

SECOND QUARTERLY REPORT

Three- and six-month periods ended June 30, 2016

GLOSSARY

The following table shows the abbreviations used in this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS	2
FORWARD-LOOKING STATEMENTS	3
OVERVIEW	4
HIGHLIGHTS	4
CONSOLIDATED RESULTS OF OPERATIONS	5
CONSOLIDATED FINANCIAL POSITION	9
LIQUIDITY AND CAPITAL RESOURCES	10
CAPITAL STRUCTURE	14
NON-GAAP FINANCIAL MEASURES	16
BUSINESS AIRCRAFT	19
COMMERCIAL AIRCRAFT	25
AEROSTRUCTURES AND ENGINEERING SERVICES	32
TRANSPORTATION	35
OTHER	40
OFF-BALANCE SHEET ARRANGEMENTS	40
RISKS AND UNCERTAINTIES	40
ACCOUNTING AND REPORTING DEVELOPMENTS	40
CONTROLS AND PROCEDURES	41
FOREIGN EXCHANGE RATES	42
SELECTED FINANCIAL INFORMATION	42
SHAREHOLDER INFORMATION	43
INTERIM CONSOLIDATED FINANCIAL STATEMENTS	44
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS	51

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" or "Bombardier"). 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.

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.

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.

Certain totals, subtotals and percentages may not agree due to rounding.

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; 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 receipt and use of the remaining investment by the Government of Québec in the C Series Aircraft Limited Partnership (the *C Series Investment*); the effects of the *C Series Investment* and of the private placement of a minority stake in Transportation to the CDPQ (the CDPQ Investment and, with the *C Series Investment*, the Investments) on the range of options available to us, including regarding our participation in future industry consolidation; the capital and governance structure of the Transportation segment following the CDPQ Investment, and of the Commercial Aircraft segment following the *C Series Investment*; the impact and expected benefits of the Investments on our operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; and the impact of the sale of equity on our balance sheet and liquidity position. The implementation of the Share Consolidation is subject to a number of conditions, including but not limited to, Toronto Stock Exchange approval. The Board of Directors has authority, notwithstanding approval of the Share Consolidation by shareholders, to determine in its discretion not to proceed with the Share Consolidation, without further approval or action by, or prior notice to, shareholders. At this time, no decision has been made by the Board of Directors and there can be no assurance that the Share Consolidation will be implemented as proposed or at all, or as to the timing thereof, or that the Share Consolidation will result in the contemplated initial post-consolidation share price of Class A Shares or Class B Subordinate Voting Shares.

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, but are not limited to, risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry, of business aircraft customers, and of the rail industry; trade policy; increased competition; political instability and force majeure), operational risks (such as risks related to developing new products and services; development of new business; the certification and homologation of products and services; fixed-price commitments and production and project execution; pressures on cash flows based on project-cycle fluctuations and seasonality; our ability to successfully implement our strategy and transformation plan; 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; reliance on information systems; reliance on and protection of intellectual property rights; and adequacy of insurance coverage), financing risks (such as risks related to liquidity and access to capital markets; retirement benefit plan risk; exposure to credit risk; existing debt and interest payment requirements; certain restrictive debt covenants; financing support provided for the benefit of certain customers; and reliance on government support), market risks (such as risks related to foreign currency fluctuations; changing interest rates; decreases in residual values; increases in commodity prices; and inflation rate fluctuations). 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, 2015. 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, 2015.

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	2016	2015	Variance
Revenues	\$ 4,309	\$ 4,620	(7)%
EBIT	\$ (251)	\$ 226	nmf
EBIT margin	(5.8)%	4.9%	nmf
EBIT before special items ⁽¹⁾	\$ 106	\$ 226	(53)%
EBIT margin before special items ⁽¹⁾	2.5 %	4.9%	(240) bps
EBITDA before special items ⁽¹⁾	\$ 204	\$ 329	(38)%
EBITDA margin before special items ⁽¹⁾	4.7 %	7.1%	(240) bps
Net income (loss)	\$ (490)	\$ 125	nmf
Diluted EPS (in dollars)	\$ (0.24)	\$ 0.06	nmf
Adjusted net income (loss) ⁽¹⁾	\$ (83)	\$ 145	nmf
Adjusted EPS (in dollars) ⁽¹⁾	\$ (0.06)	\$ 0.06	nmf
Net additions to PP&E and intangible assets	\$ 332	\$ 439	(24)%
Cash flows from operating activities	\$ (158)	\$ (369)	57 %
Free cash flow usage ⁽¹⁾	\$ (490)	\$ (808)	39 %
As at	June 30, 2016	December 31, 2015	
Available short-term capital resources ⁽²⁾	\$ 4,355	\$ 4,014	8 %

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

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

Key highlights and events

- The *C Series* aircraft program is transitioning from the development phase to the revenue-generating phase following delivery of the first CS100 aircraft to launch operator Swiss International Air Lines (SWISS) on June 29, 2016. The aircraft achieved successful EIS on July 15, 2016 with its maiden commercial flight taking passengers from Zurich to Paris. This is an historic milestone as we bring to market the first clean-sheet designed aircraft to serve the 100- to 150-seat segment in nearly 30 years.
- Recent significant orders solidified the *C Series* aircraft program in the 100- to 150-seat category. The program entered into service with a firm order backlog above our target of 300 aircraft:
 - In April 2016, we signed a firm order with Delta Air Lines, Inc. for 75 CS100 aircraft with options for an additional 50 CS100 aircraft, including conversion rights to the CS300 aircraft. Based on list price of the CS100 aircraft, the firm order is valued at \$5.6 billion.
 - In June 2016, we signed a firm order with Air Canada for 45 CS300 aircraft with options for an additional 30 CS300 aircraft, including conversion rights to the CS100 aircraft. Based on list price of the CS300 aircraft, the firm order is valued at \$3.8 billion.
 - In April 2016, Air Baltic Corporation AS converted its remaining seven options to firm orders of CS300 aircraft. Based on list price, the firm order is valued at \$506 million.

In conjunction with the closing of these firm orders, we recorded an onerous contract provision of \$492 million as a special item in the second quarter of 2016.
- On June 30, 2016, we closed the \$1.0-billion investment by the Government of Québec (through Investissement Québec), in return for a 49.5% equity stake in a newly created limited partnership, the *C Series* Aircraft Limited Partnership (CSALP), to which we have transferred the assets, liabilities and obligations of the *C Series* aircraft program. Also on June 30, 2016, we received the first \$500-million installment and the second \$500-million installment is expected on September 1, 2016, subject to the completion of one condition precedent. CSALP will carry on the operations related to our *C Series* aircraft program and will continue to be consolidated in our financial results.
- Over 60% of the 7,000 planned workforce reductions announced in February 2016 were executed during the first half of 2016. The goal is to resize our organization in line with current business needs and increase our competitiveness. In the first half of 2016, we have recognized restructuring charges of \$156 million, net of curtailment gains, in special items.

Key highlights and events (continued)

- Following our 2015 decision to reduce production rates for business aircraft, revenues declined as anticipated.
- Our operational transformation is gaining traction, driven by procurement savings and functional cost optimization. Production for the *C Series* aircraft program continues to accelerate, diluting the EBIT margin before special items as planned.
- Improved free cash flow usage due to higher cash flows from operating activities and lower net additions to PP&E and intangible assets.

CONSOLIDATED RESULTS OF OPERATIONS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Revenues	\$ 4,309	\$ 4,620	\$ 8,223	\$ 9,017
Cost of sales	3,840	4,031	7,328	7,862
Gross margin	469	589	895	1,155
SG&A	301	297	565	573
R&D	74	79	134	158
Share of income of joint ventures and associates	(18)	(18)	(32)	(34)
Other expense (income)	6	5	(8)	(5)
EBIT before special items⁽¹⁾	106	226	236	463
Special items	357	—	431	9
EBIT	(251)	226	(195)	454
Financing expense	187	92	355	197
Financing income	(11)	(20)	(19)	(40)
EBT	(427)	154	(531)	297
Income taxes	63	29	97	72
Net income (loss)	\$ (490)	\$ 125	\$ (628)	\$ 225
Attributable to				
Equity holders of Bombardier Inc.	\$ (531)	\$ 125	\$ (692)	\$ 223
NCI	\$ 41	\$ —	\$ 64	\$ 2
EPS (in dollars)				
Basic and diluted	\$ (0.24)	\$ 0.06	\$ (0.32)	\$ 0.11
(as a percentage of total revenues)				
EBIT before special items ⁽¹⁾	2.5 %	4.9%	2.9 %	5.1%
EBIT	(5.8)%	4.9%	(2.4)%	5.0%

Non-GAAP financial measures⁽¹⁾

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
EBITDA	\$ (153)	\$ 329	\$ (8)	\$ 665
EBITDA before special items	\$ 204	\$ 329	\$ 423	\$ 674
Adjusted net income (loss)	\$ (83)	\$ 145	\$ (117)	\$ 315
Adjusted EPS	\$ (0.06)	\$ 0.06	\$ (0.09)	\$ 0.15

⁽¹⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for 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	
	2016	2015	2016	2015
Revenues				
Business Aircraft	\$ 1,473	\$ 1,815	\$ 2,776	\$ 3,352
Commercial Aircraft	764	598	1,380	1,271
Aerostructures and Engineering Services	425	472	893	943
Transportation	1,964	2,091	3,844	4,132
Corporate and Elimination	(317)	(356)	(670)	(681)
	\$ 4,309	\$ 4,620	\$ 8,223	\$ 9,017
EBIT before special items⁽¹⁾				
Business Aircraft	\$ 98	\$ 119	\$ 185	\$ 226
Commercial Aircraft	(103)	(10)	(169)	(20)
Aerostructures and Engineering Services	30	42	65	83
Transportation	124	115	239	233
Corporate and Elimination	(43)	(40)	(84)	(59)
	\$ 106	\$ 226	\$ 236	\$ 463
Special Items				
Business Aircraft	\$ (114)	\$ —	\$ (109)	\$ 11
Commercial Aircraft	483	—	483	(1)
Aerostructures and Engineering Services	(39)	—	(19)	(1)
Transportation	37	—	129	—
Corporate and Elimination	(10)	—	(53)	—
	\$ 357	\$ —	\$ 431	\$ 9
EBIT				
Business Aircraft	\$ 212	\$ 119	\$ 294	\$ 215
Commercial Aircraft	(586)	(10)	(652)	(19)
Aerostructures and Engineering Services	69	42	84	84
Transportation	87	115	110	233
Corporate and Elimination	(33)	(40)	(31)	(59)
	\$ (251)	\$ 226	\$ (195)	\$ 454

⁽¹⁾ Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric.

Analysis of consolidated results

Detailed analyses of revenues and EBIT are provided in each reportable segment's Analysis of results section.

Special items

Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

Special items were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2016	2015	2016	2015
Onerous contracts provision - <i>C Series</i> aircraft program	1	\$ 492	\$ —	\$ 492	\$ —
Restructuring charges	2	44	—	156	9
Pension obligation	3	(139)	—	(139)	—
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions	4	(54)	—	(54)	—
Tax litigation	5	40	—	40	—
Foreign exchange gains related to the sale of a minority stake in Transportation	6	—	—	(38)	—
Transaction costs related to the conversion option embedded in the CDPQ investment	7	—	—	8	—
Loss on repurchase of long-term debt	8	—	—	—	22
Tax impacts of special items		(3)	—	(13)	—
		\$ 380	\$ —	\$ 452	\$ 31
Of which is presented in					
Special items in EBIT		\$ 357	\$ —	\$ 431	\$ 9
Financing expense - interest related to tax litigation	5	26	—	26	—
Financing expense - transaction costs related to the conversion option embedded in the CDPQ investment	7	—	—	8	—
Financing expense - loss on repurchase of long-term debt	8	—	—	—	22
Income taxes - effect of special items		(3)	—	(13)	—
		\$ 380	\$ —	\$ 452	\$ 31

1. Represents an onerous contracts provision in conjunction with the closing of *C Series* aircraft firm orders in the second quarter of 2016. The special item is net of \$24 million in Corporate and Elimination.
2. In 2016, comprised restructuring charges of \$48 million and \$173 million for the three- and six-month periods, respectively, partially offset by curtailment gains of \$4 million and \$17 million, respectively, related to the workforce optimization announced in February 2016.

In 2015, included restructuring charges of \$13 million related to the workforce reduction announced in January 2015 as a result of the decision to pause the *Learjet 85* aircraft program, partially offset by \$4 million of adjustments to restructuring provisions recorded in 2014.
3. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to \$139 million was reversed.
4. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, we reduced the related provisions by \$54 million. The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.
5. Represents a change in the estimates used to determine the provision related to tax litigation.

6. Represents foreign exchange gains related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation.
7. Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco.
8. Represents the loss related to the redemption of the \$750-million Senior Notes.

Net financing expense

Net financing expense amounted to \$176 million and \$336 million, respectively, for the three- and six-month periods ended June 30, 2016, compared to \$72 million and \$157 million for the corresponding periods last fiscal year.

The \$104-million increase for the three-month period is mainly due to:

- lower borrowing costs capitalized to PP&E and intangible assets following type certification of the CS100 aircraft in December 2015 (\$34 million);
- interest related to a tax litigation provision (\$26 million);
- higher interest on long-term debt, after the effect of hedges (\$11 million);
- higher amortization of letter of credit facility costs (\$7 million) mainly due to the reduction of committed amounts; and
- higher net financing expense from changes in discount rates of provisions (\$6 million).

The \$179-million increase for the six-month period is mainly due to:

- lower borrowing costs capitalized to PP&E and intangible assets following type certification of the CS100 aircraft in December 2015 (\$71 million);
- higher interest on long-term debt, after the effect of hedges (\$43 million);
- interest related to a tax litigation provision (\$26 million);
- higher financing expense from changes in discount rates of provisions (\$12 million);
- higher amortization of letter of credit facility costs (\$9 million) mainly due to the reduction of committed amounts; and
- transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco (\$8 million).

Partially offset by:

- a loss on repurchase of long-term debt in the corresponding period last year (\$22 million); and
- a lower net loss related to certain financial instruments classified as FVTP&L (\$10 million).

Income taxes

The effective income tax rates for the three- and six-month periods ended June 30, 2016 are (14.8)% and (18.3)%, respectively, compared to the statutory income tax rate in Canada of 26.8%. The negative effective income tax rates are mainly due to the negative impact of the net non-recognition of income tax benefits related to tax losses and temporary differences.

The effective income tax rates for the three- and six-month periods ended June 30, 2015 were 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 was 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 was mainly due to the positive impact of the income tax differential of foreign subsidiaries and permanent differences, partially offset by the net non-recognition of income tax benefits related to tax losses and temporary differences and other tax items.

CONSOLIDATED FINANCIAL POSITION

The total assets increased by \$968 million in the six-month period, including a negative currency impact of \$75 million. The \$1.0-billion increase excluding the currency impact is mainly explained by:

- a \$818-million increase in aerospace program tooling including \$352 million of acquired development costs carried out by our vendors and recognized at the first delivery of the CS100 aircraft. See the Investment in product development tables in Business Aircraft and Commercial Aircraft for details;
- a \$685-million increase in cash and cash equivalents. See the Free cash flow usage and the Variation in cash and cash equivalents tables for details; and
- a \$247-million increase in gross inventories in Transportation mainly due to a ramp-up of production ahead of deliveries, partially offset by a decrease in Business Aircraft inventories.

Partially offset by:

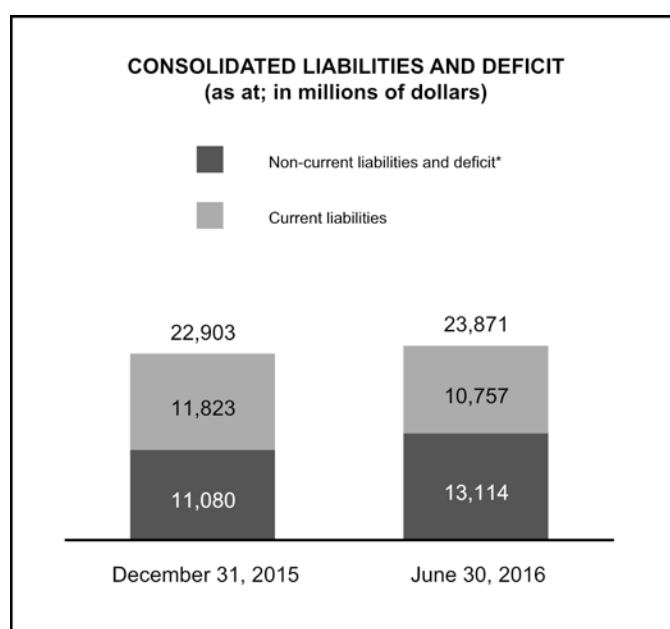
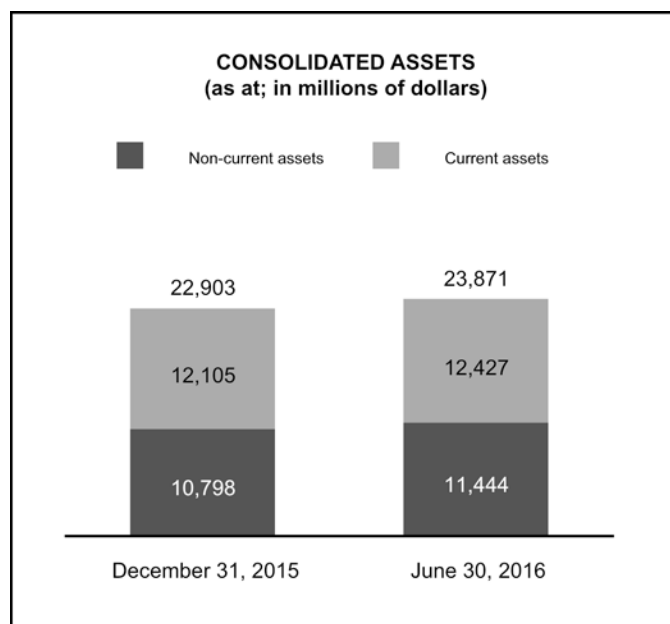
- a \$381-million increase in advances and progress billings related to Transportation; and
- a \$226-million decrease in other assets mainly related to a decrease in retirement benefit assets.

The total liabilities and deficit increased by \$968 million in the six-month period, including a currency impact of \$75 million. The \$1.0-billion increase excluding the currency impact is mainly explained by:

- a \$868-million increase in the retirement benefit liability. See the Variation in net retirement benefit liability table for details;
- a \$474-million increase in provisions mainly due to the onerous contracts provision recorded in conjunction with the closing of C Series aircraft firm orders; and
- a \$218-million decrease in deficit, mainly due to an increase in the NCI of \$1.5 billion due to the sale of convertible shares of BT Holdco to CDPQ and the investment by the Government of Québec in the CSALP, partially offset by net loss of \$628 million and other comprehensive loss of \$979 million of which \$1.1 billion relates to a loss on remeasurement of defined benefit plans.

Partially offset by:

- a \$438-million decrease in trade and other payables mainly in Business Aircraft and Transportation.



*Includes a deficit of \$3.9 billion as at June 30, 2016 (a deficit of \$4.1 billion as at December 31, 2015).

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow

Free cash flow usage⁽¹⁾

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Net income (loss)	\$ (490)	\$ 125	\$ (628)	\$ 225
Non-cash items				
Amortization	98	103	187	211
Deferred income taxes	(52)	2	(56)	14
Share of income of joint ventures and associates	(18)	(18)	(32)	(34)
Loss on repurchase of long-term debt	—	—	—	22
Other	3	5	(1)	6
Dividends received from joint ventures and associates	34	23	80	27
Net change in non-cash balances	267	(609)	(164)	(1,206)
Cash flows from operating activities	(158)	(369)	(614)	(735)
Net additions to PP&E and intangible assets	(332)	(439)	(626)	(818)
Free cash flow usage⁽¹⁾	(490)	(808)	(1,240)	(1,553)
Net interest and income taxes paid	(114)	(123)	(317)	(228)
Free cash flow usage before net interest and income taxes paid⁽¹⁾	\$ (376)	\$ (685)	\$ (923)	\$ (1,325)

The \$318-million improvement of free cash flow usage⁽¹⁾ for the three-month period is mainly due to:

- a positive period-over-period variation in net change in non-cash balances (\$876 million) (see explanation below);
- lower net additions to PP&E and intangible assets (\$107 million); and
- higher dividends received from joint ventures and associates (\$11 million).

Partially offset by:

- lower net income before non-cash items (\$676 million).

The \$313-million improvement of free cash flow usage⁽¹⁾ for the six-month period is mainly due to:

- a positive period-over-period variation in net change in non-cash balances (\$1,042 million) (see explanation below);
- lower net additions to PP&E and intangible assets (\$192 million); and
- higher dividends received from joint ventures and associates (\$53 million).

Partially offset by:

- lower net income before non-cash items (\$974 million).

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

Net change in non-cash balances

For the three-month period ended June 30, 2016, the \$267-million inflow is mainly due to:

- an increase in provisions, mainly due to the *C Series* onerous contracts provision recorded as a special item;
- an increase in Commercial Aircraft's advances on aerospace programs mainly in the *C Series* aircraft program; and
- a decrease in inventories, mainly in Business Aircraft and regional jets, partially offset by an increase in Transportation's gross inventories following ramp-up in production ahead of deliveries and in the *C Series* aircraft program inventory, due to the ramp-up in production and including the impacts of write-downs on early production units⁽¹⁾.

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

Partially offset by:

- a decrease in Business Aircraft's advances on aerospace programs;
- a decrease in trade and other payables related to Business Aircraft and Transportation, partially offset by an increase in Commercial Aircraft;
- a decrease in the net other financial assets and liabilities; and
- a change in retirement benefit liability, excluding the impact of the remeasurement of defined benefit plans included in OCI, mainly related to the reversal of a constructive obligation for discretionary ad hoc indexation increases to certain pensions, recorded as a special item, following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice.

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 gross 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 Transportation; and
- a net increase in Transportation's other financial assets and liabilities mainly related to derivative instruments.

Partially offset by:

- an increase in trade and other payables in all segments but mainly in Business Aircraft;
- 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 six-month period ended June 30, 2016, the \$164-million outflow is mainly due to:

- a decrease in trade and other payables mainly related to Business Aircraft and Transportation;
- a decrease in Business Aircraft's advances on aerospace programs;
- a change in retirement benefit liability, excluding the impact of the remeasurement of defined benefit plans included in OCI, mainly related to the reversal of a constructive obligation for discretionary ad hoc indexation increases to certain pensions, recorded as a special item, following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice.
- an increase in inventories, mainly due to an increase in Transportation's gross inventories following ramp-up in production ahead of deliveries and in the *C Series* aircraft program, due to the ramp-up in production and including the impacts of write-downs on early production units⁽¹⁾, partially offset by a decrease in Business Aircraft and regional jets; and
- a decrease in the net other financial assets and liabilities.

Partially offset by:

- an increase in provisions, mainly due to the *C Series* onerous contracts provision recorded as a special item;
- an increase in Transportation's advances and progress billings on existing contracts and new orders;
- an increase in Commercial Aircraft's advances on aerospace programs mainly in the *C Series* aircraft program; and
- a decrease in trade and other receivables, mainly related to Transportation.

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

- an increase in Transportation's gross 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.

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

Partially 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 Transportation; and
- a decrease in Business Aircraft finished product inventories mainly in pre-owned aircraft inventories.

Available short-term capital resources

Variation in cash and cash equivalents

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Balance at the beginning of period	\$ 3,359	\$ 4,733	\$ 2,720	\$ 2,489
Net proceeds from the sale of minority stakes in subsidiaries	466	—	1,932	—
Free cash flow usage ⁽¹⁾	(490)	(808)	(1,240)	(1,553)
Net change in short-term borrowings	111	—	111	—
Effect of exchange rate changes on cash and cash equivalents	(60)	92	(69)	(24)
Repayments of long-term debt	(39)	(796)	(47)	(804)
Dividends paid to NCI	—	—	(42)	—
Dividends paid	(4)	(5)	(8)	(10)
Net proceeds from issuance of long-term debt	1	—	1	2,218
Net proceeds from issuance of shares	—	—	—	822
Net variation in AFS investments in securities	—	(54)	—	(64)
Other	(8)	(57)	(22)	31
Balance at the end of period	\$ 3,336	\$ 3,105	\$ 3,336	\$ 3,105

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

On February 11, 2016, we closed the sale and received gross proceeds of \$1.5 billion from the CDPQ for an investment in convertible shares in Transportation's newly-created holding company, Bombardier Transportation (Investment) UK Ltd (BT Holdco). The CDPQ's shares are convertible into a 30% common equity stake of BT Holdco, subject to annual adjustments related to performance. The funds from the investment were distributed to the Corporation in the first quarter of 2016 and are being used for general corporate purposes. The parties have agreed that Bombardier will maintain a consolidated cash position at the end of each quarter of at least \$1.25 billion. In the event Bombardier's cash position falls below that level, the Board of Directors of Bombardier will create a Special Initiatives Committee composed of three independent directors acceptable to the CDPQ to develop an action plan to improve cash. The implementation of the plan, once agreed with the CDPQ, will be overseen by the Special Initiatives Committee.

On June 30, 2016, we closed the \$1.0-billion investment by the Government of Quebec (through Investissement Québec) in return for a 49.5% equity stake in a newly created limited partnership, the C Series Aircraft Limited Partnership (CSALP), to which we have transferred the assets, liabilities and obligations of the C Series aircraft program. Also on June 30, 2016, we received the first \$500-million installment and the second \$500-million installment is expected on September 1, 2016, subject to the completion of one condition precedent. The proceeds of the investment will be used entirely for the cash flow purposes of the C Series aircraft program. Refer to the Strategic partnership section in Commercial Aircraft for more detail.

Available short-term capital resources

	June 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 3,336	\$ 2,720
Available revolving credit facilities	1,019	1,294
Available short-term capital resources	\$ 4,355	\$ 4,014

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

facilities. Short-term borrowings of €100 million (\$111 million) remain outstanding under Transportation's €658-million (\$730-million) unsecured revolving credit facility as at June 30, 2016 (nil as at December 31, 2015).

In March and April 2016, respectively, we extended the maturity dates of Transportation's €500-million and the \$750-million⁽¹⁾ unsecured revolving credit facilities to October 2018 and June 2019, respectively. During the second quarter of 2016, Transportation's €500-million unsecured revolving credit facility was increased to €658 million (\$730 million) and the \$750-million⁽¹⁾ unsecured revolving credit facility was decreased to \$400 million, in light of our cash position and the investment from the Government of Québec.

⁽¹⁾ Available for other than Transportation's usage.

Letter of credit facilities

In April 2016, we extended the availability periods of Transportation's €3.64-billion and the \$600-million⁽¹⁾ letter of credit facilities by one year to May 2019 and June 2019, respectively. Also in April 2016, the committed amount under the \$600-million⁽¹⁾ letter of credit facility was decreased to \$400 million. In May 2016, the committed amount under Transportation's €3.64-billion letter of credit facility was decreased to €3.31 billion (\$3.7 billion).

⁽¹⁾ Available for other than Transportation's usage.

Financial covenants

In April 2016, the maximum net debt to EBITDA ratio required by the \$400-million letter of credit facility⁽¹⁾ and the \$400 million unsecured revolving facility⁽¹⁾ was replaced by maximum gross debt and minimum EBITDA thresholds. The remaining covenants requiring a minimum EBITDA to fixed charges ratio and a minimum liquidity level of \$750 million at the end of each quarter all calculated based on an adjusted consolidated basis (i.e. excluding Transportation) remain unchanged.

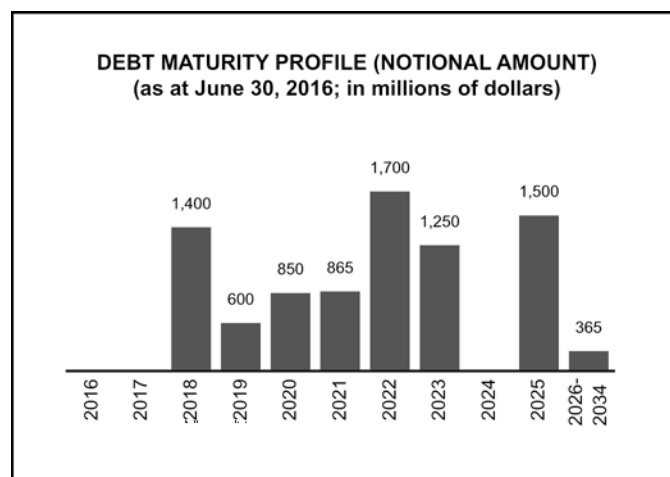
Transportation's letter of credit facility and unsecured revolving facility continue to require a minimum liquidity level of €600 million (\$665 million) at the end of each quarter, as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a Transportation stand-alone basis.

These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to any specific terms used in the MD&A.

⁽¹⁾ Available for other than Transportation's usage.

Future liquidity requirements

Our available short-term capital resources, along with the second installment of the investment from the Government of Québec, give us sufficient liquidity to execute our plan. In addition to the investments from the CDPQ and the Government of Québec (through Investissement Québec), we may receive funding from governments and contributions from key suppliers for certain aircraft programs, which increases financing flexibility as these parties act as risk-sharing partners. We consider that these resources will enable the development of new products to enhance our competitiveness and support our growth; will allow the payment of dividends, if and when declared by the Board of Directors; and will enable us to meet all other expected financial requirements in the foreseeable future. There is no significant debt maturing before the year 2018.



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 are not representative of our core performance or where their exclusion will assist users in understanding our results for the period.

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, 2016	December 31, 2015
Adjusted EBIT ⁽¹⁾	\$ 522	\$ 777
Adjusted interest ⁽¹⁾	\$ 557	\$ 503
Adjusted EBIT to adjusted interest ratio	0.9	1.5

⁽¹⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures.

The interest coverage ratio deteriorated mainly as a result of lower adjusted EBIT, due to lower EBIT before special items (see each reporting segment's Analysis of results section for details).

Financial leverage ratio

	As at and for the four quarter trailing periods ended	
	June 30, 2016	December 31, 2015
Adjusted debt ⁽¹⁾	\$ 9,335	\$ 9,289
Adjusted EBITDA ⁽¹⁾	\$ 995	\$ 1,278
Adjusted debt to adjusted EBITDA ratio	9.4	7.3

⁽¹⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures.

The financial leverage ratio deteriorated as a result of lower adjusted EBITDA, mainly due to lower adjusted EBIT (see variance explanation above).

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, we separately monitor our net retirement benefit liability which amounted to \$3.0 billion as at June 30, 2016 (\$1.9 billion as at December 31, 2015). 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. We closely monitor the impact of the net retirement benefit liability on our future cash flows and we have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with the retirement benefit plans. The \$1,053-million increase in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability

Balance as at December 31, 2015	\$	1,908 ⁽¹⁾
Changes in discount rates and other financial assumptions		1,454
Other net actuarial losses on defined benefit obligations		31
Actuarial gains on pension plan assets		(352)
Employer contributions		(138)
Changes in foreign exchange rates		44
Accretion on net retirement benefit obligation		34
Service costs ⁽²⁾		(27)
Other		7
Balance as at June 30, 2016	\$	2,961 ⁽¹⁾

⁽¹⁾ Includes retirement benefit assets of \$76 million as at June 30, 2016 (\$251 million as at December 31, 2015).

⁽²⁾ Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to \$139 million was reversed with a corresponding offset recorded in service costs.

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 (loss) 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 (loss)	Net income (loss) 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 (usage)	Cash flows from operating activities less net additions to PP&E and intangible assets.
Free cash flow (usage) before net interest and income taxes paid or received	Free cash flow (usage) excluding cash paid and received for interest and income taxes, as per the consolidated statements of cash flows.
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 short-term borrowings, 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 our results and related trends and increases the transparency and clarity of the core results of our 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 our core performance or where their exclusion will assist users in understanding our results for the period. We believe these measure 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	
	2016	2015	2016	2015
EBIT	\$ (251)	\$ 226	\$ (195)	\$ 454
Amortization	98	103	187	211
EBITDA	(153)	329	(8)	665
Special items ⁽¹⁾	357	—	431	9
EBITDA before special items	\$ 204	\$ 329	\$ 423	\$ 674

Reconciliation of adjusted net income to net income

	Three-month periods ended June 30			
	2016		2015	
	(per share)		(per share)	
Net income (loss)	\$ (490)		\$ 125	
Adjustments to EBIT related to special items ⁽¹⁾	357	\$ 0.16	—	\$ —
Adjustments to net financing expense related to:				
Interest related to tax litigation ⁽¹⁾	26	0.01	—	—
Accretion on net retirement benefit obligations	17	0.01	18	0.00
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments	10	0.00	2	0.00
Tax impact of special ⁽¹⁾ and other adjusting items	(3)	0.00	—	—
Adjusted net income (loss)	\$ (83)		\$ 145	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Three-month periods ended June 30	
	2016	2015
Diluted EPS	\$ (0.24)	\$ 0.06
Impact of special ⁽¹⁾ and other adjusting items	0.18	—
Adjusted EPS	\$ (0.06)	\$ 0.06

Reconciliation of adjusted net income to net income

	Six-month periods ended June 30			
	2016		2015	
	(per share)		(per share)	
Net income (loss)	\$ (628)		\$ 225	
Adjustments to EBIT related to special items ⁽¹⁾	431	\$ 0.19	9	\$ 0.00
Adjustments to net financing expense related to:				
Accretion on net retirement benefit obligations	34	0.02	37	0.02
Interest related to tax litigation ⁽¹⁾	26	0.01	—	—
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments	25	0.01	23	0.01
Transaction costs related to the conversion option embedded in the CDPQ investment ⁽¹⁾	8	0.00	—	—
Loss on repurchase of long-term debt ⁽¹⁾	—	—	22	0.01
Tax impact of special ⁽¹⁾ and other adjusting items	(13)	0.00	(1)	0.00
Adjusted net income (loss)	\$ (117)		\$ 315	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Six-month periods ended June 30	
	2016	2015
Diluted EPS	\$ (0.32)	\$ 0.11
Impact of special ⁽¹⁾ and other adjusting items	0.23	0.04
Adjusted EPS	\$ (0.09)	\$ 0.15

⁽¹⁾ Refer to the Consolidated results of operations section for details regarding special items.

Reconciliation of adjusted debt to long-term debt

	As at	
	June 30, 2016	December 31, 2015
Long-term debt	\$ 8,996	\$ 8,979
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	(417)	(386)
Long-term debt, net	8,579	8,593
Short-term borrowings ⁽¹⁾	111	—
Operating lease obligations ⁽²⁾	535	563
Sale and leaseback obligations	110	133
Adjusted debt	\$ 9,335	\$ 9,289

Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

	Four-quarter trailing periods ended	
	June 30, 2016	December 31, 2015
EBIT	\$ (5,487)	\$ (4,838)
Special items ⁽³⁾	5,814	5,392
Interest received	155	156
Interest adjustment for operating leases ⁽⁴⁾	40	67
Adjusted EBIT	522	777
Amortization	414	438
Amortization adjustment for operating leases ⁽⁵⁾	59	63
Adjusted EBITDA	\$ 995	\$ 1,278

Reconciliation of adjusted interest to interest paid

	Four-quarter trailing periods ended	
	June 30, 2016	December 31, 2015
Interest paid	\$ 511	\$ 427
Interest adjustment for operating leases ⁽⁴⁾	40	67
Accretion expense on sale and leaseback obligations	6	9
Adjusted interest	\$ 557	\$ 503

⁽¹⁾ Relates to amounts drawn under Transportation's €658-million (\$730 million) unsecured revolving credit facility. Also see Note 19 - Credit facilities.

⁽²⁾ Discounted using the average five-year U.S. Treasury Notes plus the average credit spread, given our credit rating, for the corresponding period.

⁽³⁾ Refer to the Consolidated results of operations section for details regarding special items for the six-month periods ended June 30, 2016 and 2015. The special items for the third and fourth quarters of 2015 relate to: impairment and other charges on the *C Series* aircraft program, the *Learjet 85* aircraft program, the *CRJ1000* aircraft program and the *Learjet* family of aircraft; an increase in provisions for credit guarantees and RVGs and a loss on certain financial instruments; write-off of deferred costs; termination of sales representative and distribution agreements; and a provision related to tax litigation.

⁽⁴⁾ 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.

⁽⁵⁾ Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

BUSINESS AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2016	2015	Variance
Revenues	\$ 1,473	\$ 1,815	(19)%
Aircraft deliveries (in units)	42	47	(5)
Net orders (in units)	30	8	22
Book-to-bill ratio ⁽¹⁾	0.7	0.2	0.5
EBIT	\$ 212	\$ 119	78 %
EBIT margin	14.4%	6.6%	780 bps
EBIT before special items ⁽²⁾	\$ 98	\$ 119	(18)%
EBIT margin before special items ⁽²⁾	6.7%	6.6%	10 bps
EBITDA before special items ⁽²⁾	\$ 146	\$ 161	(9)%
EBITDA margin before special items ⁽²⁾	9.9%	8.9%	100 bps
Net additions to PP&E and intangible assets	\$ 162	\$ 177	(8)%
As at	June 30, 2016	December 31, 2015	
Order backlog (in billions of dollars)	\$ 17.0	\$ 17.2	(1)%

Key highlights and events

- In the first half of 2016, we delivered 73 aircraft and achieved a book-to-bill ratio⁽¹⁾ of 1.0 validating the strategic decisions we took in 2015 to re-align aircraft supply to market demand. We also realized an EBIT margin before special items⁽²⁾ of 6.7% in what continued to be a challenging market environment.
- As outlined in our latest 10-year forecast, we remain confident in the significant long-term growth potential of the industry primarily driven by wealth creation, globalization of trade and replacement demand.

⁽¹⁾ Ratio of net orders received over aircraft deliveries, in units.

⁽²⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

INDUSTRY AND ECONOMIC ENVIRONMENT

The business aircraft market continues to show weakness in the short-term. World GDP growth rate and market indicators such as the industry confidence⁽¹⁾ and pre-owned business jet inventory levels point to a delayed recovery and continued market softness. However, we remain confident in the potential of the business aircraft industry with significant growth expected in the long term.

In the second quarter of 2016, emerging markets like China, Latin America (particularly Brazil) and Russia remain sluggish due to economic uncertainty and geopolitical issues. Orders continue to be driven by established markets such as North America and Western Europe. In 2016, the global economy is still expected to grow at a rate of 2.3%, unchanged from the previous quarter forecast, but slightly lower than growth of 2.5% in 2015.⁽²⁾

Industry confidence⁽¹⁾ further declined since the first quarter of 2016 and remains under the threshold of market stability, at its lowest level since 2009. The decline in the confidence index in the second quarter of 2016 was mainly due to reduced confidence related to inventory levels, partially offset by an increased confidence in business conditions.⁽³⁾

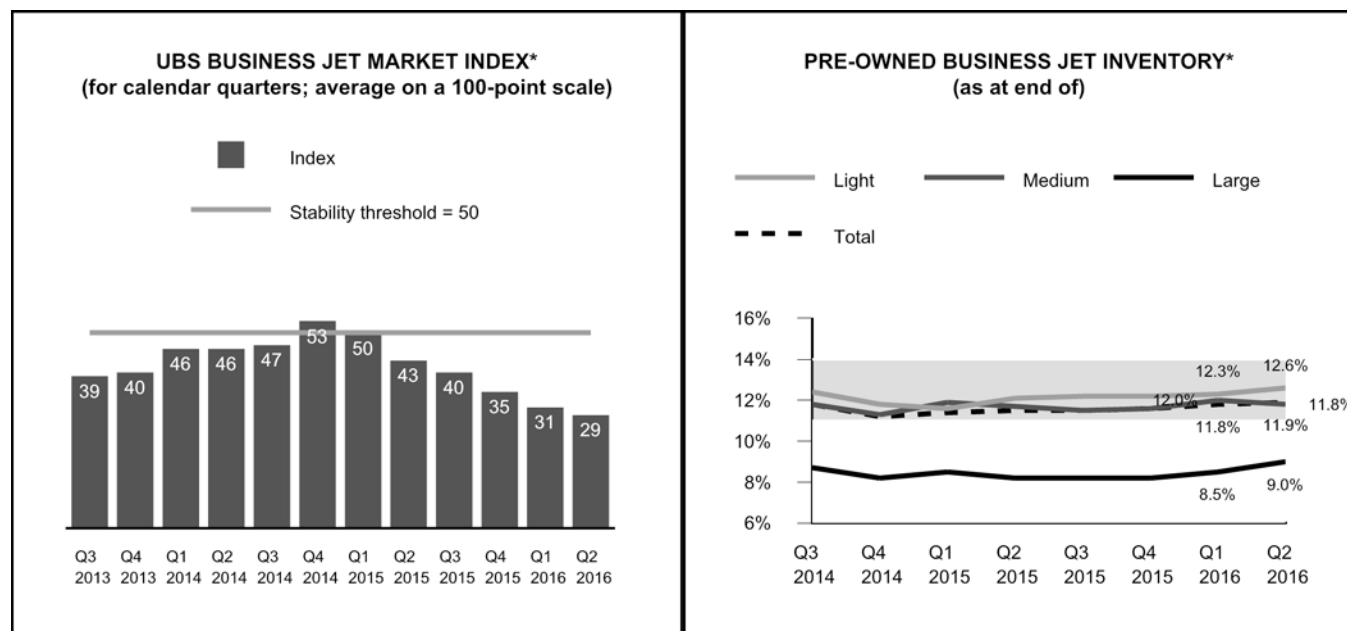
The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet slightly increased in the second quarter of 2016 and stood at 11.9% as at June 30, 2016. We consider this level of pre-owned inventory to be within the normal range for the overall market.

As indicated in the graphs below, overall business jet utilization in the U.S. and Europe remained stable compared to the same periods in the last three years.

⁽¹⁾ As measured by the UBS Business Jet Market Index.

⁽²⁾ According to "Oxford Economics Global Data Report" dated July 8, 2016.

⁽³⁾ According to the July 2016 UBS Business Jet Survey.



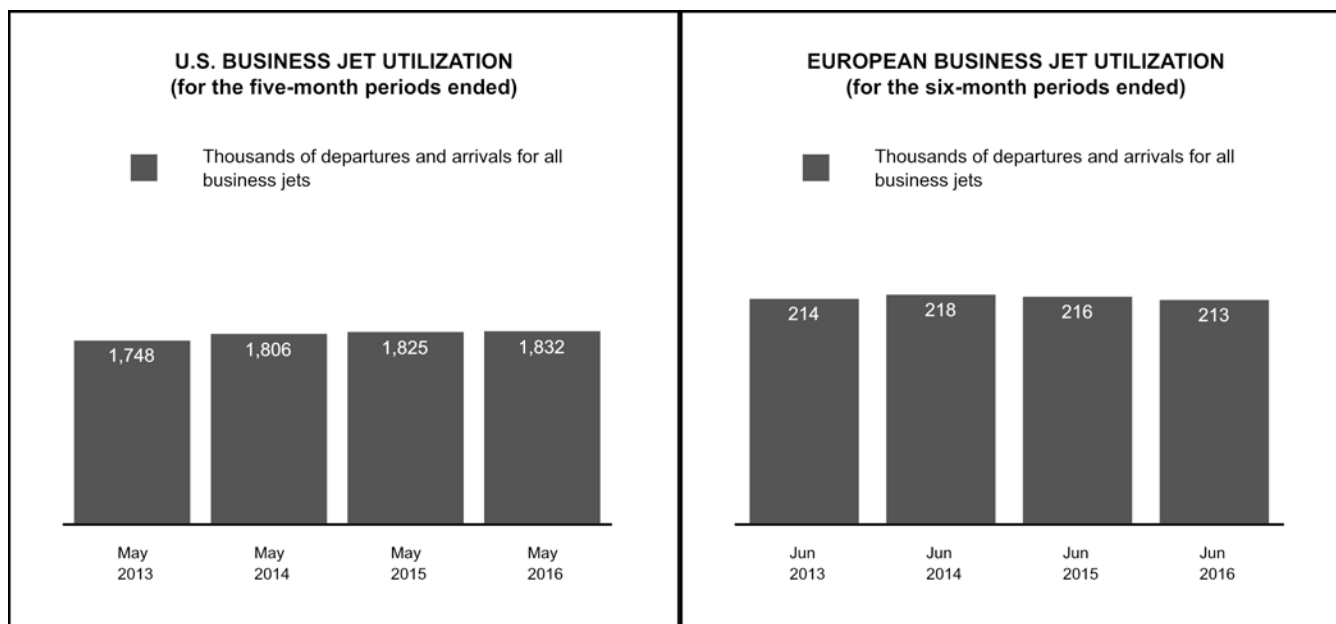
Source: UBS

* 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

Source: Eurocontrol

Update on Business Aircraft 10-year market forecast

In May 2016, we released our annual Business Aircraft Market Forecast for the 10-year period from 2016 to 2025.⁽¹⁾

The Business Aircraft Market Forecast estimates 8,300 aircraft deliveries in the light to large categories. The 10-year deliveries are valued at an estimated \$250 billion. We expect 2,400 large business aircraft deliveries representing approximately half of overall revenues at \$130 billion, while we anticipate 2,800 medium business aircraft and 3,100 light business aircraft deliveries representing \$84 billion and \$36 billion, respectively.⁽²⁾

The 2016 to 2025 forecast reflects the recent impacts of market trends and global economic conditions on business aviation market demand. Significant growth is expected in the long term, with larger aircraft continuing to dominate the market. Wealth creation, globalization of trade, replacement demand, emerging markets, and investments in innovative and efficient business aircraft solutions and new aircraft programs remain important drivers for business jet growth.

North America is still expected to account for the greatest number of new business jet deliveries between 2016 and 2025, followed by Europe, which remains the second largest market. Latin America and Greater China will follow in third and fourth place during the 10-year period. Emerging markets like Latin America, China and Russia are expected once again to be key drivers of future growth as present challenges in these markets subside.

⁽¹⁾ Available on Bombardier's dedicated investor relations website at ir.bombardier.com.

⁽²⁾ Unit values are based on Business & Commercial Aviation (B&CA) Magazine and Purchase Planning Handbook 2016 list prices.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Revenues	\$ 1,473	\$ 1,815	\$ 2,776	\$ 3,352
EBITDA before special items ⁽¹⁾	\$ 146	\$ 161	\$ 258	\$ 310
Amortization	48	42	73	84
EBIT before special items ⁽¹⁾	98	119	185	226
Special items	(114)	—	(109)	11
EBIT	\$ 212	\$ 119	\$ 294	\$ 215
EBIT margin before special items ⁽¹⁾	6.7%	6.6%	6.7%	6.7%
EBIT margin	14.4%	6.6%	10.6%	6.4%

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

Revenues

The \$342-million and \$576-million decreases for the three- and six-month periods, respectively, are mainly due to planned lower aircraft deliveries as well as lower revenues from sales of pre-owned aircraft.

Special items

Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

Special items in EBIT were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2016	2015	2016	2015
Pension obligation	1	\$ (63)	\$ —	\$ (63)	\$ —
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions	2	(54)	—	(54)	—
Restructuring charges	3	3	—	8	11
		\$ (114)	\$ —	\$ (109)	\$ 11
EBIT margin impact		7.7%	0.0%	3.9%	(0.3)%

- Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to \$63 million was reversed.
- Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, we reduced the related provisions by \$54 million. The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.
- In 2016, represents restructuring charges related to the workforce optimization announced in February 2016.

In 2015, the special items related to:

- a \$13-million restructuring charge related to the workforce reduction of 1,000 employees in Querétaro, Mexico and Wichita, U.S., related to the *Learjet 85* aircraft program;
- partially offset by a \$2-million adjustment to a restructuring provision recorded in 2014.

EBIT margin

The EBIT margin for the three-month period increased by 7.8 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the three-month period increased by 0.1 percentage points, mainly as a result of:

- favourable impacts of business model enhancements related to pre-owned aircraft activities; and
- higher margins on customer services activities.

Partially offset by:

- an inventory write-down in the light aircraft category and an unfavourable mix of aircraft, which offset the overall favourable aircraft margin; and
- lower absorption of SG&A expenses.

The EBIT margin for the six-month period increased by 4.2 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 remained unchanged compared to the same period last fiscal year reflecting the impacts of:

- favourable impacts of business model enhancements related to pre-owned aircraft activities; and
- higher margins on customer services activities.

Offset by:

- an inventory write-down in the light aircraft category, which offset the overall favourable aircraft margin; and
- lower absorption of SG&A expenses.

Product development

Investment in product development

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Program tooling ⁽¹⁾	\$ 161	\$ 161	\$ 323	\$ 319
R&D expense ⁽²⁾	1	—	2	2
	\$ 162	\$ 161	\$ 325	\$ 321
As a percentage of revenues	11.0%	8.9%	11.7%	9.6%

Program tooling additions mainly relate to the development of the *Global 7000* and *Global 8000* aircraft program.

The carrying amount of business aircraft program tooling⁽³⁾ as at June 30, 2016 was \$2.3 billion, compared to \$2.0 billion as at December 31, 2015.

⁽¹⁾ Net amount capitalized in aerospace program tooling.

⁽²⁾ Excluding amortization of aerospace program tooling of \$33 million and \$58 million for the three- and six-month periods ended June 30, 2016 (\$30 million and \$56 million for the three- and six-month periods ended June 30, 2015), as the related investments are already included in aerospace program tooling.

⁽³⁾ Capitalized borrowing costs included in the business aircraft aerospace program tooling balance amounted to \$210 million as at June 30, 2016 (\$157 million as at December 31, 2015).

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

We continue to focus our efforts on the flight test program in order to bring the category-defining aircraft to market.

Progress continues on building the *Global 7000* FTVs, and we are advancing on systems integration and static testing. All FTVs are in various stages of production and assembly.

Safety-of-flight testing is underway. The engine supplier received engine certification from the U.S. Federal Aviation Administration (FAA) in April 2016.

The manufacturing process of the *Global 7000* and *Global 8000* aircraft program is employing the highest caliber technology. The final assembly line in Toronto, Canada, features a state-of-the-art automated positioning system using laser-guided measuring to join the wing structure to the fuselage with a very high level of precision.

The *Global 7000* aircraft is expected to enter into service in the second half of 2018.

Aircraft deliveries

Aircraft deliveries

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2016	2015	2016	2015
Light				
<i>Learjet 70/75</i>	5	5	6	14
Medium				
<i>Challenger 350</i>	16	18	30	32
<i>Challenger 605/650</i>	7	3	9	8
<i>Challenger 850</i>	—	1	—	1
Large				
<i>Global 5000/Global 6000</i>	14	20	28	37
	42	47	73	92

Aircraft orders

Net orders

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2016	2015	2016	2015
Gross orders	35	16	92	47
Cancellations	(5)	(8)	(22)	(20)
Net orders	30	8	70	27

We achieved higher net order intake across all business aircraft categories in the three- and six-month periods ended June 30, 2016 when compared to the same periods last fiscal year.

Order backlog and book-to-bill ratio

Order backlog

	As at	
(in billions of dollars)	June 30, 2016	December 31, 2015
	\$ 17.0	\$ 17.2

The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand.

Book-to-bill ratio⁽¹⁾

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Net orders	30	8	70	27
Deliveries	42	47	73	92
	0.7	0.2	1.0	0.3

⁽¹⁾ Ratio of net orders received over aircraft deliveries, in units.

COMMERCIAL AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2016	2015	Variance
Revenues	\$ 764	\$ 598	28 %
Aircraft deliveries (in units)	27	19	8
Net orders (in units)	159	3	156
Book-to-bill ratio ⁽¹⁾	5.9	0.2	5.7
EBIT	\$ (586)	\$ (10)	nmf
EBIT margin	(76.7)%	(1.7)%	nmf
EBIT before special items ⁽²⁾	\$ (103)	\$ (10)	nmf
EBIT margin before special items ⁽²⁾	(13.5)%	(1.7)%	nmf
EBITDA before special items ⁽²⁾	\$ (90)	\$ 14	nmf
EBITDA margin before special items ⁽²⁾	(11.8)%	2.3 %	nmf
Net additions to PP&E and intangible assets	\$ 137	\$ 239	(43)%

⁽¹⁾ Ratio of net orders received over aircraft deliveries, in units.

⁽²⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

Key highlights and events

- The *C Series* aircraft program is transitioning from the development phase to the revenue-generating phase, an historic milestone as we bring to market the first clean-sheet designed aircraft to serve the 100- to 150-seat segment in nearly 30 years. Following the type certification from Transport Canada (TC) in December 2015, in June 2016, the *CS100* aircraft was awarded type validation by the European Aviation Safety Agency (EASA) and the U.S. Federal Aviation Administration (FAA). Subsequent to the quarter, on July 11, 2016, the *CS300* aircraft obtained its type certification from TC. Our focus now is improving efficiency while ramping up to full production, continuing to increase our order backlog, delivering the *C Series* aircraft and providing customer support.
 - We delivered the first *CS100* aircraft to launch operator Swiss International Air Lines (SWISS) on June 29, 2016. The aircraft achieved successful EIS on July 15, 2016 with its maiden commercial flight taking passengers from Zurich to Paris.
 - Recent significant orders solidified the *C Series* aircraft program in the 100- to 150-seat category. The program entered into service with a firm order backlog above our target of 300 aircraft:
 - In April 2016, we signed a firm order with Delta Air Lines, Inc. for 75 *CS100* aircraft with options for an additional 50 *CS100* aircraft, including conversion rights to the *CS300* aircraft. Based on list price of the *CS100* aircraft, the firm order is valued at \$5.6 billion.
 - In April 2016, Air Baltic Corporation AS (airBaltic) converted its remaining seven options to firm orders of *CS300* aircraft. This latest order brings airBaltic's total firm order to 20 *CS300* aircraft. Based on list price, this additional firm order is valued at \$506 million.
 - In June 2016, Air Canada signed a firm purchase agreement, consistent with the Letter of Intent announced in February 2016, for 45 *CS300* aircraft with options for an additional 30 *CS300* aircraft, including conversion rights to the *CS100* aircraft. Based on the list price of the *CS300* aircraft, the firm order is valued at \$3.8 billion.
- In conjunction with these firm orders, on a consolidated basis, we recorded an onerous contract provision of \$492 million as a special item in the second quarter of 2016.
- On June 30, 2016, we closed the \$1.0-billion investment by the Government of Québec (through Investissement Québec), in return for a 49.5% equity stake in a newly created limited partnership, the *C Series* Aircraft Limited Partnership (CSALP), to which we have transferred the assets, liabilities and obligations of the *C Series* aircraft program. Also on June 30, 2016, we received the first \$500-million installment and the second \$500-million installment is expected on September 1, 2016, subject to the completion of one condition precedent. CSALP will carry on the operations related to our *C Series* aircraft program and will continue to be consolidated in our financial results.

Key highlights and events (continued)

- Free cash flow usage for the six-month period ended June 30, 2016 related to the *C Series* aircraft program amounted to approximately \$470 million and remains in line with our target of \$1.0 billion free cash flow usage for the program in 2016.
- During the quarter, we introduced a new interior cabin design for the *CRJ* aircraft family.
- In June 2016, we signed a firm order for 10 *CRJ900* aircraft with an undisclosed customer. Based on list price, the firm order is valued at \$472 million.
- Subsequent to the end of the second quarter, we restructured the purchase agreement signed in 2013 with our Moscow-based leasing company customer Ilyushin Finance Co. (IFC) to align with their current market needs. The firm order has been modified from 32 *CS300* aircraft with options for an additional 10 *CS300* aircraft to 20 *CS300* aircraft and one *Q400* turboprop with options for five additional *Q400* aircraft.

INDUSTRY AND ECONOMIC ENVIRONMENT

Since the beginning of 2016, the demand for commercial air travel, measured by revenue passenger kilometres (“RPK”)⁽¹⁾, continues to show a strong upward trend compared to the same period last year.

Scheduled domestic and international commercial air travel, measured by RPK, were 5.4% and 6.3% higher, respectively, during the year-to-date period ended May 2016, compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors⁽²⁾ of 80.7% and 77.9%, respectively, during the year-to-date period ended May 2016, similar to the 80.4% and 78.2% respective levels experienced during the same period in 2015.⁽³⁾

For domestic commercial air travel specifically, increases in the U.S., China and India account for most of the 5.4% increase in RPK compared to the same period last year. On the international commercial air travel side, increases in Asia-Pacific, the Middle-East and Europe account for most of the 6.3% increase in RPK compared to the same period last year.⁽³⁾

Regional passenger traffic measured by RPK for the four leading U.S. network carriers⁽⁴⁾ and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., Commercial Aircraft's largest market, was stable with a 1.2% increase during the year-to-date period ended June 2016, compared to the same period last year. These airlines achieved an average passenger load factor of 79.5% during the year-to-date period ended June 2016, slightly lower compared to the 80.8% during the same period in 2015.

Growth in demand for air travel made a robust start in 2016, although the upward trend in traffic has weakened in recent months reflecting the fragile global economic conditions. Oil prices are still expected to remain at low levels for the foreseeable future.⁽³⁾⁽⁵⁾ This could lead some airlines to delay their decision to renew their fleet in the short term, but lower fuel prices should continue to help improve airline profitability, which in turn would provide an opportunity for airlines to reinvest in their fleets. Volatility in crude oil prices should result in continued demand for more fuel efficient aircraft. Environmental issues and regulations related to local air quality, aircraft emissions and community noise, as well as commitments by the aviation industry towards reducing carbon emissions, should speed up the retirement of older less fuel efficient aircraft worldwide.

In its June 2016 semi-annual Economic Performance of the Airline Industry report, IATA continues to predict that airline financial performance will continue to improve in 2016 compared to 2015, but at a slower rate. IATA forecasts commercial airline profits of \$39.4 billion for 2016, ahead of 2015 estimated profits of \$35.3 billion. Although air travel growth has remained strong, global economic conditions have shown signs of weakness. North American airlines are still expected to show the highest profits in dollars and percentage of revenues, with an improvement driven by consolidation, which helped to raise load factors, ancillaries and lower fuel costs.

⁽¹⁾ 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.

⁽²⁾ Passenger load factor is defined as the percentage of available seat kilometres used (RPK 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.

⁽³⁾ Per IATA's May 2016 Air Passenger Market Analysis report.

⁽⁴⁾ Delta Air Lines, American Airlines, United Airlines, and Alaska Air.

⁽⁵⁾ Per IATA's May-June 2016 Airlines Financial Monitor report.

Commercial Aircraft 20-year market forecast

Our current long-term outlook for commercial aircraft deliveries remains unchanged with 12,700 aircraft, valued at \$650 billion, to be delivered over the next 20 years in the 60- to 150-seat segment. Approximately 55% of the forecast deliveries are expected in the 100- to 150-seat segment. We anticipate that this segment will witness a major fleet transformation with the EIS of new clean-sheet aircraft designs.

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.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Revenues	\$ 764	\$ 598	\$ 1,380	\$ 1,271
EBITDA before special items⁽¹⁾	\$ (90)	\$ 14	\$ (130)	\$ 32
Amortization	13	24	39	52
EBIT before special items⁽¹⁾	(103)	(10)	(169)	(20)
Special items	483	—	483	(1)
EBIT	\$ (586)	\$ (10)	\$ (652)	\$ (19)
EBIT margin before special items ⁽¹⁾	(13.5)%	(1.7)%	(12.2)%	(1.6)%
EBIT margin	(76.7)%	(1.7)%	(47.2)%	(1.5)%

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

Revenues

The \$166-million increase for the three-month period is mainly due to higher aircraft deliveries.

The \$109-million increase for the six-month period is mainly due to higher revenues from sales of new and pre-owned aircraft.

Special items

Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

Special items in EBIT were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2016	2015	2016	2015
Onerous contracts provision - <i>C Series</i> aircraft program	1	\$ 516	\$ —	\$ 516	\$ —
Pension obligation	2	(33)	—	(33)	—
Restructuring charges	3	—	—	—	(1)
		\$ 483	\$ —	\$ 483	\$ (1)
EBIT margin impact		(63.2)%	0.0%	(35.0)%	0.1%

- In conjunction with the closing of *C Series* firm orders in the second quarter of 2016, on a consolidated basis, we recorded an onerous contracts provision of \$492 million, net of \$24 million included in Corporate and Elimination.

2. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to \$33 million was reversed.
3. Represents an adjustment to a restructuring provision recorded in 2014.

EBIT margin

The EBIT margin percentage for the three- and six-month periods decreased by 75.0 and 45.7 percentage points, respectively, compared to the same periods last year. The EBIT margin before special items (see explanation of special items above) for the three- and six-month periods decreased by 11.8 and 10.6 percentage points, respectively, mainly as a result of:

- losses related to the *C Series* aircraft program as a result of the ramp-up in production, mainly related to early production units⁽¹⁾; and
- lower margins related to aircraft deliveries.

Partially offset by:

- lower R&D expenses, mainly due to lower amortization of aerospace program tooling as a result of the lower carrying amount of the *CRJ* aircraft family program development costs.

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

Product development

Investment in product development

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Program tooling ⁽¹⁾	\$ 130	\$ 231	\$ 225	\$ 419
R&D expense ⁽²⁾	—	1	1	2
	\$ 130	\$ 232	\$ 226	\$ 421
As a percentage of revenues	17.0%	38.8%	16.4%	33.1%

Program tooling additions mainly relate to the development of the *C Series* aircraft program.

The carrying amount of commercial aircraft program tooling⁽³⁾ as at June 30, 2016 was \$2.5 billion, compared to \$1.9 billion as at December 31, 2015.

⁽¹⁾ Net amount capitalized in aerospace program tooling, excluding \$352 million for both the three- and six-month periods ended June 30, 2016 related to acquired development costs carried out by our vendors and recognized as aerospace program tooling at the first delivery of the *CS100* aircraft. The amount is a non-cash item for the three- and six-month periods ended June 30, 2016 as it is repayable upon future delivery of the aircraft and will impact the net additions to PP&E and intangible assets in the cash flow once the payments are made to the suppliers upon delivery of the aircraft.

⁽²⁾ Excluding amortization of aerospace program tooling of \$6 million and \$11 million for the three- and six-month periods ended June 30, 2016 (\$15 million and \$35 million for the three- and six-month periods ended June 30, 2015), as the related investments are already included in aerospace program tooling.

⁽³⁾ Capitalized borrowing costs included in the commercial aircraft aerospace program tooling balance amounted to \$299 million as at June 30, 2016 (\$294 million as at December 31, 2015).

The C Series aircraft program

CS100 aircraft

In December 2015, the CS100 aircraft was awarded type certification from TC. Following the successful completion of the CS100 aircraft's European route-proving exercises in March 2016, the CS100 airliner obtained its EASA and U.S. FAA type validations on June 15, 2016. In June 2016, the SWISS team completed its training for pilots as well as for ground and maintenance crews. The first CS100 aircraft was delivered to SWISS on June 29, 2016 and entered commercial service on July 15, 2016.

CS300 aircraft

On July 11, 2016, the CS300 aircraft obtained its type certification from TC. Type validations by the EASA and the U.S. FAA are expected by the third quarter of 2016. The first CS300 aircraft destined for launch operator airBaltic is in production and delivery is scheduled for the fourth quarter of 2016.

Performance results

Flight and aircraft structural test performance results have exceeded original targets for fuel burn, payload, range and airfield performance.⁽¹⁾

Production ramp-up and customer support activities

Our focus now is ramping up to full production, delivering the C Series aircraft and providing customer support.

The ramp-up, including the production of units for launch operator SWISS and airBaltic, is progressing according to plan in the new assembly facilities in Mirabel, Canada.

We are ready to provide our customers with full support while they launch their aircraft into revenue generating service:

- The C Series aircraft's full-flight simulator is playing a significant role in pilot training on the all-new CS100 aircraft.
- In June 2016, we launched the C Series aircraft's new state-of-the-art Customer Response Centre (CRC) in Mirabel, Canada. The CRC, which is already supporting C Series customers, provides 24/7/365 access to technical services, engineering expertise and global material services.
- In June 2016, our Authorized Service Facility (ASF), SAMCO Aircraft Maintenance B.V., received its C Series aircraft base maintenance approval from the Civil Aviation Authority of the Netherlands. SAMCO will provide maintenance services on C Series aircraft based in Europe and the surrounding regions.
- In May 2016, we signed a 10-year Smart Parts agreement with SWISS. In July 2016, we signed a 5-year Smart Parts agreement with airBaltic. Under the agreements, we will provide comprehensive component maintenance, repair and overhaul (MRO) services, access to a strategically located spare part exchange pool and on-site inventory based at the airlines' respective main hub.

⁽¹⁾ Key performance targets under certain operating conditions when compared to aircraft currently in production for flights of 500 nautical miles. Also see the CS300 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)	2016	2015	2016	2015
Regional jets				
CRJ700	1	1	1	2
CRJ900	15	11	27	24
CRJ1000	2	—	4	1
Commercial jets				
CS100	1	—	1	—
Turboprops				
Q400	8	6	14	14
Amphibious aircraft	—	1	—	1
	27	19	47	42

Aircraft orders

Net orders

	Three-month periods ended June 30		Six-month periods ended June 30	
(in units)	2016	2015	2016	2015
Regional jets				
CRJ900	17	—	19	7
CRJ1000	—	(2)	—	(2)
Commercial jets				
CS100	75	—	75	—
CS300	52	—	52	—
Turboprops				
Q400	15	5	15	23
	159	3	161	28

The following significant orders were received during the six-month period ended June 30, 2016:

Customer	Firm order	Value ⁽¹⁾	Options ⁽²⁾
Second quarter			
Delta Air Lines, Inc. (U.S.) ⁽³⁾	75 CS100	\$ 5,600	50 CS100
Air Canada (Canada) ⁽⁴⁾	45 CS300	\$ 3,800	30 CS300
Air Baltic Corporation AS (Latvia) ⁽⁵⁾	7 CS300	\$ 506	—
Undisclosed customer	10 CRJ900	\$ 472	—
WestJet Encore Ltd. (Canada) ⁽⁶⁾	9 Q400	\$ 293	—
Chorus Aviation Inc. (Canada) ⁽⁷⁾	5 CRJ900	\$ 229	—

⁽¹⁾ Value of firm order based on list prices.

⁽²⁾ Not included in the order backlog.

⁽³⁾ Deliveries of the aircraft to Delta are scheduled to begin in 2018.

⁽⁴⁾ Deliveries of the aircraft to Air Canada are expected to start in late 2019 and extend to 2022.

⁽⁵⁾ With this transaction, airBaltic has exercised its remaining seven options for CS300 aircraft.

⁽⁶⁾ The transaction is a conversion of nine options associated to a previous order.

⁽⁷⁾ The order includes purchase rights for an additional five CRJ900 aircraft.

Order backlog and book-to-bill ratio

Commercial aircraft order backlog and options

	June 30, 2016		As at December 31, 2015	
(in units)	Firm orders	Options	Firm orders	Options
Regional jets				
CRJ700	9	—	10	—
CRJ900	36	18	44	24
CRJ1000	21	—	25	9
Commercial jets				
CS100	122 ⁽¹⁾	99	53 ⁽¹⁾	49
CS300	247 ⁽¹⁾	143	190 ⁽¹⁾	113
Turboprops				
Q400	40	43	39	77
	475	303	361	272

⁽¹⁾ Following the delivery of the first CS100 aircraft to SWISS on June 29, 2016, the total of 369 orders includes 144 firm orders with conversion rights to the other C Series aircraft model as at June 30, 2016 (total of 243 orders included 86 firm orders with conversion rights to the other C Series aircraft model as at December 31, 2015).

The order backlog in units increased as at June 30, 2016, mainly in the C Series aircraft program. The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand.

On February 25, 2016, Republic Airways Holdings (Republic) announced that it and certain of its subsidiaries have filed voluntary petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code. As at June 30, 2016, there were 40 CS300 aircraft in our order backlog for this customer. We are monitoring the situation closely and we will work with Republic while it restructures.

Subsequent to the end of the second quarter, we restructured the purchase agreement signed in 2013 with our Moscow-based leasing company customer Ilyushin Finance Co. (IFC) to align with their current market needs. The firm order has been modified from 32 CS300 aircraft with options for an additional 10 CS300 aircraft to 20 CS300 aircraft and one Q400 turboprop with options for five additional Q400 aircraft. The restructured purchase agreement has not been reflected in the order backlog table above.

Book-to-bill ratio⁽¹⁾

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Net orders	159	3	161	28
Deliveries	27	19	47	42
	5.9	0.2	3.4	0.7

⁽¹⁾ Ratio of net orders received over aircraft deliveries, in units.

The increase in the book-to-bill ratio in the three- and six-month periods ended June 30, 2016 compared to the same periods last year is mainly due to significant orders for the *C Series* family of aircraft in the second quarter of 2016.

STRATEGIC PARTNERSHIP

Government of Québec's investment in the *C Series* aircraft program

On June 30, 2016, we closed the \$1.0-billion investment by the Government of Québec (through Investissement Québec) in return for a 49.5% equity stake in a newly-created limited partnership, the *C Series* Aircraft Limited Partnership (CSALP), to which we have transferred the assets, liabilities and obligations of the *C Series* aircraft program. CSALP will be owned 50.5% by Bombardier Inc. and, as a subsidiary of Bombardier Inc., will carry on the operations related to our *C Series* aircraft program. CSALP will continue to be consolidated in our financial results.

On June 30, 2016, we received the first \$500-million installment and the second \$500-million installment is expected on September 1, 2016, subject to the completion of one condition precedent. The NCI at June 30, 2016 reflects a 32.9% interest in the net assets of CSALP. The NCI will increase to 49.5% upon reception of the second tranche. The proceeds of the investment will be used entirely for cash flow purposes of the *C Series* aircraft program. Under the terms of the limited partnership agreement, we have committed to invest additional capital contributions to CSALP up to a maximum amount of \$1.0 billion in case of any liquidity shortfall in CSALP. Additional capital contributions by Bombardier would increase our ownership interest in CSALP.

Also on June 30, 2016 we issued, in the name of Investissement Québec, warrants exercisable for a total number of 50,000,000 Class B Subordinate Voting Shares in the capital of Bombardier Inc., exercisable for a period of five years at an exercise price per share equal to \$1.72 U.S. dollars, being the equivalent of \$2.21 Canadian dollars using the exchange rate at the date of execution of the subscription agreement. Additional warrants, exercisable for a total number of 50,000,000 Class B Subordinate Voting Shares in the capital of Bombardier Inc., will be issued concurrently with the disbursement of the second \$500-million installment of the investment.

The investment contemplates a continuity undertaking providing that we maintain in the Province of Québec, for a period of 20 years, CSALP's operational, financial and strategic headquarters, manufacturing and engineering activities, policies, practices and investment plans for research and development, in each case in respect of the design, manufacture and marketing of the CS100 and CS300 aircraft and after-sales services for these aircraft and that we will operate the facilities located in Mirabel, Canada for these purposes.

AEROSTRUCTURES AND ENGINEERING SERVICES

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2016	2015	Variance
Revenues	\$ 425	\$ 472	(10)%
External order intake	\$ 105	\$ 131	(20)%
External book-to-bill ratio ⁽¹⁾	1.0	1.1	(0.1)
EBIT	\$ 69	\$ 42	64 %
EBIT margin	16.2%	8.9%	730 bps
EBIT before special items ⁽²⁾	\$ 30	\$ 42	(29)%
EBIT margin before special items ⁽²⁾	7.1%	8.9%	(180) bps
EBITDA before special items ⁽²⁾	\$ 42	\$ 55	(24)%
EBITDA margin before special items ⁽²⁾	9.9%	11.7%	(180) bps
Net additions to PP&E and intangible assets	\$ 4	\$ 6	(33)%
As at	June 30, 2016	December 31, 2015	
External order backlog	\$ 60	\$ 80	(25)%

⁽¹⁾ Defined as new external orders over external revenues.

⁽²⁾ Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measure.

Key highlights and events

- The higher level of commercial aircraft intersegment revenue, as the *C Series* aircraft program ramps-up towards full production, is offset by lower business aircraft intersegment revenue related to production rate decreases implemented in 2015.
- Approximately 45% of the 2,500 planned workforce reductions announced in February 2016 were executed during the first half of 2016. The goal is to resize our organization in line with current business needs and increase our competitiveness. In the first half of 2016, we have recognized restructuring charges of \$24 million in special items.

INDUSTRY AND ECONOMIC ENVIRONMENT

Key drivers of the aerostructures market are strongly linked to factors such as economic growth (GDP per capita), air passenger traffic and aircraft retirement rates. More specifically, this 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 original equipment manufacturers in the aerospace market, it is subject to the same industry and economic drivers described in Business Aircraft and Commercial Aircraft. Refer to the Industry and economic environment sections of Business Aircraft and Commercial Aircraft for further discussion of the overall aerospace market which influences the aerostructures business.

The current status of some market drivers could potentially have a mixed impact over the short-term for the aerostructures industry. Demand for commercial air travel continues to show an upward trend and IATA predicts that airline financial performance will continue to improve in 2016. These factors could have a positive impact on commercial aircraft orders despite continued signs of weakness in global economic conditions. Meanwhile, industry confidence in the business jet market⁽¹⁾ has continued to decrease, down to its lowest level since 2009. Nevertheless, we remain confident in the long-term potential of the business aircraft industry.

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

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Revenues				
External revenues	\$ 109	\$ 118	\$ 224	\$ 266
Intersegment revenues	316	354	669	677
	425	472	893	943
EBITDA before special items⁽¹⁾	\$ 42	\$ 55	\$ 91	\$ 108
Amortization	12	13	26	25
EBIT before special items⁽¹⁾	30	42	65	83
Special items	(39)	—	(19)	(1)
EBIT	\$ 69	\$ 42	\$ 84	\$ 84
EBIT margin before special items ⁽¹⁾	7.1%	8.9%	7.3%	8.8%
EBIT margin	16.2%	8.9%	9.4%	8.9%

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

Revenues

The \$47-million decrease for the three-month period is due to:

- lower intersegment revenues (\$38 million) (see below); and
- lower external revenues (\$9 million), mainly due to lower volume, partially offset by a favourable long-term contract adjustment.

The \$50-million decrease for the six-month period is due to:

- lower external revenues (\$42 million), mainly due to lower volume, partially offset by an increase in spare parts sales; and
- lower intersegment revenues (\$8 million) (see below).

Lower intersegment revenues are mainly due to lower volume for business aircraft related to production rate decreases implemented in 2015, partially offset by higher volume for commercial aircraft mostly related to the *C Series* aircraft program production ramp-up.

Special items

Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

The special item for the three- and six-month periods ended June 30, 2016 represent:

- a \$43-million decrease in the pension obligation. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation was reversed; and
- restructuring charges related to the workforce optimization announced in February 2016, of which \$20 million was recorded in the first quarter and \$4 million in the second quarter.

The special item for the six-month period ended June 30, 2015 related to an adjustment to a restructuring provision recorded in 2014.

EBIT margin

The EBIT margin for the three-month period increased by 7.3 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the three-month period decreased by 1.8 percentage points, mainly as a result of:

- lower margins on intersegment commercial aircraft contracts, mainly due to the recognition of higher expected losses on early units of the *C Series* aircraft program, under long-term contract accounting.

Partially offset by:

- higher margins on intersegment business aircraft contracts; and
- higher margins on external contracts, mainly due to a favourable long-term contract adjustment.

The EBIT margin for the six-month period increased by 0.5 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 1.5 percentage points, mainly as a result of:

- lower margins on intersegment commercial aircraft contracts, mainly due to the recognition of higher expected losses on early units of the *C Series* aircraft program, under long-term contract accounting.

Partially offset by:

- higher margins on external contracts, mainly due to improved pricing; and
- improved margins on spare parts.

Order backlog and book-to-bill ratio

External order backlog

	June 30, 2016	As at December 31, 2015
	\$ 60	\$ 80

External order intake and book-to-bill ratio

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
External order intake	\$ 105	\$ 131	\$ 204	\$ 261
External book-to-bill ratio ⁽¹⁾	1.0	1.1	0.9	1.0

⁽¹⁾ Ratio of new external orders over external revenues.

TRANSPORTATION

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2016	2015	Variance
Revenues	\$ 1,964	\$ 2,091	(6)%
Order intake (in billions of dollars)	\$ 2.1	\$ 2.0	5 %
Book-to-bill ratio ⁽¹⁾	1.1	1.0	0.1
EBIT	\$ 87	\$ 115	(24)%
EBIT margin	4.4%	5.5%	(110) bps
EBIT before special items ⁽²⁾	\$ 124	\$ 115	8 %
EBIT margin before special items ⁽²⁾	6.3%	5.5%	80 bps
EBITDA before special items ⁽²⁾	\$ 149	\$ 139	7 %
EBITDA margin before special items ⁽²⁾	7.6%	6.6%	100 bps
Net additions to PP&E and intangible assets	\$ 29	\$ 21	38 %
As at	June 30, 2016	December 31, 2015	
Order backlog (in billions of dollars)	\$ 29.8	\$ 30.4	(2)%

Key highlights and events

- During the three-month period ended June 30, 2016, the EBIT margin before special items⁽²⁾ improved to above 6%. Our operational transformation is gaining traction, driven by procurement savings and functional cost optimization.
- We won several orders across various regions and product segments in the second quarter of 2016 and in line with our strategy, increased the share of services contracts in the order backlog.
- Approximately 60% of the 3,200 planned workforce reductions announced in February 2016 were executed during the first half of 2016. The goal is to resize our organization in line with current business needs and increase our competitiveness. In the first half of 2016, we have recognized restructuring charges of \$124 million in special items.

⁽¹⁾ Defined as new orders over revenues.

⁽²⁾ 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.

INDUSTRY AND ECONOMIC ENVIRONMENT

Based on UNIFE forecasts, the overall accessible rail market⁽¹⁾ is expected to grow at an average annualized rate of 2.7%⁽²⁾ over the next three years; however, the level of orders awarded in the overall accessible market for the first half of the year was lower compared to the same period last year due to large contracts awarded in the first half of 2015.

In Europe, the order volume for the first half of 2016 is similar to the level reached during the same period in 2015, supported by strong market activity in the second quarter. In Italy, Germany and the U.K., large orders were awarded mainly in the commuter and regional trains segment. In the upcoming quarters, large orders are expected to be tendered for high speed trains in France and Spain as well as significant contracts for metro cars in the U.K., France and Germany. In Eastern Europe, orders were awarded for metro cars in Istanbul in Turkey, regional trains in Hungary and a signalling contract in Slovakia. In Turkey, further investments are expected in the metro, high speed trains and services segments. Demand remains for modernization and replacements of aging fleets in Eastern Europe where investments are expected in Hungary, Poland and Romania in the commuter and regional trains as well as in the metro and light rail vehicle segments.

In North America, the level of investments in the first half of 2016 increased compared to the same period last year driven by a large metro order awarded in Chicago, U.S. during the first quarter. In the second quarter, contracts for light rail vehicles in Maryland, U.S. and regional trains in Canada have been awarded. In the quarters to come, orders are expected to be awarded in both Canada and the U.S. in the commuter and regional trains segment as well as in urban mobility solutions, such as light rail vehicles and metro cars. In addition, several transport authorities in Mexico are expected to invest in metros and light rail vehicles.

In Asia-Pacific, the order volume decreased in the first half of 2016 compared to the same period last year as investments in the high-speed network in China have slowed down. During the second quarter, investments were made in several new metro lines and extension of existing lines in China, Thailand and Taiwan as well as in new high speed trains in South Korea. In Australia, contracts for additional commuter trains and light rail vehicles were awarded. Further investments are planned in the metro segment in China and India, for commuter and regional trains in Australia and India and for services in Australia.

In the Rest of world region, the year to date market activity remains lower compared with the same period last year despite significant investments in the Middle East during the second quarter. Political instability, falling commodity prices or slower-than-expected economic recovery continue to impact project realization across the different regions; however, several large projects are expected in South America, North Africa and the Middle East where there is a need for urban mobility solutions.

⁽¹⁾ The overall accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Transportation's accessible market also excludes the infrastructure, freight wagon and shunter segments.

⁽²⁾ 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. UNIFE data is updated every two years based on the 55 largest rail markets worldwide.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Revenues				
External revenues	\$ 1,962	\$ 2,089	\$ 3,841	\$ 4,128
Intersegment revenues	2	2	3	4
	1,964	2,091	3,844	4,132
EBITDA before special items⁽¹⁾	\$ 149	\$ 139	\$ 288	\$ 283
Amortization	25	24	49	50
EBIT before special items⁽¹⁾	124	115	239	233
Special items	37	—	129	—
EBIT	\$ 87	\$ 115	\$ 110	\$ 233
EBIT margin before special items ⁽¹⁾	6.3%	5.5%	6.2%	5.6%
EBIT margin	4.4%	5.5%	2.9%	5.6%

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

Revenues

Total external revenues for the three- and six-month periods ended June 30, 2016, have decreased by \$127 million and \$287 million, respectively. Excluding negative currency impacts of \$24 million and \$95 million, respectively, revenues have decreased by \$103 million, or 4.9%, for the three-month period while revenues for the six-month period have decreased by \$192 million, or 4.7%, compared to the same periods last fiscal year.

The \$103-million decrease excluding currency impact for the three-month period is mainly explained by:

- lower activities in systems and in signalling in the Rest of world region, Asia-Pacific and Europe (\$144 million); and
- lower activities in rolling stock in North America following completion of some metro contracts (\$23 million).

Partially offset by:

- higher activities in rolling stock in the Rest of world region, Europe and Asia-Pacific mainly due to ramp-up in production related to some locomotive contracts in the Rest of world region and some commuter and regional train contracts in Europe and Asia-Pacific (\$71 million).

The \$192-million decrease excluding currency impact for the six-month period is mainly explained by:

- lower activities in systems and in signalling in the Rest of world region and Asia-Pacific, and in systems in Europe (\$173 million); and
- lower activities in rolling stock in Europe and North America following completion of some locomotive and metro contracts in both regions, and some commuter and regional train contracts in North America, as well as overall optimization of our supply chain, which delayed recognition of certain costs and therefore delayed recognition of revenue under long-term contract accounting, partly compensated by ramp-up in production related to some commuter and regional train contracts in Europe and some light rail vehicle contracts in North America (\$173 million).

Partially offset by:

- higher activities in rolling stock in the Rest of world region and Asia-Pacific mainly due to ramp-up in production related to some locomotive contracts in the Rest of world region and some propulsion, commuter and regional train and metro contracts in Asia-Pacific (\$151 million).

Special items

Special items comprise items which do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.

The special item for the three- and six-month periods ended June 30, 2016 represent:

- restructuring charges of \$124 million related to the workforce optimization announced in February 2016, of which \$87 million was recorded in the first quarter and \$37 million in the second quarter; and
- a foreign exchange loss of \$5 million related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation.

EBIT margin

The EBIT margin percentage for the three- and six-month periods decreased by 1.1 and 2.7 percentage points, respectively, compared to the same periods last year. The EBIT margin before special items (see explanation of special items above) for the three- and six-month periods increased by 0.8 and 0.6 percentage points, respectively, mainly as a result of:

- higher margin in rolling stock and services.

Partially offset by:

- lower margin in systems.

Orders and backlog

Order backlog

	As at	
(in billions of dollars)	June 30, 2016	December 31, 2015
	\$ 29.8	\$ 30.4

The \$0.6-billion decrease in order backlog is mainly due to higher revenues than order intake (\$0.5 billion) and negative currency impacts (\$0.1 billion).

Order intake and book-to-bill ratio

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Order intake (in billions of dollars)	\$ 2.1	\$ 2.0	\$ 3.3	\$ 3.2
Book-to-bill ratio ⁽¹⁾	1.1	1.0	0.9	0.8

⁽¹⁾ Ratio of new orders over revenues.

Excluding negative currency impacts, the order intake for the three- and six-month periods increased by \$131 million and \$202 million, respectively, compared to the same periods last fiscal year. The order intake for the three- and six-month periods ended June 30, 2016 reflect negative currency impacts of \$47 million and \$79 million, respectively.

We won several orders across various regions and product segments in the second quarter of 2016 and maintained a leading position⁽¹⁾ in the overall accessible rail market⁽²⁾.

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

⁽²⁾ 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. Our accessible market also excludes the infrastructure, freight wagon and shunter segments.

The significant orders obtained during the six-month period ended June 30, 2016 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value
Second quarter					
Undisclosed	n/a	Fleet maintenance services	n/a	Services	\$ 393
Abellio Rail Südwest GmbH	Germany	<i>TALENT 2</i> Electrical Multiple Units	167	Rolling Stock	\$ 244
Akiem S.A.	France	<i>TRAXX</i> locomotives	26	Rolling Stock	\$ 107 ⁽¹⁾
First quarter					
City of Edmonton	Canada	<i>FLEXITY</i> trams, signalling and related depot equipment; O&M services ⁽²⁾	n/a	Rolling stock, Services, System and signalling	\$ 280 ⁽³⁾
Israel Railways (ISR)	Israel	<i>TWINDEXX</i> Vario double-deck coaches	60	Rolling stock	\$ 120

⁽¹⁾ Based on list price.

⁽²⁾ Operations and maintenance of the light rail transit system performed together with other consortium partners over a 30-year period.

⁽³⁾ Contract signed as part of a consortium. Only our share of the value is stated.

n/a: Not applicable

Subsequent to the end of the second quarter, Metrolinx, Canada, exercised options for an additional 125 next-generation *BiLevel* commuter rail cars valued at \$328 million. This order is not included in our order backlog as at June 30, 2016.

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 (\$1.1 billion) were outstanding under such facilities as at June 30, 2016 (€871 million (\$948 million) as at December 31, 2015). During the three- and six-month periods ended June 30, 2016, trade receivables of €261 million (\$295 million) and €536 million (\$598 million), respectively, were sold to these facilities (€342 million (\$377 million) and €736 million (\$821 million), respectively, during the three- and six-month periods ended June 30, 2015).

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, 2016. Refer to the Off-balance sheet arrangements section in Other of our Financial Report for the year ended December 31, 2015 for a description of these arrangements, and to Note 21, Commitments and Contingencies, to the interim consolidated financial statements for further details.

RISKS AND UNCERTAINTIES

We operate in industry segments which present a variety of risk factors and uncertainties. The risks and uncertainties that we currently believe could materially affect our business activities, financial condition, cash flows and results of operations are described in our Financial Report for the fiscal year ended December 31, 2015 in Other, but are not necessarily the only risks and uncertainties that we face.

There was no significant change to these risks and uncertainties during the six-month period ended June 30, 2016, other than those described elsewhere in this MD&A. Also refer to Note 21, Commitments and contingencies, to our interim consolidated financial statements, for information regarding current litigation proceedings related to the investigation in Brazil.

If any of these risks, or any additional risks and uncertainties presently unknown to us or that we currently consider as being not material, actually occur or become material risks, our business activities, financial condition, cash flows and results of operations could be materially adversely affected.

ACCOUNTING AND REPORTING DEVELOPMENTS

Future changes in accounting policies

Financial instruments

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

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

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

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

IFRS 9 will be effective for our fiscal year beginning on January 1, 2018, with earlier application permitted. We are assessing 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 are assessing the impact of the adoption of this standard on our consolidated financial statements.

Leases

In January 2016, the IASB released IFRS 16, *Leases*, to replace the previous leases Standard, IAS 17, *Leases*, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will be effective for our fiscal year beginning on January 1, 2019, with earlier application permitted only if we apply IFRS 15, *Revenue from contracts with customers*. 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, 2016 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, 2016	December 31, 2015	Increase (Decrease)
Euro	1.1090	1.0887	2%
Canadian dollar	0.7698	0.7202	7%
Pound sterling	1.3434	1.4833	(9%)

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, 2016	June 30, 2015	Increase (Decrease)
Euro	1.1300	1.1021	3%
Canadian dollar	0.7758	0.8123	(4%)
Pound sterling	1.4372	1.5278	(6%)

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, 2016	June 30, 2015	Decrease
Euro	1.1157	1.1150	—
Canadian dollar	0.7511	0.8100	(7%)
Pound sterling	1.4344	1.5217	(6%)

SELECTED FINANCIAL INFORMATION

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

Fiscal years	2016				2015			2014
	Second	First	Fourth	Third	Second	First	Fourth	Third
Revenues	\$ 4,309	\$ 3,914	\$ 5,017	\$ 4,138	\$ 4,620	\$ 4,397	\$ 5,960	\$ 4,906
Net income (loss)	\$ (490)	\$ (138)	\$ (677)	\$ (4,888)	\$ 125	\$ 100	\$ (1,590)	\$ 74
EPS (in dollars)								
Basic and diluted	\$ (0.24)	\$ (0.07)	\$ (0.31)	\$ (2.20)	\$ 0.06	\$ 0.05	\$ (0.92)	\$ 0.03
Adjusted net income (loss) ⁽¹⁾	\$ (83)	\$ (34)	\$ 9	\$ 2	\$ 145	\$ 170	\$ 83	\$ 222
Adjusted EPS (in dollars) ⁽¹⁾	\$ (0.06)	\$ (0.03)	\$ 0.00	\$ 0.00	\$ 0.06	\$ 0.09	\$ 0.04	\$ 0.12

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

SHAREHOLDER INFORMATION

At the annual and special meeting of the shareholders of the Corporation held on April 29, 2016, the shareholders approved a proposal for a consolidation (also known as a “reverse stock split”) of the Class A shares (multiple voting) (Class A Shares), issued and unissued, and Class B shares (subordinate voting) (Class B Subordinate Voting Shares), issued and unissued (the Share Consolidation). The consolidation ratio will be selected by the Board of Directors from within a range of ratios, approved by the shareholders, which ratio would be expected, at that time, to result in an initial post-consolidation share price in the range of \$10 to \$20 Canadian dollars per Class A Share or Class B Subordinate Voting Share. Assuming receipt Toronto Stock Exchange approval, the Share Consolidation, if any, would be completed at such time as the Board of Directors shall deem appropriate, but in any event not later than October 31, 2016.

Authorized, issued and outstanding share data, as at August 3, 2016

	Authorized	Issued and outstanding
Class A Shares (multiple voting) ⁽¹⁾	2,742,000,000	313,900,550
Class B Shares (subordinate voting) ⁽²⁾	2,742,000,000	1,906,492,506 ⁽³⁾
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

⁽¹⁾ Ten votes each, convertible at the option of the holder into one Class B Subordinate Voting Share.

⁽²⁾ Convertible at the option of the holder into one Class A Share under certain conditions.

⁽³⁾ Net of 26,129,118 Class B Subordinate Voting Shares purchased and held in trust in connection with the PSU and RSU plans.

Warrant, share option, PSU, DSU and RSU data as at June 30, 2016

Warrants issued and outstanding	155,851,872
Options issued and outstanding under the share option plans	73,572,041
PSUs, DSUs and RSUs issued and outstanding under the PSU, DSU and RSU plans	42,313,018
Class B Subordinate Voting Shares held in trust to satisfy PSU and RSU obligations	26,129,118

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

Third Quarterly Report, for the period ending September 30, 2016	November 10, 2016
Financial Report, for the fiscal year ending December 31, 2016	February 16, 2017
First Quarterly Report, for the period ending March 31, 2017	May 11, 2017
Second Quarterly Report, for the period ending June 30, 2017	July 28, 2017

Information

Bombardier Inc., Investor Relations

800 René-Lévesque Blvd. West, Montréal, Québec, Canada H3B 1Y8

Telephone: +1 514 861 9481; fax: +1 514 861 2420; email: investors@bombardier.com; website: bombardier.com

August 4, 2016

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

The CS300 and Global 7000 and Global 8000 aircraft programs are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specifications and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind.

Bombardier, Challenger, Challenger 350, Challenger 605, Challenger 650, Challenger 850, CRJ, CRJ700, CRJ900, CRJ1000, C Series, CS100, CS300, FLEXITY, Global, Global 5000, Global 6000, Global 7000, Global 8000, Learjet, Learjet 70, Learjet 75, Learjet 85, Q400, The Evolution of Mobility, TALENT, TRAXX and TWINDEXX are trademarks of Bombardier Inc. or its subsidiaries.

The printed version of this quarterly report uses Rolland Enviro100 paper, containing 100% post-consumer fibres, certified Eco-Logo, processed chlorine free and FSC recycled. Using this paper, instead of virgin paper, saves the equivalent of 12 mature trees, 542 kg of waste, 1,777 kg of CO₂ emissions (equivalent to 11,889 kilometres driven) and 44,200 litres of water.

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2016

(Unaudited)

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

Interim consolidated financial statements	44
Notes to the interim consolidated financial statements	51
1. BASIS OF PREPARATION	51
2. FUTURE CHANGES IN ACCOUNTING POLICIES	52
3. SEGMENT DISCLOSURE	53
4. RESEARCH AND DEVELOPMENT	57
5. OTHER EXPENSE (INCOME)	57
6. SPECIAL ITEMS	58
7. FINANCING EXPENSE AND FINANCING INCOME	59
8. NON-CONTROLLING INTEREST	60
9. EARNINGS PER SHARE	63
10. FINANCIAL INSTRUMENTS	64
11. INVENTORIES	65
12. OTHER FINANCIAL ASSETS	66
13. OTHER ASSETS	66
14. PROVISIONS	67
15. OTHER FINANCIAL LIABILITIES	68
16. OTHER LIABILITIES	68
17. SHARE-BASED PLANS	69
18. NET CHANGE IN NON-CASH BALANCES	70
19. CREDIT FACILITIES	70
20. FAIR VALUE OF FINANCIAL INSTRUMENTS	71
21. COMMITMENTS AND CONTINGENCIES	74

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	2016	2015	2016	2015
Revenues		\$ 4,309	\$ 4,620	\$ 8,223	\$ 9,017
Cost of sales	11	3,840	4,031	7,328	7,862
Gross margin		469	589	895	1,155
SG&A		301	297	565	573
R&D	4	74	79	134	158
Share of income of joint ventures and associates		(18)	(18)	(32)	(34)
Other expense (income)	5	6	5	(8)	(5)
Special items	6	357	—	431	9
EBIT		(251)	226	(195)	454
Financing expense	7	187	92	355	197
Financing income	7	(11)	(20)	(19)	(40)
EBT		(427)	154	(531)	297
Income taxes		63	29	97	72
Net income (loss)		\$ (490)	\$ 125	\$ (628)	\$ 225
Attributable to					
Equity holders of Bombardier Inc.		\$ (531)	\$ 125	\$ (692)	\$ 223
NCI	8	41	—	64	2
		\$ (490)	\$ 125	\$ (628)	\$ 225
EPS (in dollars)	9				
Basic and diluted		\$ (0.24)	\$ 0.06	\$ (0.32)	\$ 0.11

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	
	Note	2016	2015	2016	2015
Net income (loss)		\$ (490)	\$ 125	\$ (628)	\$ 225
OCI					
Items that may be reclassified to net income					
Net change in cash flow hedges					
Foreign exchange re-evaluation		(1)	(14)	(7)	(10)
Net gain (loss) on derivative financial instruments		(3)	89	127	(349)
Reclassification to income or to the related non-financial asset		81	99	190	219
Income taxes		(19)	(50)	(75)	1
		58	124	235	(139)
AFS financial assets					
Net unrealized gain (loss)		1	(8)	5	(5)
CCTD					
Net investments in foreign operations		(46)	77	(121)	70
Net gain on related hedging items		—	—	—	1
		(46)	77	(121)	71
Items that are never reclassified to net income					
Retirement benefits					
Remeasurement of defined benefit plans ⁽¹⁾		(562)	620	(1,171)	459
Income taxes		67	(38)	73	(23)
		(495)	582	(1,098)	436
Total OCI		(482)	775	(979)	363
Total comprehensive income (loss)		\$ (972)	\$ 900	\$ (1,607)	\$ 588
Attributable to					
Equity holders of Bombardier Inc.		\$ (1,002)	\$ 899	\$ (1,661)	\$ 585
NCI	8	30	1	54	3
		\$ (972)	\$ 900	\$ (1,607)	\$ 588

⁽¹⁾ 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 2016	December 31 2015	January 1 2015
Assets				
Cash and cash equivalents		\$ 3,336	\$ 2,720	\$ 2,489
Trade and other receivables		1,260	1,473	1,538
Inventories	11	6,872	6,978	7,970
Other financial assets	12	480	450	530
Other assets	13	479	484	592
Current assets		12,427	12,105	13,119
PP&E		2,011	2,061	2,092
Aerospace program tooling		4,793	3,975	6,823
Goodwill		1,960	1,978	2,127
Deferred income taxes		822	761	875
Investments in joint ventures and associates		300	356	294
Other financial assets	12	980	870	1,328
Other assets	13	578	797	956
Non-current assets		11,444	10,798	14,495
		\$ 23,871	\$ 22,903	\$ 27,614
Liabilities				
Trade and other payables		\$ 3,580	\$ 4,040	\$ 4,216
Provisions	14	1,073	1,108	990
Advances and progress billings in excess of long-term contract inventories		1,316	1,408	1,698
Advances on aerospace programs		1,860	2,002	3,339
Other financial liabilities	15	896	991	1,010
Other liabilities	16	2,032	2,274	2,182
Current liabilities		10,757	11,823	13,435
Provisions	14	1,426	918	562
Advances on aerospace programs		1,564	1,534	1,608
Long-term debt		8,955	8,908	7,627
Retirement benefits		3,037	2,159	2,629
Other financial liabilities	15	971	619	602
Other liabilities	16	1,079	996	1,096
Non-current liabilities		17,032	15,134	14,124
		27,789	26,957	27,559
Equity (deficit)				
Attributable to equity holders of Bombardier Inc.		(5,446)	(4,067)	42
Attributable to NCI	8	1,528	13	13
		(3,918)	(4,054)	55
		\$ 23,871	\$ 22,903	\$ 27,614
Commitments and contingencies	21			

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

For the three-month periods ended

(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.												
	Share capital			Retained earnings (deficit)			Accumulated OCI				Total	NCI	Total equity (deficit)
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remea- surement losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD				
As at March 31, 2016	\$ 347	\$ 2,195	\$ 10	\$ (4,385)	\$ (2,683)	\$ 109	\$ 11	\$ (198)	\$ (124)	\$ (4,718)	\$ 1,276	\$ (3,442)	
Total comprehensive income													
Net income (loss)	—	—	—	(531)	—	—	—	—	—	(531)	41	(490)	
OCI	—	—	—	—	(495)	—	1	58	(35)	(471)	(11)	(482)	
	—	—	—	(531)	(495)	—	1	58	(35)	(1,002)	30	(972)	
Issuance of warrants ⁽¹⁾	—	—	30	—	—	—	—	—	—	30	—	30	
Issuance of NCI ⁽¹⁾	—	—	—	243	—	—	—	—	—	243	222	465	
Dividends	—	—	—	(6)	—	—	—	—	—	(6)	—	(6)	
Share-based expense	—	—	—	—	—	7	—	—	—	7	—	7	
As at June 30, 2016	\$ 347	\$ 2,195	\$ 40	\$ (4,679)	\$ (3,178)	\$ 116	\$ 12	\$ (140)	\$ (159)	\$ (5,446)	\$ 1,528	\$ (3,918)	
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	
As at June 30, 2015	\$ 347	\$ 2,203	\$ —	\$ 1,360	\$ (2,225)	\$ 100	\$ 7	\$ (461)	\$ 112	\$ 1,443	\$ 16	\$ 1,459	

⁽¹⁾ Related to the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec. See Note 8 – Non-controlling interest for more details.

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

For the six-month periods ended

(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.												
	Share capital			Retained earnings (deficit)			Accumulated OCI						
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remea- surement losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total equity (deficit)	
As at December 31, 2015	\$ 347	\$ 2,195	\$ —	\$ (4,219)	\$ (2,080)	\$ 106	\$ 7	\$ (375)	\$ (48)	\$ (4,067)	\$ 13	\$ (4,054)	
Total comprehensive income													
Net income (loss)	—	—	—	(692)	—	—	—	—	—	(692)	64	(628)	
OCI	—	—	—	—	(1,098)	—	5	235	(111)	(969)	(10)	(979)	
	—	—	—	(692)	(1,098)	—	5	235	(111)	(1,661)	54	(1,607)	
Issuance of warrants ⁽¹⁾	—	—	40	—	—	—	—	—	—	40	—	40	
Issuance of NCI ⁽¹⁾	—	—	—	243	—	—	—	—	—	243	1,503	1,746	
Dividends	—	—	—	(11)	—	—	—	—	—	(11)	—	(11)	
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(42)	(42)	
Share-based expense	—	—	—	—	—	10	—	—	—	10	—	10	
As at June 30, 2016	\$ 347	\$ 2,195	\$ 40	\$ (4,679)	\$ (3,178)	\$ 116	\$ 12	\$ (140)	\$ (159)	\$ (5,446)	\$ 1,528	\$ (3,918)	
As at January 1, 2015	\$ 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	
As at June 30, 2015	\$ 347	\$ 2,203	\$ —	\$ 1,360	\$ (2,225)	\$ 100	\$ 7	\$ (461)	\$ 112	\$ 1,443	\$ 16	\$ 1,459	

⁽¹⁾ Related to the convertible shares issued to the CDPQ in relation to the sale of a minority stake in Transportation, which are compound instruments, and the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec. See Note 8 – Non-controlling interest for more details.

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	2016	2015	2016	2015
Operating activities					
Net income (loss)		\$ (490)	\$ 125	\$ (628)	\$ 225
Non-cash items					
Amortization		98	103	187	211
Deferred income taxes		(52)	2	(56)	14
(Gains) losses on disposals of PP&E and intangible assets	5	(4)	1	(11)	(2)
Share of income of joint ventures and associates		(18)	(18)	(32)	(34)
Share-based expense	17	7	4	10	8
Loss on repurchase of long-term debt	7	—	—	—	22
Dividends received from joint ventures and associates		34	23	80	27
Net change in non-cash balances	18	267	(609)	(164)	(1,206)
Cash flows from operating activities		(158)	(369)	(614)	(735)
Investing activities					
Additions to PP&E and intangible assets		(341)	(446)	(649)	(829)
Proceeds from disposals of PP&E and intangible assets		9	7	23	11
Additions to AFS investments in securities		—	(54)	—	(64)
Other		4	2	1	(10)
Cash flows from investing activities		(328)	(491)	(625)	(892)
Financing activities					
Net proceeds from issuance of long-term debt		1	—	1	2,218
Repayments of long-term debt		(39)	(796)	(47)	(804)
Net change in short-term borrowings	15	111	—	111	—
Dividends paid ⁽¹⁾		(4)	(5)	(8)	(10)
Net proceeds from issuance of shares		—	—	—	822
Issuance of NCI, net of transaction cost ⁽²⁾		466	—	1,932	—
Dividends to NCI		—	—	(42)	—
Other		(12)	(59)	(23)	41
Cash flows from financing activities		523	(860)	1,924	2,267
Effect of exchange rates on cash and cash equivalents		(60)	92	(69)	(24)
Net increase (decrease) in cash and cash equivalents		(23)	(1,628)	616	616
Cash and cash equivalents at beginning of period		3,359	4,733	2,720	2,489
Cash and cash equivalents at end of period		\$ 3,336	\$ 3,105	\$ 3,336	\$ 3,105
Supplemental information⁽³⁾⁽⁴⁾					
Cash paid for					
Interest		\$ 99	\$ 99	\$ 274	\$ 190
Income taxes		\$ 22	\$ 30	\$ 57	\$ 50
Cash received for					
Interest		\$ 5	\$ 6	\$ 10	\$ 11
Income taxes		\$ 2	\$ —	\$ 4	\$ 1

⁽¹⁾ Related to preferred shares.

⁽²⁾ Related to the convertible shares issued to the CDPQ in relation to the sale of a minority stake in Transportation, which are compound instruments, and the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec. See Note 8 – Non-controlling interest for more details.

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

⁽⁴⁾ Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivables after the effect of hedges and the interest portion related to the settlement of an interest-rate swap, if any.

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, 2016

(Unaudited)

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

1. BASIS OF PREPARATION

Bombardier Inc. ("the Corporation" or "our" or "we") 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: 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, 2015.

These interim consolidated financial statements for the three- and six-month periods ended June 30, 2016 were authorized for issuance by the Board of Directors on August 4, 2016.

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, 2016	December 31, 2015	January 1, 2015
Euro	1.1090	1.0887	1.2141
Canadian dollar	0.7698	0.7202	0.8633
Pound sterling	1.3434	1.4833	1.5587

	Average exchange rates for the three-month periods ended		Average exchange rates for the six-month periods ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Euro	1.1300	1.1021	1.1157	1.1150
Canadian dollar	0.7758	0.8123	0.7511	0.8100
Pound sterling	1.4372	1.5278	1.4344	1.5217

2. FUTURE CHANGES IN ACCOUNTING POLICIES

Financial instruments

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

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

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

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

IFRS 9 will be effective for the Corporation's fiscal year beginning on January 1, 2018, with earlier application permitted. The Corporation is assessing 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 is assessing the impact of the adoption of this standard on its consolidated financial statements.

Leases

In January 2016, the IASB released IFRS 16, *Leases*, to replace the previous leases Standard, IAS 17, *Leases*, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will be effective for the Corporation's fiscal year beginning on January 1, 2019, with earlier application permitted only if the Corporation applies IFRS 15, *Revenue from contracts with customers*. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

3. SEGMENT DISCLOSURE

The Corporation has four reportable segments: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation. Each reportable segment offers different products and services and mostly requires different technology and marketing strategies.

Business Aircraft

A global leader in the design, manufacture and 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 150-seat categories, including the *Q400* turboprops, the *CRJ700*, *CRJ900* and *CRJ1000* 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.

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, 2015.

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

Three-month period ended June 30, 2016							
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total	
Results of operations							
External revenues	\$ 1,962	\$ 1,472	\$ 764	\$ 109	\$ 2	\$	4,309
Intersegment revenues	2	1	—	316	(319)		—
Total revenues	1,964	1,473	764	425	(317)		4,309
EBIT before special items	124	98	(103)	30	(43)		106
Special items ⁽¹⁾	37	(114)	483	(39)	(10)		357
EBIT	\$ 87	\$ 212	\$ (586)	\$ 69	\$ (33)		(251)
Financing expense							187
Financing income							(11)
EBT							(427)
Income taxes							63
Net loss						\$	(490)
Other information							
R&D ⁽²⁾	\$ 27	\$ 34	\$ 6	\$ 2	\$ 5	\$	74
Net additions to PP&E and intangible assets ⁽³⁾	\$ 29	\$ 162	\$ 137	\$ 4	\$ —	\$	332
Amortization	\$ 25	\$ 48	\$ 13	\$ 12	\$ —	\$	98

Three-month period ended June 30, 2015							
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total	
Results of operations							
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
EBIT	\$ 115	\$ 119	\$ (10)	\$ 42	\$ (40)		226
Financing expense							92
Financing income							(20)
EBT							154
Income taxes							29
Net income						\$	125
Other information							
R&D ⁽²⁾	\$ 31	\$ 30	\$ 16	\$ 2	\$ —	\$	79
Net additions to PP&E and intangible assets ⁽³⁾	\$ 21	\$ 177	\$ 239	\$ 6	\$ (4)	\$	439
Amortization	\$ 24	\$ 42	\$ 24	\$ 13	\$ —	\$	103

⁽¹⁾ See Note 6 – Special items for more details.

⁽²⁾ Includes tooling amortization. See Note 4 – Research and development for more details.

⁽³⁾ As per the consolidated statements of cash flows.

Six-month period ended June 30, 2016						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 3,841	\$ 2,775	\$ 1,380	\$ 224	\$ 3	\$ 8,223
Intersegment revenues	3	1	—	669	(673)	—
Total revenues	3,844	2,776	1,380	893	(670)	8,223
EBIT before special items	239	185	(169)	65	(84)	236
Special items ⁽¹⁾	129	(109)	483	(19)	(53)	431
EBIT	\$ 110	\$ 294	\$ (652)	\$ 84	\$ (31)	(195)
Financing expense						355
Financing income						(19)
EBT						(531)
Income taxes						97
Net loss						\$ (628)
Other information						
R&D ⁽²⁾	\$ 50	\$ 60	\$ 12	\$ 4	\$ 8	\$ 134
Net additions to PP&E and intangible assets ⁽³⁾	\$ 52	\$ 315	\$ 250	\$ 8	\$ 1	\$ 626
Amortization	\$ 49	\$ 73	\$ 39	\$ 26	\$ —	\$ 187

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

⁽¹⁾ See Note 6 – Special items for more details.

⁽²⁾ Includes tooling amortization. See Note 4 – Research and development for more details.

⁽³⁾ 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, 2016	December 31, 2015	January 1, 2015
Assets			
Total assets	\$ 23,871	\$ 22,903	\$ 27,614
Assets not allocated to segments			
Cash and cash equivalents	3,336	2,720	2,489
Income tax receivable ⁽¹⁾	59	56	64
Deferred income taxes	822	761	875
Segmented assets	19,654	19,366	24,186
Liabilities			
Total liabilities	27,789	26,957	27,559
Liabilities not allocated to segments			
Interest payable ⁽²⁾	154	154	124
Income taxes payable ⁽³⁾	318	224	248
Long-term debt ⁽⁴⁾	8,996	8,979	7,683
Segmented liabilities	\$ 18,321	\$ 17,600	\$ 19,504
Net segmented assets			
Transportation	\$ 175	\$ 354	\$ 226
Business Aircraft	\$ 1,313	\$ 395	\$ 440
Commercial Aircraft	\$ 33	\$ 467	\$ 3,693
Aerostructures and Engineering Services	\$ 112	\$ 434	\$ 204
Corporate and Elimination	\$ (300)	\$ 116	\$ 119

⁽¹⁾ Included in other assets.

⁽²⁾ Included in trade and other payables.

⁽³⁾ Included in other liabilities.

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

4. RESEARCH AND DEVELOPMENT

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
R&D expenditures	\$ 665	\$ 432	\$ 952	\$ 813
Less: development expenditures capitalized to aerospace program tooling	(630)	(399)	(888)	(747)
	35	33	64	66
Add: amortization of aerospace program tooling	39	46	70	92
	\$ 74	\$ 79	\$ 134	\$ 158

5. OTHER EXPENSE (INCOME)

Other expense (income) was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
(Gains) losses on disposals of PP&E and intangible assets	\$ (4)	\$ 1	\$ (11)	\$ (2)
Changes in estimates and fair value ⁽¹⁾	13	2	5	(8)
Severance and other involuntary termination costs (including changes in estimates) ⁽²⁾	(3)	4	(2)	5
Other	—	(2)	—	—
	\$ 6	\$ 5	\$ (8)	\$ (5)

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

⁽²⁾ Excludes those presented in special items.

6. SPECIAL ITEMS

Special items comprise items which do not reflect the Corporation's core performance or where their separate presentation will assist users of the consolidated financial statements in understanding the Corporation's results for the period. Such items include, among others, the impact of restructuring charges and significant impairment charges and reversals.

Special items were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Onerous contracts provision - <i>C Series</i> aircraft program ⁽¹⁾	\$ 492	\$ —	\$ 492	\$ —
Restructuring charges ⁽²⁾	44	—	156	9
Pension obligation ⁽³⁾	(139)	—	(139)	—
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions ⁽⁴⁾	(54)	—	(54)	—
Tax litigation ⁽⁵⁾	40	—	40	—
Foreign exchange gains related to the sale of a minority stake in Transportation ⁽⁶⁾	—	—	(38)	—
Transaction costs ⁽⁷⁾	—	—	8	—
Loss on repurchase of long-term debt ⁽⁸⁾	—	—	—	22
Tax impacts of special items	(3)	—	(13)	—
	\$ 380	\$ —	\$ 452	\$ 31
Of which is presented in				
Special items in EBIT	\$ 357	\$ —	\$ 431	\$ 9
Financing expense - interests related to tax litigation ⁽⁵⁾	26	—	26	—
Financing expense - transaction costs ⁽⁷⁾	—	—	8	—
Financing expense - loss on repurchase of long-term debt ⁽⁸⁾	—	—	—	22
Income taxes - effect of special items	(3)	—	(13)	—
	\$ 380	\$ —	\$ 452	\$ 31

⁽¹⁾ Represents provision for onerous contracts in conjunction with the closing of *C Series* aircraft firm orders in the second quarter of 2016.

⁽²⁾ For the three- and six-month periods ended June 30, 2016, represents restructuring charges of \$48 million and \$173 million and curtailment gains of \$4 million and \$17 million related to the workforce optimization announced in February 2016, respectively. For the six-month period ended June 30, 2015, represents restructuring charges of \$13 million related to the workforce reduction announced in January 2015 as a result of the decision to pause the *Learjet 85* aircraft program, and a reversal of restructuring provisions taken in prior year of \$4 million.

⁽³⁾ The Corporation had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that the Corporation does not expect to grant such increases in the foreseeable future in line with the Corporation's current practice, the constructive obligation amounting to \$139 million was reversed.

⁽⁴⁾ Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by \$54 million. The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.

⁽⁵⁾ Represents a change in the estimates used to determine the provision related to tax litigation.

⁽⁶⁾ Represents foreign exchange gains related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation.

⁽⁷⁾ Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco. See Note 8 – Non-controlling interest for more details.

⁽⁸⁾ Represents the loss related to the redemption of the \$750-million Senior Notes.

Restructuring

As the Corporation moves forward with its transformation plan, in February 2016 the Corporation decided to optimize its workforce with a combination of manpower reductions and strategic hiring. The goal is to resize the organization in line with current business needs and increase its competitiveness. The company plans to reduce its workforce by an estimated 7,000 production and non-production employees throughout 2016 and 2017. The manpower reduction includes approximately 2,000 contractual workers and 800 product development engineers, the latter of which, are not allocated to a reportable segment. Over the course of the resizing, we expect to record restructuring charges consisting mainly of severance of approximately \$250 million to \$300 million as special items, primarily in 2016. As at June 30 2016, over 60% of the planned reductions were executed. These workforce reductions will be partially offset by hiring in certain growth areas, notably to support the ramp-up of strategic programs and projects worldwide.

7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Financing expense				
Accretion on net retirement benefit obligations	\$ 17	\$ 18	\$ 34	\$ 37
Accretion on other financial liabilities	13	7	27	12
Tax litigation ⁽¹⁾	26	—	26	—
Amortization of letter of credit facility costs	11	4	16	7
Net loss on certain financial instruments ⁽²⁾	7	5	13	23
Changes in discount rates of provisions	3	—	12	—
Transaction costs ⁽³⁾	—	—	8	—
Accretion on provisions	2	1	5	3
Loss on repurchase of long-term debt ⁽⁴⁾	—	—	—	22
Other	19	7	31	12
	98	42	172	116
Interest on long-term debt, after effect of hedges	89	50	183	81
	\$ 187	\$ 92	\$ 355	\$ 197
Financing income				
Changes in discount rates of provisions	\$ —	\$ (3)	\$ —	\$ —
Other	—	(4)	(4)	(15)
	—	(7)	(4)	(15)
Interest on loans and lease receivables, after effect of hedges	(3)	(7)	(5)	(12)
Income from investment in securities	(5)	(4)	(5)	(10)
Interest on cash and cash equivalents	(3)	(2)	(5)	(3)
	(11)	(13)	(15)	(25)
	\$ (11)	\$ (20)	\$ (19)	\$ (40)

⁽¹⁾ Represents a change in the estimates used to determine the provision related to tax litigation. See Note 6 – Special items for more details.

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

⁽³⁾ Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco. See Note 8 – Non-controlling interest for more details.

⁽⁴⁾ Represents the loss related to the redemption of the \$750-million Senior Notes, which was recorded as a special item.

Borrowing costs capitalized to PP&E and intangible assets totalled \$33 million and \$59 million for the three- and six-month periods ended June 30, 2016, using an average capitalization rate of 5.57% and 5.35%, respectively (\$67 million and \$130 million and 4.90% and 4.74% for the three- and six-month periods ended June 30, 2015, respectively). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

8. NON-CONTROLLING INTEREST

The summarized statement of financial position for BT Holdco, which has significant NCI, was as follows, as at:

	June 30, 2016
	BT Holdco
Current assets	\$ 3,840
Non-current assets	4,068
Total assets	\$ 7,908
Current liabilities	\$ 5,522
Non-current liabilities	1,553
Total liabilities	\$ 7,075
Net assets	\$ 833

The selected income and cash flow information for BT Holdco, which has significant NCI, was as follows:

	Three-month period ended June 30, 2016
	BT Holdco
Revenues	\$ 1,964
Net loss	\$ (32)
Comprehensive loss	\$ (239)
Cash flows from operating activities	\$ (114)
Cash flows from investing activities	\$ (57)
Cash flows from financing activities	\$ 68
	Six-month period ended June 30, 2016
	BT Holdco
Revenues	\$ 3,844
Net loss	\$ (78)
Comprehensive loss	\$ (501)
Cash flows from operating activities	\$ (38)
Cash flows from investing activities	\$ (40)
Cash flows from financing activities	\$ (59)

The changes to the accumulated NCI for BT Holdco, which has significant NCI, were as follows:

	BT Holdco
Balance as at December 31, 2015	\$ —
Issuance of NCI	1,281
Net income	63
OCI	(11)
Dividends	(42)
Balance as at June 30, 2016	\$ 1,291

CDPQ investment in BT Holdco

On February 11, 2016, Bombardier closed the sale to the CDPQ of a \$1.5-billion convertible share investment in Bombardier Transportation's newly-created holding company, Bombardier Transportation (Investment) UK Ltd (BT Holdco). Under the terms of the investment, Bombardier Inc. sold voting shares convertible into a 30% common equity stake of BT Holdco to the CDPQ, subject to annual adjustments related to performance.

Following the completion of the previously-announced corporate reorganization, BT Holdco owns essentially all of the assets and liabilities of Bombardier's Transportation business segment, its operational headquarters remains in Germany and it will continue to be consolidated in Bombardier's financial results.

Key terms of the investment

The CDPQ will be entitled to its pro-rata portion (on an as-converted basis, initially equal to 30% of BT Holdco common shares) of any future dividends declared.

Dividends will be payable in cash or, subject to certain conditions, in additional convertible shares at the option of BT Holdco (any such issuance to increase the CDPQ's participation).

Performance incentives

The terms of the transaction provide strong performance incentives for Bombardier Transportation. For each of the first five years following the closing date, the CDPQ's ownership (on conversion) and return may be subject to upward or downward annual adjustments, based on a performance target jointly agreed to as part of Bombardier Transportation's business plan.

If Bombardier Transportation outperforms its business plan, the CDPQ's percentage of ownership on conversion of its shares decreases by 2.5% annually, down to a minimum threshold of 25%. In this circumstance, the convertible shares' minimum return also decreases from 9.5% to a floor of 7.5%.

Conversely, should Bombardier Transportation underperform relative to its plan, the CDPQ's percentage of ownership on conversion of its shares will increase by 2.5% annually, up to a maximum of 42.5% over a five-year period. In this case, the convertible shares' minimum return also increases from 9.5% up to 12%.

Shareholders rights and exit

Under the terms of the investment, the CDPQ has standard minority protection rights, including: pre-emptive rights, a right of first offer, and tag-along rights, and Bombardier has a right of first offer and customary drag-along rights, in each case subject to certain conditions.

Bombardier has the ability to buy back the CDPQ's investment upon specified terms at any time on or after the third anniversary of the closing of the investment, at the higher of the fair market value (on an as-converted basis) or a minimum of 15% compounded annual return to the CDPQ.

At any time on or after the fifth anniversary of the closing of the investment, and provided that Bombardier has not exercised its right to buy back the CDPQ's investment before then, the CDPQ will have the right to cause BT Holdco to proceed with a secondary initial public offering (IPO) or a sale of 100% of its shares.

In the case of an IPO, the conversion ratio of the CDPQ's shares will be adjusted so that, immediately prior to the IPO, the CDPQ receives shares having a value equal to the higher of: (i) the value of its shares, on an as-converted basis, based on the implied value of the IPO; or (ii) the minimum return adjusted for any distributions, in both cases taking into account changes, if any, resulting from the effect of the performance incentives. The CDPQ's shares would be sold in priority to Bombardier's shares as part of the secondary IPO.

In the case of a sale of 100% of the BT Holdco shares, the CDPQ will have the right to receive an amount equal to the higher of: (i) the value of its shares, on an as-converted basis, based on the implied value of the sale to a third party; or (ii) the minimum return adjusted for any distributions, in both cases taking into account changes, if any, resulting from the effect of the performance incentives.

Upon a change of control of Bombardier Inc. or, in certain circumstances, of BT Holdco, the CDPQ will have the right to require an IPO or a sale of 100% of the BT Holdco shares and to receive the higher of: (i) the value of the common shares held by the CDPQ on an as-converted basis, based on the implied value of the IPO or sale to a third party, as discussed above; or (ii) a minimum three-year 15% compounded annual return (or at any time after three years, a 15% compounded annual return).

Other details of the transaction

The parties have agreed to a consolidated Bombardier cash position at the end of each quarter of at least \$1.25 billion. In the event Bombardier's cash position falls below that level, the Board of directors of Bombardier will create a Special Initiatives Committee composed of three independent directors acceptable to the CDPQ, who would be responsible to develop an action plan to improve cash. The implementation of the plan, once agreed with the CDPQ, would be overseen by the Special Initiatives Committee.

Warrants

The investment included the issuance by Bombardier to the CDPQ of warrants exercisable for a total number of 105,851,872 Class B shares (subordinate voting) in the capital of Bombardier Inc. (Class B Subordinate Voting Shares), equivalent to a 4.5% ownership of all outstanding Class A shares (multiple voting) in the capital of Bombardier Inc. (Class A Shares) and Class B Subordinate Voting Shares (after giving effect to the exercise of such warrants) (and approximately 4.7% of the aggregate outstanding Class A Shares and Class B Subordinate Voting Shares on a non-diluted basis). The warrants are exercisable for a period of seven years from the date of their issuance at an exercise price per Class B Subordinate Voting Share equal to \$1.66, the U.S. dollar equivalent of \$2.21 CDN at the date of execution of the subscription agreement, which represents a premium to the 5-day VWAP of the Class B Subordinate Voting Shares on the Toronto Stock Exchange (TSX) as of October 16, 2015.

Fair value of warrants

The fair value of warrants as at February 11, 2016 was \$0.10 per warrant. The fair value of each warrant was determined using a Black-Scholes option pricing model, which incorporates the share price at the issuance date, and the following assumptions, as at February 11, 2016:

Risk-free interest rate	0.79%
Expected life	7 years
Expected volatility in market price of shares	42.96%
Expected dividend yield	0.00%

CDPQ equity and derivative liability components

The convertible shares issued to the CDPQ contain no obligation for Bombardier to deliver cash or other financial assets to the CDPQ. The convertible shares are considered to be a compound instrument comprised of an equity component, representing the discretionary dividends and liquidation preference, and a liability component that reflects a derivative to settle the instrument by delivering a variable number of common shares of BT Holdco. The Corporation presents convertible shares in its equity (NCI) and derivative liability components on the statements of financial position.

The fair value of the convertible shares at issuance was assigned to its respective equity and derivative liability components so that no gain or loss arose from recognizing each component separately. The fair value of the derivative liability is established first, using an internal valuation model based on stochastic simulations. The equity component is determined by deducting the fair value of the derivative liability component from the fair value on the date of issuance of the compound instrument as a whole. The derivative liability is subsequently marked to market with changes in fair value recorded in financing expense or income.

Government of Québec investment in the C Series aircraft program

On June 30, 2016, Bombardier closed the \$1.0-billion investment by the Government of Québec (through Investissement Québec) in return for a 49.5% equity stake in a newly-created limited partnership, the C Series Aircraft Limited Partnership (CSALP), to which we have transferred the assets, liabilities and obligations of the C Series aircraft program. CSALP will be owned 50.5% by Bombardier Inc. and, as a subsidiary of Bombardier Inc., will carry on the operations related to our C Series aircraft program. CSALP will continue to be consolidated in our financial results.

On June 30, 2016, Bombardier received the first \$500-million installment and the second \$500-million installment is expected on September 1, 2016, subject to the completion of one condition precedent. The NCI as at June 30, 2016 reflects a 32.9% interest in the net assets of CSALP. The NCI will increase to 49.5% upon reception of the second tranche. The proceeds of the investment will be used entirely for cash flow purposes of the C Series aircraft program. Under the terms of the limited partnership agreement, the Corporation has committed to invest additional capital contributions in CSALP up to a maximum amount of \$1.0 billion in case of any liquidity shortfall in CSALP. Additional capital contributions by the Corporation would increase its ownership interest in CSALP.

The investment contemplates a continuity undertaking providing that we maintain in the Province of Québec, for a period of 20 years, CSALP's operational, financial and strategic headquarters, manufacturing and engineering activities, policies, practices and investment plans for research and development, in each case in respect of the design, manufacture and marketing of the CS100 and CS300 aircraft and after-sales services for these aircraft and that we will operate the facilities located in Mirabel, Canada for these purposes.

As at June 30, 2016 CSALP had total assets amounting to \$3,322 million, of which \$2,425 million was aerospace program tooling. CSALP has no long-term debt.

Warrants

Also on June 30, 2016 Bombardier issued, in the name of Investissement Québec, warrants exercisable for a total number of 50,000,000 Class B Subordinate Voting Shares in the capital of Bombardier Inc., exercisable for a period of five years at an exercise price per share equal to \$1.72 U.S. dollars, being the equivalent of \$2.21 Canadian dollars using the exchange rate at the date of execution of the subscription agreement. Additional warrants, exercisable for a total number of 50,000,000 Class B Subordinate Voting Shares in the capital of Bombardier Inc., will be issued concurrently with the disbursement of the second \$500-million installment of the investment.

The warrants contain market standard adjustment provisions, including in the event of corporate changes, stock splits, reverse stock splits, non-cash dividends or distributions of rights, options or warrants to all or substantially all shareholders.

Fair value of warrants

The fair value of warrants as at June 30, 2016 was \$0.58 per warrant. The fair value of each warrant was determined using a Black-Scholes option pricing model, which incorporates the share price at the issuance date, and the following assumptions, as at June 30, 2016:

Risk-free interest rate	0.57%
Expected life	5 years
Expected volatility in market price of shares	49.41%
Expected dividend yield	0.00%

9. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
(Number of shares, stock options, PSUs, DSUs, RSUs and warrants, in thousands)				
Net income (loss) attributable to equity holders of Bombardier Inc.	\$ (531)	\$ 125	\$ (692)	\$ 223
Preferred share dividends, including taxes	(6)	(7)	(11)	(14)
Net income (loss) attributable to common equity holders of Bombardier Inc.	\$ (537)	\$ 118	\$ (703)	\$ 209
Weighted-average number of common shares outstanding	2,222,874	2,127,791	2,222,942	1,962,305
Net effect of stock options, PSUs, DSUs, RSUs and warrants	—	—	—	—
Weighted-average diluted number of common shares	2,222,874	2,127,791	2,222,942	1,962,305
EPS (in dollars)				
Basic and diluted	\$ (0.24)	\$ 0.06	\$ (0.32)	\$ 0.11

The effect of the exercise of stock options, PSUs, DSUs, RSUs and warrants was included in the calculation of diluted EPS in the above table, except for 224,809,781 and 189,228,287 stock options, PSUs, DSUs, RSUs and warrants for the three- and six-month periods ended June 30, 2016, respectively (52,584,420 and 52,535,625 stock options, PSUs and DSUs for the three- and six-month periods ended June 30, 2015, 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 or the effect of the exercise would be antidilutive.

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 ⁽¹⁾	DDHR	Total carrying value	Fair value	
June 30, 2016								
Financial assets								
Cash and cash equivalents	\$ 3,336	\$ —	\$ —	\$ —	\$ —	\$ 3,336	\$ 3,336	
Trade and other receivables	—	—	—	1,260	—	1,260	1,260	
Other financial assets	83	248	356	334	439	1,460	1,485	
	\$ 3,419	\$ 248	\$ 356	\$ 1,594	\$ 439	\$ 6,056	\$ 6,081	
Financial liabilities								
Trade and other payables	\$ —	\$ —	n/a	\$ 3,580	\$ —	\$ 3,580	\$ 3,580	
Long-term debt ⁽²⁾	—	—	n/a	8,996	—	8,996	7,937	
Other financial liabilities	183	145	n/a	1,046	452	1,826	1,869	
	\$ 183	\$ 145	n/a	\$ 13,622	\$ 452	\$ 14,402	\$ 13,386	
December 31, 2015								
Financial assets								
Cash and cash equivalents	\$ 2,720	\$ —	\$ —	\$ —	\$ —	\$ 2,720	\$ 2,720	
Trade and other receivables	—	—	—	1,473	—	1,473	1,473	
Other financial assets	13	230	348	380	349	1,320	1,326	
	\$ 2,733	\$ 230	\$ 348	\$ 1,853	\$ 349	\$ 5,513	\$ 5,519	
Financial liabilities								
Trade and other payables	\$ —	\$ 1	n/a	\$ 4,039	\$ —	\$ 4,040	\$ 4,040	
Long-term debt ⁽²⁾	—	—	n/a	8,979	—	8,979	6,767	
Other financial liabilities	41	135	n/a	702	661	1,539	1,426	
	\$ 41	\$ 136	n/a	\$ 13,720	\$ 661	\$ 14,558	\$ 12,233	
January 1, 2015								
Financial assets								
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	
Financial liabilities								
Trade and other payables	\$ —	\$ 18	n/a	\$ 4,198	\$ —	\$ 4,216	\$ 4,216	
Long-term debt ⁽²⁾	—	—	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	

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

⁽²⁾ Includes the current portion of long-term debt.

n/a: Not applicable

11. INVENTORIES

Inventories were as follows, as at:

	June 30, 2016	December 31, 2015	January 1, 2015
Aerospace programs	\$ 3,843	\$ 4,215	\$ 4,600
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	7,648	7,064	7,369
Less: advances and progress billings	(5,918)	(5,490)	(5,558)
	1,730	1,574	1,811
Service contracts			
Cost incurred and recorded margins	222	223	310
Less: advances and progress billings	(14)	(17)	(17)
	208	206	293
Finished products ⁽¹⁾	1,091	983	1,266
	\$ 6,872	\$ 6,978	\$ 7,970

⁽¹⁾ Finished products include 11 new aircraft not associated with a firm order and 34 pre-owned aircraft, totaling \$315 million as at June 30, 2016 (4 new aircraft and 54 pre-owned aircraft, totaling \$279 million as at December 31, 2015 and 1 new aircraft and 57 pre-owned aircraft, totaling \$485 million as at January 1, 2015).

Finished products as at June 30, 2016 include \$73 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities (\$81 million as at December 31, 2015 and \$248 million as at January 1, 2015). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled \$3,473 million and \$6,796 million for the three- and six-month periods ended June 30, 2016, respectively (\$3,762 million and \$7,337 million for the three- and six-month periods ended June 30, 2015, respectively). These amounts include \$110 million and \$199 million of write-downs for the three- and six-month periods ended June 30, 2016, respectively (\$52 million and \$83 million for the three- and six-month periods ended June 30, 2015, 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 €392 million (\$435 million) as at June 30, 2016 (€334 million (\$364 million) as at December 31, 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, 2016	December 31, 2015	January 1, 2015
Derivative financial instruments	\$ 522	\$ 362	\$ 528
Investments in securities ⁽¹⁾⁽²⁾	364	359	346
Long-term contract receivables	257	298	321
Investments in financing structures ⁽¹⁾	221	197	360
Aircraft loans and lease receivables ⁽¹⁾	75	81	275
Restricted cash	12	11	17
Other	9	12	11
	\$ 1,460	\$ 1,320	\$ 1,858
Of which current	\$ 480	\$ 450	\$ 530
Of which non-current	980	870	1,328
	\$ 1,460	\$ 1,320	\$ 1,858

⁽¹⁾ Carried at fair value, except for \$2 million of aircraft loans and lease receivables, \$8 million of investments in securities and \$46 million of investment in financing structures carried at amortized cost as at June 30, 2016 (\$2 million, \$11 million and \$46 million, respectively, as at December 31, 2015 and \$12 million, \$16 million and \$45 million, respectively, as at January 1, 2015).

⁽²⁾ Includes \$78 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, 2016 (\$80 million as at December 31, 2015, and \$70 million as at January 1, 2015).

13. OTHER ASSETS

Other assets were as follows, as at:

	June 30, 2016	December 31, 2015	January 1, 2015
Prepaid expenses and deferred costs	\$ 399	\$ 414	\$ 760
Sales tax and other taxes	214	244	238
Deferred financing charges	160	173	138
Intangible assets other than aerospace program tooling and goodwill	114	114	156
Retirement benefits	76	251	159
Income taxes receivable	59	56	64
Other	35	29	33
	\$ 1,057	\$ 1,281	\$ 1,548
Of which current	\$ 479	\$ 484	\$ 592
Of which non-current	578	797	956
	\$ 1,057	\$ 1,281	\$ 1,548

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 ⁽¹⁾	Total
Balance as at December 31, 2015	\$ 725	\$ 670	\$ 66	\$ 565	\$ 2,026
Additions	53	—	126 ⁽²⁾	10	189
Utilization	(51)	(3)	(15)	(56)	(125)
Reversals	(10)	(22)	(2)	(1)	(35)
Accretion expense	—	3	—	—	3
Effect of changes in discount rates	1	8	—	—	9
Effect of foreign currency exchange rate changes	15	—	2	1	18
Balance as at March 31, 2016	\$ 733	\$ 656	\$ 177	\$ 519	\$ 2,085
Additions	56	2	49 ⁽²⁾	545 ⁽³⁾	652
Utilization	(55)	(7)	(25)	(34)	(121)
Reversals	(43)	—	(4)	(56) ⁽⁴⁾	(103)
Accretion expense	1	1	—	—	2
Effect of changes in discount rates	—	3	—	—	3
Effect of foreign currency exchange rate changes	(12)	—	(6)	(1)	(19)
Balance as at June 30, 2016	\$ 680	\$ 655	\$ 191	\$ 973	\$ 2,499
Of which current	\$ 531	\$ 75	\$ 190	\$ 277	\$ 1,073
Of which non-current	149	580	1	696	1,426
	\$ 680	\$ 655	\$ 191	\$ 973	\$ 2,499

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other ⁽¹⁾	Total
Balance as at January 1, 2015	\$ 773	\$ 456	\$ 117	\$ 206	\$ 1,552
Additions	78	—	17 ⁽²⁾	13	108
Utilization	(56)	(6)	(30)	(1)	(93)
Reversals	(32)	(6)	(4) ⁽²⁾	(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)	(9)	(100)
Reversals	(18)	—	(1)	(7)	(26)
Accretion expense	—	1	—	—	1
Effect of changes in discount rates	—	(3)	—	—	(3)
Effect of foreign currency exchange rate changes	12	—	1	2	15
Balance as at June 30, 2015	\$ 735	\$ 434	\$ 83	\$ 199	\$ 1,451
Of which current	\$ 574	\$ 63	\$ 81	\$ 176	\$ 894
Of which non-current	161	371	2	23	557
	\$ 735	\$ 434	\$ 83	\$ 199	\$ 1,451

⁽¹⁾ Mainly comprised of onerous contract provisions, claims and litigations.

⁽²⁾ See Note 6 – Special items for more details on additions and reversals related to restructuring charges.

⁽³⁾ See Note 6 – Special items for more details on the addition related to the *C Series* aircraft program onerous contracts provision and on the addition related to the tax litigation provision.

⁽⁴⁾ See Note 6 – Special items for more details on the reversal of *Learjet 85* aircraft program cancellation provisions.

15. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	June 30, 2016	December 31, 2015	January 1, 2015
Derivative financial instruments	\$ 635	\$ 702	\$ 665
Government refundable advances	416	411	363
Vendor non-recurring costs	366	20	36
Lease subsidies	145	135	172
Short-term borrowings ⁽¹⁾	111	—	—
Sale and leaseback obligations	110	133	260
Current portion of long-term debt	41	71	56
Other	43	138	60
	\$ 1,867	\$ 1,610	\$ 1,612
Of which current	\$ 896	\$ 991	\$ 1,010
Of which non-current	971	619	602
	\$ 1,867	\$ 1,610	\$ 1,612

⁽¹⁾ Relates to amounts drawn under Transportation's €658-million (\$730 million) unsecured revolving credit facility. Also see Note 19 - Credit facilities.

16. OTHER LIABILITIES

Other liabilities were as follows, as at:

	June 30, 2016	December 31, 2015	January 1, 2015
Supplier contributions to aerospace programs	\$ 611	\$ 606	\$ 601
Employee benefits	605	647	661
Accruals for long-term contract costs	575	606	631
Deferred revenues	412	397	450
Income taxes payable	318	224	248
Other taxes payable	99	212	119
Other	491	578	568
	\$ 3,111	\$ 3,270	\$ 3,278
Of which current	\$ 2,032	\$ 2,274	\$ 2,182
Of which non-current	1,079	996	1,096
	\$ 3,111	\$ 3,270	\$ 3,278

17. SHARE-BASED PLANS

PSU, DSU and RSU plans

The number of PSUs, DSUs and RSUs has varied as follows:

			Three-month periods ended June 30			
			2016		2015	
	PSU	DSU	RSU	PSU	DSU	RSU
Balance at beginning of period	15,299,251	4,654,619	22,492,023	25,808,436	7,264,385	—
Granted	—	—	1,071,165	30,184	—	—
Exercised	(65,790)	(161,880)	—	—	(94,631)	—
Forfeited	(150,153)	(466,140)	(360,077)	(754,462)	(180,168)	—
Balance at end of period	15,083,308	4,026,599 ⁽¹⁾	23,203,111	25,084,158	6,989,586 ⁽¹⁾	—

			Six-month periods ended June 30			
			2016		2015	
	PSU	DSU	RSU	PSU	DSU	RSU
Balance at beginning of period	15,627,217	4,883,829	22,332,682	26,045,936	7,666,464	—
Granted	—	—	1,659,631	248,757	—	—
Exercised	(65,790)	(248,883)	—	—	(168,486)	—
Forfeited	(478,119)	(608,347)	(789,202)	(1,210,535)	(508,392)	—
Balance at end of period	15,083,308	4,026,599 ⁽¹⁾	23,203,111	25,084,158	6,989,586 ⁽¹⁾	—

⁽¹⁾ Of which 1,362,817 DSUs are vested as at June 30, 2016 (1,783,649 as at June 30, 2015).

The compensation expense, with respect to the PSU, DSU and RSU plans, amounted to \$4 million and \$6 million during the three- and six-month periods ended June 30, 2016, respectively (\$2 million and \$5 million during the three- and six-month periods ended June 30, 2015, 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	
	2016	2015	2016	2015
Balance at beginning of period	74,801,926	31,887,420	74,347,206	31,446,124
Granted	1,595,772	2,014,238	2,662,979	4,040,011
Forfeited	(1,829,657)	(454,287)	(2,442,144)	(1,785,747)
Expired	(996,000)	(888,373)	(996,000)	(1,141,390)
Balance at end of period	73,572,041	32,558,998	73,572,041	32,558,998

A compensation expense of \$3 million and \$4 million was recorded during the three- and six-month periods ended June 30, 2016, respectively, with respect to share option plans (\$2 million and \$3 million for the three- and six-month periods ended June 30, 2015, respectively).

18. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Trade and other receivables	\$ 5	\$ (154)	\$ 225	\$ 193
Inventories	283	(119)	164	(230)
Other financial assets and liabilities, net	(154)	(174)	(165)	(54)
Other assets	129	(239)	190	(258)
Trade and other payables	(155)	336	(438)	(91)
Provisions	432	(38)	473	(61)
Advances and progress billings in excess of long-term contract inventories	(111)	(126)	(84)	(239)
Advances on aerospace programs	37	(385)	(112)	(760)
Retirement benefit liability	(148)	150	(241)	184
Other liabilities	(51)	140	(176)	110
	\$ 267	\$ (609)	\$ (164)	\$ (1,206)

19. CREDIT FACILITIES

In April 2016, the availability periods of Transportation's €3,640-million (\$4,037-million using the exchange rate as at June 30, 2016) 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 2019 and June 2019, respectively. In addition, the maturity dates of Transportation's €500-million (\$555-million using the exchange rate as at June 30, 2016) 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 October 2018 and June 2019, respectively.

Also, in April 2016, the committed amount under the \$600-million letter of credit facility, which is available for the Corporation excluding Transportation, was decreased to \$400 million. In addition, Transportation's €500-million (\$555-million using the exchange rate as at June 30, 2016) unsecured revolving credit facility was increased to €608 million (\$674 million using the exchange rate as at June 30, 2016) and the \$750-million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, was decreased to \$400 million.

Effective in April 2016, the maximum net debt to EBITDA ratio required by the \$400-million letter of credit facility and the \$400-million unsecured revolving credit facility, which are available for the Corporation excluding Transportation, was replaced by maximum gross debt and minimum EBITDA thresholds. The remaining covenants requiring a minimum EBITDA to fixed charges ratio as well as a minimum liquidity requirement of \$750 million at the end of each quarter, all calculated based on an adjusted consolidated basis (i.e. excluding Transportation) remain unchanged. In addition, the Transportation letter of credit and revolving credit facilities financial covenants continue to require a minimum equity, a maximum debt to EBITDA ratio as well as minimum liquidity of €600 million (\$665 million) at the end of each quarter, all calculated based on Transportation stand-alone financial data.

In May 2016, the committed amount under Transportation's €3,640-million (\$4,037-million using the exchange rate as at June 30, 2016) letter of credit facility decreased to €3,310-million (\$3,671-million using the exchange rate as at June 30, 2016).

Effective in June 2016, Transportation's €608-million (\$674-million) unsecured revolving credit facility was increased to €658 million (\$730 million). Short-term borrowings of €100 million (\$111 million) remain outstanding under Transportation's €658-million (\$730-million) unsecured revolving credit facility as at June 30, 2016 (nil as at December 31, 2015 and January 1, 2015).

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Methods and assumptions

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

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

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

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

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

The Corporation uses option-pricing models and discounted cash flow models to estimate the fair value of embedded derivatives using applicable market data.

The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of the conversion option embedded in the convertible shares. The fair value of the embedded conversion option is based on the difference in value between: the convertible shares' accrued liquidation preference based on the minimum return; and the fair value of the common shares on an as converted basis. This value is dependent on the Transportation segment meeting the performance incentives agreed upon with the CDPQ and the timing of exercise of the conversion rights and the applicable conversion rate. The simulation model generates multiple

Transportation performance scenarios over the expected term of the option. Fair value of the shares on an as converted basis is calculated using an EBIT multiple, which is based on market data, to determine the enterprise value. The discount rate used is also determined using market data. The Corporation uses internal assumptions to determine the term of the instrument and the future performance of the Transportation segment.

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, short-term borrowings 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 2016:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	\$ 73	\$ —	\$ —	\$ 73
Derivative financial instruments ⁽¹⁾	522	—	522	—
Investments in securities	342 ⁽²⁾	46	296	—
Investments in financing structures	175	—	—	175
	\$ 1,112	\$ 46	\$ 818	\$ 248
Financial liabilities				
Lease subsidies	(145)	—	—	(145)
Derivative financial instruments ⁽¹⁾	(635)	—	(512)	(123)
	\$ (780)	\$ —	\$ (512)	\$ (268)

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

⁽²⁾ Excludes \$14 million of AFS investments carried at cost.

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

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at December 31, 2015	\$ 79	\$ 151	\$ (1)	\$ (135)	\$ —
Net gains (losses) and interest included in net income ⁽¹⁾	5	10	—	(12)	(2)
Issuances	—	—	(6)	—	(120)
Settlements	(5)	—	1	8	—
Balance as at March 31, 2016	\$ 79	\$ 161	\$ (6)	\$ (139)	\$ (122)
Net gains (losses) and interest included in net income ⁽¹⁾	(3)	14	—	(9)	(1)
Settlements	(3)	—	6	3	—
Balance as at June 30, 2016	\$ 73	\$ 175	\$ —	\$ (145)	\$ (123)

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at January 1, 2015	\$ 263	\$ 165	\$ (18)	\$ (172)	\$ —
Net gains and interest included in net income ⁽¹⁾	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 ⁽¹⁾	5	3	—	1	—
Issuances	—	—	(3)	—	—
Settlements	(17)	—	—	6	—
Balance as at June 30, 2015	\$ 251	\$ 180	\$ (6)	\$ (159)	\$ —

⁽¹⁾ Of which \$1 million and \$2 million represents realized gains for the three- and six-month periods ended June 30, 2016, which are recorded in financing income (\$3 million and \$4 million represents realized gains for the three- and six-month periods ended June 30, 2015, which are 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 for aerospace segments' level 3 financial instruments 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, 2016:

Main assumptions (weighted average)	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Internally assigned credit rating	Between BB+ to CCC (B+)	Between BB- to CCC+ (B+)	Between BB- to CCC (B+)
Discount rate adjustments for marketability	Between 7.5% and 9.84% (9.36%)	Between 1.75% and 8.17% (6.47%)	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.

The projected future performance of the Transportation segment is an important input for the determination of the fair value of the embedded derivative option in the convertible shares issued to the CDPQ. The projected future performance of the Transportation segment is prepared by management based on budget and strategic plan.

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, 2016:

Impact on EBT			Change of assumptions		
Change in fair value recognized in EBT for the :					
Gain (loss)	Three-month period ended June 30, 2016	Six-month period ended June 30, 2016	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	\$ (5)	\$ (3)	\$ (1)	\$ (2)	\$ (3)
Investment in financing structures	\$ 12	\$ 18	\$ (4)	\$ (11)	\$ (10)
Lease subsidies	\$ (6)	\$ (15)	n/a	\$ 2	n/a

n/a: not applicable

Conversion option

Sensitivity analysis

A 5% decrease in the expected future performance of the Transportation segment would have resulted in a decrease in the fair value with a corresponding gain recognized in EBT for the six-month period ended June 30, 2016 of \$13 million.

A 5% increase in the expected future performance of the Transportation segment would have resulted in an increase in the fair value with a corresponding loss recognized in EBT for the six-month period ended June 30, 2016 of \$14 million.

21. COMMITMENTS AND CONTINGENCIES

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

	June 30, 2016	December 31, 2015	January 1, 2015
Aircraft sales			
Residual value	\$ 1,634	\$ 1,669	\$ 1,749
Credit	1,246	1,248	1,275
Mutually exclusive exposure ⁽¹⁾	(593)	(598)	(628)
Total credit and residual value exposure	\$ 2,287	\$ 2,319	\$ 2,396
Trade-in commitments	\$ 1,934	\$ 1,818	\$ 2,696
Conditional repurchase obligations	\$ 213	\$ 192	\$ 204
Other			
Credit	\$ 48	\$ 48	\$ 48
Performance guarantees	\$ —	\$ —	\$ 38

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

Provisions for anticipated losses amounting to \$655 million as at June 30, 2016 (\$670 million as at December 31, 2015 and \$456 million as at January 1, 2015) 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 \$145 million as at June 30, 2016 (\$135 million as at December 31, 2015 and \$172 million as at January 1, 2015).

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, 2016, 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.

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. Since the service of process in 2014 on BT Brazil, the competition authority has decided to detach the proceedings against 43 individuals whom it claims to have been difficult to serve process and has also issued additional technical notes dealing with various procedural objections raised by the defendant corporations and individuals. BT Brazil is currently contesting before the courts both the decision to detach the proceedings against 43 individuals and decisions by CADE restricting physical access to some of the forensic evidence.

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 September 2015, the prosecution service of Sao Paulo announced a second public civil action for ‘cartel’ in relation to the follow-on five year maintenance contract covering the period 2007 to 2012. In addition, BT Brazil was served notice and joined in December 2014 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.