# BOMBARDIER INC.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**For the three- and six-month periods ended June 30, 2016**

# 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)

**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)

| | Note | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|---|
| | | **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 | | | | | |
| | 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 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 - *C Series* aircraft program[(1)] | **$ 492** | $ — | **$ 492** | $ — |
| Restructuring charges[(2)] | **44** | — | **156** | 9 |
| Pension obligation[(3)] | **(139)** | — | **(139)** | — |
| Reversal of *Learjet 85* 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.