

# BOMBARDIER

the evolution of mobility

## SECOND QUARTERLY REPORT

Three-month period ended June 30, 2015

### GLOSSARY

The following table shows the abbreviations used in this report.

Term	Description	Term	Description
AFS	Available for sale	GDP	Gross domestic product
AOCI	Accumulated other comprehensive income	HFT	Held for trading
BPS	Basis points	IAS	International Accounting Standard(s)
CCTD	Cumulative currency translation difference	IASB	International Accounting Standards Board
CGU	Cash generating unit	IFRIC	International Financial Reporting Interpretation Committee
CIS	Commonwealth of Independent States	IFRS	International Financial Reporting Standard(s)
DDHR	Derivative designated in a hedge relationship	L&R	Loans and receivables
DSU	Deferred share unit	MD&A	Management's discussion and analysis
EBIT	Earnings before financing expense, financing income and income taxes	NCI	Non-controlling interests
EBITDA	Earnings before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	NMF	Information not meaningful
EBT	Earnings before income taxes	OCI	Other comprehensive income
EIS	Entry-into-service	PP&E	Property, plant and equipment
EPS	Earnings per share attributable to equity holders of Bombardier Inc.	PSG	Performance security guarantee
FTV	Flight test vehicle	PSU	Performance share unit
FVTP&L	Fair value through profit and loss	R&D	Research and development
GAAP	Generally accepted accounting principles	RVG	Residual value guarantee
		SG&A	Selling, general and administrative
		U.K.	United Kingdom
		U.S.	United States of America

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The data presented in this MD&A is structured by reporting segment: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation, which is reflective of our organizational structure effective as of January 1, 2015.

## **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 each reporting segment's Analysis of results section).

## **Materiality for disclosures**

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

## FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, guidance, targets, goals, priorities, 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 our business and operations; available liquidities and ongoing review of strategic and financial alternatives, the launch and completion of an initial public offering (IPO) and the proceeds therefrom; the impact of an IPO on our operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; the impact of an IPO on the Corporation's share price, the statement that a carve-out IPO should help to crystallize share price value, the impact of the sale of equity on our balance sheet and liquidity position, the effect of an IPO on the range of options available to us, our participation in future rail equipment industry consolidation, the stock exchange on which an IPO would be effected, and the capital and governance structure of the Transportation segment following an IPO. Forward-looking statements can generally 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 management 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 forecast results. While management considers their assumptions to be reasonable and appropriate based on information currently available, there is risk that they may not be accurate.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry and rail industry, political instability and force majeure), operational risks (such as risks related to developing new products and services; fixed-price commitments and production and project execution; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; the environment; dependence on certain customers and suppliers; human resources), financing risks (such as risks related to liquidity and access to capital markets, retirement benefit plan risk, exposure to credit risk, certain restrictive debt covenants, financing support provided for the benefit of certain customers and reliance on government support) and market risks (such as risks related to foreign currency fluctuations, changing interest rates, decreases in residual values and increases in commodity prices). For more details, see the Risks and uncertainties section in Other in the MD&A of our financial report for the fiscal year ended December 31, 2014. Certain important assumptions by management in making forward-looking statements include, but are not limited to: the decision to launch an IPO and the timing, size and successful completion thereof; and our ability to consummate an IPO in favourable market conditions. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the Guidance and forward-looking statements sections in the MD&A of our financial report for the fiscal year ended December 31, 2014. There can be no assurance that any IPO or other transaction will be undertaken or completed in whole or in part or of the timing, size and proceeds of any such offering, which will depend on a number of factors, including prevailing market conditions.

Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

# OVERVIEW

## HIGHLIGHTS

### Results of the quarter

Three-month periods ended June 30	2015	2014	Variance
Revenues	\$ 4,620	\$ 4,891	(6)%
EBIT	\$ 226	\$ 257	(12)%
EBIT margin	4.9%	5.3%	(40) bps
Net income	\$ 125	\$ 155	(19)%
Diluted EPS (in dollars)	\$ 0.06	\$ 0.08	(25)%
Adjusted net income <sup>(1)</sup>	\$ 145	\$ 192	(24)%
Adjusted EPS (in dollars) <sup>(1)</sup>	\$ 0.06	\$ 0.10	(40)%
Net additions to PP&E and intangible assets	\$ 439	\$ 525	(16)%
Free cash flow usage <sup>(1)</sup>	\$ (808)	\$ (424)	(91)%
As at	June 30, 2015	December 31, 2014	
Order backlog (in billions of dollars)	\$ 64.8	\$ 69.1	(6)%
Available short-term capital resources <sup>(2)</sup>	\$ 4,412	\$ 3,846	15 %

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

<sup>(2)</sup> Defined as cash and cash equivalents plus the amount available under the revolving credit facilities.

### Key events

- On April 14, 2015, the V300ZEFIRO very high speed train received homologation and successfully completed its maiden trip from Milan to Rome, Italy. The V300ZEFIRO train is built in partnership with AnsaldoBreda.
- On May 7, 2015, we announced that we are preparing for an initial public offering (IPO) of a minority stake in Bombardier Transportation. The Corporation intends to file the required documentation with applicable securities regulators during the fourth quarter of this year, subject to market conditions, with the primary listing venue likely to be Germany, where the business segment is headquartered. After the IPO, Bombardier Transportation will continue to be controlled by Bombardier Inc. and consolidated in our financial results.
- On May 7, 2015, Bombardier Commercial Aircraft and Swiss International Air Lines (SWISS) announced that SWISS will be the first customer to take delivery and operate the *C Series* aircraft when the *CS100* aircraft enters into service in the first half of 2016.
- On May 14, 2015, Business Aircraft announced a reduction in the production rate for *Global 5000* and *Global 6000* aircraft, following the impact on industry-wide order intake of current economic conditions and geopolitical issues in some regions, such as Latin America, China and Russia.
- On June 14, 2015, Commercial Aircraft announced that based on flight tests results, the *CS100* and *CS300* aircraft are exceeding their original targets for fuel burn, payload, range and airfield performance. In addition, the *C Series* aircraft are expected to meet noise performance targets.<sup>(1)</sup>
- Following an in-depth review to validate all aspects of the *Global 7000* and *Global 8000* aircraft program, our findings indicate that there will be a delay in the *Global 7000* aircraft's schedule. Consequently, the aircraft is now expected to enter into service in the second half of 2018.
- We have made several changes to our leadership team. In April 2015, Fred Cromer became President, Bombardier Commercial Aircraft and in June 2015, David M. Coleal became President, Bombardier Business Aircraft. Effective August 10, 2015, John Di Bert will become Senior Vice President and Chief Financial Officer, Bombardier Inc.

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

## 2015 GUIDANCE UPDATE

The following is an update of certain guidance provided in our 2014 financial report.<sup>(1)</sup>

	Profitability guidance provided in our 2014 Financial Report	Results for the six-month period ended June 30, 2015	Guidance update
<b>Business Aircraft</b>	EBIT margin of approximately 7% an improvement of approximately 1%, compared to 2014.	EBIT margin before special items <sup>(2)</sup> of 6.7%.	EBIT margin range of 5% to 6%. See below for more details.
<b>Commercial Aircraft</b>	Negative EBIT of approximately \$200 million including the dilutive impact of the initial years of production of the <i>C Series</i> program. <sup>(3)</sup>	Negative EBIT before special items <sup>(2)</sup> of \$20 million.	No change in our 2015 guidance. See below for more details.
<b>Aerostructures and Engineering Services</b>	EBIT margin of approximately 4%.	EBIT margin before special items <sup>(2)</sup> of 8.8%.	EBIT margin of approximately 6%. See below for more details.
<b>Transportation</b>	Slight improvement in EBIT margin compared to 2014.	EBIT margin of 5.6% compared to 5.4% in 2014.	No change in our 2015 guidance. See below for more details.

In Business Aircraft, we are on track to meet our 210 aircraft delivery guidance for the fiscal year; however, considering the current softness in market demand in some regions mainly in China, Latin America and Russia, we are revising our EBIT margin guidance to a range of 5% to 6% for the year.

In Commercial Aircraft, we are on track to meet our 80 aircraft delivery guidance for the fiscal year. We anticipate EBIT to be basically in line with guidance; however, there is some risk depending on the assumptions used with respect to the level of non-cash provisioning in relation to the dilutive impact of the *C Series* initial deliveries.<sup>(3)</sup>

In Aerostructures and Engineering Services, the 8.8% EBIT margin before special items<sup>(2)</sup> for the six-month period ended June 30, 2015 is higher than our EBIT margin guidance for fiscal year 2015 of approximately 4% and includes timing elements. We currently expect the EBIT margin for the year to be approximately 6%. We are on track to achieve revenues of approximately \$1.8 billion, mainly from intersegment contracts with the Business Aircraft and Commercial Aircraft segments.

In Transportation, there is no change to our previously disclosed EBIT margin, revenue and book-to-bill guidance. Excluding currency impacts, revenues in 2015 are expected to be higher than in 2014, with percentage growth in the low-single digits. The book-to-bill ratio is expected to be in excess of 1.0.<sup>(4)</sup>

We expect our net additions to PP&E and intangible assets for 2015 to be at a similar level as last year.

<sup>(1)</sup> See the Forward-looking statements section.

<sup>(2)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric and each reporting segment's Analysis of results section for reconciliations to the most comparable IFRS measure.

<sup>(3)</sup> Includes the dilutive impact of the *C Series* program including the write-down of inventory to net realizable value. Early production units in a new program incur higher costs and generally have lower selling prices than units produced later in the program's life cycle.

<sup>(4)</sup> Defined as new orders over revenues.

## CONSOLIDATED RESULTS OF OPERATIONS

The results of operations and cash flows for the three- and six-month periods are not necessarily indicative of the results of operations and cash flows for the full fiscal year.

### Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Revenues	\$ 4,620	\$ 4,891	\$ 9,017	\$ 9,245
Cost of sales	4,031	4,233	7,862	7,994
<b>Gross margin</b>	<b>589</b>	<b>658</b>	<b>1,155</b>	<b>1,251</b>
SG&A	297	354	573	692
R&D	79	79	158	155
Share of income of joint ventures and associates	(18)	(28)	(34)	(50)
Other expense (income)	5	(4)	(5)	(22)
<b>EBIT before special items<sup>(1)</sup></b>	<b>226</b>	<b>257</b>	<b>463</b>	<b>476</b>
Special items	—	—	9	12
<b>EBIT</b>	<b>226</b>	<b>257</b>	<b>454</b>	<b>464</b>
Financing expense	92	90	197	136
Financing income	(20)	(49)	(40)	(61)
<b>EBT</b>	<b>154</b>	<b>216</b>	<b>297</b>	<b>389</b>
Income taxes	29	61	72	119
<b>Net income</b>	<b>\$ 125</b>	<b>\$ 155</b>	<b>\$ 225</b>	<b>\$ 270</b>
Attributable to				
Equity holders of Bombardier Inc.	\$ 125	\$ 153	\$ 223	\$ 266
NCI	\$ —	\$ 2	\$ 2	\$ 4
<b>EPS (in dollars)</b>				
Basic and diluted	\$ 0.06	\$ 0.08	\$ 0.11	\$ 0.14
(as a percentage of total revenues)				
EBIT before special items <sup>(1)</sup>	4.9%	5.3%	5.1%	5.1%
EBIT	4.9%	5.3%	5.0%	5.0%

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
EBITDA	\$ 329	\$ 360	\$ 665	\$ 660
EBITDA before special items	\$ 329	\$ 360	\$ 674	\$ 672
Adjusted net income	\$ 145	\$ 192	\$ 315	\$ 343
Adjusted EPS	\$ 0.06	\$ 0.10	\$ 0.15	\$ 0.19

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

**Reconciliation of segment to consolidated results**

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014 <sup>(1)</sup>	2015	2014 <sup>(1)</sup>
<b>Revenues</b>				
Business Aircraft	\$ 1,815	\$ 1,624	\$ 3,352	\$ 3,098
Commercial Aircraft	598	754	1,271	1,233
Aerostructures and Engineering Services	472	483	943	953
Transportation	2,091	2,380	4,132	4,647
Corporate and eliminations	(356)	(350)	(681)	(686)
	\$ 4,620	\$ 4,891	\$ 9,017	\$ 9,245
<b>EBIT before special items<sup>(2)</sup></b>				
Business Aircraft	\$ 119	\$ 122	\$ 226	\$ 222
Commercial Aircraft	(10)	17	(20)	20
Aerostructures and Engineering Services	42	22	83	42
Transportation	115	125	233	253
Corporate and eliminations	(40)	(29)	(59)	(61)
	\$ 226	\$ 257	\$ 463	\$ 476
<b>Special Items</b>				
Business Aircraft	\$ —	\$ —	\$ 11	\$ 10
Commercial Aircraft	—	—	(1)	(2)
Aerostructures and Engineering Services	—	—	(1)	4
	\$ —	\$ —	\$ 9	\$ 12
<b>EBIT</b>				
Business Aircraft	\$ 119	\$ 122	\$ 215	\$ 212
Commercial Aircraft	(10)	17	(19)	22
Aerostructures and Engineering Services	42	22	84	38
Transportation	115	125	233	253
Corporate and eliminations	(40)	(29)	(59)	(61)
	\$ 226	\$ 257	\$ 454	\$ 464

<sup>(1)</sup> Financial results for the three- and six-month periods ended June 30, 2014 have been reclassified to conform with current period presentation. See Reclassification at the beginning of each reporting segment for more details.

<sup>(2)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric and each reporting segment's Analysis of results section for reconciliations to the most comparable IFRS measure.

## **Analysis of consolidated results**

A detailed analysis of revenues and EBIT is provided in each reporting segment's Analysis of results section.

### **Special items**

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

Special items were as follows:

	<b>Three-month periods ended June 30</b>		<b>Six-month periods ended June 30</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Loss on repurchase of long-term debt <sup>(1)</sup>	\$ —	\$ 43	\$ 22	\$ 43
Restructuring charge <sup>(2)</sup>	—	—	9	22
Gain on resolution of a litigation <sup>(3)</sup>	—	(8)	—	(18)
	<b>\$ —</b>	<b>\$ 35</b>	<b>\$ 31</b>	<b>\$ 47</b>
<b>Of which is presented in</b>				
Special items in EBIT	\$ —	\$ —	\$ 9	\$ 12
Financing expense - loss on repurchase of long-term debt	—	43	22	43
Financing income - interests related to the resolution of litigations	—	(8)	—	(8)
	<b>\$ —</b>	<b>\$ 35</b>	<b>\$ 31</b>	<b>\$ 47</b>

<sup>(1)</sup> The amount for the six-month period ended June 30, 2015 represents the loss related to the redemption of the \$750-million Senior Notes. The amounts for the three- and six-month periods ended June 30, 2014 represent the loss related to the redemption of the €785-million (\$1,093-million) Senior Notes.

<sup>(2)</sup> The amount for the six-month period ended June 30, 2015 represents restructuring charges of \$13 million related to the workforce reduction announced in January 2015 of approximately 1,000 positions, located mostly in Querétaro, Mexico and Wichita, U.S., as a result of the decision to pause the *Learjet 85* aircraft program, and a reversal of restructuring provisions recorded in the prior year of \$4 million. The amount for the six-month period ended June 30, 2014 relates to the Business Aircraft, Commercial Aircraft and Aerostructures and Engineering Services workforce reduction announced in January 2014 of approximately 1,700 positions, located mostly in Canada and the U.S.

<sup>(3)</sup> Represents a gain at Business Aircraft and Commercial Aircraft upon the successful resolution of a litigation in connection with Part IV of the Québec Income Tax Act, the Tax on Capital, of which \$8 million represents the interest portion of the gain for the three- and six-month periods ended June 30, 2014.

### **Net financing expense**

Net financing expense amounted to \$72 million and \$157 million, respectively, for the three- and six-month periods ended June 30, 2015, compared to \$41 million and \$75 million for the corresponding periods last fiscal year.

The \$31-million increase for the three-month period is mainly due to:

- a higher net financing expense related to certain financial instruments classified as FVTP&L (\$23 million);
- higher interest on long-term debt, after the effect of hedges (\$22 million);
- lower borrowing costs capitalized to PP&E and intangible assets (\$19 million); and
- interest income related to the resolution of litigations in the corresponding period last fiscal year (\$8 million).

Partially offset by:

- a loss on repurchase of long-term debt in the corresponding period last fiscal year (\$43 million).

The \$82-million increase for the six-month period is mainly due to:

- a higher net financing expense related to certain financial instruments classified as FVTP&L (\$36 million);
- higher interest on long-term debt, after the effect of hedges (\$35 million);
- lower borrowing costs capitalized to PP&E and intangible assets (\$28 million); and
- interest income related to the resolution of litigations in the corresponding period last fiscal year (\$8 million).

Partially offset by:

- a lower loss on repurchase of long-term debt (\$21 million).



## Income taxes

The effective income tax rates for the three- and six-month periods ended June 30, 2015 are 18.8% and 24.2%, respectively, compared to the statutory income tax rate in Canada of 26.8%. The lower effective income tax rate for the three-month period is mainly due to the positive impact of the net recognition of previously unrecognized income tax benefits related to tax losses and temporary differences and permanent differences. The lower effective income tax rate for the six-month period is mainly due to the positive impact of the income tax rate differential of foreign subsidiaries and permanent differences, partially offset by net non-recognition of income tax benefits related to tax losses and temporary differences and other tax items.

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

## LIQUIDITY AND CAPITAL RESOURCES

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
<b>Net income</b>	<b>\$ 125</b>	<b>\$ 155</b>	<b>\$ 225</b>	<b>\$ 270</b>
Non-cash items				
Amortization	103	103	211	196
Deferred income taxes	2	24	14	48
Share of income of joint ventures and associates	(18)	(28)	(34)	(50)
Loss on repurchase of long-term debt	—	43	22	43
Other	5	1	6	7
Dividends received from joint ventures and associates	23	62	27	62
Net change in non-cash balances	(609)	(259)	(1,206)	(890)
Cash flows from operating activities	(369)	101	(735)	(314)
Net additions to PP&E and intangible assets	(439)	(525)	(818)	(1,025)
<b>Free cash flow usage<sup>(1)</sup></b>	<b>\$ (808)</b>	<b>\$ (424)</b>	<b>\$ (1,553)</b>	<b>\$ (1,339)</b>
Net interest and income taxes paid	(123)	—	(228)	(109)
<b>Free cash flow usage before net interest and income taxes paid<sup>(1)</sup></b>	<b>\$ (685)</b>	<b>\$ (424)</b>	<b>\$ (1,325)</b>	<b>\$ (1,230)</b>

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

The \$384-million deterioration of free cash flow usage for the three-month period is mainly due to:

- a negative period-over-period variation in net change in non-cash balances (\$350 million) (see explanation below);
- lower net income before non-cash items (\$81 million); and
- lower level of dividends received from joint ventures and associates (\$39 million).

Partially offset by:

- lower net additions to PP&E and intangible assets (\$86 million) mainly in the Business Aircraft segment as a result of the pause of the *Learjet 85* aircraft program.

The \$214-million deterioration of free cash flow usage for the six-month period is mainly due to:

- a negative period-over-period variation in net change in non-cash balances (\$316 million) (see explanation below);
- lower net income before non-cash items (\$70 million); and
- lower dividends received from joint ventures and associates (\$35 million).

Partially offset by:

- lower net additions to PP&E and intangible assets (\$207 million) mainly in the Business Aircraft segment as a result of the pause of the *Learjet 85* aircraft program.

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

For the three-month period ended June 30, 2015, the \$609-million outflow is mainly due to:

- a decrease in advances on aerospace programs mainly resulting from lower order intake than deliveries for the large and medium business aircraft categories;
- an increase in Transportation's inventories following ramp-up of production ahead of deliveries;
- an increase in aerospace program inventories mainly in the medium and large business aircraft categories;
- an increase in trade and other receivables mainly related to the Transportation segment; and
- a net increase in Transportation's other financial assets and liabilities mainly related to derivative instruments.

Partly offset by:

- an increase in trade and other payables in all segments but mainly in the Business Aircraft segment;
- a decrease in Business Aircraft finished product inventories mainly in pre-owned aircraft inventories as well as new medium and large business aircraft; and
- an increase in Transportation's advances and progress billings on existing contracts and new orders.

For the three-month period ended June 30, 2014, the \$259-million outflow was mainly due to:

- an increase in Transportation's inventories following ramp-up of production ahead of deliveries; and
- an increase in aerospace program inventories, mainly in the medium business aircraft category.

Partially offset by:

- an increase in Transportation's advances and progress billings on existing contracts and new orders;
- an increase in trade and other payables mainly related to the Transportation segment; and
- a decrease in finished product inventories, mainly due to a lower level of new business aircraft not associated with a firm order.

For the six-month period ended June 30, 2015, the \$1,206-million outflow is mainly due to:

- an increase in Transportation's inventories following ramp-up of production ahead of deliveries;
- a decrease in advances on aerospace programs mainly resulting from lower order intake than deliveries for the large and medium business aircraft categories and for regional jets;
- an increase in aerospace program inventories mainly in the medium and large business aircraft categories; and
- a decrease in Transportation's trade and other payables partly offset by higher trade and other payables in all aerospace segments.

Partly offset by:

- an increase in Transportation's advances and progress billings on existing contracts and new orders;
- a decrease in trade and other receivables mainly related to the Transportation segment; and
- a decrease in Business Aircraft finished product inventories mainly in pre-owned aircraft inventories.

For the six-month period ended June 30, 2014, the \$890-million outflow was mainly due to:

- an increase in Transportation's inventories following ramp-up of production ahead of deliveries;
- an increase in aerospace program inventories mainly in the large business aircraft category;
- an increase in trade and other receivables mainly in the Transportation segment;
- an increase in finished product inventories, mainly in new medium and light business aircraft;
- a reduction in Transportation's other liabilities; and
- a decrease in trade and other payables in all aerospace segments partially offset by an increase in the Transportation segment.

Partially offset by:

- an increase in Transportation's advances and progress billings on existing contracts and new orders; and
- an increase in advances on aerospace programs mainly resulting from higher order intake than deliveries in the medium business aircraft category and commercial aircraft, partially offset by lower advances for the large business aircraft category.

### Variation in cash and cash equivalents

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Balance at the beginning of period	\$ 4,733	\$ 2,488	\$ 2,489	\$ 3,397
Net proceeds from issuance of long-term debt	—	1,783	2,218	1,810
Free cash flow usage <sup>(1)</sup>	(808)	(424)	(1,553)	(1,339)
Net proceeds from issuance of shares	—	—	822	—
Repayments of long-term debt	(796)	(1,301)	(804)	(1,308)
Net variation in AFS investments in securities	(54)	(53)	(64)	(53)
Effect of exchange rate changes on cash and cash equivalents	92	59	(24)	48
Dividends paid	(5)	(46)	(10)	(92)
Net proceeds from disposal of a business <sup>(2)</sup>	—	—	—	25
Other	(57)	(30)	31	(12)
Balance at the end of period	\$ 3,105	\$ 2,476	\$ 3,105	\$ 2,476

<sup>(1)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for definition of this metric and the Free cash flow usage table above for reconciliation to the most comparable IFRS measure.

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

### Available short-term capital resources

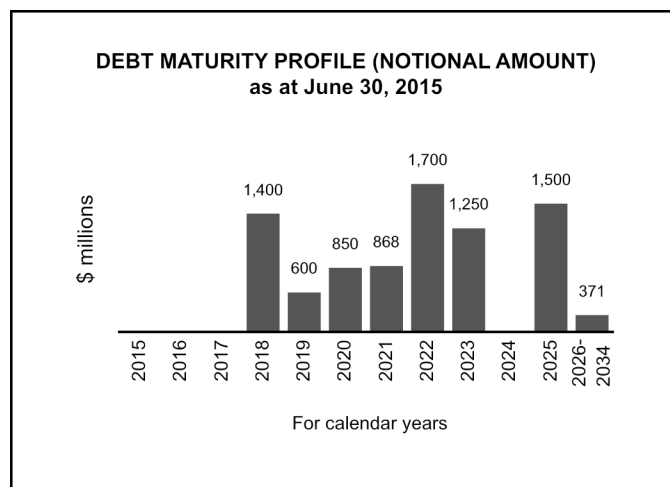
	June 30, 2015	December 31, 2014
Cash and cash equivalents	\$ 3,105	\$ 2,489
Available revolving credit facility	1,307	1,357
Available short-term capital resources	\$ 4,412	\$ 3,846

Our 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 our letter of credit facilities.

On February 27, 2015, we announced the closing of a public offering, with an over-allotment option having been exercised in full for an aggregate of 487,840,350 subscription receipts at a price of \$2.21 Canadian dollars per subscription receipt for aggregate gross proceeds of \$1.1 billion Canadian dollars, or \$868 million. The net proceeds of the offering are to be used for general corporate purposes. Following the adoption of a resolution to increase the number of authorized Class A and Class B shares of the Corporation effective on March 27, 2015, the subscription receipts were converted in Class B common shares and the proceeds of issuance were released to the Corporation.

On March 13, 2015, we issued a \$2.25-billion aggregate amount of unsecured Senior Notes, comprised of \$750 million of notes bearing interest at 5.50% due on September 15, 2018 and \$1.5 billion of notes bearing interest at 7.50% due on March 15, 2025.

Pursuant to an optional early redemption, on April 29, 2015, a portion of the proceeds from the Senior Notes were used to finance the redemption of the \$750-million Senior Notes bearing interest at 4.25% due in January 2016. The remainder was used to pay fees and expenses related to this offering and for general corporate purposes.



In March 2015, we extended the availability periods of Transportation's €3.5-billion (\$3.9-billion) and the \$600-million<sup>(1)</sup> letter of credit facilities by one year to May 2018 and June 2018, respectively. The maturity dates of Transportation's €500-million (\$557-million) and the \$750-million<sup>(1)</sup> unsecured revolving credit facilities were also extended by one year to March 2017 and June 2018, respectively. In June 2015, Transportation's €3.5-billion (\$3.9-billion) committed amount increased to €3.64 billion (\$4.1 billion). Also, in June 2015, we extended the availability period of the PSG facility to August 2016.

Pursuant to the financing plan announced in the first quarter of 2015, the minimum liquidity required at the end of each fiscal quarter to meet the financial covenants related to the \$600-million letter of credit facility<sup>(1)</sup> and \$750-million unsecured revolving facility<sup>(1)</sup> has increased from \$500 million to \$750 million. Transportation's €3.64-billion (\$4.1-billion) letter of credit and €500-million (\$557-million) unsecured revolving facilities continue to require a minimum liquidity level of €600 million (\$668 million). Minimum liquidity is not defined as comprising only cash and cash equivalents as presented in the consolidated statement of financial position.

We have launched the Bombardier transformation plan focusing on three priorities: improve cash generation, reduce costs and drive performance. We have identified and quantified opportunities within each business segment. The transformation plan is transitioning to the execution phase. We are working with our internal and external suppliers to reduce product cost and implementing tighter controls of our working capital through better synchronization of our supply chain. We are also using our cash more effectively, particularly when it comes to consumables, discretionary spend and capital investments. This transformation plan will give us the momentum to raise our level of operational performance.

We consider that our expected cash flows from operating activities, combined with our available short-term capital resources of \$4.4 billion as well as other opportunities coming from our various initiatives, including our planned IPO and our transformation plan, 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 us to meet all other expected financial requirements in the foreseeable future.

<sup>(1)</sup> Available for other than Transportation's usage.

## CAPITAL STRUCTURE

We analyze our 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.

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 we do not believe to be representative of our core performance.

Our 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.

### Interest coverage ratio

For the four quarter trailing periods ended	June 30, 2015	December 31, 2014
Adjusted EBIT <sup>(1)</sup>	\$ 1,155	\$ 1,262
Adjusted interest <sup>(1)</sup>	\$ 428	\$ 401
<b>Adjusted EBIT to adjusted interest ratio</b>	<b>2.7</b>	<b>3.1</b>

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

The interest coverage ratio deteriorated mainly as a result of:

- lower adjusted EBIT, mainly due to lower interest received as a result of the interest portion related to the settlement of a cross-currency interest-rate swap recognized in the second quarter of 2014; and
- higher adjusted interest, mainly due to higher interest paid.

### Financial leverage ratio

As at and for the four quarter trailing periods ended	June 30, 2015	December 31, 2014
Adjusted debt <sup>(1)</sup>	\$ 9,656	\$ 8,401
Adjusted EBITDA <sup>(1)</sup>	\$ 1,666	\$ 1,775
<b>Adjusted debt to adjusted EBITDA ratio</b>	<b>5.8</b>	<b>4.7</b>

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

The financial leverage ratio deteriorated mainly as a result of the issuance of \$2.25 billion of long-term debt in March 2015, partially offset by the optional redemption in April 2015 of \$750 million of Senior Notes due in January 2016.

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

In addition to the above global metrics, management separately monitors our net retirement benefit liability which amounted to \$2.0 billion as at June 30, 2015 (\$2.5 billion as at December 31, 2014). 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. Management closely monitors the impact of the net retirement benefit liability on our future cash flows and has introduced significant risk mitigation initiatives in recent years to gradually reduce risks associated with the retirement benefit plans. The \$471-million decrease in the net retirement benefit liability is explained as follows:

**Variation in net retirement benefit liability**

Balance as at December 31, 2014	\$	2,470 <sup>(1)</sup>
Changes in discount rates		(231)
Other net actuarial gains on defined benefit obligations		(131)
Current service costs		146
Employer contributions		(141)
Changes in foreign exchange rates		(134)
Accretion on net retirement benefit obligation		37
Actuarial gains on pension plan assets		(24)
Other		7
<b>Balance as at June 30, 2015</b>	<b>\$</b>	<b>1,999 <sup>(1)</sup></b>

<sup>(1)</sup> Includes retirement benefit assets of \$316 million as at June 30, 2015 (\$159 million as at December 31, 2014).

## 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.
Free cash flow before net interest and income taxes paid	Free cash flow excluding cash paid and received for interest and income taxes.
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.

We believe that providing certain non-GAAP financial measures in addition to IFRS measures provides users of our interim financial report with enhanced understanding of the results and related trends and increases the transparency and clarity of the core results of the business. For these reasons a significant number of users of the MD&A analyze our results based on these performance measures. EBIT before special items, EBITDA before special items, adjusted net income and adjusted EPS exclude items that do not reflect, in our opinion, our core performance and help users of our MD&A to better analyze results, enabling better comparability of our 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, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities in our industry may define the above measures differently than we do. In those cases, it may be difficult to compare the performance of those entities to ours based on these similarly-named non-GAAP measures.

Reconciliations of non-GAAP financial measures 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 tables in the reporting segments and Consolidated results of operations section; and
- free cash flow usage before net interest and income taxes paid and free cash flow usage to cash flows from operating activities – see the Free cash flow usage table in the Liquidity and capital resources section.

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
<b>EBIT</b>	<b>\$ 226</b>	<b>\$ 257</b>	<b>\$ 454</b>	<b>\$ 464</b>
Amortization	103	103	211	196
<b>EBITDA</b>	<b>329</b>	<b>360</b>	<b>665</b>	<b>660</b>
Special items <sup>(1)</sup>	—	—	9	12
<b>EBITDA before special items</b>	<b>\$ 329</b>	<b>\$ 360</b>	<b>\$ 674</b>	<b>\$ 672</b>

**Reconciliation of adjusted net income to net income**

	Three-month periods ended June 30			
	2015		2014	
	(per share)		(per share)	
<b>Net income</b>	<b>\$ 125</b>		<b>\$ 155</b>	
Adjustments to net financing expense related to:				
Accretion on net retirement benefit obligations	18	\$ 0.00	19	\$ 0.01
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments	2	0.00	(18)	(0.01)
Loss on repurchase of long-term debt <sup>(1)</sup>	—	—	43	0.02
Interest portion of gains related to special items <sup>(1)</sup>	—	—	(8)	0.00
Tax impact of special and other adjusting items	—	—	1	0.00
<b>Adjusted net income</b>	<b>\$ 145</b>		<b>\$ 192</b>	

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

	Three-month periods ended June 30	
	2015	2014
<b>Diluted EPS</b>	<b>\$ 0.06</b>	<b>\$ 0.08</b>
Impact of special and other adjusting items	—	0.02
<b>Adjusted EPS</b>	<b>\$ 0.06</b>	<b>\$ 0.10</b>

**Reconciliation of adjusted net income to net income**

	Six-month periods ended June 30			
	2015		2014	
	(per share)		(per share)	
<b>Net income</b>	<b>\$ 225</b>		<b>\$ 270</b>	
Adjustments to EBIT related to special items <sup>(1)</sup>	9	\$ 0.00	12	\$ 0.01
Adjustments to net financing expense related to:				
Accretion on net retirement benefit obligations	37	0.02	38	0.02
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	23	0.01	(11)	0.00
Loss on repurchase of long-term debt <sup>(1)</sup>	22	0.01	43	0.02
Interest portion of gains related to special items <sup>(1)</sup>	—	—	(8)	0.00
Tax impact of special and other adjusting items	(1)	0.00	(1)	0.00
<b>Adjusted net income</b>	<b>\$ 315</b>		<b>\$ 343</b>	

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

	Six-month periods ended June 30	
	2015	2014
<b>Diluted EPS</b>	<b>\$ 0.11</b>	<b>\$ 0.14</b>
Impact of special and other adjusting items <sup>(1)</sup>	0.04	0.05
<b>Adjusted EPS</b>	<b>\$ 0.15</b>	<b>\$ 0.19</b>

<sup>(1)</sup> Refer to the Analysis of results sections in Overview and the reporting segments for details regarding special items.



### Reconciliation of adjusted debt to long-term debt

	As at	
	June 30, 2015	December 31, 2014
<b>Long-term debt</b>	<b>\$ 9,012</b>	<b>\$ 7,683</b>
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	(369)	(407)
Long-term debt, net	8,643	7,276
Operating lease obligations <sup>(1)</sup>	712	865
Sale and leaseback obligations	301	260
<b>Adjusted debt</b>	<b>\$ 9,656</b>	<b>\$ 8,401</b>

### Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

	Four-quarter trailing periods ended	
	June 30, 2015	December 31, 2014
<b>EBIT</b>	<b>\$ (576)</b>	<b>\$ (566)</b>
Special items <sup>(2)</sup>	1,486	1,489
Interest received	199	298
Interest adjustment for operating leases <sup>(3)</sup>	46	41
<b>Adjusted EBIT</b>	<b>1,155</b>	<b>1,262</b>
Amortization	432	417
Amortization adjustment for operating leases <sup>(4)</sup>	79	96
<b>Adjusted EBITDA</b>	<b>\$ 1,666</b>	<b>\$ 1,775</b>

### Reconciliation of adjusted interest to interest paid

	Four-quarter trailing periods ended	
	June 30, 2015	December 31, 2014
<b>Interest paid</b>	<b>\$ 374</b>	<b>\$ 354</b>
Interest adjustment for operating leases <sup>(3)</sup>	46	41
Accretion expense on sale and leaseback obligations	8	6
<b>Adjusted interest</b>	<b>\$ 428</b>	<b>\$ 401</b>

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

<sup>(2)</sup> Refer to the Analysis of results sections in Overview and the reporting segments for details of the special items for the six-month periods ended June 30, 2015 and 2014. The special items for the six-month period ended December 31, 2014 relate to a \$1.4-billion charge related to the pause of the *Learjet 85* program and restructuring charges totaling \$120 million.

<sup>(3)</sup> Represents the interest cost of a debt equivalent to operating lease obligations included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related period, given our credit rating.

<sup>(4)</sup> Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

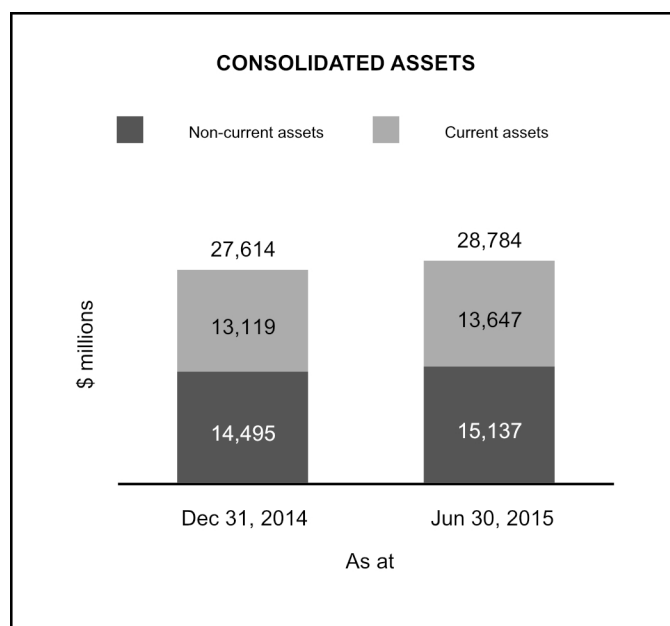
## CONSOLIDATED FINANCIAL POSITION

The total assets increased by \$1.2 billion in the six-month period, including a negative currency impact of \$336 million. The \$1.5-billion increase excluding the currency impact is mainly explained by:

- a \$977-million increase in gross inventories mainly due to a ramp-up of production ahead of deliveries in Transportation;
- a \$653-million increase in aerospace program tooling. See Investment in product development tables in Business Aircraft and Commercial Aircraft for details; and
- a \$640-million increase in cash and cash equivalents. See the Variation in cash and cash equivalents and Free cash flow usage tables in Overview for details.

Partially offset by:

- a \$780-million increase in advances and progress billings related to Transportation.

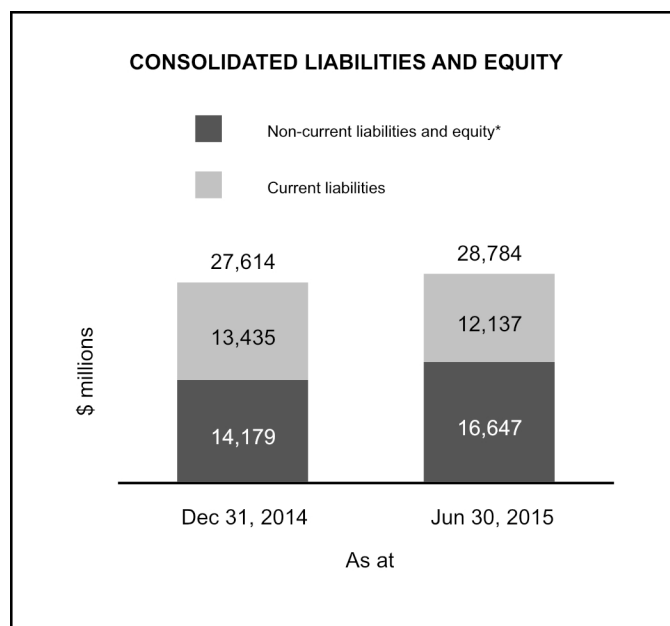


The total liabilities and equity increased by \$1.2 billion in the six-month period, including a currency impact of \$336 million. The \$1.5-billion increase excluding the currency impact is mainly explained by:

- a \$1.4-billion increase in long-term debt, mainly related to the issuance of \$2.25 billion of Senior Notes partially offset by the redemption of the \$750-million Senior Notes; and
- a \$1.3-billion increase in equity, mainly due to the issuance of share capital of \$822 million, an increase in net actuarial gains on retirement benefits of \$436 million and net income of \$225 million.

Partially offset by:

- a \$760-million decrease in advances on aerospace programs mainly due to lower order intake than deliveries for the large and medium business aircraft categories and for regional jets;
- a \$248-million decrease in retirement benefit liabilities; and
- a \$239-million decrease in advances and progress billings in excess of long-term contracts inventories related to Transportation.



\*Includes equity of \$1,459 million as at June 30, 2015 (\$55 million as at December 31, 2014).

# BUSINESS AIRCRAFT

## Reclassification

As a result of the new organizational structure effective as of January 1, 2015, financial results for the year ended December 31, 2014 have been reclassified to conform with the current period presentation. Intersegment transaction policies put in place following the adoption of the new organizational structure in 2015 were not applied retroactively, which impacted period-over-period variances.

## HIGHLIGHTS

### Results of the quarter

Three-month periods ended June 30	2015	2014	Variance
Revenues	\$ 1,815	\$ 1,624	12 %
Aircraft deliveries (in units)	47	38	9
Net orders (in units)	8	30	(22)
Book-to-bill ratio <sup>(1)</sup>	0.2	0.8	nmf
EBIT	\$ 119	\$ 122	(2)%
EBIT margin	6.6%	7.5%	(90) bps
EBITDA <sup>(2)</sup>	\$ 161	\$ 154	5 %
EBITDA margin <sup>(2)</sup>	8.9%	9.5%	(60) bps
Net additions to PP&E and intangible assets	\$ 177	\$ 248	(29)%
<b>As at</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>	
Order backlog (in billions of dollars)	\$ 22.2	\$ 24.0	(8)%

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

<sup>(2)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measure.

### Key events

- Current economic conditions and geopolitical issues in some regions, such as Latin America, China and Russia, have had an impact on industry-wide order intake. As a result, on May 14, 2015, Business Aircraft announced a reduction in the production rate for *Global 5000* and *Global 6000* aircraft. Approximately 1,600 employees will be progressively impacted at various stages of the production cycle in Montréal, Toronto and Belfast through to the first quarter of 2016. A severance provision of less than \$15 million is expected to be recorded in the third quarter of the current fiscal year.
- Effective June 15, 2015, David M. Coleal became President, Bombardier Business Aircraft.
- Following our in-depth review to validate all aspects of the *Global 7000* and *Global 8000* aircraft program, our findings indicate that there will be a delay in the *Global 7000* aircraft's schedule. Consequently, the aircraft is now expected to enter into service in the second half of 2018.

## 2015 GUIDANCE UPDATE

The following is an update of certain guidance provided in our 2014 financial report.<sup>(1)</sup>

	Profitability guidance provided in our 2014 Financial Report	Results for the six-month period ended June 30, 2015	Guidance update
<b>Business Aircraft</b>	EBIT margin of approximately 7% an improvement of approximately 1%, compared to 2014.	EBIT margin before special items <sup>(2)</sup> of 6.7%.	EBIT margin range of 5% to 6%. See below for more details.

In Business Aircraft, we are on track to meet our 210 aircraft delivery guidance for the fiscal year; however, considering the current softness in market demand in some regions mainly in China, Latin America and Russia, we are revising our EBIT margin guidance to a range of 5% to 6% for the year.

<sup>(1)</sup> See the Forward-looking statements section for more details.

<sup>(2)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and the Analysis of results section for reconciliations to the most comparable IFRS measure.

## INDUSTRY AND ECONOMIC ENVIRONMENT

Overall, although business jet utilization and levels of pre-owned aircraft available for sale have remained stable since the fourth quarter of 2014, the business aircraft market is showing signs of softness.

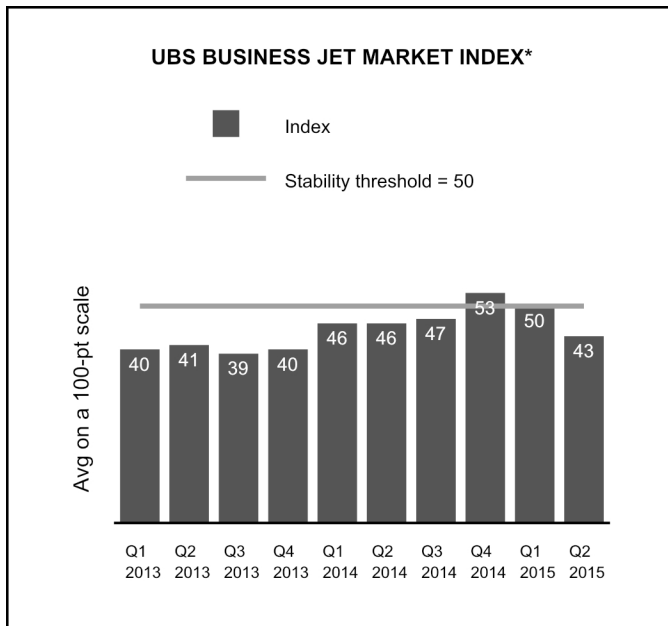
Industry confidence<sup>(1)</sup> decreased significantly during the second quarter of 2015 and was under the threshold of market stability, at the lowest level since the first quarter of 2014. The confidence index declined for all business aircraft categories as a result of reduced confidence in selling prices, customer interest and willingness and business conditions. Also, the world economy is anticipated to grow, but at slower GDP rates of 2.5%, 3.1% and 3.2% for 2015, 2016, 2017, respectively, compared to the 2.8%, 3.2% and 3.3% expected at the beginning of the year. The lower than expected GDP rates for 2015 were mainly in Africa, North America, Latin America and Russia, while the expected GDP growth in Western Europe remains at 1.6%.<sup>(2)</sup>

The level of light pre-owned aircraft inventory has increased, while the levels of medium and large pre-owned aircraft inventory have decreased, in the second quarter compared to the previous quarter. The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet remained stable in the second quarter of 2015 and stands at 11.5% as at June 30, 2015. We consider this level of pre-owned inventory to be within the normal range for the overall market.

In the five-month period ended May 31, 2015, business jet utilization in the U.S. increased compared to the same periods in the last three years. Business jet utilization in Europe remained stable in the six-month period ended June 30, 2015 compared to the same periods in the last three years.

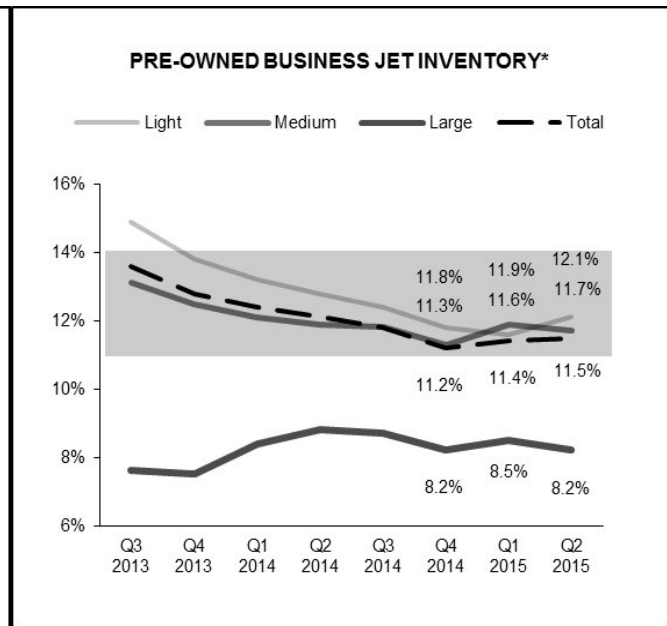
<sup>(1)</sup> As measured by the UBS Business Jet Market Index.

<sup>(2)</sup> According to IHS Global Insight's Comparative World Overviews dated January 15, 2015 and July 15, 2015.



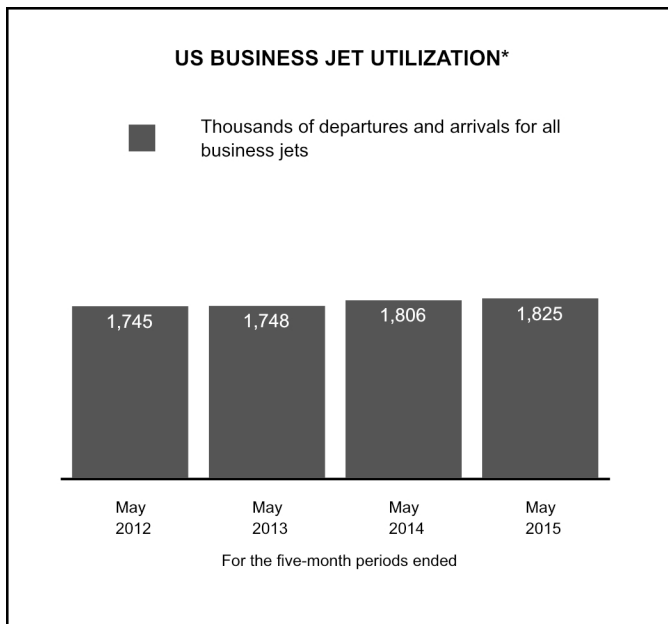
Source: UBS

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



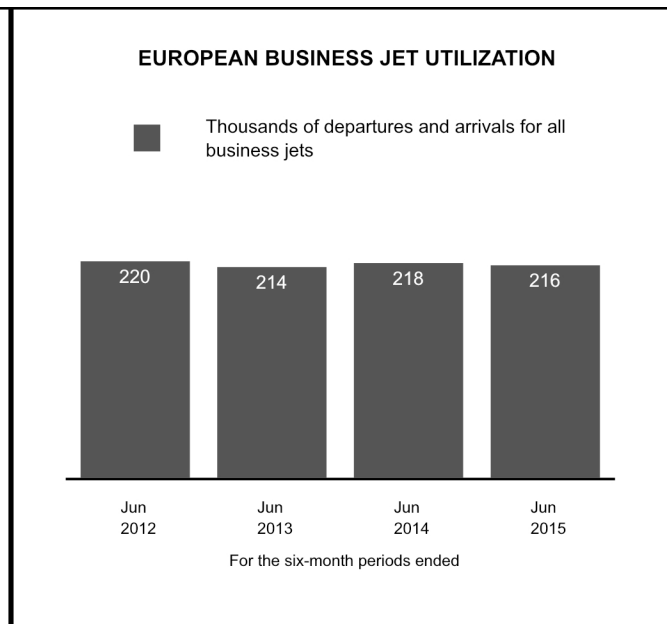
Sources: JETNET and Ascend

\* As a percentage of total business jet fleet, excluding very light jets.  
Shaded area indicates what we consider to be the normal range of total pre-owned business jet inventory available for sale, i.e. between 11% and 14%.



Source: U.S. Federal Aviation Administration (FAA) website

\* Comparative figures have been restated to reflect an updated population of aircraft models.



Source: Eurocontrol

## Update on Business Aircraft 10-year market forecast

In May 2015, Business Aircraft released its annual market forecast for the 10-year period for calendar years 2015 to 2024.<sup>(1)</sup>

The Business Aircraft market forecast estimates 9,000 aircraft deliveries in the light to large categories, essentially unchanged compared to our previous forecast of 9,200 aircraft for calendar years 2014 to 2023. The 10-year deliveries are valued at an estimated \$267 billion<sup>(2)</sup>, compared to the \$264 billion previously forecast. The forecast deliveries are decreasing by a total of 400 deliveries in the light and medium business aircraft categories, partially offset by an increase of 200 deliveries in the large business aircraft category.

Over the next 10 years, we expect the large business aircraft category to represent half of overall revenues at \$137 billion, while the medium and light business aircraft categories will represent \$91 billion and \$39 billion, respectively. In addition, 1,825 light to large business aircraft are expected to be retired over the next 10 years, 4% higher than 1,750 retirements forecast in 2014.

Despite the current economic conditions and geopolitical issues in some markets such as China, Latin America and Russia, which had an impact on order intake levels industry-wide, we remain confident in the potential of the business aircraft industry with a strong outlook for long-term drivers of business jet demand. North America is expected to account for the greatest number of new business jet deliveries between 2015 and 2024, followed by Europe, which remains the second largest market, China and Latin America. The decrease in forecast deliveries is in the emerging markets such as Latin America, China, South Asia and Russia; however, a significant portion of the forecast deliveries over the next 10 years is still expected to be in emerging markets.

<sup>(1)</sup> Available on Bombardier's dedicated investor relations website at [ir.bombardier.com](http://ir.bombardier.com).

<sup>(2)</sup> Unit values are based on Business & Commercial Aviation magazine 2014 list prices.

## ANALYSIS OF RESULTS

### Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Revenues	\$ 1,815	\$ 1,624	\$ 3,352	\$ 3,098
EBITDA before special items <sup>(1)</sup>	\$ 161	\$ 154	\$ 310	\$ 284
Amortization	42	32	84	62
EBIT before special items <sup>(1)</sup>	119	122	226	222
Special items	—	—	11	10
EBIT	\$ 119	\$ 122	\$ 215	\$ 212
(as a percentage of total revenues)				
EBIT before special items	6.6%	7.5%	6.7%	7.2%
EBIT	6.6%	7.5%	6.4%	6.8%
Aircraft deliveries	47	38	92	81

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

### Revenues

The \$191-million increase for the three-month period and the \$254-million increase for the six-month period are mainly due to higher deliveries in all business aircraft categories.

**Special items**

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

The special items for the six-month period ended June 30, 2015 related to a \$13-million restructuring charge related to the workforce reduction of 1,000 employees in Querétaro, Mexico and Wichita, U.S., following the decision to pause the *Learjet 85* program, partially offset by an adjustment to a restructuring provision recorded in the prior year.

The special items for the six-month period ended June 30, 2014 related to a \$13-million restructuring charge due to the workforce reduction announced in January 2014, partially offset by a \$3-million gain on a resolution of a litigation in connection with Part IV of the Québec Income Tax Act, the Tax on Capital.

**EBIT margin**

The EBIT margin percentage for the three-month period decreased by 0.9 percentage points compared to the same period last year, mainly as a result of:

- lower margins on medium business aircraft;
- lower margins related to pre-owned aircraft activities; and
- higher R&D expenses as a result of the amortization of aerospace program tooling following the EIS of the *Challenger 350* aircraft at the end of the second quarter of 2014.

Partially offset by:

- higher absorption of lower SG&A expense; and
- higher margins on large business aircraft.

The EBIT margin percentage for the six-month period decreased by 0.4 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the six-month period decreased by 0.5 percentage points, mainly as a result of:

- lower margins on medium business aircraft;
- lower margins related to pre-owned aircraft activities; and
- higher R&D expenses as a result of the amortization of aerospace program tooling following the EIS of the *Challenger 350* aircraft at the end of the second quarter of 2014.

Partially offset by:

- higher margins on large business aircraft; and
- higher absorption of lower SG&A expense.

## Product development

### Investment in product development

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Program tooling <sup>(1)</sup>	\$ 161	\$ 250	\$ 319	\$ 510
R&D expense <sup>(2)</sup>	—	2	2	5
	\$ 161	\$ 252	\$ 321	\$ 515
As a percentage of revenues	8.9%	15.5%	9.6%	16.6%

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

<sup>(2)</sup> Excluding amortization of aerospace program tooling of \$30 million and \$56 million respectively for the three- and six-month periods ended June 30, 2015 (\$19 million and \$37 million for the three- and six-month periods ended June 30, 2014), as the related investments are already included in aerospace program tooling.

Program tooling additions mainly relate to the development of the *Global 7000* and *Global 8000* as well as the *Challenger 650* aircraft programs.

The carrying amount of program tooling<sup>(1)</sup> as at June 30, 2015 for business aircraft was \$2.7 billion, compared to \$2.5 billion as at December 31, 2014.

<sup>(1)</sup> Capitalized borrowing costs included in the business aircraft aerospace program tooling balance amounted to \$237 million as at June 30, 2015 (\$208 million as at December 31, 2014).

### The *Global 7000* and *Global 8000* aircraft program

The state-of-the-art *Global 7000* aircraft will feature a wing that optimizes both short-field and long-range performance, a highly efficient engine and the largest cabin and most advanced cockpit in the large business aircraft category.<sup>(1)</sup> Creating an aircraft of this unique caliber is challenging. These challenges have impacted the program's schedule and the aircraft is now expected to enter into service in the second half of 2018.

We continue to prioritize our efforts on the flight test program. The first FTV is in final assembly with major structural parts joined, including the rear, center and forward fuselages, the wing, and the main landing gear. Three additional FTVs are in various stages of production and assembly. The Integrated Systems Test and Certification Rig has been commissioned. Engine development by our supplier as well as ground and flight testing of the engine are progressing as expected.

### The *Challenger 650* aircraft program

The *Challenger 650* aircraft program, the evolution of the *Challenger 605* aircraft, was launched in October 2014. The *Challenger 650* certification program is currently 80% complete and is progressing towards EIS in 2015. A *Challenger 605* aircraft with upgraded avionics is being used to perform certification testing.

<sup>(1)</sup> See the *Global 7000* and *Global 8000* aircraft program disclaimer at the end of this MD&A.



## Aircraft deliveries

### Aircraft deliveries

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2015	2014	2015	2014
<b>Light</b>				
<i>Learjet 70/75</i>	5	2	14	8
<b>Medium</b>				
<i>Challenger 300/350</i>	18	9	32	23
<i>Challenger 605</i>	3	8	8	14
<i>Challenger 850</i>	1	—	1	—
<b>Large</b>				
<i>Global 5000/Global 6000</i>	20	19	37	36
	47	38	92	81

The deliveries in the three- and six-month periods ended June 30, 2015 in the medium category were higher compared to the same periods in the last fiscal year mainly due to the transition to the *Challenger 350* aircraft which entered into service on June 27, 2014.

## Aircraft orders

### Net orders

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2015	2014	2015	2014
Net orders	8	30	27	76

There was a lower net order intake in all business aircraft categories in the three- and six-month periods ended June 30, 2015 when compared to the same periods last fiscal year, mainly in the medium and large categories. The net orders include one and 10 cancellations for the *Learjet 85* program during the three- and six-month periods ended June 30, 2015, respectively, compared to five cancellations for this program during the six-month period last fiscal year.

## Book-to-bill ratio and order backlog

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Net orders	8	30	27	76
Deliveries	47	38	92	81
	0.2	0.8	0.3	0.9

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

### Order backlog

	As at	
(in billions of dollars)	June 30, 2015	December 31, 2014
	\$ 22.2	\$ 24.0

The decrease in the order backlog and in the book-to-bill ratio as at June 30, 2015 reflects lower order intake than deliveries in all business aircraft categories but mainly in the large aircraft category. The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand. On May 14, 2015, Business Aircraft announced a reduction in the production rate for *Global 5000* and *Global 6000* aircraft.

# COMMERCIAL AIRCRAFT

## Reclassification

As a result of the new organizational structure effective as of January 1, 2015, financial results for the year ended December 31, 2014 have been reclassified to conform with the current period presentation. Intersegment transaction policies put in place following the adoption of the new organizational structure in 2015 were not applied retroactively, which impacted period-over-period variances.

## HIGHLIGHTS

### Results of the quarter

Three-month periods ended June 30	2015	2014	Variance
Revenues	\$ 598	\$ 754	(21)%
Aircraft deliveries (in units)	19	24	(5)
Net orders (in units)	3	18	(15)
Book-to-bill ratio <sup>(1)</sup>	0.2	0.8	nmf
EBIT	\$ (10)	\$ 17	nmf
EBIT margin	(1.7)%	2.3%	(400) bps
EBITDA <sup>(2)</sup>	\$ 14	\$ 44	(68)%
EBITDA margin <sup>(2)</sup>	2.3 %	5.8%	(350) bps
Net additions to PP&E and intangible assets	\$ 239	\$ 253	(6)%
<b>As at</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>	
Order backlog (in billions of dollars)	\$ 12.1	\$ 12.5	(3)%

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

<sup>(2)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measure.

### Key events

- Effective April 9, 2015, Fred Cromer became President, Bombardier Commercial Aircraft.
- On May 7, 2015, Bombardier Commercial Aircraft and Swiss International Air Lines (SWISS) announced that SWISS will be the first customer to take delivery and operate the *C Series* aircraft when the *CS100* aircraft enters into service in the first half of 2016. SWISS, alongside parent company Deutsche Lufthansa AG (Lufthansa), was previously announced as the launch customer of the *C Series* aircraft program when they signed a firm purchase agreement for 30 *CS100* aircraft and options for an additional 30 *C Series* aircraft in March 2009.
- On June 14, 2015, Commercial Aircraft announced that based on flight tests results, the *CS100* and *CS300* aircraft are exceeding their original targets for fuel burn, payload, range and airfield performance. In addition, the *C Series* aircraft are expected to meet noise performance targets.<sup>(1)</sup> See the product development section for further details.

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

## 2015 GUIDANCE UPDATE

The following is an update of certain guidance provided in our 2014 financial report.<sup>(1)</sup>

	Profitability guidance provided in our 2014 Financial Report	Results for the six-month period ended June 30, 2015	Guidance update
<b>Commercial Aircraft</b>	Negative EBIT of approximately \$200 million including the dilutive impact of the initial years of production of the <i>C Series</i> program. <sup>(2)</sup>	Negative EBIT before special items <sup>(3)</sup> of \$20 million.	No change in our 2015 guidance. See below for more details.

In Commercial Aircraft, we are on track to meet our 80 aircraft delivery guidance for the fiscal year. We anticipate EBIT to be basically in line with guidance; however, there is some risk depending on the assumptions used with respect to the level of non-cash provisioning in relation to the dilutive impact of the *C Series* initial deliveries.<sup>(2)</sup>

<sup>(1)</sup> See the Forward-looking statements section for more details.

<sup>(2)</sup> Includes the dilutive impact of the *C Series* program including the write-down of inventory to net realizable value. Early production units in a new program incur higher costs and generally have lower selling prices than units produced later in the program's life cycle.

<sup>(3)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and the Analysis of results section for reconciliations to the most comparable IFRS measure.

## INDUSTRY AND ECONOMIC ENVIRONMENT

Since the beginning of fiscal year 2015, the demand for air travel, measured by revenue passenger kilometres ("RPK")<sup>(1)</sup>, has increased for commercial airlines compared to the same period last year, and passenger load factors<sup>(2)</sup> have slightly increased.

Scheduled domestic and international commercial air travel, measured by RPK, were 6.1% and 6.5% higher, respectively, during the year-to-date period ended May 2015, compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors of 80.4% and 78.2%, respectively, during the year-to-date period ended May 2015, and were slightly higher than the 80.0% and 78.1% respective levels experienced during the same period ended May 2014.<sup>(3)</sup>

Most regions, including the U.S., experienced growth of RPK for both domestic and international commercial air travel in the five-month period ended May 2015, compared to the same period last year. The India, China, Brazil, Russia and Japan domestic travel markets have shown the most significant increases compared to the same period last year; however, growth of RPK in Russia has been trending downwards in 2015. Carriers from the Middle East, Asia-Pacific and Latin America international travel markets have shown the most improvement. Despite some downward pressure on economic progress, European international travel market continued to improve.<sup>(3)</sup>

Regional passenger traffic measured by RPK for the four leading U.S. network carriers<sup>(4)</sup> and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., Commercial Aircraft's largest market, remained essentially unchanged during the year-to-date period ended June 2015, compared to the same period last year. These airlines achieved an average passenger load factor of 80.8% during the year-to-date period ended June 2015, compared to 80.7% during the same period ended June 2014.

Crude oil prices remain at low levels and improvement in some advanced economies should continue sustaining growth and demand for air travel in 2015. Per the International Air Transport Association ("IATA"), low oil prices are expected to reduce replacement of old less fuel efficient aircraft in the short-term. Despite the low oil prices, airlines have been increasing capacity at a slower rate than growth in demand.<sup>(3)(5)</sup> However, we anticipate that the demand for more fuel efficient aircraft will grow. In addition, environmental issues and regulations related to local air quality, aircraft emissions and community noise, as well commitments by the aviation industry towards reducing carbon emissions, should speed up the retirement of older aircraft worldwide.

<sup>(1)</sup> RPK is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported over one kilometre.

<sup>(2)</sup> Passenger load factor is defined as the percentage of available seat kilometres used (revenue passenger kilometres divided by available seat kilometres). Available seat kilometres are measured as the number of seats multiplied by the kilometres flown, whether a passenger occupied the seat or not.

<sup>(3)</sup> Per IATA's May 2015 Air Passenger Market Analysis report.

<sup>(4)</sup> Delta Air Lines, American Airlines, United Airlines, and Alaska Air.

<sup>(5)</sup> Per IATA's April-May 2015 Airlines Financial Monitor report.

The world economy is expected to grow, but at slower anticipated GDP rates of 2.5%, 3.1% and 3.2% for 2015, 2016, 2017, respectively, compared to the 2.8%, 3.2% and 3.3% expected at the beginning of the year. The lower than expected GDP rates for 2015 were mainly in Africa, North America, Latin America and Russia, while the expected GDP growth in Western Europe remains at 1.6%.<sup>(1)</sup>

IATA predicts that airline financial performance will continue to improve in 2015 compared to 2014. In its June 2015 semi-annual Economic Performance of the Airline Industry report, IATA forecast commercial airline profits of \$29.3 billion for 2015, well ahead of 2014 estimated profits of \$16.4 billion. North American airlines are expected to show the most important improvement in dollars, driven by consolidation and lower fuel costs. They are forecast to generate the highest profits in terms of absolute dollars and percentage of revenues. Europe airlines will generate the second highest profits in terms of dollars, followed by Asia-Pacific and Middle East airlines, but will have lower profit margins as a percentage of revenues than airlines in Middle East.

<sup>(1)</sup> According to IHS Global Insight's Comparative World Overviews dated January 15, 2015 and July 15, 2015.

## **Update on Commercial Aircraft 20-year market forecast**

In June 2015, Commercial Aircraft released its annual market forecast for the 20-year period from calendar years 2015 to 2034.<sup>(1)</sup>

The Commercial Aircraft market forecast predicts 12,700 aircraft deliveries for 60- to 150-seat commercial aircraft in the next 20 years compared to our previous forecast of 13,100 aircraft deliveries for 20- to 149-seat in calendar years 2014 to 2033. The decrease in forecast aircraft deliveries is mainly due to the 20- to 59-seat segment that is no longer included in the re-defined scope of the forecast.

The 20-year deliveries are valued at \$650 billion<sup>(2)</sup>, compared to the \$658 billion previously forecast. Approximately 55% of the forecast deliveries are expected in the 100- to 150-seat segment, which has not been the focus of aircraft development for at least the past two decades. We anticipate that this segment will witness a major fleet transformation with the EIS of new clean-sheet aircraft designs. Over the next 20 years, 5,000 60- to 150-seat commercial aircraft are expected to be retired, 4% higher than the 4,800 retirements forecast in 2014.

The forecast deliveries are expected to arise from replacement demand in established markets, such as North America and Europe, and growth potential in emerging markets. North America is expected to account for the greatest number of 60- to 150-seat commercial aircraft deliveries, followed by Greater China, Europe and Latin America.

<sup>(1)</sup> Available on Bombardier's dedicated investor relations website at [ir.bombardier.com](http://ir.bombardier.com).

<sup>(2)</sup> Revenues are based on estimated segment 2014 list prices.

## ANALYSIS OF RESULTS

Results of operations				
	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Revenues	\$ 598	\$ 754	\$ 1,271	\$ 1,233
EBITDA before special items <sup>(1)</sup>	\$ 14	\$ 44	\$ 32	\$ 67
Amortization	24	27	52	47
EBIT before special items <sup>(1)</sup>	(10)	17	(20)	20
Special items	—	—	(1)	(2)
EBIT	\$ (10)	\$ 17	\$ (19)	\$ 22
(as a percentage of total revenues)				
EBIT before special items	(1.7)%	2.3%	(1.6)%	1.6%
EBIT	(1.7)%	2.3%	(1.5)%	1.8%
Aircraft deliveries	19	24	42	37

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

### Revenues

The \$156-million decrease for the three-month period is mainly due to lower deliveries of regional jets.

The \$38-million increase for the six-month period is mainly due to higher deliveries of turboprops, partially offset by lower services revenues from Specialized Aircraft Solutions activities.

### Special items

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

The special item for the six-month period ended June 30, 2015 is related to an adjustment to a restructuring provision recorded in the prior year.

The special items for the six-month period ended June 30, 2014 related to a \$7-million gain on a resolution of a litigation in connection with Part IV of the Québec Income Tax Act, the Tax on Capital, partially offset by a \$5-million restructuring charge due to the workforce reduction announced in January 2014.

### EBIT margin

The EBIT margin percentage for the three-month period decreased by 4.0 percentage points compared to the same period last year, mainly as a result of:

- the unfavourable mix of aircraft deliveries;
- higher losses related to early production units of the *C Series* aircraft program<sup>(1)</sup>; and
- higher other expenses, mainly due to a net negative variance of provisions for credit and residual value guarantees as well as financial instruments carried at fair value.

The EBIT margin percentage for the six-month period decreased by 3.3 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the six-month period decreased by 3.2 percentage points, mainly as a result of:

- higher losses related to early production units of the *C Series* aircraft program<sup>(1)</sup>;
- the unfavourable mix of aircraft deliveries;
- the unfavourable mix of revenues between aircraft deliveries and services activities; and
- lower other income, mainly due to a net negative variance for financial instruments carried at fair value as well as provisions for credit and residual value guarantees.

Partially offset by:

- lower SG&A expense.

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

## Product development

### Investment in product development

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Program tooling <sup>(1)</sup>	\$ 231	\$ 221	\$ 419	\$ 391
R&D expense <sup>(2)</sup>	1	1	2	3
	\$ 232	\$ 222	\$ 421	\$ 394
As a percentage of revenues	38.8%	29.4%	33.1%	32.0%

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

<sup>(2)</sup> Excluding amortization of aerospace program tooling of \$15 million and \$35 million for the three- and six-month periods ended June 30, 2015 (\$21 million and \$35 million for the three- and six-month period ended June 30, 2014), as the related investments are already included in aerospace program tooling.

Program tooling additions essentially relate to the development of the *C Series* family of aircraft.

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

	As at	
	June 30, 2015	December 31, 2014
<i>CRJ Series</i> and <i>Q400 NextGen</i>	\$ 324	\$ 358
<i>C Series</i>	4,407	3,989
	\$ 4,731	\$ 4,347

<sup>(1)</sup> Capitalized borrowing costs included in the commercial aircraft aerospace program tooling balance amounted to \$615 million as at June 30, 2015 (\$523 million as at December 31, 2014).

### The *C Series* aircraft program

The type certification for the *CS100* aircraft is targeted for completion by the end of 2015 and the *CS300* aircraft's type certification is expected to follow approximately six months afterwards. The EIS of the *CS100* aircraft is expected to occur in the first half of 2016 with Swiss International Air Lines as the first operator.

Flight testing activities on five *CS100* FTVs are ongoing with multiple milestone tests completed and all systems are performing well. The first *CS300* FTV completed the flutter testing phase and is now undergoing tests to verify how the aircraft handles. Assembly of the second *CS300* FTV is ongoing at the *C Series* aircraft assembly facility in Mirabel, Québec and is expected to come off the production line later this year. All the aircraft are showing a high level of reliability.

The *C Series* aircraft made their international debut at the Paris Air Show in June 2015. The *CS100* FTV5, equipped with a full interior, and the first *CS300* FTV flew trans-Atlantic flights to and from Europe.

More than 2,000 flight-test hours have been accumulated on the *CS100* aircraft and, overall, more than 75% of the *CS100* certification program is complete. All aircraft structural testing required for EIS has been completed. Ground testing is progressing to plan and the on-the-ground, flight and aircraft structural test performance results are exceeding original targets for fuel burn, payload, range and airfield performance. The aircraft are delivering more than a 20% fuel burn advantage compared to in-production aircraft and greater than 10% advantage compared to re-engined aircraft. The maximum range of the aircraft has been confirmed to be up to 3,300 NM (6,112 km), some 350 NM (648km) more than originally targeted. The aircraft will also carry up to 15 more passengers than initially promised. In addition, data received to date confirms that the aircraft development program is on track to meeting noise performance and other key performance targets.<sup>(1)</sup>

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

## Aircraft deliveries

### Aircraft deliveries

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2015	2014	2015	2014
<b>Regional jets</b>				
CRJ700 NextGen	1	3	2	3
CRJ900 NextGen	11	12	24	20
CRJ1000 NextGen	—	2	1	3
<b>Turboprops</b>				
Q400 NextGen	6	6	14	10
<b>Amphibious aircraft</b>	1	1	1	1
	<b>19</b>	<b>24</b>	<b>42</b>	<b>37</b>

## Aircraft orders

### Net orders

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2015	2014	2015	2014
<b>Regional jets</b>				
CRJ700 NextGen	—	—	—	1
CRJ900 NextGen	—	16	7	20
CRJ1000 NextGen	(2)	—	(2)	—
<b>Commercial jets</b>				
CS300	—	—	—	21
<b>Turboprops</b>				
Q400 NextGen	5	2	23	19
<b>Amphibious aircraft</b>	—	—	—	2
	<b>3</b>	<b>18</b>	<b>28</b>	<b>63</b>

The decrease in the net orders in the six-month period ended June 30, 2015 compared to the same period last year is mainly due to the significant orders received from China Express Airlines for 16 CRJ900 NextGen aircraft and from Al Qahtani Aviation Company for 16 CS300 aircraft in June and January 2014 respectively.

The following significant orders were received during the six-month period ended June 30, 2015:

Customer	Firm order	Value <sup>(1)</sup>	Options <sup>(2)</sup>
<b>First quarter</b>			
Chorus Aviation Inc. (Canada)	13 Q400 NextGen	\$ 424	10 Q400 NextGen
Mesa Airlines (U.S.)	7 CRJ900 NextGen	\$ 326	—

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

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

## Book-to-bill ratio and order backlog

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Net orders	3	18	28	63
Deliveries	19	24	42	37
	0.2	0.8	0.7	1.7

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

### Order backlog

	As at	
(in billions of dollars)	June 30, 2015	December 31, 2014
	\$ 12.1	\$ 12.5

The order backlog decreased during the six-month period ended June 30, 2015, representing a lower order backlog in regional jets, partially offset by higher order backlog in turboprops. The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand.

### Order backlog and options

	June 30, 2015		December 31, 2014	
(in units)	Firm orders	Options	Firm orders	Options
<b>Regional jets</b>				
CRJ700 NextGen	8	—	10	—
CRJ900 NextGen	40	26	57	56
CRJ1000 NextGen	28	15	31	22
<b>Commercial jets</b>				
CS100	53 <sup>(1) (2)</sup>	49	63 <sup>(1)</sup>	49
CS300	190 <sup>(1) (2)</sup>	113	180 <sup>(1)</sup>	113
<b>Turboprops</b>				
Q400 NextGen	51	81	42	94
<b>Amphibious aircraft</b>	2	—	3	—
	372	284	386	334

<sup>(1)</sup> The total of 243 orders includes 86 firm orders with conversion rights to the other *C Series* aircraft model.

<sup>(2)</sup> On June 15, 2015, Commercial Aircraft announced that launch operator SWISS has converted 10 of its 30 firm-ordered CS100 aircraft to the larger CS300 aircraft.

The total *C Series* firm order backlog comprises 243 aircraft with 14 customers in 14 countries as at June 30, 2015. As at the date of this report, firm orders and other agreements<sup>(1)</sup> for a total of 603 *C Series* aircraft have been signed with 22 customers in 20 countries, including 243 firm orders.

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



# AEROSTRUCTURES AND ENGINEERING SERVICES

Specialized in aerostructures manufacturing and engineering services, Aerostructures and Engineering Services designs and builds aerostructures for Bombardier and other aircraft manufacturers. Aerostructures and Engineering Services is the largest aerostructures supplier for Bombardier's sustaining programs as well as for the *C Series* and the *Global 7000* and *Global 8000* programs, providing structures such as cockpits, all-composite wings for the *C Series* programs and the rear fuselage for the *Global 7000* and *Global 8000* aircraft. Our key focus over the short to medium term remains to deliver on cost saving initiatives for current sustaining programs and programs under development.

## Reclassification

As a result of the new organizational structure effective as of January 1, 2015, financial results for the year ended December 31, 2014 have been reclassified to conform with the current period presentation. Intersegment transaction policies put in place following the adoption of the new organizational structure in 2015 were not applied retroactively, which impacted period-over-period variances.

## HIGHLIGHTS

### Results of the quarter

Three-month periods ended June 30	2015	2014	Variance
Revenues	\$ 472	\$ 483	(2)%
External order intake	\$ 131	\$ 150	(13)%
External book-to-bill ratio <sup>(1)</sup>	1.1	1.1	nmf
EBIT	\$ 42	\$ 22	91 %
EBIT margin	8.9%	4.6%	430 bps
EBITDA <sup>(2)</sup>	\$ 55	\$ 36	53 %
EBITDA margin <sup>(2)</sup>	11.7%	7.5%	420 bps
Net additions to PP&E and intangible assets	\$ 6	\$ 8	(25)%

<sup>(1)</sup> Defined as new external orders over external revenues.

<sup>(2)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measure.

## 2015 GUIDANCE UPDATE

The following is an update of certain guidance provided in our 2014 financial report.<sup>(1)</sup>

	Profitability guidance provided in our 2014 Financial Report	Results for the six-month period ended June 30, 2015	Guidance update
<b>Aerostructures and Engineering Services</b>	EBIT margin of approximately 4%.	EBIT margin before special items <sup>(2)</sup> of 8.8%.	EBIT margin of approximately 6%. See below for more details.

In Aerostructures and Engineering Services, the 8.8% EBIT margin before special items<sup>(2)</sup> for the six-month period ended June 30, 2015 is higher than our EBIT margin guidance for fiscal year 2015 of approximately 4% and includes timing elements. We currently expect the EBIT margin for the year to be approximately 6%. We are on track to achieve revenues of approximately \$1.8 billion, mainly from intersegment contracts with the Business Aircraft and Commercial Aircraft segments.

<sup>(1)</sup> See the Forward-looking statements section for more details.

<sup>(2)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and the Analysis of results section for reconciliations to the most comparable IFRS measure.

## INDUSTRY AND ECONOMIC ENVIRONMENT

Aerostructures and Engineering Services' key market drivers are strongly linked to factors such as economic growth (GDP growth), air passenger traffic and aircraft retirement rates. More specifically, the aerostructures market is driven by the number of new products in development or upgrades to existing platforms as well as growth in production rates and backlogs in various aircraft sectors.

Given that the industry's revenues are generated from supplying aerostructures to original equipment manufacturers in the aerospace market, it is impacted by the same industry and economic environments described in Business Aircraft and Commercial Aircraft. Refer to the Industry and economic environment of Business Aircraft and Commercial Aircraft for further discussion of the overall aerospace market which may affect the business.

The business aircraft market is showing signs of softness. The world economy is expected to grow, but at slower anticipated GDP rates of 2.5%, 3.1% and 3.2% for 2015, 2016, 2017, respectively, compared to the 2.8%, 3.2% and 3.3% expected at the beginning of the year. The current economic conditions and geopolitical issues in China, Russia and Latin America have had a negative impact on industry-wide orders. In addition, there was a decline in industry confidence<sup>(1)</sup> in the business aircraft market during the current fiscal year.

Since the beginning of the current year, the demand for air travel on commercial airlines (measured by RPK) has increased compared to the same period last year and passenger load factors have slightly increased. IATA's forecast of commercial airline profits for 2015 is well ahead of the estimated profits for 2014.

The long-term outlook for Aerostructures and Engineering Services remains strong. Aerostructures and related aftermarket (including components repair and overhaul, spare parts and other engineering services) are currently estimated to be a \$60-billion market worldwide, with forecast annual growth of 3% to 2023.<sup>(2)</sup> In addition, our 10-year business aircraft and 20-year commercial aircraft market forecasts indicate strong long-term market potential. Retirements of both business and commercial aircraft over the next 10- or 20-year periods, respectively, are expected to be 4% higher per our 2015 market forecasts than those forecast in 2014.

<sup>(1)</sup> As measured by the UBS Business Jet Market index. See Industry and economic environment section in Business Aircraft for details.

<sup>(2)</sup> Counterpoint Market Intelligence Limited (CPMIL) 2014 - The tenth review of the Aerostructures Market from Counterpoint.

## ANALYSIS OF RESULTS

### Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014 <sup>(1)</sup>	2015	2014
Revenues				
External revenues	\$ 118	\$ 134	\$ 266	\$ 270
Intersegment revenues	354	349	677	683
	472	483	943	953
<b>EBITDA before special items<sup>(1)</sup></b>	<b>\$ 55</b>	<b>\$ 36</b>	<b>\$ 108</b>	<b>\$ 69</b>
Amortization	13	14	25	27
<b>EBIT before special items<sup>(1)</sup></b>	<b>42</b>	<b>22</b>	<b>83</b>	<b>42</b>
Special items	—	—	(1)	4
<b>EBIT</b>	<b>\$ 42</b>	<b>\$ 22</b>	<b>\$ 84</b>	<b>\$ 38</b>
(as a percentage of total revenues)				
EBIT before special items	8.9%	4.6%	8.8%	4.4%
EBIT	8.9%	4.6%	8.9%	4.0%

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

## Revenues

The \$11-million decrease for the three-month period is due to:

- lower external revenues (\$16 million), mainly due to lower volume, partially offset by improved pricing.

Partially offset by:

- higher intersegment revenues (\$5 million), mainly due to higher pricing on business and commercial aircraft, reflecting changes in the intersegment pricing policy, and higher volume on business aircraft, partially offset by lower volume on commercial aircraft.

The \$10-million decrease for the six-month period is due to:

- lower intersegment revenues (\$6 million), mainly due to lower volume and pricing, as a result of changes to the intersegment pricing policy, for commercial aircraft; partially offset by higher pricing, reflecting changes to the intersegment pricing policy, and volume on business aircraft; and an increase in intersegment spare parts sales; and
- lower external revenues (\$4 million), mainly due to lower volume, partially offset by improved pricing, as well as an increase in spare parts sales.

## Special items

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

The special item for the six-month period ended June 30, 2015 relates to an adjustment to a restructuring provision recorded in the prior year.

The special item for the six-month period ended June 30, 2014 related to a \$4-million expense for the workforce reduction announced in January 2014.

## EBIT margin

The EBIT margin percentage for the three-month period increased by 4.3 percentage points compared to the same period last year. The higher margin includes timing elements and is mainly due to higher margins on intersegment contracts, mainly due to higher pricing, reflecting changes to the intersegment pricing policy, and lower cost.

The EBIT margin percentage for the six-month period increased by 4.9 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the six-month period increased by 4.4 percentage points, mainly as a result of the following items, which include timing elements:

- higher margins on intersegment contracts, mainly due to higher pricing for business aircraft, reflecting changes to the intersegment pricing policy, and lower cost; and
- higher margins on external contracts, mainly due to improved pricing and a favourable long-term contract adjustment.

## Book-to-bill ratio and order backlog

### External order intake and book-to-bill ratio

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
External order intake	\$ 131	\$ 150	\$ 261	\$ 283
External book-to-bill ratio <sup>(1)</sup>	1.1	1.1	1.0	1.0

<sup>(1)</sup> Defined as new external orders over external revenues.

### External order backlog

As at	June 30, 2015	December 31, 2014
External backlog	\$ 108	\$ 113

The external order backlog has remained stable over the six-month period as a result of a book-to-bill ratio of 1.0.

# TRANSPORTATION

## Reclassification

As a result of the new organizational structure effective as of January 1, 2015, financial results for the year ended December 31, 2014 have been reclassified to conform with the current period presentation.

## HIGHLIGHTS

### Results of the quarter

Three-month periods ended June 30	2015	2014	Variance
Revenues	\$ 2,091	\$ 2,380	(12)%
Order intake (in billions of dollars)	\$ 2.0	\$ 1.7	18 %
Book-to-bill ratio <sup>(1)</sup>	1.0	0.7	nmf
EBIT	\$ 115	\$ 125	(8)%
EBIT margin	5.5%	5.3%	20 bps
EBITDA <sup>(2)</sup>	\$ 139	\$ 155	(10)%
EBITDA margin <sup>(2)</sup>	6.6%	6.5%	10 bps
Net additions to PP&E and intangible assets	\$ 21	\$ 16	31 %
<b>As at</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>	
Order backlog (in billions of dollars)	\$ 30.4	\$ 32.5	(6)%

<sup>(1)</sup> Defined as new orders over revenues.

<sup>(2)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measure.

### Key events

- On April 14, 2015, the V300ZEFIRO very high speed train received homologation and successfully completed its maiden trip from Milan to Rome, Italy. The V300ZEFIRO train is built in partnership with AnsaldoBreda.
- On May 7, 2015, the Corporation announced that, following a proactive review of strategic options for its rail business, it is preparing for an IPO of a minority stake in Bombardier Transportation. When completed, the IPO is expected to crystallize the full value of Bombardier Transportation and further strengthen the Corporation's financial position, while preserving flexibility should the Corporation wish to participate in future rail equipment industry consolidation. The Corporation intends to file the required documentation with applicable securities regulators during the fourth quarter of this year, subject to market conditions, with the primary listing venue likely to be Germany, where the business segment is headquartered. After the IPO, Bombardier Transportation will continue to be controlled by Bombardier Inc. and consolidated in its financial results.
- On June 4, 2015, Bombardier Transportation was awarded a contract in Vienna, Austria, to supply and maintain 119 *FLEXITY* trams for the Vienna transport authority Wiener Linien, valued at approximately \$480 million. The order includes an option for an additional 37 trams and further maintenance support.
- On June 19, 2015, Bombardier Transportation's newly-established Chinese joint venture, CSR Puzhen Bombardier Transportation Systems Ltd., has won its first contract for an *INNOVIA* APM 300 automated people mover (APM) to be delivered to our customer Shanghai Shentong Metro Co. Ltd., further emphasizing Bombardier Transportation's strong position in the Chinese rail market.
- Subsequent to the end of the second quarter, on July 3, 2015, Bombardier Transportation signed rolling stock and maintenance contracts for Transport for London's LOTRAIN project in the U.K. to build and maintain 45 four-car electrical multiple units (EMUs). The contracts are valued at approximately \$558 million.

## INDUSTRY AND ECONOMIC ENVIRONMENT

In the second quarter of 2015, significant orders have been awarded in Western Europe and Asia-Pacific such as orders for regional trains in the U.K. and metro vehicles in India. The overall market volume decreased compared to the same period last year, primarily due to a very large contract for electrical multiple units (EMUs) awarded in South Africa (\$5.5 billion) in the second quarter of 2014. The total order volume to be awarded in 2015 is, however, expected to exceed the order volume of 2014, based on the forecasted annual UNIFE growth rate of 2.7%.<sup>(1)</sup>

During the second quarter of 2015, the European rail market has shown a similar level of activity compared to the same period last year. Significant orders were placed in the U.K., France and Austria in the commuter and regional train and light rail vehicle (LRV) segments. Further investments across all segments are expected in Western Europe in the second half of 2015, driven by orders for regional trains in Belgium, LRVs in Sweden and signalling solutions in Italy. Furthermore, the development of the very high-speed network in Spain is expected to create opportunities in the next quarters for both rolling stock and signalling solutions. In Eastern Europe, aging fleets in Poland, the Czech Republic and Hungary continue to denote a high potential demand for rolling stock and services although projects have not yet materialized due to budgetary and funding constraints.

In North America, the level of investment increased during the second quarter of 2015 compared to the same period last year. Growth was mainly driven by the U.S. with several services and LRV contracts awarded, while lower activity was observed in Canada and Mexico in the second quarter of 2015. In the upcoming quarters, positive developments are expected in the U.S. rail market in the metro, electric commuter train, high-speed train and services segments. Canada is expected to invest in LRVs, signalling solutions and services. Mexico has promising opportunities in the metro segment but experienced some delays and cancellations of tender processes in the past.

During the second quarter of 2015, the order volume showed a lower level of activity in the Asia-Pacific region compared to the same period last year, mainly due to large metro contracts awarded in China and Singapore in the second quarter of 2014. Orders in the region were primarily awarded in the metro segment in China and India. Prospects in the region remain positive as China, Thailand and Australia are expected to continue investing in commuter trains, metros, LRVs and signalling solutions by the end of the year. In addition, India is expected to increase investments in locomotives and signalling solutions in the upcoming quarters.

The level of investments in the Rest of world region decreased during the second quarter of 2015 essentially due to a very large order in the commuter segment in South Africa during the same period last year. The region's outlook for the upcoming quarters remains positive. In South America, opportunities exist for metros and other urban solutions, especially in Brazil and Peru. In the Middle East, the strong need for high-capacity transport solutions also leads to further opportunities for automated mass transit systems and urban solutions, such as an automated people mover system (APM) in Makkah, Saudi Arabia.

<sup>(1)</sup> Based on data from the UNIFE World Rail Market Study "Forecast 2014 to 2019" published in September 2014 for the overall accessible rail market only. 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. Bombardier Transportation's accessible market also excludes the infrastructure, freight wagon and shunter segments.

## ANALYSIS OF RESULTS

### Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Revenues				
External revenues	\$ 2,089	\$ 2,379	\$ 4,128	\$ 4,644
Intersegment revenues	2	1	4	3
	2,091	2,380	4,132	4,647
EBITDA <sup>(1)</sup>	\$ 139	\$ 155	\$ 283	\$ 312
Amortization	24	30	50	59
EBIT	\$ 115	\$ 125	\$ 233	\$ 253
(as a percentage of total revenues)				
EBIT	5.5%	5.3%	5.6%	5.4%

<sup>(1)</sup> Non-GAAP financial measure. Refer to Non-GAAP financial measures section in Overview for a definition of this metric.

### Revenues

Total external revenues for the three- and six-month periods ended June 30, 2015, have decreased by \$290 million and \$516 million, respectively. Excluding negative currency impacts of \$358 million and \$666 million, respectively, revenues have increased by \$68 million, or 3%, and \$150 million, or 3%, compared to the same periods last fiscal year.

The \$68-million increase excluding currency impact for the three-month period is mainly explained by:

- higher activities in system and signalling mainly in Europe and the Rest of world region (\$103 million);
- higher activities in services in all regions (\$54 million); and
- higher activities in rolling stock in Asia-Pacific, mainly due to ramp-up in production related to some very high speed train, commuter and regional train and propulsion and controls contracts (\$33 million).

Partially offset by:

- lower activities in rolling stock in North America and Europe following completion of some commuter and regional train and locomotive contracts in North America and some metro and light rail vehicle contracts in Europe, partly offset by ramp-up in production related to some very high speed train and locomotive contracts in Europe (\$143 million).

The \$150-million increase excluding currency impact for the six-month period is mainly explained by:

- higher activities in rolling stock in Asia-Pacific and Europe, mainly due to ramp-up in production related to some commuter and regional train, very high speed train and metro contracts in Asia-Pacific and some locomotive, commuter and regional train, and very high speed train contracts in Europe, partly offset by completion of some metro and light rail vehicle contracts in Europe (\$145 million);
- higher activities in signalling mainly in the Rest of world region and Europe (\$123 million); and
- higher activities in services mainly in Asia-Pacific and Europe (\$76 million).

Partially offset by:

- lower activities in rolling stock in North America following completion of some commuter and regional train and locomotive contracts (\$182 million).

### EBIT margin

The EBIT margin for the three-month period increased by 0.2 percentage points, mainly as a result of:

- lower SG&A expenses; and
- a higher gross margin in system and signalling.

Partially offset by:

- a lower gross margin in services and rolling stock; and
- a lower share of income of joint ventures and associates.

The EBIT margin for the six-month period increased by 0.2 percentage points, mainly as a result of:

- lower SG&A expenses.

Partially offset by:

- a lower gross margin in system and signalling; and
- a lower share of income of joint ventures and associates.

## Orders and backlog

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Order intake (in billions of dollars)	\$ 2.0	\$ 1.7	\$ 3.2	\$ 9.7
Book-to-bill ratio <sup>(1)</sup>	1.0	0.7	0.8	2.1

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

The order intake for the three- and six-month periods ended June 30, 2015 reflect negative currency impacts of \$348 million and \$551 million, respectively. Excluding negative currency impacts, the order intake for the three-month period increased by \$0.7 billion while the order intake for the six-month period decreased by \$5.9 billion compared to the same periods last fiscal year. The decrease for the six-month period is mainly explained by the significant orders signed with the State of Queensland, Australia, with Transport for London, U.K., and with Transnet Freight Rail, South Africa, in the first quarter of 2014, for approximately \$6.0 billion.

Several small and medium orders across various regions and product segments were won in the second quarter of 2015 and Transportation maintained a leading position<sup>(1)</sup> in the overall accessible rail market<sup>(2)</sup>.

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

<sup>(2)</sup> 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. Bombardier Transportation's accessible market also excludes the infrastructure, freight wagon and shunter segments.

The significant orders obtained during the six-month period ended June 30, 2015 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value
<b>Second quarter</b>					
Vienna Transport Authority Wiener Linien	Austria	<i>FLEXITY</i> trams and <i>FlexCare</i> fleet maintenance	119	Rolling stock and Services	\$ 480
Delhi Metro Rail Corporation Ltd (DMRC)	India	<i>MOVIA</i> metro cars	162	Rolling stock	\$ 228
Chicago Department of Aviation (CDA)	U.S.	<i>INNOVIA</i> APM 256 automated people mover (APM)	36	System	\$ 180
Syndicat des Transports d'Ile-de- France (STIF) and Société Nationale des Chemins de fer Français (SNCF)	France	Electrical multiple units (EMUs)	133	Rolling stock	\$ 141
De Lijn (VVM)	Belgium	<i>FLEXITY</i> 2 trams	40	Rolling stock	\$ 107
<b>First quarter</b>					
National Express Group	U.K.	Fleet maintenance and spare parts	n/a	Services	\$ 213
Rheinbahn AG and Cologne transport authority (KVB)	Germany	<i>FLEXITY</i> trams	62	Rolling stock	\$ 203

n/a: Not applicable

Subsequent to the end of the second quarter, Bombardier Transportation won the following orders, which are not included in the order backlog as at June 30, 2015:

- Rolling stock and maintenance contracts to build and maintain 45 four-car electrical multiple units (EMUs) for Transport for London's LOTRAIN project in the U.K. valued at approximately \$558 million; and
- A contract awarded by the Crosslinx Transit Solutions Maintenance General Partnership to provide 30-years of vehicle maintenance on *FLEXITY* Freedom light rail vehicles, which Transportation will build for service on the new Eglinton Crosstown line in Toronto, Canada, valued at approximately \$308 million.

### Order backlog

	As at	
(in billions of dollars)	June 30, 2015	December 31, 2014
	\$ 30.4	\$ 32.5

The \$2.1-billion decrease in order backlog is due to the weakening of some foreign currencies, mainly the euro, versus the U.S. dollar as at June 30, 2015, compared to December 31, 2014 (\$1.2 billion) and revenues recorded being higher than order intake (\$0.9 billion).



# OTHER

## OFF-BALANCE SHEET ARRANGEMENTS

### ***Factoring facilities***

In the normal course of its business, Transportation has set up factoring facilities, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €1.0 billion (\$1.2 billion) were outstanding under such facilities as at June 30, 2015 (€974 million (\$1.2 billion) as at December 31, 2014). During the three- and six-month periods ended June 30, 2015, trade receivables of €342 million (\$377 million) and €736 million (\$821 million), respectively, were sold to these facilities (€281 million (\$385 million) and €512 million (\$702 million), respectively, during the three- and six-month periods ended June 30, 2014).

### ***Other arrangements***

In the normal course of operations, we maintain other off-balance sheet arrangements including credit and residual value guarantees, financing commitments and financing structures related to the sale of commercial aircraft. There was no significant change in these arrangements during the six-month period ended June 30, 2015. Refer to the Off-balance sheet arrangements section of the Financial Report for the year ended December 31, 2014 in Other for a description of these arrangements, and to Note 23, Commitments and Contingencies, to the interim consolidated financial statements for further details.

## RISKS AND UNCERTAINTIES

We operate in industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties that could materially affect our business, financial condition and results of operations are described in the Financial Report for the fiscal year ended December 31, 2014 in Other, but are not necessarily the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely affect our business.

There was no significant change to these risks and uncertainties during the six-month period ended June 30, 2015, other than those described elsewhere in this MD&A. Also refer to Note 23, Commitments and contingencies, to the interim consolidated financial statements for information regarding current litigation proceedings such as the allegations of cartel activity in Brazil.

## ACCOUNTING AND REPORTING DEVELOPMENTS

### **Changes in accounting policies**

#### **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 was adopted effective January 1, 2015. The adoption of this amendment had no significant impact on our consolidated financial statements.

## Future changes in accounting policies

### Financial instruments

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

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

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

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

IFRS 9 will be effective for our fiscal year beginning on January 1, 2018, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

### Revenue Recognition

In May 2014, the IASB released IFRS 15, *Revenue from contracts with customers*, which supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenues*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

IFRS 15 will be effective for our fiscal year beginning on January 1, 2018, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

## CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the six-month period ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## FOREIGN EXCHANGE RATES

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

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

	June 30, 2015	December 31, 2014	Increase (decrease)
Euro	1.1133	1.2141	(8%)
Canadian dollar	0.8081	0.8633	(6%)
Pound sterling	1.5714	1.5587	1%

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

	June 30, 2015	June 30, 2014	Decrease
Euro	1.1021	1.3714	(20%)
Canadian dollar	0.8123	0.9165	(11%)
Pound sterling	1.5278	1.6820	(9%)

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

	June 30, 2015	June 30, 2014	Decrease
Euro	1.1150	1.3706	(19%)
Canadian dollar	0.8100	0.9116	(11%)
Pound sterling	1.5217	1.6683	(9%)

## SELECTED FINANCIAL INFORMATION

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

Fiscal years	2015		2014			2013			
	Second	First	Fourth	Third	Second	First	Fourth	Third	
Revenues	\$ 4,620	\$ 4,397	\$ 5,960	\$ 4,906	\$ 4,891	\$ 4,354	\$ 5,324	\$ 4,058	
Net income (loss)	\$ 125	\$ 100	\$ (1,590)	\$ 74	\$ 155	\$ 115	\$ 97	\$ 147	
EPS (in dollars)									
Basic and diluted	\$ 0.06	\$ 0.05	\$ (0.92)	\$ 0.03	\$ 0.08	\$ 0.06	\$ 0.05	\$ 0.08	
Adjusted net income <sup>(1)</sup>	\$ 145	\$ 170	\$ 83	\$ 222	\$ 192	\$ 151	\$ 129	\$ 165	
Adjusted EPS (in dollars) <sup>(1)</sup>									
Basic and diluted	\$ 0.06	\$ 0.09	\$ 0.04	\$ 0.12	\$ 0.10	\$ 0.08	\$ 0.07	\$ 0.09	

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

## SHAREHOLDER INFORMATION

### Authorized, issued and outstanding share data, as at July 28, 2015

	Authorized	Issued and outstanding
Class A Shares (multiple voting) <sup>(1)</sup>	2,742,000,000	314,273,255
Class B Shares (subordinate voting) <sup>(2)</sup>	2,742,000,000	1,913,308,178 <sup>(3)</sup>
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

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

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

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

### Share option, PSU and DSU data as at June 30, 2015

Options issued and outstanding under the share option plans	32,558,998
PSUs and DSUs issued and outstanding under the PSU and DSU plans	32,073,744
Class B Shares held in trust to satisfy PSU obligations	18,736,908

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

Third Quarterly Report, for the period ending September 30, 2015	October 29, 2015
Financial Report, for the fiscal year ending December 31, 2015	February 11, 2016
First Quarterly Report, for the period ending March 31, 2016	April 29, 2016
Second Quarterly Report, for the period ending June 30, 2016	August 6, 2016

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### July 29, 2015

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

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# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2015

(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 June 30		Six-month periods ended June 30	
	Notes	2015	2014	2015	2014
Revenues		\$ 4,620	\$ 4,891	\$ 9,017	\$ 9,245
Cost of sales	11	4,031	4,233	7,862	7,994
<b>Gross margin</b>		<b>589</b>	<b>658</b>	<b>1,155</b>	<b>1,251</b>
SG&A		297	354	573	692
R&D	5	79	79	158	155
Share of income of joint ventures and associates		(18)	(28)	(34)	(50)
Other expense (income)	6	5	(4)	(5)	(22)
Special items	7	—	—	9	12
<b>EBIT</b>		<b>226</b>	<b>257</b>	<b>454</b>	<b>464</b>
Financing expense	8	92	90	197	136
Financing income	8	(20)	(49)	(40)	(61)
<b>EBT</b>		<b>154</b>	<b>216</b>	<b>297</b>	<b>389</b>
Income taxes		29	61	72	119
<b>Net income</b>		<b>\$ 125</b>	<b>\$ 155</b>	<b>\$ 225</b>	<b>\$ 270</b>
Attributable to					
Equity holders of Bombardier Inc.		\$ 125	\$ 153	\$ 223	\$ 266
NCI		—	2	2	4
		\$ 125	\$ 155	\$ 225	\$ 270
<b>EPS (in dollars)</b>	9				
Basic and diluted		\$ 0.06	\$ 0.08	\$ 0.11	\$ 0.14

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

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
<b>Net income</b>	<b>\$ 125</b>	<b>\$ 155</b>	<b>\$ 225</b>	<b>\$ 270</b>
<b>OCI</b>				
<b>Items that may be reclassified to net income</b>				
<b>Net change in cash flow hedges</b>				
Foreign exchange re-evaluation	(14)	2	(10)	2
Net gain (loss) on derivative financial instruments	89	34	(349)	(90)
Reclassification to income or to the related non-financial asset	99	43	219	83
Income taxes	(50)	(25)	1	(5)
	124	54	(139)	(10)
<b>AFS financial assets</b>				
Net unrealized gain (loss)	(8)	—	(5)	4
<b>CCTD</b>				
Net investments in foreign operations	77	29	70	39
Net gain on related hedging items	—	—	1	1
	77	29	71	40
<b>Items that are never reclassified to net income</b>				
<b>Retirement benefits</b>				
Remeasurements of defined benefit plans <sup>(1)</sup>	620	(113)	459	(352)
Income taxes	(38)	(12)	(23)	6
	582	(125)	436	(346)
<b>Total OCI</b>	<b>775</b>	<b>(42)</b>	<b>363</b>	<b>(312)</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 900</b>	<b>\$ 113</b>	<b>\$ 588</b>	<b>\$ (42)</b>
Attributable to				
Equity holders of Bombardier Inc.	\$ 899	\$ 111	\$ 585	\$ (46)
NCI	1	2	3	4
	\$ 900	\$ 113	\$ 588	\$ (42)

<sup>(1)</sup> Includes net actuarial gains (losses).

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

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

	Notes	June 30 2015	December 31 2014	January 1 2014
<b>Assets</b>				
Cash and cash equivalents		\$ 3,105	\$ 2,489	\$ 3,397
Trade and other receivables		1,300	1,538	1,492
Inventories	11	8,070	7,970	8,234
Other financial assets	12	505	530	637
Other assets	13	667	592	626
<b>Current assets</b>		<b>13,647</b>	<b>13,119</b>	<b>14,386</b>
PP&E		2,056	2,092	2,066
Aerospace program tooling		7,476	6,823	6,606
Goodwill		2,048	2,127	2,381
Deferred income taxes		819	875	1,231
Investments in joint ventures and associates		303	294	318
Other financial assets	12	1,333	1,328	1,568
Other assets	13	1,102	956	807
<b>Non-current assets</b>		<b>15,137</b>	<b>14,495</b>	<b>14,977</b>
		<b>\$ 28,784</b>	<b>\$ 27,614</b>	<b>\$ 29,363</b>
<b>Liabilities</b>				
Trade and other payables		\$ 4,047	\$ 4,216	\$ 4,089
Provisions	14	894	990	881
Advances and progress billings in excess of long-term contract inventories		1,419	1,698	2,352
Advances on aerospace programs		2,417	3,339	3,228
Other financial liabilities	15	1,141	1,010	1,009
Other liabilities	16	2,219	2,182	2,227
<b>Current liabilities</b>		<b>12,137</b>	<b>13,435</b>	<b>13,786</b>
Provisions	14	557	562	584
Advances on aerospace programs		1,770	1,608	1,688
Long-term debt	17	8,939	7,627	6,988
Retirement benefits		2,315	2,629	2,161
Other financial liabilities	15	580	602	717
Other liabilities	16	1,027	1,096	990
<b>Non-current liabilities</b>		<b>15,188</b>	<b>14,124</b>	<b>13,128</b>
		<b>27,325</b>	<b>27,559</b>	<b>26,914</b>
<b>Equity</b>				
Attributable to equity holders of Bombardier Inc.	18	1,443	42	2,426
Attributable to NCI		16	13	23
		<b>1,459</b>	<b>55</b>	<b>2,449</b>
		<b>\$ 28,784</b>	<b>\$ 27,614</b>	<b>\$ 29,363</b>
Commitments and contingencies	23			

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



**BOMBARDIER INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Unaudited)

For the three-month periods ended

(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Retained earnings (deficit)		Contributed surplus	Accumulated OCI			Total	NCI	Total Equity
	Preferred shares	Common shares	Other retained earnings	Remeasurement losses		AFS financial assets	Cash flow hedges	CCTD			
As at March 31, 2015	\$ 347	\$ 2,203	\$ 1,242	\$ (2,807)	\$ 96	\$ 15	\$ (585)	\$ 36	\$ 547	\$ 15	\$ 562
Total comprehensive income											
Net income	—	—	125	—	—	—	—	—	125	—	125
OCI	—	—	—	582	—	(8)	124	76	774	1	775
	—	—	125	582	—	(8)	124	76	899	1	900
Dividends	—	—	(7)	—	—	—	—	—	(7)	—	(7)
Share-based expense	—	—	—	—	4	—	—	—	4	—	4
<b>As at June 30, 2015</b>	<b>\$ 347</b>	<b>\$ 2,203</b>	<b>\$ 1,360</b>	<b>\$ (2,225)</b>	<b>\$ 100</b>	<b>\$ 7</b>	<b>\$ (461)</b>	<b>\$ 112</b>	<b>\$ 1,443</b>	<b>\$ 16</b>	<b>\$ 1,459</b>
As at March 31, 2014	\$ 347	\$ 1,380	\$ 2,663	\$ (2,191)	\$ 98	\$ 9	\$ (267)	\$ 188	\$ 2,227	\$ 25	\$ 2,252
Total comprehensive income											
Net income	—	—	153	—	—	—	—	—	153	2	155
OCI	—	—	—	(125)	—	—	54	29	(42)	—	(42)
	—	—	153	(125)	—	—	54	29	111	2	113
Dividends	—	—	(48)	—	—	—	—	—	(48)	—	(48)
Share-based expense	—	—	—	—	5	—	—	—	5	—	5
<b>As at June 30, 2014</b>	<b>\$ 347</b>	<b>\$ 1,380</b>	<b>\$ 2,768</b>	<b>\$ (2,316)</b>	<b>\$ 103</b>	<b>\$ 9</b>	<b>\$ (213)</b>	<b>\$ 217</b>	<b>\$ 2,295</b>	<b>\$ 27</b>	<b>\$ 2,322</b>

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

**BOMBARDIER INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Unaudited)

For the six-month periods ended

(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Retained earnings (deficit)		Contributed surplus	Accumulated OCI			Total	NCI	Total Equity
	Preferred shares	Common shares	Other retained earnings	Remeasurement losses		AFS financial assets	Cash flow hedges	CCTD			
As at December 31, 2014	\$ 347	\$ 1,381	\$ 1,151	\$ (2,661)	\$ 92	\$ 12	\$ (322)	\$ 42	\$ 42	\$ 13	\$ 55
Total comprehensive income											
Net income	—	—	223	—	—	—	—	—	223	2	225
OCI	—	—	—	436	—	(5)	(139)	70	362	1	363
	—	—	223	436	—	(5)	(139)	70	585	3	588
Issuance of share capital	—	822	—	—	—	—	—	—	822	—	822
Dividends	—	—	(14)	—	—	—	—	—	(14)	—	(14)
Share-based expense	—	—	—	—	8	—	—	—	8	—	8
<b>As at June 30, 2015</b>	<b>\$ 347</b>	<b>\$ 2,203</b>	<b>\$ 1,360</b>	<b>\$ (2,225)</b>	<b>\$ 100</b>	<b>\$ 7</b>	<b>\$ (461)</b>	<b>\$ 112</b>	<b>\$ 1,443</b>	<b>\$ 16</b>	<b>\$ 1,459</b>
As at January 1, 2014	\$ 347	\$ 1,380	\$ 2,598	\$ (1,970)	\$ 92	\$ 5	\$ (203)	\$ 177	\$ 2,426	\$ 23	\$ 2,449
Total comprehensive income											
Net income	—	—	266	—	—	—	—	—	266	4	270
OCI	—	—	—	(346)	—	4	(10)	40	(312)	—	(312)
	—	—	266	(346)	—	4	(10)	40	(46)	4	(42)
Dividends	—	—	(96)	—	—	—	—	—	(96)	—	(96)
Share-based expense	—	—	—	—	11	—	—	—	11	—	11
<b>As at June 30, 2014</b>	<b>\$ 347</b>	<b>\$ 1,380</b>	<b>\$ 2,768</b>	<b>\$ (2,316)</b>	<b>\$ 103</b>	<b>\$ 9</b>	<b>\$ (213)</b>	<b>\$ 217</b>	<b>\$ 2,295</b>	<b>\$ 27</b>	<b>\$ 2,322</b>

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

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

		Three-month periods ended June 30		Six-month periods ended June 30	
	Notes	2015	2014	2015	2014
<b>Operating activities</b>					
Net income		\$ 125	\$ 155	\$ 225	\$ 270
Non-cash items					
Amortization		103	103	211	196
Deferred income taxes		2	24	14	48
(Gains) losses on disposals of PP&E and intangible assets	6	1	(4)	(2)	(4)
Share of income of joint ventures and associates		(18)	(28)	(34)	(50)
Share-based expense	19	4	5	8	11
Loss on repurchase of long-term debt	8	—	43	22	43
Dividends received from joint ventures and associates		23	62	27	62
Net change in non-cash balances	20	(609)	(259)	(1,206)	(890)
<b>Cash flows from operating activities</b>		<b>(369)</b>	<b>101</b>	<b>(735)</b>	<b>(314)</b>
<b>Investing activities</b>					
Additions to PP&E and intangible assets		(446)	(531)	(829)	(1,040)
Proceeds from disposals of PP&E and intangible assets		7	6	11	15
Additions to AFS investments in securities		(54)	(53)	(64)	(53)
Net proceeds from disposal of a business <sup>(1)</sup>		—	—	—	25
Other		2	(1)	(10)	(1)
<b>Cash flows from investing activities</b>		<b>(491)</b>	<b>(579)</b>	<b>(892)</b>	<b>(1,054)</b>
<b>Financing activities</b>					
Net proceeds from issuance of long-term debt	17	—	1,783	2,218	1,810
Repayments of long-term debt	17	(796)	(1,301)	(804)	(1,308)
Dividends paid <sup>(2)</sup>		(5)	(46)	(10)	(92)
Net proceeds from issuance of shares	18	—	—	822	—
Other		(59)	(29)	41	(11)
<b>Cash flows from financing activities</b>		<b>(860)</b>	<b>407</b>	<b>2,267</b>	<b>399</b>
Effect of exchange rates on cash and cash equivalents		92	59	(24)	48
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(1,628)</b>	<b>(12)</b>	<b>616</b>	<b>(921)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>4,733</b>	<b>2,488</b>	<b>2,489</b>	<b>3,397</b>
<b>Cash and cash equivalents at end of period</b>		<b>\$ 3,105</b>	<b>\$ 2,476</b>	<b>\$ 3,105</b>	<b>\$ 2,476</b>
<b>Supplemental information<sup>(3)(4)</sup></b>					
Cash paid for					
Interest		\$ 99	\$ 80	\$ 190	\$ 170
Income taxes		\$ 30	\$ 23	\$ 50	\$ 53
Cash received for					
Interest		\$ 6	\$ 100	\$ 11	\$ 110
Income taxes		\$ —	\$ 3	\$ 1	\$ 4

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

<sup>(2)</sup> \$5 million and \$10 million of dividends paid relate to preferred shares for the three- and six-month periods ended June 30, 2015 (\$5 million and \$11 million for the three- and six-month periods ended June 30, 2014).

<sup>(3)</sup> Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.

<sup>(4)</sup> Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivables after the effect of hedges, if any, and 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 THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2015

(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, as well as major aircraft structural components, and rail transportation equipment and systems, and is a provider of related services. The Corporation carries out its operations in four distinct segments, effective January 1, 2015: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation.

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, 2014.

The Corporation restated Note 4 - Segment disclosure for the comparative periods to reflect its four reportable segments.

These interim consolidated financial statements for the three- and six-month periods ended June 30, 2015 were authorized for issuance by the Board of Directors on July 29, 2015.

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

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

	Exchange rates as at		
	June 30, 2015	December 31, 2014	January 1, 2014
Euro	1.1133	1.2141	1.3791
Canadian dollar	0.8081	0.8633	0.9400
Pound sterling	1.5714	1.5587	1.6542

	Average exchange rates for the three-month periods ended		Average exchange rates for the six-month periods ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Euro	1.1021	1.3714	1.1150	1.3706
Canadian dollar	0.8123	0.9165	0.8100	0.9116
Pound sterling	1.5278	1.6820	1.5217	1.6683

## 2. CHANGES IN ACCOUNTING POLICIES

### 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 was adopted effective January 1, 2015. The adoption of this amendment had no significant impact on the consolidated financial statements of the Corporation.

## 3. 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.

### 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, 2018, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

## 4. SEGMENT DISCLOSURE

Following the reorganization announced in July 2014, the Corporation has adopted a new organizational structure with four reportable segments, effective January 1, 2015 : Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation. The Corporation restated the comparative periods to reflect its four reportable segments as described below. Each reportable segment offers different products and services and mostly requires different technology and marketing strategies.

### ***Business Aircraft***

Business Aircraft designs, manufactures and provides aftermarket support for three families of business jets (*Learjet*, *Challenger* and *Global*), spanning from the light to large categories.

### ***Commercial Aircraft***

Commercial Aircraft designs and manufactures a broad portfolio of commercial aircraft in the 60- to 149-seat categories, including the *Q400 NextGen* turboprops, the *CRJ700*, *900* and *1000 NextGen* regional jets as well as the clean-sheet *CS100* and *CS300* mainline jets. Commercial Aircraft provides aftermarket support for these aircraft as well as for the 20- to 59-seat range category.

### ***Aerostructures and Engineering Services***

Aerostructures and Engineering Services designs and manufactures major aircraft structural components (such as engine nacelles, fuselages and wings) and provides aftermarket component repair and overhaul as well as other engineering services for both internal and external clients.

### ***Transportation***

Transportation, a global leader in rail technology, offers the broadest portfolio in the rail industry and delivers innovative products and services that set new standards in sustainable mobility.

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, 2014.

The revenue recognition policies of Aerostructures and Engineering Services follow the Corporation's policies for either long-term contracts or aerospace programs depending on the nature of the contracts. Profit on intercompany transactions is eliminated in the consolidated financial statements and corporate charges that were previously allocated to segments are now part of Corporate and Elimination. Intersegment transaction policies put in place following the adoption of the new organizational structure in 2015 were not applied retroactively, which has not significantly impacted period-over-period variances.

Management assesses segment performance based on EBIT and EBIT before special items. The segmented results of operations and other information are as follows:

Three-month period ended June 30, 2015							
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total	
<b>Results of operations</b>							
External revenues	\$ 2,089	\$ 1,815	\$ 598	\$ 118	\$ —	\$ 4,620	
Intersegment revenues	2	—	—	354	(356)	—	
Total revenues	2,091	1,815	598	472	(356)	4,620	
<b>EBIT</b>	\$ 115	\$ 119	\$ (10)	\$ 42	\$ (40)	226	
Financing expense						92	
Financing income						(20)	
<b>EBT</b>						154	
Income taxes						29	
<b>Net income</b>						\$ 125	
<b>Other information</b>							
R&D <sup>(1)</sup>	\$ 31	\$ 30	\$ 16	\$ 2	\$ —	\$ 79	
Net additions to PP&E and intangible assets <sup>(2)</sup>	\$ 21	\$ 177	\$ 239	\$ 6	\$ (4)	\$ 439	
Amortization	\$ 24	\$ 42	\$ 24	\$ 13	\$ —	\$ 103	

Three-month period ended June 30, 2014							
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total	
<b>Results of operations</b>							
External revenues	\$ 2,379	\$ 1,624	\$ 754	\$ 134	\$ —	\$ 4,891	
Intersegment revenues	1	—	—	349	(350)	—	
Total revenues	2,380	1,624	754	483	(350)	4,891	
<b>EBIT</b>	\$ 125	\$ 122	\$ 17	\$ 22	\$ (29)	257	
Financing expense						90	
Financing income						(49)	
<b>EBT</b>						216	
Income taxes						61	
<b>Net income</b>						\$ 155	
<b>Other information</b>							
R&D <sup>(1)</sup>	\$ 32	\$ 21	\$ 22	\$ 4	\$ —	\$ 79	
Net additions to PP&E and intangible assets <sup>(2)</sup>	\$ 16	\$ 248	\$ 253	\$ 8	\$ —	\$ 525	
Amortization	\$ 30	\$ 32	\$ 27	\$ 14	\$ —	\$ 103	

<sup>(1)</sup> Includes tooling amortization. See Note 5 - Research and development for more details.

<sup>(2)</sup> As per the consolidated statements of cash flows.

Six-month period ended June 30, 2015						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
<b>Results of operations</b>						
External revenues	\$ 4,128	\$ 3,352	\$ 1,271	\$ 266	\$ —	\$ 9,017
Intersegment revenues	4	—	—	677	(681)	—
Total revenues	4,132	3,352	1,271	943	(681)	9,017
<b>EBIT before special items</b>	233	226	(20)	83	(59)	463
Special items <sup>(1)</sup>	—	11	(1)	(1)	—	9
<b>EBIT</b>	\$ 233	\$ 215	\$ (19)	\$ 84	\$ (59)	454
Financing expense						197
Financing income						(40)
<b>EBT</b>						297
Income taxes						72
<b>Net income</b>						\$ 225
<b>Other information</b>						
R&D <sup>(2)</sup>	\$ 58	\$ 58	\$ 37	\$ 5	\$ —	\$ 158
Net additions to PP&E and intangible assets <sup>(3)</sup>	\$ 33	\$ 336	\$ 433	\$ 20	\$ (4)	\$ 818
Amortization	\$ 50	\$ 84	\$ 52	\$ 25	\$ —	\$ 211

Six-month period ended June 30, 2014						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
<b>Results of operations</b>						
External revenues	\$ 4,644	\$ 3,098	\$ 1,233	\$ 270	\$ —	\$ 9,245
Intersegment revenues	3	—	—	683	(686)	—
Total revenues	4,647	3,098	1,233	953	(686)	9,245
<b>EBIT before special items</b>	253	222	20	42	(61)	476
Special items <sup>(1)</sup>	—	10	(2)	4	—	12
<b>EBIT</b>	\$ 253	\$ 212	\$ 22	\$ 38	\$ (61)	464
Financing expense						136
Financing income						(61)
<b>EBT</b>						389
Income taxes						119
<b>Net income</b>						\$ 270
<b>Other information</b>						
R&D <sup>(2)</sup>	\$ 68	\$ 42	\$ 38	\$ 7	\$ —	\$ 155
Net additions to PP&E and intangible assets <sup>(3)</sup>	\$ 32	\$ 523	\$ 450	\$ 20	\$ —	\$ 1,025
Amortization	\$ 59	\$ 62	\$ 47	\$ 27	\$ 1	\$ 196

<sup>(1)</sup> See Note 7 – Special items for more details.

<sup>(2)</sup> Includes tooling amortization. See Note 5 - Research and development for more details.

<sup>(3)</sup> As per the consolidated statements of cash flows.



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

	June 30, 2015	December 31, 2014	January 1, 2014
<b>Assets</b>			
Total assets	\$ 28,784	\$ 27,614	\$ 29,363
Assets not allocated to segments			
Cash and cash equivalents	3,105	2,489	3,397
Income tax receivable <sup>(1)</sup>	52	64	27
Deferred income taxes	819	875	1,231
<b>Segmented assets</b>	<b>24,808</b>	<b>24,186</b>	<b>24,708</b>
<b>Liabilities</b>			
Total liabilities	27,325	27,559	26,914
Liabilities not allocated to segments			
Interest payable <sup>(2)</sup>	155	124	116
Income taxes payable <sup>(3)</sup>	235	248	198
Long-term debt <sup>(4)</sup>	9,012	7,683	7,203
<b>Segmented liabilities</b>	<b>\$ 17,923</b>	<b>\$ 19,504</b>	<b>\$ 19,397</b>
<b>Net segmented assets</b>			
Transportation	\$ 512	\$ 226	\$ 296
Business Aircraft	\$ 1,586	\$ 440	\$ 1,306
Commercial Aircraft	\$ 4,267	\$ 3,693	\$ 3,241
Aerostructures and Engineering Services	\$ 321	\$ 204	\$ 221
Corporate and Elimination	\$ 199	\$ 119	\$ 247

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

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

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

<sup>(4)</sup> The current portion of long-term debt is included in other financial liabilities.

## 5. RESEARCH AND DEVELOPMENT

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
R&D expenditures	\$ 432	\$ 510	\$ 813	\$ 984
Less: development expenditures capitalized to aerospace program tooling	(399)	(472)	(747)	(902)
	33	38	66	82
Add: amortization of aerospace program tooling	46	41	92	73
	\$ 79	\$ 79	\$ 158	\$ 155

## 6. OTHER EXPENSE (INCOME)

Other expense (income) was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Changes in estimates and fair value <sup>(1)</sup>	\$ 2	\$ (4)	\$ (8)	\$ (19)
Severance and other involuntary termination costs (including changes in estimates) <sup>(2)</sup>	4	8	5	5
(Gains) losses on disposals of PP&E and intangible assets	1	(4)	(2)	(4)
Other	(2)	(4)	—	(4)
	\$ 5	\$ (4)	\$ (5)	\$ (22)

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

<sup>(2)</sup> Excludes those presented in special items.

## 7. SPECIAL ITEMS

Special items were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Loss on repurchase of long-term debt <sup>(1)</sup>	\$ —	\$ 43	\$ 22	\$ 43
Restructuring charge <sup>(2)</sup>	—	—	9	22
Gain on resolution of a litigation <sup>(3)</sup>	—	(8)	—	(18)
	\$ —	\$ 35	\$ 31	\$ 47
<b>Of which is presented in</b>				
Special items in EBIT	\$ —	\$ —	\$ 9	\$ 12
Financing expense - loss on repurchase of long-term debt	—	43	22	43
Financing income - interests related to the resolution of litigations	—	(8)	—	(8)
	\$ —	\$ 35	\$ 31	\$ 47

<sup>(1)</sup> Represents the loss related to the redemption of the \$750-million Senior Notes for the six-month period ended June 30, 2015. See Note 17 - Long-term debt for more details (\$43 million represents the loss related to the redemption of the €785-million (\$1,093-million) Senior Notes for three- and six-month periods ended June 30, 2014).

<sup>(2)</sup> Represents restructuring charges of \$13 million related to the workforce reduction announced in January 2015 of approximately 1,000 positions, located mostly in Querétaro, Mexico and Wichita, U.S., as a result of the decision to pause the *Learjet 85* aircraft program, and a reversal of restructuring provisions recorded in the prior year of \$4 million, for the six-month period ended June 30, 2015. For the six-month period ended June 30, 2014 relates to the Business Aircraft, Commercial Aircraft and Aerostructures and Engineering Services workforce reduction announced in January 2014 of approximately 1,700 positions, located mostly in Canada and the U.S.

<sup>(3)</sup> Represents a gain at Business Aircraft and Commercial Aircraft upon the successful resolution of a litigation in connection with Part IV of the Québec Income Tax Act, the Tax on Capital, of which \$8 million represents the interest portion of the gain for the three- and six-month periods ended June 30, 2014.

## 8. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
<b>Financing expense</b>				
Accretion on net retirement benefit obligations	\$ 18	\$ 19	\$ 37	\$ 38
Net loss on certain financial instruments <sup>(1)</sup>	5	—	23	—
Loss on repurchase of long-term debt <sup>(2)</sup>	—	43	22	43
Accretion on other financial liabilities	7	2	12	5
Amortization of letter of credit facility costs	4	3	7	7
Accretion on provisions	1	2	3	4
Changes in discount rates of provisions	—	—	—	2
Other	7	10	12	15
	42	79	116	114
Interest on long-term debt, after effect of hedges	50	11	81	22
	\$ 92	\$ 90	\$ 197	\$ 136
<b>Financing income</b>				
Interest related to the resolution of litigations <sup>(3)</sup>	\$ —	\$ (8)	\$ —	\$ (8)
Changes in discount rates of provisions	(3)	—	—	—
Net gain on certain financial instruments <sup>(1)</sup>	—	(18)	—	(13)
Other	(4)	(6)	(15)	(10)
	(7)	(32)	(15)	(31)
Interest on loans and lease receivables, after effect of hedges	(7)	(7)	(12)	(15)
Income from investment in securities	(4)	(3)	(10)	(6)
Interest on cash and cash equivalents	(2)	(7)	(3)	(9)
	(13)	(17)	(25)	(30)
	\$ (20)	\$ (49)	\$ (40)	\$ (61)

<sup>(1)</sup> Net losses (gains) on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.

<sup>(2)</sup> Represents the loss related to the redemption of the \$750-million Senior Notes, which was recorded as a special item for the six-month period ended June 30, 2015 (\$43 million represents the loss related to the redemption of the €785-million (\$1,093-million) Senior Notes, which was recorded as a special item for the three- and six-month periods ended June 30, 2014).

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

Borrowing costs capitalized to PP&E and intangible assets totalled \$67 million and \$130 million for the three- and six-month periods ended June 30, 2015, using an average capitalization rate of 4.90% and 4.74%, respectively (\$86 million and \$158 million and 5.07% and 5.00% for the three- and six-month periods ended June 30, 2014, 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).

## 9. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
(Number of shares, stock options, PSUs and DSUs, in thousands)				
Net income attributable to equity holders of Bombardier Inc.	\$ 125	\$ 153	\$ 223	\$ 266
Preferred share dividends, including taxes	(7)	(7)	(14)	(15)
Net income attributable to common equity holders of Bombardier Inc.	\$ 118	\$ 146	\$ 209	\$ 251
Weighted-average number of common shares outstanding	2,127,791	1,741,774	1,962,305	1,741,761
Net effect of stock options, PSUs and DSUs	—	809	—	839
Weighted-average diluted number of common shares	2,127,791	1,742,583	1,962,305	1,742,600
<b>EPS (in dollars)</b>				
Basic and diluted	\$ 0.06	\$ 0.08	\$ 0.11	\$ 0.14

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 52,584,420 and 52,535,625 stock options, PSUs and DSUs for the three- and six-month periods ended June 30, 2015, respectively (42,003,444 and 44,775,222 stock options, PSUs and DSUs for the three- and six-month periods ended June 30, 2014, respectively) 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.

## 10. 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 <sup>(1)</sup>	DDHR	Total carrying value	Fair value	
<b>June 30, 2015</b>								
<b>Financial assets</b>								
Cash and cash equivalents	\$ 3,105	\$ —	\$ —	\$ —	\$ —	\$ 3,105	\$ 3,105	
Trade and other receivables	—	—	—	1,300	—	1,300	1,300	
Other financial assets	50	581	387	397	423	1,838	1,850	
	\$ 3,155	\$ 581	\$ 387	\$ 1,697	\$ 423	\$ 6,243	\$ 6,255	
<b>Financial liabilities</b>								
Trade and other payables	\$ —	\$ 6	n/a	\$ 4,041	\$ —	\$ 4,047	\$ 4,047	
Long-term debt <sup>(2)</sup>	—	—	n/a	9,012	—	9,012	8,309	
Other financial liabilities	34	159	n/a	749	706	1,648	1,636	
	\$ 34	\$ 165	n/a	\$ 13,802	\$ 706	\$ 14,707	\$ 13,992	
<b>December 31, 2014</b>								
<b>Financial assets</b>								
Cash and cash equivalents	\$ 2,489	\$ —	\$ —	\$ —	\$ —	\$ 2,489	\$ 2,489	
Trade and other receivables	—	—	—	1,538	—	1,538	1,538	
Other financial assets	43	578	330	422	485	1,858	1,869	
	\$ 2,532	\$ 578	\$ 330	\$ 1,960	\$ 485	\$ 5,885	\$ 5,896	
<b>Financial liabilities</b>								
Trade and other payables	\$ —	\$ 18	n/a	\$ 4,198	\$ —	\$ 4,216	\$ 4,216	
Long-term debt <sup>(2)</sup>	—	—	n/a	7,683	—	7,683	7,692	
Other financial liabilities	73	172	n/a	719	592	1,556	1,655	
	\$ 73	\$ 190	n/a	\$ 12,600	\$ 592	\$ 13,455	\$ 13,563	
<b>January 1, 2014</b>								
<b>Financial assets</b>								
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	
<b>Financial liabilities</b>								
Trade and other payables	\$ —	\$ —	n/a	\$ 4,089	\$ —	\$ 4,089	\$ 4,089	
Long-term debt <sup>(2)</sup>	—	—	n/a	7,203	—	7,203	7,346	
Other financial liabilities	25	142	n/a	958	386	1,511	1,656	
	\$ 25	\$ 142	n/a	\$ 12,250	\$ 386	\$ 12,803	\$ 13,091	

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

<sup>(2)</sup> Includes the current portion of long-term debt.

n/a: Not applicable

## 11. INVENTORIES

Inventories were as follows, as at:

	June 30, 2015	December 31, 2014	January 1, 2014
Aerospace programs	\$ 4,824	\$ 4,600	\$ 4,847
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	7,801	7,369	7,064
Less: advances and progress billings	(6,015)	(5,558)	(5,406)
	1,786	1,811	1,658
Service contracts			
Cost incurred and recorded margins	290	310	420
Less: advances and progress billings	(17)	(17)	(19)
	273	293	401
Finished products <sup>(1)</sup>	1,187	1,266	1,328
	\$ 8,070	\$ 7,970	\$ 8,234

<sup>(1)</sup> Finished products include 1 new aircraft not associated with a firm order and 52 pre-owned aircraft, totalling \$419 million as at June 30, 2015 (1 new aircraft and 57 pre-owned aircraft, totalling \$485 million as at December 31, 2014 and 11 new aircraft and 43 pre-owned aircraft, totalling \$535 million as at January 1, 2014).

Finished products as at June 30, 2015 include \$286 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities (\$248 million as at December 31, 2014 and \$134 million as at January 1, 2014). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled \$3,762 million and \$7,337 million for the three- and six-month periods ended June 30, 2015, respectively (\$3,982 million and \$7,502 million for the three- and six-month periods ended June 30, 2014, respectively). These amounts include \$52 million and \$83 million of write-downs for the three- and six-month periods ended June 30, 2015, respectively (\$36 million and \$67 million for the three- and six-month periods ended June 30, 2014, respectively).

In connection with certain long-term contracts, Transportation enters into arrangements whereby amounts are received from third-party advance providers in exchange for the rights to customer payments. There is no recourse to Transportation if the customer defaults on its payment obligations assigned to the third-party advance provider. Amounts received under these arrangements are included as advances and progress billings in reduction of long-term contracts (production contracts) inventories and amounted to €268 million (\$298 million) as at June 30, 2015. The third-party advance providers could request repayment of these amounts if Transportation fails to perform its contractual obligations under the related long-term contract.

## 12. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	June 30, 2015	December 31, 2014	January 1, 2014
Derivative financial instruments	\$ 473	\$ 528	\$ 792
Investments in securities <sup>(1) (2)</sup>	401	346	335
Investments in financing structures <sup>(1)</sup>	375	360	331
Long-term contract receivables	308	321	319
Aircraft loans and lease receivables <sup>(1)</sup>	253	275	400
Restricted cash	16	17	19
Other	12	11	9
	<b>\$ 1,838</b>	<b>\$ 1,858</b>	<b>\$ 2,205</b>
Of which current	\$ 505	\$ 530	\$ 637
Of which non-current	1,333	1,328	1,568
	<b>\$ 1,838</b>	<b>\$ 1,858</b>	<b>\$ 2,205</b>

<sup>(1)</sup> Carried at fair value, except for \$2 million of aircraft loans and lease receivables, \$14 million of investments in securities and \$45 million of investment in financing structures carried at amortized cost as at June 30, 2015 (\$12 million, \$16 million and \$45 million, respectively, as at December 31, 2014 and \$12 million, \$20 million and \$46 million, respectively, as at January 1, 2014).

<sup>(2)</sup> Includes \$134 million of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at June 30, 2015 (\$70 million as at December 31, 2014, and January 1, 2014).

## 13. OTHER ASSETS

Other assets were as follows, as at:

	June 30, 2015	December 31, 2014	January 1, 2014
Prepaid expenses	\$ 768	\$ 760	\$ 620
Sales tax and other taxes	374	302	344
Retirement benefits	316	159	174
Deferred financing charges	150	138	100
Intangible assets other than aerospace program tooling and goodwill	134	156	186
Other	27	33	9
	<b>\$ 1,769</b>	<b>\$ 1,548</b>	<b>\$ 1,433</b>
Of which current	\$ 667	\$ 592	\$ 626
Of which non-current	1,102	956	807
	<b>\$ 1,769</b>	<b>\$ 1,548</b>	<b>\$ 1,433</b>

## 14. PROVISIONS

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

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other <sup>(1)</sup>	Total
Balance as at December 31, 2014	\$ 773	\$ 456	\$ 117	\$ 206	\$ 1,552
Additions	78	—	17 <sup>(2)</sup>	13	108
Utilization	(56)	(6)	(30)	(1)	(93)
Reversals	(32)	(6)	(4) <sup>(2)</sup>	(2)	(44)
Accretion expense	—	2	—	—	2
Effect of changes in discount rates	—	3	—	—	3
Effect of foreign currency exchange rate changes	(44)	—	(6)	(4)	(54)
Balance as at March 31, 2015	\$ 719	\$ 449	\$ 94	\$ 212	\$ 1,474
Additions	82	4	3	1	90
Utilization	(60)	(17)	(14)	(2)	(93)
Reversals	(18)	—	(1)	(14)	(33)
Accretion expense	—	1	—	—	1
Effect of changes in discount rates	—	(3)	—	—	(3)
Effect of foreign currency exchange rate changes	12	—	1	2	15
<b>Balance as at June 30, 2015</b>	<b>\$ 735</b>	<b>\$ 434</b>	<b>\$ 83</b>	<b>\$ 199</b>	<b>\$ 1,451</b>
Of which current	\$ 574	\$ 63	\$ 81	\$ 176	\$ 894
Of which non-current	161	371	2	23	557
	\$ 735	\$ 434	\$ 83	\$ 199	\$ 1,451

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

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

<sup>(2)</sup> See Note 7 – Special items for more details on the addition and the reversal related to restructuring charges.



## 15. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	June 30, 2015	December 31, 2014	January 1, 2014
Derivative financial instruments	\$ 740	\$ 665	\$ 411
Government refundable advances	361	363	481
Sale and leaseback obligations	301	260	138
Lease subsidies	159	172	142
Current portion of long-term debt	73	56	215
Vendor non-recurring costs	28	36	38
Other	59	60	301
	\$ 1,721	\$ 1,612	\$ 1,726
Of which current	\$ 1,141	\$ 1,010	\$ 1,009
Of which non-current	580	602	717
	\$ 1,721	\$ 1,612	\$ 1,726

## 16. OTHER LIABILITIES

Other liabilities were as follows, as at:

	June 30, 2015	December 31, 2014	January 1, 2014
Employee benefits	\$ 648	\$ 661	\$ 750
Supplier contributions to aerospace programs	609	601	529
Accruals for long-term contract costs	608	631	630
Deferred revenues	450	450	460
Income and other taxes payable	357	367	368
Other	574	568	480
	\$ 3,246	\$ 3,278	\$ 3,217
Of which current	\$ 2,219	\$ 2,182	\$ 2,227
Of which non-current	1,027	1,096	990
	\$ 3,246	\$ 3,278	\$ 3,217

## 17. LONG-TERM DEBT

In March 2015, the Corporation issued, at par, unsecured Senior Notes comprised of \$750 million, bearing interest at 5.50%, due on September 15, 2018 and \$1,500 million, bearing interest at 7.50%, due on March 15, 2025.

The Corporation issued on March 30, 2015 a notice of redemption for the \$750-million Senior Notes due January 15, 2016. The optional redemption was exercised on April 29, 2015.

The Corporation used the net proceeds of approximately \$2,213 million to finance the redemption of the \$750-million Senior Notes due January 15, 2016 with the remainder being for general corporate purposes.

## 18. SHARE CAPITAL

Following a resolution approved on March 27, 2015, the number of Class A and Class B shares authorized has increased from 1,892,000,000 to 2,742,000,000. In addition, the Corporation issued 487 840 350 Class B shares (subordinate voting). The Corporation used the net proceeds of CDN \$1,035 million (\$822 million) to supplement its working capital and for general corporate purposes.

## 19. SHARE-BASED PLANS

### PSU and DSU plans

The number of PSUs and DSUs has varied as follows:

		Three-month periods ended June 30	
		2015	2014
	PSU	DSU	PSU DSU
Balance at beginning of period	25,808,436	7,264,385	23,533,254 8,184,982
Granted	30,184	—	5,072 16,599
Exercised	—	(94,631)	— —
Forfeited	(754,462)	(180,168)	(6,558,145) (1,484,798)
Balance at end of period	25,084,158	6,989,586 <sup>(1)</sup>	16,980,181 6,716,783 <sup>(1)</sup>

		Six-month periods ended June 30	
		2015	2014
	PSU	DSU	PSU DSU
Balance at beginning of period	26,045,936	7,666,464	23,596,681 8,169,850
Granted	248,757	—	106,641 31,731
Exercised	—	(168,486)	— —
Forfeited	(1,210,535)	(508,392)	(6,723,141) (1,484,798)
Balance at end of period	25,084,158	6,989,586 <sup>(1)</sup>	16,980,181 6,716,783 <sup>(1)</sup>

<sup>(1)</sup> Of which 1,783,649 DSUs are vested as at June 30, 2015 (2,480,303 as at June 30, 2014).

The compensation expense, with respect to the PSU and DSU plans, amounted to \$2 million and \$5 million during the three- and six-month periods ended June 30, 2015, respectively (\$3 million and \$7 million during the three- and six-month periods ended June 30, 2014, respectively).

### Share option plans

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Balance at beginning of period	31,887,420	29,424,687	31,446,124	29,355,757
Granted	2,014,238	—	4,040,011	188,092
Exercised	—	(23,000)	—	(23,000)
Forfeited	(454,287)	(278,676)	(1,785,747)	(336,269)
Expired	(888,373)	(671,250)	(1,141,390)	(732,819)
Balance at end of period	32,558,998	28,451,761	32,558,998	28,451,761

A compensation expense of \$2 million and \$3 million was recorded during the three- and six-month periods ended June 30, 2015, respectively, with respect to share option plans (\$2 million and \$4 million for the three- and six-month periods ended June 30, 2014, respectively).

## 20. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2015	2014	2015	2014
Trade and other receivables	\$ (154)	\$ 28	\$ 193	\$ (167)
Inventories	(119)	(204)	(230)	(676)
Other financial assets and liabilities, net	(174)	133	(54)	(2)
Other assets	(239)	(53)	(258)	(80)
Trade and other payables	336	124	(91)	(49)
Provisions	(38)	(46)	(61)	(75)
Advances and progress billings in excess of long-term contract inventories	(126)	(146)	(239)	(76)
Advances on aerospace programs	(385)	(46)	(760)	343
Retirement benefits liability	150	(34)	184	(23)
Other liabilities	140	(15)	110	(85)
	\$ (609)	\$ (259)	\$ (1,206)	\$ (890)

## 21. CREDIT FACILITIES

In March 2015, the availability periods of Transportation's €3,500-million (\$3,897-million) letter of credit facility and the \$600-million letter of credit facility, which is available for the Corporation excluding Transportation, were extended by one year to May 2018 and June 2018, respectively. In addition, the maturity dates of Transportation's €500-million (\$557-million) unsecured revolving credit facility and the \$750-million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, were also extended by one year to March 2017 and June 2018, respectively.

In June 2015, Transportation's €3,500-million (\$3,897-million) committed amount increased to €3,640-million (\$4,052-million). Also, in June 2015, the availability period of the PSG facility was extended to August 2016.

The minimum liquidity required at the end of each fiscal quarter to meet the financial covenants related to the \$600-million letter of credit facility and \$750-million unsecured revolving facility, which are available for the Corporation excluding Transportation, has increased from \$500 million to \$750 million. Transportation's €3,640-million (\$4,052-million) letter of credit and €500-million (\$557-million) unsecured revolving facilities still require a minimum liquidity level of €600 million (\$668 million). Minimum liquidity required is not defined as comprising only cash and cash equivalents as presented in the consolidated statement of financial position.

## 22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

### **Methods and assumptions**

The methods and assumptions used to measure fair value for items recorded at FVTP&L and AFS are as follows:

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

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

***Lease subsidies*** – The Corporation uses an internal valuation model based on stochastic simulations to estimate fair value of lease subsidies incurred in connection with the sale of commercial aircraft. Fair value is calculated using market data for interest rates, published credit ratings when available, default probabilities from rating agencies and the Corporation's credit spread. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating.

***Derivative financial instruments*** – Fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive to sell favourable contracts i.e. taking into consideration the counterparty credit risk, or pays to transfer unfavourable contracts i.e. taking into consideration the Corporation's credit risk, at the reporting dates. The Corporation uses discounted cash flow analyses and market data such as interest rates, credit spreads and foreign exchange spot rate to estimate the fair value of forward agreements and interest-rate derivatives.

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

The methods and assumptions used to measure fair value for items recorded at amortized cost are as follows:

**Financial instruments whose carrying value approximates fair value** – The fair values of trade and other receivables, certain aircraft loans and lease receivables, certain investments in securities, certain investments in financing structures, restricted cash, trade and other payables, and sales and leaseback obligations measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments, because they bear variable interest-rate or because the terms and conditions are comparable to current market terms and conditions for similar items.

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

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

**Government refundable advances and vendor non-recurring costs** – The Corporation uses discounted cash flow analyses to estimate the fair value using market data for interest rates and credit spreads.

#### Fair value hierarchy

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

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows, as at June 30 2015:

	Total	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Aircraft loans and lease receivables	\$ 251	\$ —	\$ —	\$ 251
Derivative financial instruments <sup>(1)</sup>	473	—	473	—
Investments in securities	374 <sup>(2)</sup>	93	281	—
Investments in financing structures	330	—	150	180
	<b>\$ 1,428</b>	<b>\$ 93</b>	<b>\$ 904</b>	<b>\$ 431</b>
<b>Financial liabilities</b>				
Trade and other payables	\$ (6)	\$ —	\$ —	\$ (6)
Lease subsidies	(159)	—	—	(159)
Derivative financial instruments <sup>(1)</sup>	(740)	—	(740)	—
	<b>\$ (905)</b>	<b>\$ —</b>	<b>\$ (740)</b>	<b>\$ (165)</b>

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

<sup>(2)</sup> Excludes \$13 million of AFS investments carried at cost.

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

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies
Balance as at December 31, 2014	\$ 263	\$ 165	\$ (18)	\$ (172)
Net gains and interest included in net income <sup>(1)</sup>	11	12	—	1
Issuances	—	—	(3)	—
Settlements	(11)	—	18	5
Balance as at March 31, 2015	\$ 263	\$ 177	\$ (3)	\$ (166)
Net gains and interest included in net income <sup>(1)</sup>	5	3	—	1
Issuances	—	—	(3)	—
Settlements	(17)	—	—	6
<b>Balance as at June 30, 2015</b>	<b>\$ 251</b>	<b>\$ 180</b>	<b>\$ (6)</b>	<b>\$ (159)</b>

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies
Balance as at January 1, 2014	\$ 388	\$ 135	\$ —	\$ (142)
Net gains (losses) and interest included in net income <sup>(1)</sup>	16	22	—	(3)
Issuances	2	—	—	—
Settlements	(8)	—	—	6
Balance as at March 31, 2014	\$ 398	\$ 157	\$ —	\$ (139)
Net gains (losses) and interest included in net income <sup>(1)</sup>	25	10	—	(18)
Issuances	2	—	—	(38)
Settlements	(117)	(1)	—	6
Balance as at June 30, 2014	\$ 308	\$ 166	\$ —	\$ (189)

<sup>(1)</sup> Of which an amount of \$3 million represents realized gains for the three-month period ended June 30, 2015 and \$12 million represents realized losses for the six-month period ended June 30, 2015, which is recorded in financing income and other expense (income) (\$5 million and \$8 million represents realized gains for the three- and six-month periods ended June 30, 2014, which is recorded in financing income).

### Main assumptions developed internally for Level 3 hierarchy

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

These main assumptions are as follows as at June 30, 2015 :

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 3.05% and 5.09% (5.01%)	Between 1.53% and 7.12% (5.68%)	n/a

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

### Sensitivity to selected changes of assumptions for Level 3 hierarchy

These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at June 30, 2015:

Impact on EBT			Change of assumptions		
Change in fair value recognized in EBT for the :					
Gain (loss)	Three-month period ended June 30, 2015	Six-month period ended June 30, 2015	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	\$ (2)	\$ 4	\$ (3)	\$ (10)	\$ (13)
Investment in financing structures	\$ —	\$ 9	\$ (4)	\$ (12)	\$ (12)
Lease subsidies	\$ 3	\$ 5	n/a	\$ 2	n/a

n/a: not applicable

## 23. COMMITMENTS AND CONTINGENCIES

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

	June 30, 2015	December 31, 2014	January 1, 2014
<b>Aircraft sales</b>			
Residual value	\$ 1,693	\$ 1,749	\$ 1,828
Credit	1,246	1,275	1,297
Mutually exclusive exposure <sup>(1)</sup>	(598)	(628)	(639)
Total credit and residual value exposure	\$ 2,341	\$ 2,396	\$ 2,486
Trade-in commitments	\$ 2,326	\$ 2,696	\$ 3,416
Conditional repurchase obligations	\$ 246	\$ 204	\$ 472
<b>Other</b>			
Credit	\$ 48	\$ 48	\$ 48
Performance guarantees	\$ 35	\$ 38	\$ 43

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

Provisions for anticipated losses amounting to \$434 million as at June 30, 2015 (\$456 million as at December 31, 2014 and \$463 million as at January 1, 2014) have been established to cover the risks from credit and residual value guarantees. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to \$159 million as at June 30, 2015 (\$172 million as at December 31, 2014 and \$142 million as at January 1, 2014).

### Litigation

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

While the Corporation cannot predict the final outcome of all legal proceedings pending as at June 30, 2015, 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 20, 2015, Deutsche Bahn and Transportation announced that they had agreed on an out-of-court Settlement regarding various claims. The out-of-court Settlement terminated the claim filed on March 4, 2013 by S-Bahn Berlin GmbH (“SB”) 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. Under the out-of-court Settlement, Bombardier Transportation GmbH made no admission of liability.

### 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.

BT Brazil as a result of the administrative proceedings initiated by CADE in 2014 became a party as defendant to legal proceedings brought by the Sao Paulo State prosecution service against it and other companies for alleged ‘administrative improbity’ in relation to refurbishment contracts awarded in 2009 by the Sao Paulo metro operator CMSP and for ‘cartel’ in relation to a five year-maintenance contract with the Sao Paulo urban transit operator CPTM signed in 2002. In addition, BT Brazil was served notice and joined in December 2014 to a civil suit as co-defendant first commenced by the Sao Paulo state government against Siemens AG in the fall of 2013 and with which the State government seeks to recover loss for alleged cartel activities.

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.