Management assesses segment performance based on EBIT and EBIT before special items. Corporate charges are allocated to segments mostly based on each segment's revenues. The segmented results of operations and other information are as follows:

	Three-month periods ended September 30					
	2014			2013		
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$ 2,572**	**$ 2,334**	**$ 4,906**	$ 1,999	$ 2,059	$ 4,058
Cost of sales	**2,217**	**2,009**	**4,226**	1,710	1,769	3,479
Gross margin	**355**	**325**	**680**	289	290	579
SG&A	**162**	**153**	**315**	176	164	340
R&D	**51**	**29**	**80**	39	26	65
Share of income of joint ventures and associates	**—**	**(14)**	**(14)**	—	(24)	(24)
Other expense (income)	**5**	**3**	**8**	(12)	—	(12)
EBIT before special items	**137**	**154**	**291**	86	124	210
Special items[1]	**63**	**57**	**120**	—	—	—
EBIT	**$ 74**	**$ 97**	**171**	$ 86	$ 124	210
Financing expense			**66**			58
Financing income			**(15)**			(22)
EBT			**120**			174
Income taxes			**46**			27
Net income			**$ 74**			$ 147
Other information						
Net additions to PP&E and intangible assets[2]	**$ 415**	**$ 29**	**$ 444**	$ 585	$ 11	$ 596
Amortization	**$ 76**	**$ 29**	**$ 105**	$ 61	$ 31	$ 92

	Nine-month periods ended September 30					
	2014			2013		
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$ 7,173**	**$ 6,978**	**$ 14,151**	$ 6,512	$ 6,315	$ 12,827
Cost of sales	**6,175**	**6,045**	**12,220**	5,583	5,377	10,960
Gross margin	**998**	**933**	**1,931**	929	938	1,867
SG&A	**490**	**517**	**1,007**	523	543	1,066
R&D	**138**	**97**	**235**	126	84	210
Share of income of joint ventures and associates	**—**	**(64)**	**(64)**	—	(102)	(102)
Other income	**(13)**	**(1)**	**(14)**	(14)	—	(14)
EBIT before special items	**383**	**384**	**767**	294	413	707
Special items[1]	**75**	**57**	**132**	(31)	—	(31)
EBIT	**$ 308**	**$ 327**	**635**	$ 325	$ 413	738
Financing expense			**185**			209
Financing income			**(59)**			(102)
EBT			**509**			631
Income taxes			**165**			156
Net income			**$ 344**			$ 475
Other information						
Net additions to PP&E and intangible assets[2]	**$ 1,408**	**$ 61**	**$ 1,469**	$ 1,622	$ 38	$ 1,660
Amortization	**$ 213**	**$ 88**	**$ 301**	$ 193	$ 92	$ 285

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

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

	September 30, 2014	December 31, 2013	January 1, 2013
Assets			
Total assets	**$ 29,370**	$ 29,363	$ 25,175
Assets not allocated to segments			
Cash and cash equivalents	**1,935**	3,397	2,557
Income tax receivable[1]	**27**	27	—
Deferred income taxes	**1,199**	1,231	1,421
Segmented assets	**26,209**	24,708	21,197
Liabilities			
Total liabilities	**27,438**	26,914	23,918
Liabilities not allocated to segments			
Interest payable[2]	**113**	116	66
Income taxes payable[3]	**206**	198	109
Long-term debt[4]	**7,669**	7,203	5,405
Deferred income taxes[3]	**—**	—	46
Segmented liabilities	**$ 19,450**	$ 19,397	$ 18,292
Net segmented assets			
BA	**$ 6,055**	$ 4,921	$ 2,618
BT	**$ 704**	$ 390	$ 287

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

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

	Three-month periods ended September 30		**Nine-month periods ended September 30**	
	2014	2013 [1]	**2014**	2013 [1]
BA				
Manufacturing				
Business aircraft	**$ 1,313**	$ 1,073	**$ 3,706**	$ 3,494
Commercial aircraft	**615**	208	**1,453**	781
Other	**122**	116	**384**	366
Total manufacturing	**2,050**	1,397	**5,543**	4,641
Services[2]	**404**	477	**1,200**	1,389
Other[3]	**118**	125	**430**	482
	2,572	1,999	**7,173**	6,512
BT				
Rolling stock[4]	**1,538**	1,313	**4,584**	4,031
Services[5]	**402**	385	**1,283**	1,146
System and signalling[6]	**394**	361	**1,111**	1,138
	2,334	2,059	**6,978**	6,315
	$ 4,906	$ 4,058	**$ 14,151**	$ 12,827

(1) Comparative figures have been reclassified to conform to the presentation adopted in the current period.
(2) Includes revenues from parts services, Flexjet fractional ownership and hourly flight entitlement programs' service activities (prior to disposal on December 4, 2013), product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.
(3) Includes mainly sales of pre-owned aircraft.
(4) Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls, and bogies.
(5) Comprised of revenues from fleet maintenance, refurbishment and overhaul, and material solutions.
(6) Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance systems, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by the other divisions of the Corporation.

4. RESEARCH AND DEVELOPMENT

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

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
R&D expenditures	**$ 402**	$ 544	**$ 1,386**	$ 1,598
Less: development expenditures capitalized to aerospace program tooling	**(365)**	(511)	**(1,267)**	(1,493)
	37	33	**119**	105
Add: amortization of aerospace program tooling	**43**	32	**116**	105
	$ 80	$ 65	**$ 235**	$ 210

5. OTHER EXPENSE (INCOME)

Other expense (income) was as follows:

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Changes in estimates and fair value[(1)]	**$ 1**	$ (10)	**$ (18)**	$ (7)
Severance and other involuntary termination costs (including changes in estimates)	**3**	—	**8**	2
(Gains) losses on disposals of PP&E	**—**	1	**(4)**	—
Other	**4**	(3)	**—**	(9)
	$ 8	$ (12)	**$ (14)**	$ (14)

[(1)] Includes net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding losses (gains) arising from changes in interest rates.

6. SPECIAL ITEMS

Special items were as follows:

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Restructuring charge	**$ 120**	$ —	**$ 142**	$ —
Loss on repurchase of long-term debt[1]	**—**	—	**43**	—
Gains on resolution of litigations[2]	**—**	—	**(18)**	(43)
	$ 120	$ —	**$ 167**	$ (43)
Of which is presented in				
Special items in EBIT	**$ 120**	$ —	**$ 132**	$ (31)
Financing expense - loss on repurchase of long-term debt	**—**	—	**43**	—
Financing income - interests related to the resolution of litigations	**—**	—	**(8)**	(12)
	$ 120	$ —	**$ 167**	$ (43)

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

(2) 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 nine-month period ended September 30, 2014 ($43 million of which $12 million represents the interest portion of the gain for the nine-month period ended September 30, 2013).

During the three-month period ended September 30, 2014, the Corporation recorded restructuring charges of $120 million related to the workforce reduction announced in July 2014, of which $63 million relates to BA and $57 million to BT. These measures include the reduction of approximately 2,000 employees at BA and 900 employees at BT. In addition, during the three-month period ended March 31, 2014, the Corporation recorded a restructuring charge of $22 million related to the BA workforce reduction announced in January 2014 of approximately 1,700 positions.

7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Financing expense				
Accretion on net retirement benefit obligations	**$ 19**	$ 28	**$ 57**	$ 85
Loss on repurchase of long-term debt[1]	**—**	—	**43**	—
Amortization of letter of credit facility costs	**4**	4	**11**	12
Net loss on certain financial instruments[2]	**23**	—	**10**	—
Accretion on other financial liabilities	**4**	8	**9**	20
Accretion on provisions	**2**	3	**6**	4
Other	**7**	1	**20**	10
	59	44	**156**	131
Interest on long-term debt, after effect of hedges	**7**	14	**29**	78
	$ 66	$ 58	**$ 185**	$ 209
Financing income				
Interest related to the resolution of litigations[3]	**$ —**	$ —	**$ (8)**	$ (12)
Changes in discount rates of provisions	**(3)**	(1)	**(1)**	(12)
Net gain on certain financial instruments[2]	**—**	(7)	**—**	(17)
Other	**—**	(1)	**(14)**	(18)
	(3)	(9)	**(23)**	(59)
Interest on loans and lease receivables, after effect of hedges	**(6)**	(8)	**(21)**	(25)
Interest on cash and cash equivalents	**(3)**	(4)	**(6)**	(11)
Income from investment in securities	**(3)**	(1)	**(9)**	(7)
	(12)	(13)	**(36)**	(43)
	$ (15)	$ (22)	**$ (59)**	$ (102)

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

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

[3] Represents the interest portion of a gain of $18 million for the nine-month period ended September 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 nine-month period ended September 30, 2013). The remaining $10 million of the gain was recorded in EBIT as special items for the nine-month period ended September 30, 2014 ($31 million for the nine-month period ended September 30, 2013).

Borrowing costs capitalized to PP&E and intangible assets totalled $77 million and $235 million for the three- and nine-month periods ended September 30, 2014, using an average capitalization rate of 4.86% and 4.95%, respectively ($73 million and $198 million and 5.50% and 5.65% for the three- and nine-month periods ended September 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 September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
(Number of shares, stock options, PSUs and DSUs, in thousands)				
Net income attributable to equity holders of Bombardier Inc.	**$ 68**	$ 145	**$ 334**	$ 469
Preferred share dividends, including taxes	**(8)**	(8)	**(23)**	(25)
Net income attributable to common equity holders of Bombardier Inc.	**$ 60**	$ 137	**$ 311**	$ 444
Weighted-average number of common shares outstanding	**1,741,790**	1,740,007	**1,741,767**	1,738,694
Net effect of stock options, PSUs and DSUs	**320**	2,425	**673**	2,199
Weighted-average diluted number of common shares	**1,742,110**	1,742,432	**1,742,440**	1,740,893
EPS (in dollars)				
Basic and diluted	**$ 0.03**	$ 0.08	**$ 0.18**	$ 0.26

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 38,534,187 and 42,714,991 stock options, PSUs and DSUs for the three- and nine-month periods ended September 30, 2014 (41,738,905 and 44,196,904 stock options, PSUs and DSUs for the three- and nine-month periods ended September 30, 2013) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation's Class B Shares (subordinate voting) or predetermined financial performance targets had not been met.

9. FINANCIAL INSTRUMENTS

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

	FVTP&L						
	HFT	Designated	AFS	Amortized cost [1]	DDHR	Total carrying value	Fair value
September 30, 2014							
Financial assets							
Cash and cash equivalents	**$ 1,935**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,935**	**$ 1,935**
Trade and other receivables	**—**	**—**	**—**	**1,637**	**—**	**1,637**	**1,637**
Other financial assets	**37**	**603**	**368**	**431**	**576**	**2,015**	**2,018**
	$ 1,972	**$ 603**	**$ 368**	**$ 2,068**	**$ 576**	**$ 5,587**	**$ 5,590**
Financial liabilities							
Trade and other payables	**$ —**	**$ —**	**n/a**	**$ 3,999**	**$ —**	**$ 3,999**	**$ 3,999**
Long-term debt[2]	**—**	**—**	**n/a**	**7,669**	**—**	**7,669**	**7,675**
Other financial liabilities	**55**	**185**	**n/a**	**728**	**523**	**1,491**	**1,596**
	$ 55	**$ 185**	**n/a**	**$ 12,396**	**$ 523**	**$ 13,159**	**$ 13,270**
December 31, 2013							
Financial assets							
Cash and cash equivalents	$ 3,397	$ —	$ —	$ —	$ —	$ 3,397	$ 3,397
Trade and other receivables	—	—	—	1,492	—	1,492	1,492
Other financial assets	129	673	315	425	663	2,205	2,203
	$ 3,526	$ 673	$ 315	$ 1,917	$ 663	$ 7,094	$ 7,092
Financial liabilities							
Trade and other payables	$ —	$ —	n/a	$ 4,089	$ —	$ 4,089	$ 4,089
Long-term debt[2]	—	—	n/a	7,203	—	7,203	7,346
Other financial liabilities	25	142	n/a	958	386	1,511	1,656
	$ 25	$ 142	n/a	$ 12,250	$ 386	$ 12,803	$ 13,091
January 1, 2013							
Financial assets							
Cash and cash equivalents	$ 2,557	$ —	$ —	$ —	$ —	$ 2,557	$ 2,557
Trade and other receivables	—	—	—	1,311	—	1,311	1,311
Other financial assets	92	697	217	133	643	1,782	1,782
	$ 2,649	$ 697	$ 217	$ 1,444	$ 643	$ 5,650	$ 5,650
Financial liabilities							
Trade and other payables	$ —	$ —	n/a	$ 3,310	$ —	$ 3,310	$ 3,310
Long-term debt[2]	—	—	n/a	5,405	—	5,405	5,272
Other financial liabilities	15	158	n/a	712	126	1,011	1,146
	$ 15	$ 158	n/a	$ 9,427	$ 126	$ 9,726	$ 9,728

[1] Financial assets are classified as L&R and financial liabilities as other than HFT.

[2] Includes the current portion of long-term debt.

n/a: Not applicable

10. INVENTORIES

Inventories were as follows, as at:

	September 30, 2014	December 31, 2013	January 1, 2013
Aerospace programs	**$ 4,988**	$ 4,847	$ 4,345
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**7,634**	7,064	5,387
Less: advances and progress billings	**(5,688)**	(5,406)	(4,014)
	1,946	1,658	1,373
Service contracts			
Cost incurred and recorded margins	**384**	420	408
Less: advances and progress billings	**(16)**	(19)	(15)
	368	401	393
Finished products[(1)]	**1,471**	1,328	1,429
	$ 8,773	$ 8,234	$ 7,540

(1) Finished products include 4 new aircraft not associated with a firm order and 38 pre-owned aircraft, totalling $485 million as at September 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 September 30, 2014 include $172 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 $3,567 million and $11,069 million for the three- and nine-month periods ended September 30, 2014 ($3,159 million and 9,891 million for the three- and nine-month periods ended September 30, 2013). These amounts include $37 million and $104 million of write-downs for the three- and nine-month periods ended September 30, 2014 ($37 million and $103 million for the three- and nine-month periods ended September 30, 2013).

11. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	September 30, 2014	December 31, 2013	January 1, 2013
Derivative financial instruments	**$ 613**	$ 792	$ 735
Investments in securities[1] [2]	**384**	335	243
Investments in financing structures[1]	**360**	331	329
Long-term contract receivables[3]	**326**	319	—
Aircraft loans and lease receivables[1]	**299**	400	423
Restricted cash	**20**	19	25
Other	**13**	9	27
	$ 2,015	$ 2,205	$ 1,782
Of which current	**$ 574**	$ 637	$ 443
Of which non-current	**1,441**	1,568	1,339
	$ 2,015	$ 2,205	$ 1,782

[1] Carried at fair value, except for $12 million of aircraft loans and lease receivables, $16 million of investments in securities and $44 million of investment in financing structures carried at amortized cost as at September 30, 2014 ($12 million, $20 million and $46 million, respectively, as at December 31, 2013 and $11 million, $26 million and $44 million, respectively, as at January 1, 2013).

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

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

12. OTHER ASSETS

Other assets were as follows, as at:

	September 30, 2014	December 31, 2013	January 1, 2013
Prepaid expenses	**$ 649**	$ 620	$ 366
Sales tax and other taxes	**338**	344	281
Intangible assets other than aerospace program tooling and goodwill	**159**	186	210
Deferred financing charges	**142**	100	103
Retirement benefits	**110**	174	38
Flexjet fractional ownership deferred costs	**—**	—	206
Other	**27**	9	30
	$ 1,425	$ 1,433	$ 1,234
Of which current	**$ 909**	$ 881	$ 680
Of which non-current	**516**	552	554
	$ 1,425	$ 1,433	$ 1,234

13. PROVISIONS

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

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other[1]	Total
Balance as at December 31, 2013	$ 863	$ 463	$ 81	$ 58	$ 1,465
Additions	153	1	40 [2]	8	202
Utilization	(153)	(27)	(55)	(3)	(238)
Reversals	(23)	(5)	(8)	(9)	(45)
Accretion expense	1	3	—	—	4
Effect of changes in discount rates	—	2	—	—	2
Effect of foreign currency exchange rate changes	(4)	—	(1)	—	(5)
Balance as at June 30, 2014	837	437	57	54	1,385
Additions	93	—	138 [2]	5	236
Utilization	(76)	(23)	(13)	(1)	(113)
Reversals	(19)	(12)	(5)	(1)	(37)
Accretion expense	—	2	—	—	2
Effect of changes in discount rates	(1)	(2)	—	—	(3)
Effect of foreign currency exchange rate changes	(37)	—	(5)	(3)	(45)
Balance as at September 30, 2014	**$ 797**	**$ 402**	**$ 172**	**$ 54**	**$ 1,425**
Of which current	$ 641	$ 44	$ 166	$ 22	$ 873
Of which non-current	156	358	6	32	552
	$ 797	$ 402	$ 172	$ 54	$ 1,425

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other[1]	Total
Balance as at January 1, 2013	$ 907	$ 483	$ 127	$ 91	$ 1,608
Additions	208	16	4	6	234
Utilization	(181)	(10)	(30)	(11)	(232)
Reversals	(46)	(7)	(1)	(9)	(63)
Accretion expense	—	1	—	—	1
Effect of changes in discount rates	(1)	(10)	—	—	(11)
Effect of foreign currency exchange rate changes	(15)	—	(2)	—	(17)
Balance as at June 30, 2013	872	473	98	77	1,520
Additions	48	—	—	1	49
Utilization	(68)	(19)	(6)	(4)	(97)
Reversals	(11)	(2)	(2)	(2)	(17)
Accretion expense	1	2	—	—	3
Effect of changes in discount rates	—	(1)	—	—	(1)
Effect of foreign currency exchange rate changes	20	—	3	1	24
Balance as at September 30, 2013	$ 862	$ 453	$ 93	$ 73	$ 1,481
Of which current	$ 715	$ 79	$ 89	$ 31	$ 914
Of which non-current	147	374	4	42	567
	$ 862	$ 453	$ 93	$ 73	$ 1,481

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

[2] Includes special items. For more details on the addition related to the BA and BT restructuring charges, see Note 6 – Special items.

14. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	September 30, 2014	December 31, 2013	January 1, 2013
Derivative financial instruments	**$ 578**	$ 411	$ 141
Government refundable advances	**440**	481	398
Lease subsidies	**185**	142	158
Sale and leaseback obligations	**176**	138	168
Current portion of long-term debt	**50**	215	45
Vendor non-recurring costs	**46**	38	53
Other	**66**	301	93
	$ 1,541	$ 1,726	$ 1,056
Of which current	**$ 861**	$ 1,009	$ 455
Of which non-current	**680**	717	601
	$ 1,541	$ 1,726	$ 1,056

15. OTHER LIABILITIES

Other liabilities were as follows, as at:

	September 30, 2014	December 31, 2013	January 1, 2013
Employee benefits	**$ 695**	$ 750	$ 645
Supplier contributions to aerospace programs	**574**	529	364
Accruals for long-term contract costs	**547**	630	677
Deferred revenues	**398**	460	499
Income and other taxes payable	**317**	368	252
Deferred income taxes	**—**	—	46
Flexjet fractional ownership deferred revenues	**—**	—	241
Other	**528**	480	445
	$ 3,059	$ 3,217	$ 3,169
Of which current	**$ 2,010**	$ 2,227	$ 2,212
Of which non-current	**1,049**	990	957
	$ 3,059	$ 3,217	$ 3,169

16. LONG-TERM DEBT

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

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

Following the redemption of the €785 million ($1,093 million) Senior Notes in April 2014, 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 September 30			
	2014		2013	
	PSU	**DSU**	PSU	DSU
Balance at beginning of period	**16,980,181**	**6,716,783**	16,484,434	6,438,438
Granted	**—**	**16,381**	7,597,510	2,117,247
Exercised	**—**	**(48,997)**	—	—
Cancelled	**(488,756)**	**(663,803)**	(153,371)	—
Balance at end of period	**16,491,425**	**6,020,364** [(1)]	23,928,573	8,555,685 [(1)]

	Nine-month periods ended September 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**	**48,112**	7,857,377	2,216,138
Performance adjustment	**—**	**—**	(1,543,133)	(333,900)
Exercised	**—**	**(48,997)**	(5,805,119)	—
Cancelled	**(7,211,897)**	**(2,148,601)**	(760,392)	—
Balance at end of period	**16,491,425**	**6,020,364** [(1)]	23,928,573	8,555,685 [(1)]

[(1)] Of which 2,447,687 DSUs are vested as at September 30, 2014 (2,544,396 as at September 30, 2013).

The compensation revenue, with respect to the PSU and DSU plans, amounted to $12 million and $5 million during the three- and nine-month periods ended September 30, 2014 due to the revision of assumptions related to future performance (compensation expense of $6 million and $20 million during the three- and nine-month periods ended September 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 September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Balance at beginning of period	**28,451,761**	25,359,949	**29,355,757**	28,490,089
Granted	**714,924**	4,769,043	**903,016**	5,478,566
Exercised	**—**	(118,000)	**(23,000)**	(3,027,764)
Cancelled	**(1,829,379)**	(112,250)	**(2,165,648)**	(517,399)
Expired	**(3,147,688)**	—	**(3,880,507)**	(524,750)
Balance at end of period	**24,189,618**	29,898,742	**24,189,618**	29,898,742

A compensation expense of nil and $4 million was recorded during the three- and nine-month periods ended September 30, 2014 with respect to share option plans ($2 million and $5 million for the three- and nine-month periods ended September 30, 2013).

18. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2014	2013	**2014**	2013
Trade and other receivables	**$ (70)**	$ (42)	**$ (237)**	$ (144)
Inventories	**22**	(415)	**(654)**	(1,167)
Other financial assets and liabilities, net	**88**	24	**86**	193
Other assets	**49**	(101)	**(31)**	(378)
Trade and other payables	**59**	45	**10**	374
Provisions	**86**	(62)	**11**	(134)
Advances and progress billings in excess of long-term contract inventories	**(404)**	16	**(480)**	(53)
Advances on aerospace programs	**172**	309	**515**	177
Retirement benefits liability	**(64)**	(2)	**(87)**	47
Other liabilities	**(27)**	2	**(112)**	192
	$ (89)	$ (226)	**$ (979)**	$ (893)

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 ($635 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 September 30 2014:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	**$ 287**	**$ —**	**$ —**	**$ 287**
Derivative financial instruments[1]	**613**	**—**	**613**	**—**
Investments in securities	**354** [2]	**89**	**265**	**—**
Investments in financing structures	**316**	**—**	**150**	**166**
	$ 1,570	**$ 89**	**$ 1,028**	**$ 453**
Financial liabilities				
Lease subsidies	**$ (185)**	**$ —**	**$ —**	**$ (185)**
Derivative financial instruments[1]	**(578)**	**—**	**(578)**	**—**
	$ (763)	**$ —**	**$ (578)**	**$ (185)**

[1] Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements and embedded derivatives.
[2] Excludes $14 million of AFS investments carried at cost.

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

	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Balance as at December 31, 2013	**$ 388**	**$ 135**	**$ (142)**
Net gains (losses) and interest included in net income[1]	**41**	**32**	**(21)**
Issuances	**4**	**—**	**(38)**
Settlements	**(125)**	**(1)**	**12**
Balance as at June 30, 2014	**308**	**166**	**(189)**
Net gains (losses) and interest included in net income[1]	**(15)**	**1**	**(2)**
Settlements	**(6)**	**(1)**	**6**
Balance as at September 30, 2014	**$ 287**	**$ 166**	**$ (185)**

	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Balance as at January 1, 2013	$ 412	$ 135	$ (158)
Net gains (losses) and interest included in net income[1]	1	5	(6)
Issuances	8	—	—
Settlements	(18)	(1)	20
Balance as at June 30, 2013	403	139	(144)
Net gains (losses) and interest included in net income[1]	11	2	(4)
Settlements	(7)	—	8
Balance as at September 30, 2013	$ 407	$ 141	$ (140)

[1] Of which an amount of $2 million and $10 million represents realized gains for the three- and nine-month periods ended September 30, 2014 (nil and $9 million represent realized losses for the three- and nine-month periods ended September 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 September 30 2014:

Main assumptions (weighted average)	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Internally assigned credit rating	Between BB to C (B+)	Between BB- to CCC+ (B+)	Between BB- to CCC (B+)
Discount rate adjustments for marketability	Between 2.85% and 4.74% (4.47%)	Between 1.42% and 6.64% (5.19%)	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 September 30, 2014:

Impact on EBT			**Change of assumptions**		
	Change in fair value recognized in EBT for the :				
Gain (loss)	**Three-month period ended September 30, 2014**	**Nine-month period ended September 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	$ (21)	$ 6	$ (4)	$ (11)	$ (15)
Investment in financing structures	$ (3)	$ 24	$ (4)	$ (11)	$ (12)
Lease subsidies	$ (1)	$ (20)	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:

	September 30, 2014	December 31, 2013	January 1, 2013
Aircraft sales			
Residual value	**$ 1,762**	$ 1,828	$ 1,812
Credit	**1,275**	1,297	1,218
Mutually exclusive exposure[(1)]	**(628)**	(639)	(594)
Total credit and residual value exposure	**$ 2,409**	$ 2,486	$ 2,436
Trade-in commitments	**$ 3,131**	$ 3,416	$ 3,098
Conditional repurchase obligations	**$ 315**	$ 472	$ 489
Other			
Credit	**$ 48**	$ 48	$ 47
Performance guarantees	**$ 39**	$ 43	$ 41

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

Provisions for anticipated losses amounted to $402 million as at September 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 $185 million as at September 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 September 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 ($442 million) related to allegedly defective wheels and braking systems. The claim is for payment of €241 million ($306 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 ($136 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.