BOMBARDIER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal year ended December 31, 2016

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

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

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

The results of operations and cash flows for the fourth quarter are not necessarily indicative of the results of operations and cash flows for the full fiscal year.

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

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

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

The Financial Report for fiscal year 2016 comprises the message from our President and Chief Executive Officer to shareholders, this MD&A and our consolidated financial statements.

The following table shows the abbreviations used in the MD&A and the consolidated financial statements.

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

OVERVIEW

HIGHLIGHTS OF THE YEAR

Unleashing value through solid execution

Exceeded profitability and free cash flow guidance	Executed key product development milestones	De-risked liquidity	Transformation in full motion

REVENUES	EBIT	DILUTED EPS	OPERATING CASH FLOWS
$16.3 billion	**($58 million)**	**($0.48)**	**$137 million**

LIQUIDITY[1]	EBIT BEFORE SPECIAL ITEMS[2]	ADJUSTED EPS[2]	FREE CASH FLOW USAGE[2]
$4.5 billion	**$427 million**	**($0.15)**	**($1.1 billion)**

RESULTS

For the fiscal years ended December 31	**2016**	2015	Variance
Revenues	**$ 16,339**	$ 18,172	(10)%
EBIT	**$ (58)**	$ (4,838)	nmf
EBIT margin	**(0.4)%**	(26.6)%	nmf
EBIT before special items[2]	**$ 427**	$ 554	(23)%
EBIT margin before special items[2]	**2.6 %**	3.0 %	(40) bps
EBITDA before special items[2]	**$ 798**	$ 992	(20)%
EBITDA margin before special items[2]	**4.9 %**	5.5 %	(60) bps
Net loss	**$ (981)**	$ (5,340)	nmf
Diluted EPS (in dollars)	**$ (0.48)**	$ (2.58)	nmf
Adjusted net income (loss)[2]	**$ (268)**	$ 326	nmf
Adjusted EPS (in dollars)[2]	**$ (0.15)**	$ 0.14	nmf
Net additions to PP&E and intangible assets	**$ 1,201**	$ 1,862	(35)%
Cash flows from operating activities	**137**	20	nmf
Free cash flow usage[2]	**$ (1,064)**	$ (1,842)	42 %
As at December 31	**2016**	2015	
Available short-term capital resources[1]	**$ 4,477**	$ 4,014	12 %

KEY HIGHLIGHTS AND EVENTS

- **Our results for 2016 reflect overall improved performance:**
  - We completed the de-risking phase of our turnaround plan by, amongst other actions, resetting our deliveries and revenues in line with market demand.
  - In 2016, we continued to launch and execute several strategic initiatives driving improved financial performance. As such, we exceeded our consolidated profitability[3] and free cash flow[2] guidance. Our 2016 consolidated revenues were in line with guidance.
  - EBIT margins before special items[2] improved materially in the following segments:
    - Business Aircraft reached 6.4%, up from 4.4%;
    - Aerostructures and Engineering Services finished at 8.0%, up from 5.8%; and
    - Transportation generated 7.4%, up from 5.6%.
  - Free cash flow usage[2] improved by $778 million mainly due to reduced product development spend following certification of both the *CS100* and *CS300* aircraft as well as our disciplined approach to working capital management and capital allocation in line with our transformation plan.

[1] Defined as cash and cash equivalents plus the amount available under our revolving credit facilities.

[2] Non-GAAP financial measures. Refer to the Non-GAAP financial measures, Consolidated results of operations and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.

[3] Profitability guidance is based on EBIT before special items, which is a non-GAAP financial measure.

- **We achieved major milestones in key aircraft programs:**
  - Commercial Aircraft reached a historic milestone in 2016 as it certified and brought to market both variants of the *C Series* aircraft, the first all-new clean-sheet designed family of single-aisle aircraft in the 100- to 150-seat segment in nearly 30 years. In 2016, we also solidified the backlog with several significant orders, including Delta Air Lines and Air Canada. At EIS, the program had over 350 aircraft in our firm order backlog and approximately 600 aircraft when including options. With a total of seven aircraft delivered by year end, both the *CS100* and *CS300* aircraft are delivering on their operating cost advantage, superior operating flexibility, exceptional performance and range, as well as passenger comfort.
  - On November 4, 2016, we successfully completed the maiden flight of the first *Global 7000* FTV with a high level of maturity, demonstrating that the lessons learned from the *C Series* aircraft program are being fully captured. The *Global 7000* and *Global 8000* aircraft program will set the standard for a new category of large business jets. The *Global 7000* aircraft is the first and only clean-sheet business jet with four living spaces.
- **We secured the liquidity necessary to execute our turnaround plan:**
  - We closed the CDPQ equity investment in Transportation and the Government of Québec equity investment (through Investissement Québec) in the *C Series* aircraft program, totalling $2.5 billion.
  - We extended our credit facilities through 2019 and refinanced $1.4 billion of senior notes, extending their maturity dates to 2021.
- **We continue our transformation initiatives on the roadmap to 2020:**
  - We are gaining traction on our transformation initiatives, aiming to increase manufacturing efficiency, reduce bill of materials, and streamline indirect costs. We are already executing on over 80% of the cost savings initiatives targeting a 300-bps improvement in margins by 2020, including workforce optimization efforts.
  - We launched two major restructuring initiatives in 2016 with the goal to resize our organization in line with current business needs and increase our competitiveness:
    - In February 2016, we announced workforce reductions of an estimated 7,000 production and non-production employees throughout 2016 and 2017.[(1)] These reductions have been largely achieved in 2016 as planned.
    - In October 2016, we announced further restructuring actions, including streamlining administrative and non-production functions across the organization, workforce optimization and site specialization. Approximately 7,500 positions are expected to be impacted through 2018.[(2)]
    - These workforce optimizations will be partially offset by strategic hiring to support ramp-up for key growth programs including the *C Series* and the *Global 7000* and *Global 8000* aircraft programs, major rail contract wins, as well as to support our growth strategy in aftermarket businesses.
    - These organizational restructuring actions are expected to reach annual savings of between $500 million and $600 million by the end of 2018.[(2)]
    - Over the course of 2016, we recorded restructuring charges of $215 million, consisting mainly of severance, as special items. We anticipate recording a further $250 million to $300 million in restructuring charges, to be reported as special items when accrued, in 2017.[(2)]

[(1)] The planned manpower reduction included approximately 2,000 contractual workers and 800 product development engineers, the latter of which, are not allocated to a reportable segment.

[(2)] Forward-looking statement. See the forward-looking statements disclaimer.

KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes key performance measures and associated metrics evaluated only on a consolidated basis. Our reportable segments use multiple other key performance measures to evaluate various key metrics. Refer to each reportable segment's Key performance measures and metrics section for further details.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Profitability	• Diluted EPS and adjusted EPS[1], as measures of global performance.
Liquidity	• Available short-term capital resources[2], as a measure of liquidity adequacy.
Capital structure	• Adjusted EBIT[1] to adjusted interest[1] ratio, as a measure of interest coverage. • Adjusted debt[1] to adjusted EBITDA[1] ratio, as a measure of financial leverage. • Weighted-average long-term debt maturity, as a measure of debt term structure.

Five-year summary

For the fiscal years ended and as at December 31	**2016**	2015	2014	2013	2012
Profitability					
Revenues	**$ 16,339**	$ 18,172	$ 20,111	$ 18,151	$ 16,414
EBIT	**$ (58)**	$ (4,838)	$ (566)	$ 923	$ 666
EBIT margin	**(0.4)%**	(26.6)%	(2.8)%	5.1%	4.1%
EBIT before special items[1][3]	**$ 427**	$ 554	$ 923	$ 893	$ 806
EBIT margin before special items[1][3]	**2.6 %**	3.0 %	4.6 %	4.9%	4.9%
EBITDA[1]	**$ 323**	$ (100)	$ 1,117	$ 1,314	$ 1,030
EBITDA before special items[1][3]	**$ 798**	$ 992	$ 1,340	$ 1,284	$ 1,170
Net income (loss)	**$ (981)**	$ (5,340)	$ (1,246)	$ 572	$ 470
Adjusted net income (loss)[1]	**$ (268)**	$ 326	$ 648	$ 608	$ 671
Diluted EPS (in dollars)	**$ (0.48)**	$ (2.58)	$ (0.74)	$ 0.31	$ 0.25
Adjusted EPS (in dollars)[1]	**$ (0.15)**	$ 0.14	$ 0.35	$ 0.33	$ 0.36
Liquidity					
Net additions to PP&E and intangible assets	**$ 1,201**	$ 1,862	$ 1,964	$ 2,287	$ 2,074
Cash flows from operating activities	**$ 137**	$ 20	$ 847	$ 1,380	$ 1,438
Free cash flow usage[1]	**$ (1,064)**	$ (1,842)	$ (1,117)	$ (907)	$ (636)
Available short-term capital resources[2]	**$ 4,477**	$ 4,014	$ 3,846	$ 4,837	$ 3,967
Capital structure					
Interest coverage ratio[4]	**0.8**	1.5	3.1	2.8	3.2
Financial leverage ratio[4]	**9.7**	7.3	4.7	5.4	4.2
Weighted-average long-term debt maturity (in years)	**5.8**	6.3	6.4	6.4	7.4

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures, Consolidated results of operations and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures in 2016 and 2015.

[2] Defined as cash and cash equivalents plus the amount available under the revolving credit facilities.

[3] Refer to the Consolidated results of operations section for details of special items recorded in 2016 and 2015. In 2014, the special items related to impairment and other charges of $1.4 billion related to the decision to pause the *Learjet 85* aircraft program and $273 million of net write-downs of deferred tax assets following that decision, $142 million of restructuring charges, a $43-million loss on repurchase of long-term debt, and a $18-million gain on resolution of a litigation in connection with Part IV of the Québec Income Tax Act of which $8 million was recorded in financing income. In 2013, the special items related to a $43-million gain on resolution of a litigation in connection with capital tax, of which $12 million was recorded in financing income, a $24-million inventory write-down and a $23-million gain on disposal of a business. In 2012, the special items related to $119 million of restructuring charges in Transportation, a $40-million gain on resolution of a litigation in connection with capital tax, of which $17 million was recorded in financing income, a $19-million loss related to flooding in New Jersey, U.S. and a $25-million foreign exchange hedging loss.

[4] Refer to the Capital structure and Non-GAAP financial measures sections for computations of these ratios.

STRATEGIC PRIORITIES

Roadmap to 2020: Unleashing value through solid execution

2016 was the first full year of our five-year transformation plan. A transition year marked by the achievement of key milestones on the *C Series* and *Global 7000* and *Global 8000* aircraft programs, and by a strengthened liquidity position. This solid execution and the launch of transformation initiatives allowed us to complete the first phase, the de-risking phase, of the plan.

We are now focused on the second phase of our transformation plan, building earnings and free cash flows, to unleash the value of our portfolio of products and services. Numerous initiatives support this transformation, providing us with a solid foundation on which to reach our 2020 objectives of approximately 10% annual revenue growth, expanding margins and strong cash flow generation.[1]

		Our 2020 objectives[1]
Consolidated	**Growth**	Revenues above $25 billion.
	Profitability[2]	EBIT margin in the range of 7% and 8%.
	Free cash flow[2]	Free cash flow[2] of more than 80% of net income.
Business Aircraft	**Growth**	Revenues above $10 billion.
	Profitability[2]	EBIT margin in the range of 8% and 10%.
Commercial Aircraft	**Growth**	Revenues above $5.5 billion.
	Profitability[2]	Positive EBIT.
Aerostructures and Engineering Services	**Growth**	Revenues above $2.5 billion.
	Profitability[2]	EBIT margin in the range of 9% and 11%.
Transportation	**Growth**	Revenues above $10 billion.
	Profitability[2]	EBIT margin above 8%.

Revenues

Our strong product portfolio and large installed fleets in both the aerospace and in the rail businesses position us well to reach our target of more than $25 billion in revenues by 2020.[1]

At EIS, the *C Series* aircraft program had over 350 aircraft in the firm order backlog, and approximately 600 aircraft when including options, securing most deliveries through 2020. The aircraft program is positioned to capture a large share of future orders for 100- to 150-seat aircraft. We expect to deliver 90 to 120 aircraft per year by 2020. This will support Commercial Aircraft's growth target to revenues of more than $5.5 billion by 2020.[1]

[1] See Forward-looking statements in boxed text below for details regarding the assumptions on which the objectives are based. Also see forward-looking statements disclaimer in the Guidance and forward-looking statements section.

[2] Profitability objectives are based on EBIT margin before special items. EBIT before special items and free cash flow are non-GAAP measures. Refer to the Non-GAAP financial measures section for definitions of these metrics.

The *Global 7000* aircraft is on track to enter into service in the second half of 2018. Its performance, in terms of range, low speed handling, technological innovation and comfort, is setting the standard for large ultra-long range business jets. In conjunction with the future EIS of the *Global 7000* and *Global 8000* aircraft program, with stabilizing market conditions and a positive economic outlook,[2] Business Aircraft revenues are targeted to double to more than $10 billion by 2020.[1]

Transportation will further leverage its broad portfolio of products and services to offer its customers complete mobility solutions covering rolling stock, signaling, system integration and operation and maintenance services. The positive outlook for the global rail industry[2] confirmed by the Association of the European Rail Industry (UNIFE)[3] as well as Transportation's consistent annual book-to-bill ratio[4] of at least 1.0 over the last 5 years, support Transportation's plans to reach its 2020 target of more than $10 billion in revenue.[1]

In addition, with approximately 7,000 aircraft in service and 100,000 train cars in operation, we see significant opportunities to service a greater share of the large fleets of *Bombardier* planes and trains. More specifically, Business Aircraft targets increasing its aftermarket revenues by approximately 50% by 2020. The recent opening of its Greater London, U.K., service centre and its planned expansion of service centres in Tucson and Fort Lauderdale in the U.S. are some initiatives that should allow us to capture a larger portion of this high margin activity through the current and growing installed fleet. Transportation continues to strengthen its position in the rail aftermarket and also aims to increase its aftermarket revenues by 2020.[1]

Profitability

Our transformation is driving EBIT growth to reach target margins of between 5% and 6% in 2018 and between 7% and 8% by 2020.[1]

We are already executing on more than 80% of identified cost savings initiatives of our operational transformation, which are expected to generate more than $750 million in EBIT by 2020. This represents an improvement of more than 300 basis points from 2016 EBIT margin before special items.[5] Examples of transformation initiatives include:

- Driving labour efficiency: In 2016, we made two organizational restructuring announcements, which are expected to reach annual savings of between $500 million and $600 million by the end of 2018;
- Creating centres of excellence in the aerospace segments and in Transportation: We are specializing our manufacturing and engineering footprints as well as creating shared administrative resource centres to deliver efficiencies and cost savings;
- Reduce supplier bill of materials: We are harnessing our scale and reducing our number of suppliers to deliver more than 200 basis points in direct cost savings by 2020; and
- Controlling indirect costs: We have created a global organization to manage indirect goods and services and plan to reduce spend by 2% per year until 2020.[1]

Free cash flow

Our five-year plan is targeting free cash flow[5] break-even by 2018, generating positive free cash flow beginning in 2019 and positive free cash flow generation between $750 million to $1.0 billion by 2020.[1]

Working capital initiatives and sustainable capital allocation combined with profitable revenue growth and margin expansion are increasing free cash flow significantly. Already in 2016, the first year of our transformation plan, the various initiatives have generated in excess of $500 million of free cash flow, mainly by optimizing working capital.

This will support the third and final phase of our five-year plan which consists of de-leveraging our balance sheet, thereby driving strong shareholder value.

(1) See Forward-looking statements in boxed text below for details regarding the assumptions on which the objectives are based. Also see forward-looking statements disclaimer in the Guidance and forward-looking statements section.
(2) Please refer to the Industry and economic environment sections in the respective reportable segments for more details.
(3) The UNIFE World Rail Market Study published in September 2016.
(4) Defined as new orders over revenues.
(5) Non-GAAP financial measure. Refer to the Non-GAAP financial measures for definition of this metric.

Forward-looking statements

Forward-looking statements[1] in this section of the MD&A are based on the following material assumptions:

All segments

- normal execution and delivery of current firm orders and projects in the backlog;
- our ability to execute and deliver business model enhancement initiatives;
- the ability to understand customer needs and portfolio of products and services to drive increasing market demand and secure key strategic orders;
- successful deployment and execution of growth strategies, including the aftermarket businesses;
- continued deployment and execution of leading initiatives according to plan to improve revenue conversion into higher earnings and free cash flows[2], through improved procurement cost, controlled spending and labour efficiency;
- delivering on the transformation plan targets, through restructurings and other initiatives addressing the direct and indirect cost structure, focusing on sustained cost reductions and operational improvements, while reducing working capital consumption;
- the ability to leverage the global manufacturing footprint and transfer best practices and technology across production sites, and by leveraging lower cost geographies and emerging economies;
- the ability of the supply base to support product development, planned production rates and the execution of projects;
- the ability to identify and enter into further risk sharing partnerships;
- the effectiveness of disciplined capital deployment measures in new programs and products to drive revenue growth;
- the ability to recruit and retain highly skilled resources to deploy the product development and project execution strategy;
- competitive global environment and global economic conditions to remain similar;
- the stability of foreign exchange rates; and
- the ability to have sufficient liquidity to execute the strategic plan, to meet financial covenants and to pay down long-term debt or refinance bank facilities and maturities starting in 2019.

Aerospace segments

- the alignment of production rates to market demand;
- increased level of aircraft deliveries and improving pricing environment starting in 2018;
- the ability to ramp up production and deliveries of new programs, focusing on the *C Series aircraft program* including learning curve improvements, and meet scheduled EIS date for the *Global 7000* and *Global 8000* aircraft program;
- our ability to strengthen our market position and product value proposition for the *CRJ Series* and *Q400* aircraft programs;
- continued ability to capture and win campaigns and projects based on market forecasts[3], leading to estimated future order intake; and
- the reduction of investments and development spend to normalized levels, in line with depreciation by 2019.

Transportation

- revenue conversion and phase out of our legacy contracts;
- a sustained level of public sector spending;
- the realization of upcoming tenders and our ability to capture them based on market forecasts[4], leading to estimated future order intake;
- the ability to transfer best practices and technology across production; and
- successful deployment and execution of growth strategies, including the value chain approach and the creation of ecosystems, site specialization and the creation of engineering centres of excellence, and the evolution of the revenue mix towards more signaling and systems and operations and maintenance contracts.

For a discussion of the material risk factors associated with the forward-looking information, refer to the Risks and uncertainties section in Other.

(1) Also refer to the Guidance and forward-looking statements section for the forward-looking statements disclaimer.

(2) Non-GAAP measure. Refer to the Non-GAAP measures for definition of this metric.

(3) Demand forecast for aerospace segments is based on the analysis of main market indicators, including real GDP growth, industry confidence, wealth creation, corporate profitability within the aerospace customer base, aircraft utilization, pre-owned business jet inventory levels, aircraft shipments and billings, passenger traffic levels, fuel prices, airline profitability, pilot scope clauses, environmental regulations, globalization of trade, installed base and average age of the fleet, replacement demand, new aircraft programs and non-traditional markets and their accessibility. For more details, refer to the market indicators in the Industry and economic environment sections of the aerospace segments.

(4) Demand forecast in the Transportation segment is based on sustained level of public sector spending and the continuation of favourable megatrends, including urbanization and environmental awareness trends, the densification of cities and demand for mobility and digitalization solutions. For more details, refer to the market indicators in the Industry and economic environment section.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

		Latest guidance for 2016	What we did in 2016	What's next for 2017[1]
Consolidated	Growth	Revenues of approximately $16.5 billion.	Revenues of $16.3 billion.	Excluding currency impacts, revenues in 2017 are expected to be higher than in 2016, with percentage growth in the low-single digits.
	Profitability[2]	EBIT before special items[2] in the range of $350 million to $400 million.	EBIT before special items[2] of $427 million.	EBIT before special items[2] in the range of $530 million to $630 million.
	Free cash flow[2]	Free cash flow usage[2] in the range of $1.15 billion to $1.45 billion.	Free cash flow usage[2] of $1.1 billion.	Free cash flow usage[2] in the range of $750 million to $1.0 billion.
Business Aircraft	Growth and deliveries	Revenues of approximately $5.5 billion. Above 150 deliveries.	Revenues of $5.7 billion. 163 deliveries.	Revenues of approximately $5.0 billion. Approximately 135 deliveries.
	Profitability[2]	EBIT margin before special items[2] above 6.0%.	EBIT margin before special items[2] of 6.4%.	EBIT margin before special items[2] of approximately 7.5%.
Commercial Aircraft	Growth and deliveries	Revenues of approximately $2.7 billion. Between 85 to 90 deliveries.	Revenues of $2.6 billion. 86 deliveries.	Revenues of approximately $2.9 billion. Between approximately 80 to 85 deliveries.
	Profitability[2]	Negative EBIT before special items[2] of approximately $450 million, mainly due to the dilutive impact of the initial years of production of the *C Series* aircraft program.[3]	Negative EBIT before special items[2] of $417 million.	Negative EBIT before special items[2] of approximately $400 million, mainly due to the dilutive impact of the initial years of production of the *C Series* aircraft program.[3]
Aerostructures and Engineering Services	Growth	Revenues of approximately $1.6 billion, mainly from intersegment contracts with Business Aircraft and Commercial Aircraft.	Revenues of $1.5 billion, of which $1.1 billion was from intersegment contracts.	Revenues of approximately $1.7 billion, mainly from intersegment contracts with Business Aircraft and Commercial Aircraft.
	Profitability[2]	EBIT margin before special items[2] of approximately 8.0%.	EBIT margin before special items[2] of 8.0%.	EBIT margin before special items[2] above 8.5%.
Transportation	Growth	Revenues of approximately $8.0 billion, based on the current foreign exchange rates in 2016.	Revenues of $7.6 billion.	Revenues of approximately $8.5 billion, based on the assumption that foreign exchange rates will remain stable in 2017 compared to 2016.
	Profitability[2]	EBIT margin before special items[2] above 6.5%.	EBIT margin before special items[2] of 7.4%.	EBIT margin before special items[2] of approximately 7.5%.

In November 2016, we indicated that on a consolidated basis, we were in line to achieve our 2016 revenue and profitability[2] guidance. We refined our revenue guidance from a range of between $16.5 billion and $17.5 billion to approximately $16.5 billion and we narrowed the range of EBIT before special items[2] from between $200 million and $400 million to between $350 million and $400 million. In 2016, we exceeded guidance for consolidated profitability[2] and our consolidated revenues were in line with our guidance.

[1] See each reportable segment's Guidance and forward-looking statements section and the forward-looking statements disclaimer hereafter for details regarding the assumptions on which the guidance is based.

[2] Profitability guidance is based on EBIT before special items or EBIT margin before special items. EBIT before special items and free cash flow (usage) are non-GAAP measures. Free cash flow (usage) includes cash flows related to special items. Refer to the Non-GAAP financial measures section for definitions of these metrics and the Consolidated results of operations and Liquidity and capital resources sections, as well as each reportable segment's Analysis of results section for reconciliations to the most comparable IFRS measures in 2016.

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

In September 2016, we revised our consolidated free cash flow usage[(1)] guidance from a range of $1.0 billion to $1.3 billion to the range of $1.15 billion to $1.45 billion, following the revised delivery forecast for the *C Series* aircraft program as a result of engine delivery delays. Our 2016 free cash flow usage[(1)] was better than the lower end of our guidance range.

For further detail on the 2016 and 2017 guidance by reportable segment, refer to each reportable segment's Guidance and forward-looking statements section. For further detail on the 2016 free cash flow usage see the Liquidity and capital resources section.

(1) Non-GAAP financial measure. Free cash flow (usage) includes cash flows related to special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Liquidity and capital resources sections for reconciliations to the most comparable IFRS measures in 2016.

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, guidance, targets, goals, priorities, market and strategies, financial position, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business outlook, prospects and trends of an industry; expected growth in demand for products and services; product development, including projected design, characteristics, capacity or performance; expected or scheduled entry-into-service of products and services, orders, deliveries, testing, lead times, certifications and project execution in general; competitive position; the expected impact of the legislative and regulatory environment and legal proceedings on our business and operations; available liquidities and ongoing review of strategic and financial alternatives; the impact and expected benefits of the investment by the Government of Québec in the C Series Aircraft Limited Partnership and of the private placement of a minority stake in Transportation by the CDPQ on our operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; and the impact of such investments on our balance sheet and liquidity position.

Forward-looking statements can generally be identified by the use of forward-looking terminology such as "may", "will", "shall", "can", "expect", "estimate", "intend", "anticipate", "plan", "foresee", "believe", "continue", "maintain" or "align", the negative of these terms, variations of them or similar terminology. By their nature, forward-looking statements require management to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecast results set forth in forward-looking statements. While management considers these assumptions to be reasonable and appropriate based on information currently available, there is risk that they may not be accurate.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry, business aircraft customers, and the rail industry; trade policy; increased competition; political instability and force majeure), operational risks (such as risks related to developing new products and services; development of new business; the certification and homologation of products and services; fixed-price and fixed-term commitments and production and project execution; pressures on cash flows based on project-cycle fluctuations and seasonality; our ability to successfully implement and execute our strategy and transformation plan; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; the environment; dependence on certain customers and suppliers; human resources; reliance on information systems; reliance on and protection of intellectual property rights; and adequacy of insurance coverage), financing risks (such as risks related to liquidity and access to capital markets; retirement benefit plan risk; exposure to credit risk; substantial existing debt and interest payment requirements; certain restrictive debt covenants and minimum cash levels; financing support provided for the benefit of certain customers; and reliance on government support), market risks (such as risks related to foreign currency fluctuations; changing interest rates; decreases in residual values; increases in commodity prices; and inflation rate fluctuations). For more details, see the Risks and uncertainties section in Other. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the Guidance and forward-looking statements sections in each reportable segment.

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

CONSOLIDATED RESULTS OF OPERATIONS

Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Revenues	**$ 4,380**	$ 5,017	**$ 16,339**	$ 18,172
Cost of sales	**3,942**	4,616	**14,622**	16,199
Gross margin	**438**	401	**1,717**	1,973
SG&A	**287**	356	**1,133**	1,213
R&D	**95**	119	**287**	355
Share of income of joint ventures and associates	**(65)**	(96)	**(126)**	(149)
Other (income) expense	**17**	6	**(4)**	—
EBIT before special items[1]	**104**	16	**427**	554
Special items	**30**	673	**485**	5,392
EBIT	**74**	(657)	**(58)**	(4,838)
Financing expense	**281**	95	**819**	418
Financing income	**(49)**	(21)	**(70)**	(70)
EBT	**(158)**	(731)	**(807)**	(5,186)
Income taxes	**101**	(54)	**174**	154
Net loss	**$ (259)**	$ (677)	**$ (981)**	$ (5,340)
Attributable to				
Equity holders of Bombardier Inc.	**$ (251)**	$ (679)	**$ (1,022)**	$ (5,347)
NCI	**$ (8)**	$ 2	**$ 41**	$ 7
EPS (in dollars)				
Basic and diluted	**$ (0.12)**	$ (0.31)	**$ (0.48)**	$ (2.58)
As a percentage of total revenues				
EBIT before special items[1]	**2.4%**	0.3 %	**2.6 %**	3.0 %
EBIT	**1.7%**	(13.1)%	**(0.4)%**	(26.6)%

Computation of diluted EPS

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Net loss attributable to equity holders of Bombardier Inc.	**$ (251)**	$ (679)	**$ (1,022)**	$ (5,347)
Preferred share dividends, including taxes	**(14)**	(2)	**(32)**	(23)
Net loss attributable to common equity holders of Bombardier Inc.	**$ (265)**	$ (681)	**$ (1,054)**	$ (5,370)
Weighted-average diluted number of common shares (in thousands of shares)	**2,194,304**	2,221,868	**2,212,547**	2,082,683
Diluted EPS (in dollars)	**$ (0.12)**	$ (0.31)	**$ (0.48)**	$ (2.58)

Non-GAAP financial measures[1]

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
EBITDA	**$ 183**	$ (238)	**$ 323**	$ (100)
EBITDA before special items	**$ 203**	$ 139	**$ 798**	$ 992
Adjusted net income (loss)	**$ (141)**	$ 9	**$ (268)**	$ 326
Adjusted EPS	**$ (0.07)**	$ 0.00	**$ (0.15)**	$ 0.14

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

Reconciliation of segment to consolidated results

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Revenues				
Business Aircraft	**$ 1,651**	$ 2,086	**$ 5,741**	$ 6,996
Commercial Aircraft	**699**	644	**2,617**	2,395
Aerostructures and Engineering Services	**319**	443	**1,549**	1,797
Transportation	**1,948**	2,164	**7,574**	8,281
Corporate and Elimination	**(237)**	(320)	**(1,142)**	(1,297)
	$ 4,380	$ 5,017	**$ 16,339**	$ 18,172
EBIT before special items[1]				
Business Aircraft	**$ 100**	$ 28	**$ 369**	$ 308
Commercial Aircraft	**(141)**	(87)	**(417)**	(170)
Aerostructures and Engineering Services	**30**	(9)	**124**	104
Transportation	**181**	123	**560**	465
Corporate and Elimination	**(66)**	(39)	**(209)**	(153)
	$ 104	$ 16	**$ 427**	$ 554
Special Items				
Business Aircraft	**$ 1**	$ 380	**$ (108)**	$ 1,560
Commercial Aircraft	**3**	240	**486**	3,800
Aerostructures and Engineering Services	**6**	—	**(4)**	(1)
Transportation	**20**	—	**164**	—
Corporate and Elimination	**—**	53	**(53)**	33
	$ 30	$ 673	**$ 485**	$ 5,392
EBIT				
Business Aircraft	**$ 99**	$ (352)	**$ 477**	$ (1,252)
Commercial Aircraft	**(144)**	(327)	**(903)**	(3,970)
Aerostructures and Engineering Services	**24**	(9)	**128**	105
Transportation	**161**	123	**396**	465
Corporate and Elimination	**(66)**	(92)	**(156)**	(186)
	$ 74	$ (657)	**$ (58)**	$ (4,838)

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

Analysis of consolidated results

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

Special items

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

Special items were as follows:

		Fourth quarters ended December 31		Fiscal years ended December 31	
	Ref	**2016**	2015	**2016**	2015
Onerous contracts provision - *C Series* aircraft program	1	**$ —**	$ —	**$ 492**	$ —
Restructuring charges	2	**35**	—	**215**	9
Pension obligation	3	**—**	—	**(139)**	—
Loss on repurchase of long-term debt	4	**86**	—	**86**	22
Impairment and other charges - *Learjet 85* aircraft program	5	**(5)**	—	**(59)**	1,163
Tax litigation	6	**—**	50	**40**	50
Foreign exchange gains related to the sale of a minority stake in Transportation	7	**—**	—	**(38)**	—
Transaction costs related to the conversion option embedded in the CDPQ investment	8	**—**	—	**8**	—
Impairment and other charges - *C Series* aircraft program	9	**—**	—	**—**	3,235
Changes in estimates and fair value	10	**—**	—	**—**	353
Impairment charge - *CRJ1000* aircraft program	11	**—**	243	**—**	243
Write-off of deferred costs	12	**—**	194	**—**	194
Termination of sales representative and distribution agreements	13	**—**	133	**—**	133
Impairment charge - *Learjet* family of aircraft	14	**—**	53	**—**	53
Tax impacts of special items	15	**(1)**	—	**(20)**	106
		$ 115	$ 673	**$ 585**	$ 5,561
Of which is presented in					
Special items in EBIT		**$ 30**	$ 673	**$ 485**	$ 5,392
Financing expense - loss on repurchase of long-term debt	4	**86**	—	**86**	22
Financing expense - interest related to tax litigation	6	**—**	—	**26**	—
Financing expense - transaction costs related to the conversion option embedded in the CDPQ investment	8	**—**	—	**8**	—
Financing expense - loss on financial instruments	10	**—**	—	**—**	41
Income taxes - effect of special items	15	**(1)**	—	**(20)**	106
		$ 115	$ 673	**$ 585**	$ 5,561

1. Represents an onerous contracts provision in conjunction with the closing of *C Series* aircraft firm orders in the second quarter of 2016. The special item is net of $24 million in Corporate and Elimination.

2. In fiscal year 2016, restructuring charges were comprised of severance charges of $227 million, partially offset by curtailment gains of $22 million, and impairment charges of PP&E of $10 million, related to restructuring actions announced in February 2016 and October 2016 (severance charges of $28 million, curtailment gains of $3 million, and impairment charges of PP&E of $10 million in the fourth quarter ended December 31, 2016).

   In 2015, included restructuring charges of $13 million related to the workforce reduction announced in January 2015 as a result of the decision to pause the *Learjet 85* aircraft program, partially offset by $4 million of adjustments to restructuring provisions recorded in 2014.

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

4. In the fourth quarter and fiscal year ended December 31, 2016, represents the loss related to the redemption of the $650-million and $750-million Senior Notes due 2018. In fiscal year 2015, represents the loss related to the redemption of the $750-million Senior Notes due 2016.

5. In 2015, represents an impairment charge of $919 million on aerospace program tooling (including a credit of $6 million in Corporate and Elimination), inventory write-downs, write-downs of other assets, PP&E and other intangible assets, other provisions and other financial liabilities of $244 million, as a result of the cancellation of the *Learjet 85* aircraft program due to the lack of sales following the prolonged market weakness.

   Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, in 2016 we reduced the related provisions by $59 million, of which $5 million was recorded in the fourth quarter. The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.

6. Represents a change in the estimates used to determine the provision related to tax litigation.

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

8. Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco.

9. Represents an impairment charge of $3.1 billion on aerospace program tooling, and inventory write-downs and other provisions of $165 million, following the completion of an in-depth review of the *C Series* aircraft program as well as discussions with the Government of Québec which resulted in the October 2015 memorandum of understanding. The special item includes a credit of $14 million in Corporate and Elimination.

10. Represents an increase in provisions for credit guarantees and RVGs as a result of changes in assumptions concerning residual value curves of regional aircraft due to difficult market conditions for regional pre-owned aircraft and a higher probability that the guaranteed party will exercise the RVG given the recent experience with respect to RVGs and a loss on certain financial instruments due to changes in estimated fair value.

11. Represents an impairment charge of $243 million on the remaining *CRJ1000* aircraft program development costs. The impairment was due to the lack of recent order intake as well as low firm order backlog for the *CRJ1000* aircraft, mainly stemming from pilot scope clauses in the U.S., which have restricted the use, number and seating capacity of regional aircraft flying on behalf of network carriers. Over the near term, we do not anticipate scope clause relaxation in the U.S., during which time, we will not be able to sell the *CRJ1000* aircraft in the U.S. market. The special item included a charge of $3 million in Corporate and Elimination.

12. Mainly related to restructuring of customer commercial agreements.

13. Costs incurred in connection with the termination of third-party sales representative and distribution agreements to increase the number of direct-to-market channels.

14. Represents an impairment charge on the remaining *Learjet* family aerospace program tooling, following the prolonged market weakness in the light business aircraft category.

15. In 2015, represents net write-downs of deferred income tax assets, mainly due to the reorganization and consolidation of Transportation under one holding entity necessary to facilitate the planned placement of a minority stake investment in Transportation. These write-downs had a significant impact on the effective income tax rate in 2015.

Net financing expense

Net financing expense amounted to $232 million and $749 million, respectively, for the fourth quarter and fiscal year ended December 31, 2016, compared to $74 million and $348 million for the corresponding periods last fiscal year.

The $158-million increase for the fourth quarter is mainly due to:

- a loss on repurchase of long-term debt[(1)] ($86 million), recorded as a special item;
- lower borrowing costs capitalized to PP&E and intangible assets following type certification of the *CS100* and *CS300* aircraft in December 2015 and July 2016, respectively ($44 million); and
- higher interest on long-term debt, after the effect of hedges ($22 million).

Partially offset by:

- higher financing income from changes in discount rates of provisions ($16 million).

The $401-million increase for the fiscal year is mainly due to:

- lower borrowing costs capitalized to PP&E and intangible assets following type certification of the *CS100* and *CS300* aircraft in December 2015 and July 2016, respectively ($183 million);
- higher interest on long-term debt, after the effect of hedges ($76 million);
- a higher loss on repurchase of long-term debt[(1)] ($64 million), recorded as special items; and
- interest related to a tax litigation provision ($26 million), recorded as a special item.

[(1)] In the fourth quarter and fiscal year ended December 31, 2016, represents the loss related to the redemption of the $650-million and $750-million Senior Notes due 2018. In fiscal year 2015, represents the loss related to the redemption of the $750-million Senior Notes due 2016.

Income taxes

The effective income tax rates for the fourth quarter and fiscal year ended December 31, 2016 were (63.9)% and (21.6)%, respectively, compared to the statutory income tax rate in Canada of 26.8%.

The negative effective income tax rates in the fourth quarter and fiscal year ended December 31, 2016, are mainly due to:

- the net non-recognition of income tax benefits related to tax losses and temporary differences; and
- the write-down of deferred income tax assets.

The effective income tax rates for the fourth quarter and fiscal year ended December 31, 2015 were 7.4% and (3.0)%, respectively, compared to the statutory income tax rate in Canada of 26.8%.

For the fourth quarter ended December 31, 2015, the lower effective tax rate was mainly due to the net non-recognition of income tax benefits related to tax losses and temporary differences mainly due to the impairment charges recorded as special items in relation to the *CRJ1000* aircraft program and *Learjet* family of aircraft as well the other special items recorded in the fourth quarter of 2015.

The negative effective income tax rate in fiscal year 2015 was due to:

- the net non-recognition of income tax benefits related to tax losses and temporary differences mainly due to the impairment and other charges recorded as special items related to the *C Series* aircraft program and *Learjet 85* aircraft program; and
- the net write-downs of deferred income tax assets, mainly due to the reorganization and consolidation of Transportation under one holding entity necessary to facilitate the planned investment in a minority stake in Transportation recorded as a special item.

Partially offset by:

- the positive impacts of the income tax rate differential of foreign subsidiaries.

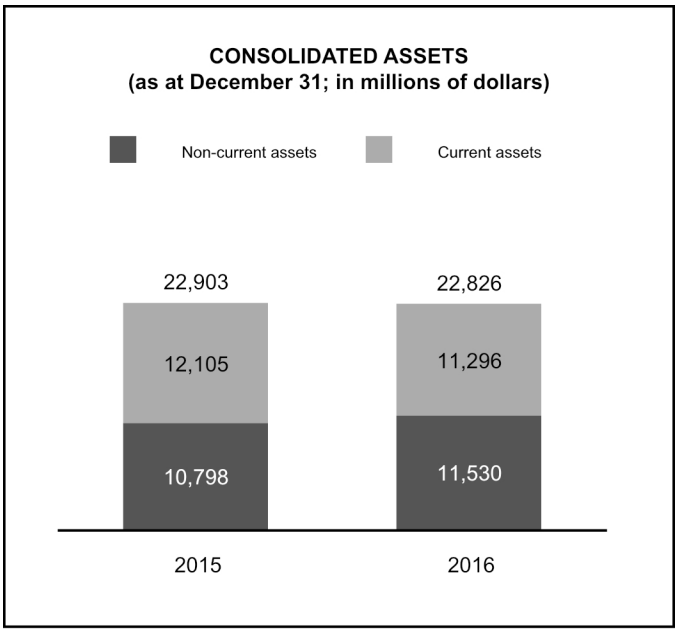
CONSOLIDATED FINANCIAL POSITION

The total assets decreased by $77 million in the fiscal year, including a negative currency impact of $527 million related to foreign exchange. The $450-million increase excluding currency impacts is mainly explained by:

- a $1.2-billion increase in aerospace program tooling including $344 million of acquired development costs carried out by our vendors and recognized at the first delivery of the *CS100* aircraft. See the Investment in product development tables in Business Aircraft and Commercial Aircraft for details; and
- a $916-million increase in cash and cash equivalents. See the Free cash flow usage and the Variation in cash and cash equivalents tables for details.

Partially offset by:

- a $1.0-billion decrease in gross inventories mainly in Business Aircraft's aerospace program inventories;
- a $226-million decrease in other assets mainly due to a decrease in retirement benefit assets;
- a $155-million decrease in trade and other receivables mainly in Transportation; and
- a $134-million increase in advances and progress billings related to Transportation.

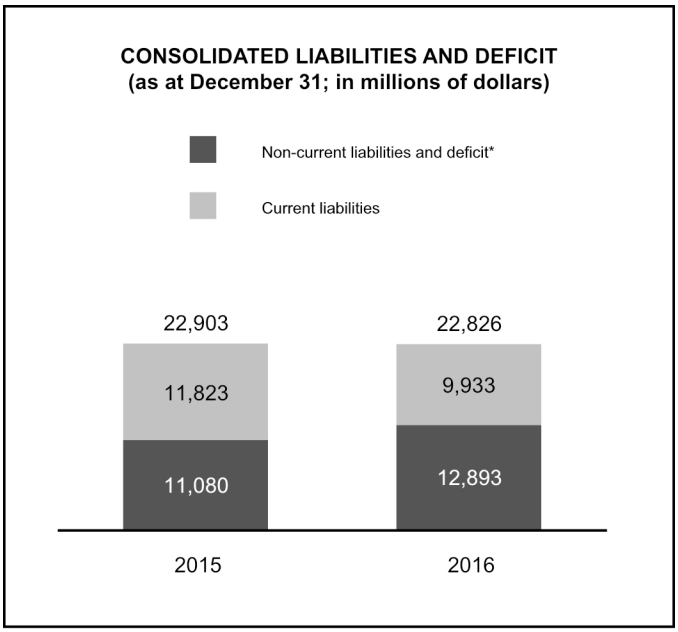


The total liabilities and equity decreased by $77 million in the fiscal year, including a currency impact of $527 million. The $450-million increase excluding currency impacts is mainly explained by:

- a $761-million increase in equity, mainly due to the issuance of NCI of $2.2 billion due to the sale of convertible shares of BT Holdco to CDPQ and the investment by the Government of Québec in the CSALP, partially offset by a net loss of $1.0 billion and other comprehensive loss of $610 million of which $692 million relates to a loss on remeasurement of defined benefit plans;
- a $521-million increase in the retirement benefit liability. See the Variation in net retirement benefit liability table for details; and
- a $271-million increase in provisions mainly due to the onerous contracts provision recorded in conjunction with the closing of *C Series* aircraft firm orders.

Partially offset by:

- a $709-million decrease in trade and other payables mainly in Business Aircraft and Transportation; and
- a $451-million decrease in advances on aerospace programs mainly in Business Aircraft, partially offset by Commercial Aircraft.



* Includes a deficit of $3.5 billion as at December 31, 2016 and $4.1 billion as at December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow

Free cash flow (usage)[1]

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Net loss	**$ (259)**	$ (677)	**$ (981)**	$ (5,340)
Non-cash items				
Amortization	**99**	123	**371**	438
Impairment charges on PP&E and intangible assets	**10**	296	**10**	4,300
Deferred income taxes	**121**	(55)	**31**	63
Share of income of joint ventures and associates	**(65)**	(96)	**(126)**	(149)
Loss on repurchase of long-term debt	**86**	—	**86**	22
Other	**—**	—	**3**	11
Dividends received from joint ventures and associates	**31**	18	**141**	77
Net change in non-cash balances	**800**	1,461	**602**	598
Cash flows from operating activities	**823**	1,070	**137**	20
Net additions to PP&E and intangible assets	**(327)**	(543)	**(1,201)**	(1,862)
Free cash flow (usage)[1]	**496**	527	**(1,064)**	(1,842)
Net interest and income taxes received (paid)	**(139)**	48	**(651)**	(348)
Free cash flow (usage) before net interest and income taxes received or paid[1]	**$ 635**	$ 479	**$ (413)**	$ (1,494)

Our free cash flow usage[1] of $1.1 billion for the year was better than our lower end of the range provided in our guidance.

The $31-million deterioration of free cash flow[1] for the fourth quarter is mainly due to:

- a negative period-over-period variation in net change in non-cash balances before special items[2] recorded during the fourth quarters of 2016 and 2015 ($304 million) mainly due to:
  - negative variances in other assets, other liabilities and net other financial assets and liabilities;
  - severance payments related to our transformation actions; and
  - the ramp-up in production for the *C Series* aircraft program.

  Partially offset by:
  - improved working capital reflecting our transformation plan.

Partially offset by:

- lower net additions to PP&E and intangible assets ($216 million) following certification of both the *CS100* and *CS300* aircraft.

The $778-million improvement of free cash flow usage[1] for the fiscal year is mainly due to:

- lower net additions to PP&E and intangible assets ($661 million) following certification of both the *CS100* and *CS300* aircraft; and
- a positive period-over-period variation in net change in non-cash balances before special items[2] recorded during 2016 and 2015 ($621 million) mainly due to:
  - improved working capital reflecting our transformation plan.

  Partially offset by:
  - negative variances in net other financial assets and liabilities and retirement benefits liability, excluding the impact of the remeasurement of defined benefit plans included in OCI;
  - the ramp-up in production for the *C Series* aircraft program; and
  - severance payments related to our transformation actions.

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

[2] Special items presented in EBIT, except impairment charges on PP&E and intangible assets. Refer to the Consolidated results of operations for details regarding special items. Also refer to the Reconciliation of EBITDA before special items and EBITDA to EBIT table in the Non-GAAP financial measures section.

Partially offset by:

- higher net loss before non-cash items and special items[1] recorded during 2016 and 2015 ($568 million), mainly due to higher interest expense and the ramp-up in production for the *C Series* aircraft program.

Net change in non-cash balances

For the fourth quarter ended December 31, 2016, the $800-million inflow is mainly due to:

- a decrease in inventories, mainly related to Business Aircraft's aerospace program inventories for the medium and large aircraft categories and a decrease in Transportation's inventories following deliveries, partly offset by ramp-up in production.

Partially offset by:

- a decrease in Business Aircraft's advances on aerospace programs, mainly in the medium and large aircraft categories, partially offset by an increase in Commercial Aircraft's advances on aerospace programs in all aircraft categories.

For the fourth quarter ended December 31, 2015, the $1.5-billion inflow was mainly due to:

- a decrease in Transportation's inventories following deliveries, partly offset by ramp-up in production;
- a decrease in Business Aircraft's aerospace program inventories;
- a decrease in other assets mainly related to the write-off of deferred costs due to the restructuring of customer commercial agreements recorded as a special item;
- an increase in other liabilities in Transportation mainly related to sales taxes;
- a decrease in net other financial assets and liabilities mainly due to the termination of third-party sales representative and distribution agreements recorded as a special item and the settlement of an interest rate swap agreement; and
- an increase in trade and other payables.

Partially offset by:

- a decrease in Business Aircraft's advances on aerospace programs mainly resulting from lower order intake than deliveries;
- a decrease in Transportation's advances and progress billings following deliveries, partly offset by advances on existing contracts and new orders; and
- an increase in Transportation's trade and other receivables.

For the fiscal year ended December 31, 2016, the $602-million inflow is mainly due to:

- a decrease in Business Aircraft's inventories mainly in the large and medium aircraft categories as well as in pre-owned aircraft;
- an increase in Transportation's advances and progress billings on new orders and existing contracts;
- an increase in Commercial Aircraft's advances on aerospace programs mainly for the *C Series* aircraft program;
- an increase in provisions, mainly due to the *C Series* aircraft program onerous contracts provision recorded as a special item in the second quarter; and
- a decrease in trade and other receivables, mainly in Transportation.

Partially offset by:

- a decrease in Business Aircraft's advances on aerospace programs;
- a decrease in trade and other payables, mainly in Business Aircraft and Transportation;
- a change in retirement benefit liability, excluding the impact of the remeasurement of defined benefit plans included in OCI, mainly related to employer contributions and the reversal of a constructive obligation for discretionary ad hoc indexation increases to certain pensions, recorded as a special item in the second quarter, following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice; and
- an increase in Commercial Aircraft's inventories, mainly due to the *C Series* aircraft program, due to the ramp-up in production and including the impacts of write-downs on early production units[2], partially offset by a decrease in regional aircraft.

[1] Special items presented in EBIT, except impairment charges on PP&E and intangible assets. Refer to the Consolidated results of operations for details regarding special items. Also refer to the Reconciliation of EBITDA before special items and EBITDA to EBIT table in the Non-GAAP financial measures section.

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

For the fiscal year ended December 31, 2015, the $598-million inflow was mainly due to:

- an increase in provisions, mainly for Commercial Aircraft, including an increase in provisions for credit and RVGs as well as other provisions recorded in special items, and Business Aircraft, including the impacts of the *Learjet 85* aircraft program cancellation recorded in special items;
- a decrease in net other financial assets and liabilities, mainly due to the termination of third-party sales representative and distribution agreements recorded as a special item and the settlement of an interest rate swap agreement;
- a decrease in Business Aircraft's aerospace program inventories;
- an increase in Transportation's advances and progress billings on existing contracts and new orders;
- an increase in retirement benefits liability mainly related to Transportation;
- a decrease in other assets mainly related to the write-off of deferred costs due to the restructuring of customer commercial agreements recorded as a special item; and
- a decrease in Business Aircraft finished product inventories mainly in pre-owned aircraft inventories.

Partially offset by:

- a decrease in advances on aerospace programs mainly resulting from lower order intake than deliveries; and
- an increase in Transportation's inventories following ramp-up of production ahead of deliveries.

Available short-term capital resources

We continuously monitor our level of liquidity, including available short-term capital resources and cash flows from operations, to meet expected requirements, including the support of product development initiatives and to ensure financial flexibility. In evaluating our liquidity requirements, we take into consideration historic volatility and seasonal needs, the maturity profile of long-term debt, the funding of product development programs, the level of customer advances, working capital requirements, the economic environment and access to capital markets. We use scenario analyses to stress-test cash flow projections.

Variation in cash and cash equivalents

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Balance at the beginning of period/fiscal year	**$ 3,392**	$ 2,344	**$ 2,720**	$ 2,489
Net proceeds from the sale of minority stakes in subsidiaries	**(1)**	—	**2,418**	—
Repayments of long-term debt	**(1,510)**	(15)	**(1,566)**	(831)
Net proceeds from issuance of long-term debt	**1,366**	—	**1,367**	2,218
Free cash flow (usage)[(1)]	**496**	527	**(1,064)**	(1,842)
Effect of exchange rate changes on cash and cash equivalents	**(153)**	(36)	**(252)**	(104)
Dividends paid to NCI	**(33)**	—	**(77)**	—
Purchase of Class B shares held in trust under the PSU and RSU plans	**—**	—	**(43)**	(9)
Dividends paid	**(4)**	(5)	**(17)**	(19)
Net change in short-term borrowings	**(84)**	—	**—**	—
Net proceeds from issuance of shares	**—**	—	**—**	822
Proceeds from investment in financing structure	**—**	—	**—**	150
Net variation in AFS investments in securities	**—**	—	**—**	(10)
Other	**(85)**	(95)	**(102)**	(144)
Balance at the end of period/fiscal year	**$ 3,384**	$ 2,720	**$ 3,384**	$ 2,720

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

On February 11, 2016, we closed the sale and received gross proceeds of $1.5 billion from the CDPQ for an investment in convertible shares in Transportation's newly-created holding company, Bombardier Transportation (Investment) UK Limited (BT Holdco). The CDPQ's shares are convertible into a 30% common equity stake of BT Holdco, subject to annual adjustments related to performance. The funds from the investment were distributed to the Corporation in the first quarter of 2016 and are being used for general corporate purposes. The parties have agreed that Bombardier will maintain a consolidated cash position at the end of each quarter of at least

$1.25 billion. This requirement was met as at the end of each quarter of 2016. In the event Bombardier's cash position falls below that level, the Board of Directors of Bombardier will create a Special Initiatives Committee composed of three independent directors acceptable to the CDPQ to develop an action plan to improve cash. The implementation of the plan, once agreed with the CDPQ, will be overseen by the Special Initiatives Committee. Refer to the Sale of a minority share section in Transportation for more detail.

On June 30, 2016, we closed the $1.0-billion investment by the Government of Québec (through Investissement Québec) in return for a 49.5% equity stake in a newly created limited partnership, the CSALP, to which we have transferred the assets, liabilities and obligations of the *C Series* aircraft program. On June 30, 2016 and September 1, 2016, we received the investment in two installments of $500 million each. The proceeds of the investment are being used entirely for the cash flow purposes of the *C Series* aircraft program. Refer to the Strategic partnership section in Commercial Aircraft for more detail.

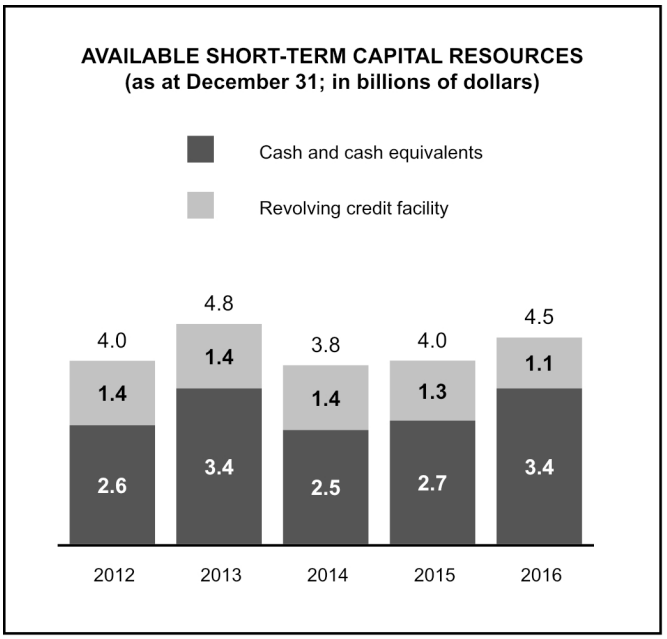
Subsequent to the end of the fiscal year, we announced that the Government of Canada will provide $372 million Canadian dollars (approximately $283 million) over four years in repayable contributions in relation to the *Global 7000* and *Global 8000* as well as the *C Series* aircraft programs, to be repaid through royalties on aircraft delivery, which further enhances our financial flexibility as we execute our plan.

Available short-term capital resources

		As at
	December 31, 2016	December 31, 2015
Cash and cash equivalents	**$ 3,384**	$ 2,720
Available revolving credit facilities	**1,093**	1,294
Available short-term capital resources	**$ 4,477**	$ 4,014

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

In March and April 2016, respectively, we extended the maturity dates of Transportation's €500-million and the $750-million[(1)] unsecured revolving credit facilities to October 2018 and June 2019, respectively. During the second quarter of 2016, Transportation's €500-million unsecured revolving credit facility was increased to €658 million ($693 million) and the $750-million[(1)] unsecured revolving credit facility was decreased to $400 million, in light of our cash position. In October 2016, we further extended the maturity date of Transportation's €658-million ($693-million) unsecured revolving credit facility by one year to October 2019.



Some totals do not agree due to rounding.

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

Letter of credit facilities

Letter of credit facilities are only available for the issuance of letters of credit. As these facilities are unfunded commitments from banks, they typically provide better pricing for the Corporation than credit facilities that are available for cash drawings. Letters of credit are generally issued in support of performance obligations and advance payments received from customers.

In April 2016, we extended the availability periods of Transportation's €3.64-billion and the $600-million[(1)] letter of credit facilities by one year to May 2019 and June 2019, respectively. Also in April 2016, the committed amount under the $600-million[(1)] letter of credit facility was decreased to $400 million. In May 2016, the committed amount under Transportation's €3.64-billion letter of credit facility was decreased to €3.31 billion ($3.5 billion).

As at December 31, 2016, we had $3.9 billion committed under the Transportation and the $400-million[(1)] letter of credit facilities ($4.6 billion as at December 31, 2015). Letters of credit issued under these facilities amounted to $3.4 billion as at December 31, 2016 ($3.4 billion as at December 31, 2015).

In addition to the outstanding letters of credit mentioned above, letters of credit of $1.9 billion were outstanding under various bilateral agreements and $206 million under the PSG facility as at December 31, 2016 ($1.7 billion and $173 million, respectively, as at December 31, 2015).

We also use numerous bilateral bonding facilities with insurance companies to support Transportation's operations. An amount of $2.9 billion was outstanding under such facilities as at December 31, 2016 ($2.6 billion as at December 31, 2015).

See Note 31 – Credit facilities, to the consolidated financial statements, for additional information.

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

Financial covenants

Under the Transportation and the $400-million[(1)] letter of credit facilities and our two unsecured revolving credit facilities available for cash drawings, we must maintain various financial covenants, which must be met on a quarterly basis.

The $400-million[(1)] letter of credit facility and the $400 million unsecured revolving facility include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum gross debt threshold, a minimum EBITDA threshold and a minimum liquidity level of $750 million at the end of each quarter, all calculated based on an adjusted consolidated basis (i.e. excluding Transportation).

Transportation's €3.31-billion ($3.5-billion) letter of credit facility and €658-million ($693 million) unsecured revolving facility financial covenants require a minimum liquidity level of €600 million ($632 million), a minimum equity level and a maximum debt to EBITDA ratio at the end of each quarter, all calculated on a Transportation stand-alone basis.

These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to any specific terms used in the MD&A. Minimum liquidity is not defined as comprising only cash and cash equivalents as presented in the consolidated statement of financial position. A breach of any of these agreements or the inability to comply with these covenants could result in a default under these facilities, which would permit our banks to request immediate defeasance or cash cover of all outstanding letters of credit, and bond holders and other lenders to declare amounts owed to them to be immediately payable.

The financial covenants under these credit facilities were all met on a quarterly basis throughout 2016 and 2015.

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

On balance sheet sale and leaseback facilities

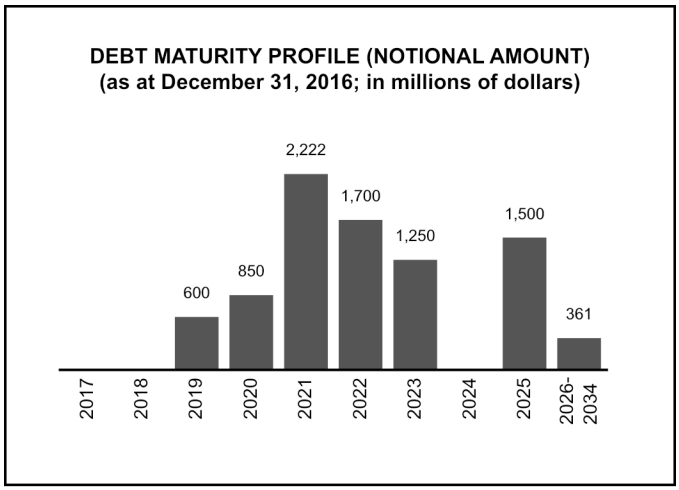
Business Aircraft enters into sale and leaseback facilities with third parties under which it can sell certain pre-owned business aircraft and lease them back for a period not greater than 24 months. We have the right to buy the aircraft back during the term of the lease for predetermined amounts. As at December 31, 2016, we had sale and leaseback facilities with third parties under which a total of $25 million was outstanding as at December 31, 2016 ($133 million as at December 31, 2015).

Future liquidity requirements

Our aerospace segments require capital to develop industry-leading products and to seize strategic opportunities to increase competitiveness and execute growth strategies. We take advantage of favourable capital market conditions when they materialize to extend debt maturity, reduce cost of funds and increase diversity of capital resources.

On an on-going basis, we manage our liabilities by taking into consideration expected free cash flows[1], debt repayments and other material cash outlays expected to occur in the future. We have a financing plan to position ourselves with a flexible and strong financial profile whereby we access capital markets, depending on market conditions, for the issuance of equity and new long-term debt capital.

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



In line with this financing plan, in December 2016, we issued unsecured Senior Notes of $1.4 billion, bearing a coupon rate of 8.75% and due on December 1, 2021. The proceeds from the Senior Notes was used to finance the optional early redemption of the $750-million Senior Notes bearing interest at 5.50% due in September 2018 and the $650-million Senior Notes bearing interest at 7.50% due in March 2018. The weighted average long-term debt maturity was 5.8 years as at December 31, 2016. There is no significant debt maturing before 2019.

Expected timing of future liquidity requirements

	December 31, 2016				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Long-term debt[1]	$ 8,596	$ 31	$ 623	$ 3,113	$ 4,829
Interest payments	3,618	590	1,162	991	875
Operating lease obligations	979	143	224	137	475
Purchase obligations[2]	12,446	4,120	7,004	1,276	46
Trade and other payables	3,239	3,176	17	1	45
Other financial liabilities	1,404	107	218	275	804
Derivative financial liabilities	457	426	30	—	1
	$ 30,739	$ 8,593	$ 9,278	$ 5,793	$ 7,075

[1] Includes principal repayments only.
[2] Purchase obligations represent contractual agreements to purchase goods or services in the normal course of business that are legally binding and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, variable or indexed price provisions; and the appropriate timing of the transaction. These agreements are generally cancellable with a substantial penalty. Purchase obligations are generally matched with revenues over the normal course of operations.

The table above presents the expected timing of contractual liquidity requirements. Other payments contingent on future events, such as payments in connection with credit and residual value guarantees related to the sale of aircraft and product warranties have not been included in the above table because of the uncertainty of the amount and timing of payments arising from their contingent nature. In addition, required pension contributions have not been reflected in this table as such contributions depend on periodic actuarial valuations for funding purposes. For 2017, contributions to retirement benefit plans are estimated at approximately $350 million (see the Retirement benefits section for more details). The amounts presented in the table represent the undiscounted payments and do not give effect to the related hedging instruments, if applicable.

Our available short-term capital resources of $4.5 billion give us sufficient liquidity to execute our plan. We consider that these resources will enable the development of new products to enhance our competitiveness and

support our growth; will allow the payment of dividends, if and when declared by the Board of Directors; and will enable us to meet all other expected financial requirements in the foreseeable future.

Creditworthiness

We assess and manage creditworthiness using the global metrics as described in the Capital structure section. We continuously monitor our capital structure to ensure sufficient liquidity to fund product development programs. Our goal is to strengthen our global metrics and credit ratings. Our objective also includes improving our leverage metrics by gradually de-leveraging the balance sheet with strategic long-term debt repayments in line with active management of consolidated liquidity, weighted-average cost of capital and term structure.

Credit Ratings

	Investment-grade rating		Bombardier Inc.'s rating
		February 15, 2017	December 31, 2015
Fitch Ratings Ltd.	BBB-	**B**	B
Moody's Investors Service, Inc.	Baa3	**B2**	B2
Standard & Poor's Rating Services	BBB-	**B-**	B

Over the long term, we believe that we will be in a good position to improve our credit ratings as we progress towards profitability targets and return to a more normalized level of investment in product development.

CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation, in order to assess the creditworthiness of the Corporation. These global metrics are managed and monitored in order to achieve an investment-grade profile.

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

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

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

Interest coverage ratio

	Fiscal year ended December 31			
		2016		2015
Adjusted EBIT[(1)]	**$**	**498**	$	777
Adjusted interest[(1)]	**$**	**618**	$	503
Adjusted EBIT to adjusted interest ratio		**0.8**		1.5

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

The interest coverage ratio deteriorated as a result of:

- lower adjusted EBIT, mainly due to lower EBITDA before special items as a result of the ramp up of the *C Series* aircraft program as well as lower interest received, attributable to the interest portion related to the settlement of an interest-rate swap agreement recognized in the fourth quarter of 2015; and
- higher adjusted interest, due to higher interest paid, mainly attributable to unsecured Senior Notes issued in March 2015, as well as higher rates following the settlement of the interest-rate swap agreement in 2015.

Financial leverage ratio

	As at and for the fiscal year ended December 31	
	2016	2015
Adjusted debt[(1)]	**$ 9,184**	$ 9,289
Adjusted EBITDA[(1)]	**$ 943**	$ 1,278
Adjusted debt to adjusted EBITDA ratio	**9.7**	7.3

While adjusted debt remained stable, the financial leverage ratio deteriorated as a result of lower adjusted EBITDA, mainly due to lower EBITDA before special items[(1)] as a result of the ramp up of the *C Series* aircraft program as well as lower interest received, attributable to the interest portion related to the settlement of an interest-rate swap agreement recognized in the fourth quarter of 2015.

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

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to $2.5 billion as at December 31, 2016 ($1.9 billion as at December 31, 2015). The measurement of this liability is dependent on numerous key long-term assumptions such as discount rates, future compensation increases, inflation rates and mortality rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. We closely monitor the impact of the net retirement benefit liability on our future cash flows and we have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with the retirement benefit plans. See the Retirement benefits section for further details.

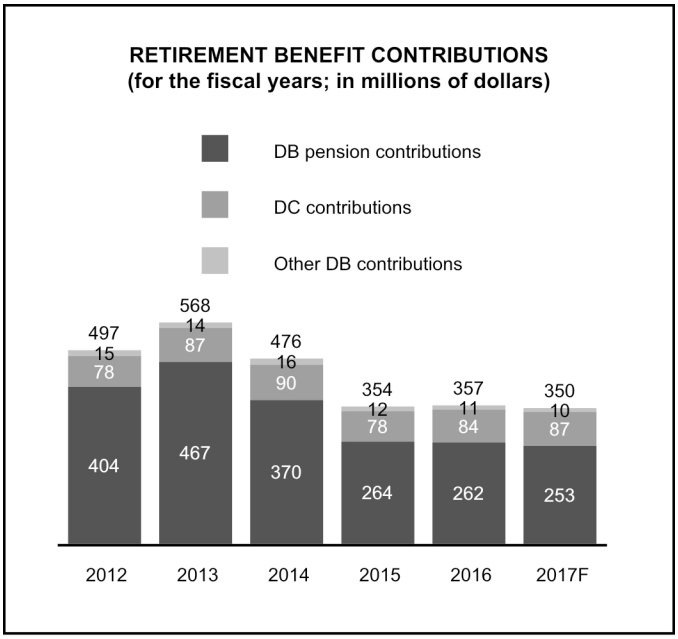
[(1)] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures.

RETIREMENT BENEFITS

Overview of retirement benefit plans

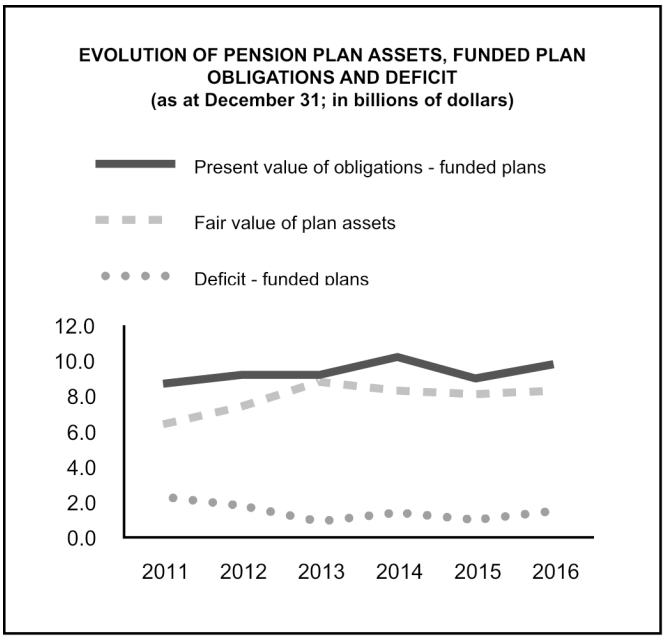
Bombardier sponsors several Canadian and foreign retirement benefit plans consisting of funded and unfunded pension plans, as well as other unfunded defined benefit plans. Funded plans are plans for which segregated plan assets are invested in trusts. Unfunded plans are plans for which there are no segregated plan assets, as the establishment of segregated plan assets is generally not permitted or not in line with local practice. Therefore unfunded plans will always be in a deficit position.

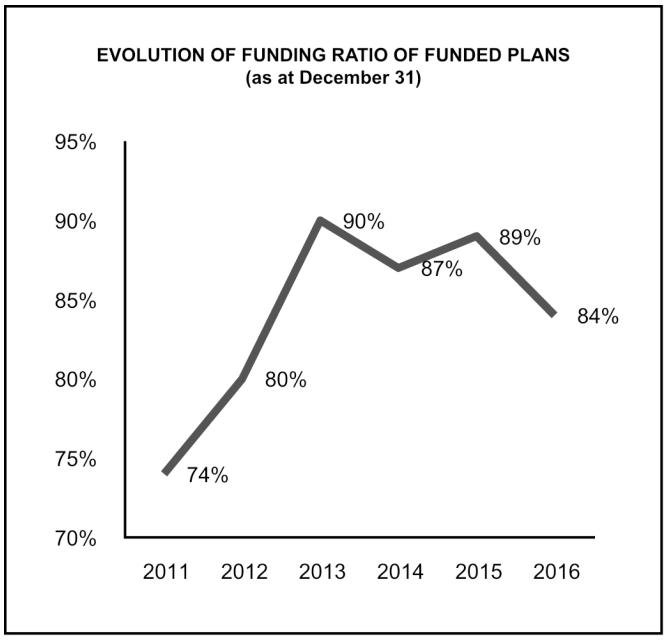
Pension plans are categorized as DB or DC. DB plans specify the amount of benefits an employee is to receive at retirement, while DC plans specify how contributions are determined. As a result, there is no deficit or surplus for DC plans. Hybrid plans are a combination of DB and DC plans.



F: Forecast

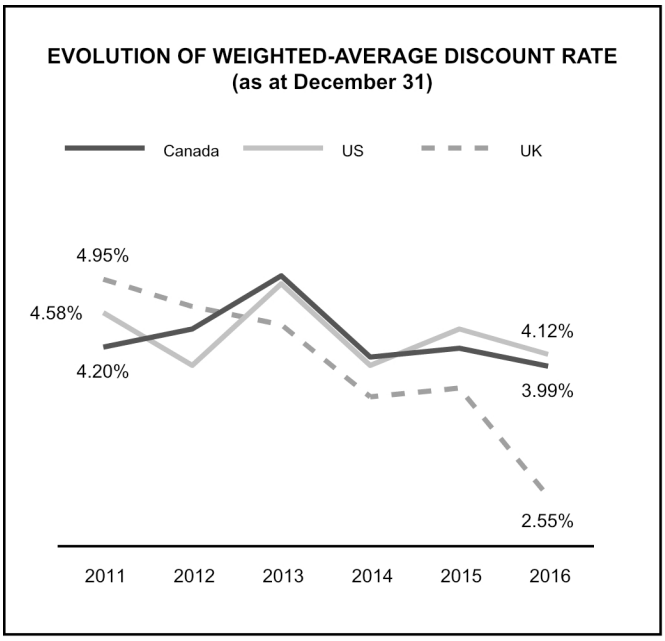
Retirement benefit contributions to DB pension plans have remained stable at $262 million in 2016, compared to $264 million the previous year, and is expected to remain at a similar level in 2017.

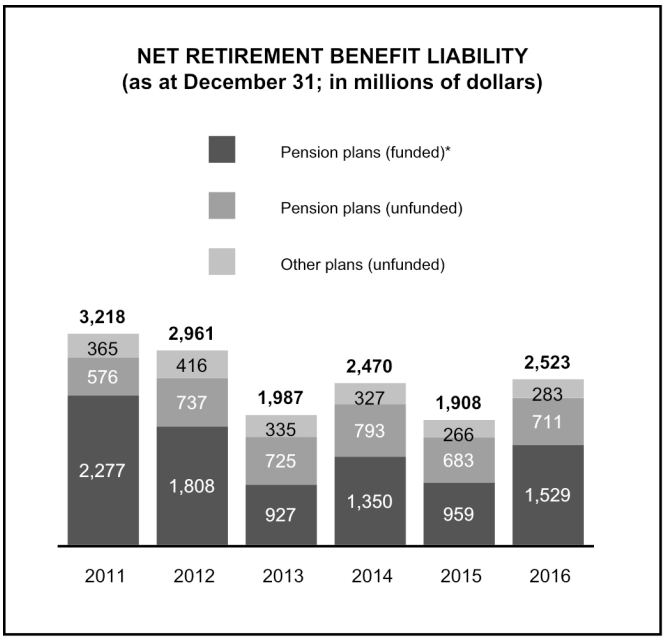




Net retirement benefit liability

The decrease in discount rates is the main reason for the increase of $615 million in the net retirement benefit liability from $1.9 billion as at December 31, 2015 to $2.5 billion as at December 31, 2016.





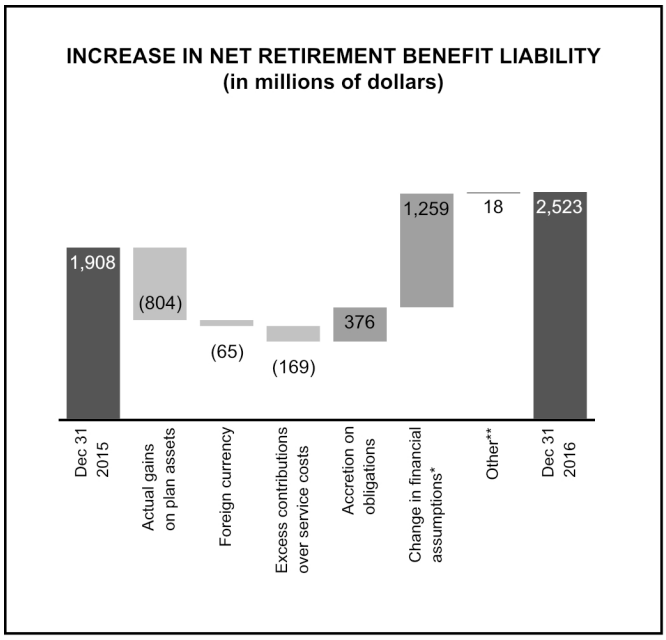
* Includes liability arising from minimum funding requirement and impact of asset ceiling test, if any.

Variation in net retirement benefit liability		
Balance as at December 31, 2015	$	1,908 [(1)]
Changes in discount rates and other financial assumptions		1,259
Other net actuarial gains on defined benefit obligations		(1)
Service costs		104
Changes in foreign exchange rates		(65)
Employer contributions		(273)
Actuarial gains on pension plan assets		(494)
Accretion on net retirement benefit obligation		66
Other		19
Balance as at December 31, 2016	**$**	**2,523** [(1)]

(1) Includes retirement benefit assets of $124 million as at December 31, 2016 ($251 million as at December 31, 2015) included in Other assets.

The value of plan assets is highly dependent on the pension funds' asset performance and on the level of contributions. The performance of the financial markets is a key driver in determining the funds' asset performance as assets in the plans are composed mostly of publicly traded equity and fixed income securities. IFRS requires that the excess (deficit) of actual return on plan assets compared to the estimated return be reported as an actuarial gain or loss in OCI. The estimated return on plan assets must be calculated using the discount rate that is used to measure the net retirement benefit liability, which is derived using high-quality corporate bond yields. During 2016, as the actual gain on plan assets ($804 million) was above expected return, an actuarial gain of $494 million was recognized.

DB plan contributions are estimated at $263 million for 2017. The future level of contributions will be impacted by the evolution of market interest rates and the actual return on plan assets.



* Mainly comprised of changes in discount rates.
** Other is mainly comprised of changes in other actuarial assumptions, experience adjustments and impact of asset ceiling.

In Canada and the U.S., since September 1, 2013, all new non-unionized employees join DC plans (they no longer have the option of joining DB or hybrid plans). In the U.K., eight of nine DB plans are closed to new members. Employees who are members of a DB or hybrid plan closed to new members continue to accrue service in their original plan. As a result of these changes, contributions to DC plans have increased over the past several years. In 2016, DC pension contributions totaled $84 million. These contributions are estimated at $87 million for 2017.

Investment Policy

The investment policies are established to achieve a long-term investment return so that, in conjunction with contributions, the plans have sufficient assets to pay for the promised benefits while maintaining a level of risk that is acceptable given the tolerance of plan stakeholders. See below for more information regarding risk management initiatives.

The target asset allocation is determined based on expected economic and market conditions, the maturity profile of the plans' liabilities, the funded status of the respective plans and the plan stakeholders' tolerance to risk.

The plans' investment strategy is to invest broadly in fixed income and equity securities and to have a smaller portion of the funds' assets invested in real return asset securities (including global infrastructure and real estate listed securities).

As at December 31, 2016, the average target asset allocation was as follows:

- 52%, 54% and 51% in fixed income securities, for Canadian, U.K. and U.S. plans, respectively;
- 38%, 31% and 44% in equity securities, for Canadian, U.K. and U.S. plans, respectively; and
- 10%, 15% and 5% in real return asset securities, for Canadian, U.K. and U.S. plans, respectively.

In addition, to mitigate interest rate risk, interest rate hedging overlay portfolios (comprised of long-term interest rate swaps and/or long-term bond forwards) were implemented in November 2016 for a small plan and will be implemented for other plans when the market will be favourable and the plans' triggers will be reached.

The plan administrators have also established dynamic de-risking strategies. As a result, asset allocation will likely become more conservative in the future and interest rate hedging overlay portfolios are likely to be established as plan funding status and market conditions continue to improve. Bombardier Inc. Pension Asset Management Services monitors the de-risking triggers on a daily basis to ensure timely and efficient implementation of these strategies. The Corporation and administrators periodically undertake asset and liability studies to determine the appropriateness of the investment policies and de-risking strategies.

Risk management initiatives

Our pension plans are exposed to various risks, including equity, interest rate, inflation, foreign exchange, liquidity and longevity risks. Several risk strategies and policies have been put in place to mitigate the impact these risks could have on the funded status of DB plans and on the future level of contributions. The following is a description of key risks together with the mitigation measures in place to address them.

Equity risk
Equity risk results from fluctuations in equity prices. This risk is managed by maintaining diversification of portfolios across geographies, industry sectors and investment strategies.

Interest rate risk
Interest rate risk results from fluctuations in the fair value of plan assets and liabilities due to movements in interest rates. This risk is managed by reducing the mismatch between the duration of plan assets and the duration of pension obligation. This is accomplished by having a portion of the portfolio invested in long-term fixed income securities and interest rate hedging overlay portfolios.

Inflation risk
Inflation risk is the risk that benefits indexed to inflation increase significantly as a result of changes in inflation rates. To manage this risk, the benefit indexation has been capped in certain plans and a portion of plan assets has been invested in real return fixed income securities and real return asset securities.

Foreign exchange risk
Currency risk exposure arises from fluctuations in the fair value of plan assets denominated in a currency other than the currency of the plan liabilities. Currency risk is managed with foreign currency hedging strategies as per plan investment policies.

Liquidity risk
Liquidity risk stems from holding assets which cannot be readily converted to cash when needed for the payment of benefits or to rebalance the portfolios. Liquidity risk is managed through investments in treasury bills, government bonds and equity futures and by having no investments in private placements or hedge funds.

Longevity risk
Longevity risk is the risk that increasing life expectancy results in longer-than-expected benefit payments. This risk is mitigated by using the most recent mortality and mortality improvement tables to set the level of contributions.

Retirement benefit cost

Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to $139 million was reversed, and recorded as a special item. Mainly as a result of this reversal, the retirement benefit cost decreased in 2016 to $171 million.

The following table provides the components of the retirement benefit cost, for fiscal years:

	2016			2015		
	Pension benefits	**Other benefits**	**Total**	Pension benefits	Other benefits	Total
DB plans	**$ 154**	**$ 17**	**$ 171**	$ 381	$ 19	$ 400
DC plans	**84**	**—**	**84**	78	—	78
Total retirement benefit cost	**$ 238**	**$ 17**	**$ 255**	$ 459	$ 19	$ 478
Related to						
Funded DB plans	**$ 114**	**n/a**	**$ 114**	$ 340	n/a	$ 340
Unfunded DB plans	**$ 40**	**$ 17**	**$ 57**	$ 41	$ 19	$ 60
DC plans	**$ 84**	**n/a**	**$ 84**	$ 78	n/a	$ 78
Recorded as follows						
EBIT expense or capitalized cost	**$ 183**	**$ 6**	**$ 189**	$ 399	$ 7	$ 406
Financing expense	**$ 55**	**$ 11**	**$ 66**	$ 60	$ 12	$ 72

n/a: Not applicable

The retirement benefit cost for fiscal year 2017 for DB plans is estimated at $356 million, of which $279 million relates to EBIT expense or capitalized cost and $77 million relates to net financing expense.

Sensitivity analysis

The net retirement benefit liability is highly dependent on discount rates, expected inflation rates, expected rates of compensation increase, life expectancy assumptions and actual return on plan assets. The discount rates represent the market rate for high-quality corporate fixed-income investments at the end of the reporting period consistent with the currency and estimated term of the benefit obligations. As a result, discount rates change based on market conditions.

A 0.25 percentage point increase in one of the following weighted-average actuarial assumptions would have the following effects, all other actuarial assumptions remaining unchanged:

Increase (decrease)	**Retirement benefit cost for fiscal year 2017**	**Net retirement benefit liability as at December 31, 2016**
	(Forecast)	
Discount rate	**$ (28)**	**$ (479)**
Inflation rate	**$ 5**	**$ 120**
Rate of compensation increase	**$ 8**	**$ 85**

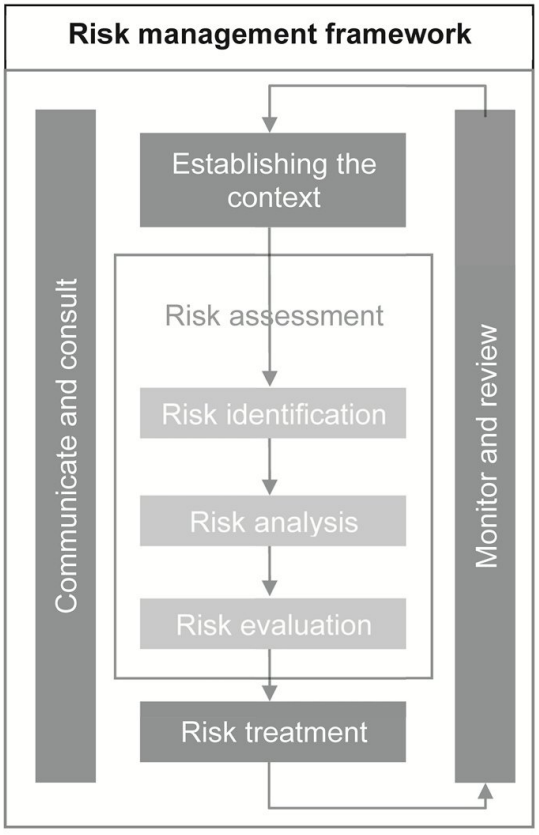
A one-year increase in life expectancy for all DB plan beneficiaries would impact plans in major countries as follows:

Increase	Retirement benefit cost for fiscal year 2017	Net retirement benefit liability as at December 31, 2016
	(Forecast)	
Canada	**$ 7**	**$ 107**
U.K.	**$ 4**	**$ 100**
U.S.	**$ 2**	**$ 31**

Details regarding assumptions used are provided in Note 22 – Retirement benefits, to the consolidated financial statements.

RISK MANAGEMENT

Active risk management has been one of our priorities for many years and is a key component of our corporate strategy framework. To achieve our risk management objectives, we have embedded risk management activities in the operational responsibilities of management and made these activities an integral part of the overall governance, planning, decision making, organizational and accountability structure.



Source: International Organization for Standardization (ISO) 31000:2009

For each risk or category of risks, the risk management process includes activities performed in a continuous cycle. Risk assessment, including risk identification, analysis and evaluation, ensures that each risk is analyzed to identify the consequence and likelihood of the risk occurring and the adequacy of existing controls. Each reportable segment is responsible for implementing the appropriate structures, processes and tools to allow proper identification of risks. Once the risks have been identified, analyzed and evaluated, risk mitigation identifies the actions to be implemented by management. Each reportable segment has implemented risk management processes that are embedded in governance and activities to achieve the objectives of our Corporate Risk Management Policy.

In addition, every year, the Corporate Audit Services and Risk Assessment (CASRA) team assesses our major risks. Senior management reviews this risk assessment and develops action plans to address the identified risks. The Board of Directors is ultimately responsible for reviewing the overall risks faced by the Corporation. The Board exercises its duty through the Finance and Risk Management Committee, consisting of five independent directors, which reviews material business risks and the measures that management takes to monitor, control and manage such risks, including the adequacy of policies, procedures and controls designed by management to assess and manage these risks. To complement the annual CASRA review of major risks, each reportable segment, in coordination with CASRA, has implemented an annual review process that results in standardized heat maps.

A primary area of focus is product development, where our biggest opportunities to create value reside, and also our most significant risks. Recognizing the long-term nature of product development activities and the significant human and financial resources required, we follow a rigorous gated product development process, ensuring early identification and efficient mitigation of potential risks. At the heart of this process is our Bombardier Engineering System, followed for all programs throughout the product development cycle. This process is constantly refined to integrate the lessons learned from our own programs and from the industry. Specific milestones must be met

before a product can move from one stage of development to another. The gates consist of exit reviews with different levels of management and leading experts to demonstrate technical feasibility, customer acceptance and financial return.

The development of aerospace products falls under the leadership of the Vice President, Product Development and Chief Engineer who has launched a comprehensive product management transformation initiative, which involves all product development and product management stakeholders. We continuously apply what we learn on one program to the other programs, by sharing ideas and learning in our various functional committees and through regular peer reviews, bringing together the expertise across all platforms to drive alignment and common approaches, establish best practices and leverage the knowledge and experience of our people. This review confirms the availability of human and financial resources, the maturity and manufacturing readiness of new technologies and the overall strength of the business case.

We have also designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is properly communicated and that information required to be disclosed in public filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. Refer to the Controls and procedures section in Other for more details.

Key exposures to financing and market risks and related mitigation strategies

Our operations are exposed to various financing and market risks. The following is a description of our key exposures to those risks together with the strategies in place to mitigate them. Market risks associated with pension plans are discussed in the Retirement benefits section.

Exposure to foreign exchange risk

Our main exposures to foreign currencies are managed in accordance with the Foreign Exchange Risk Management Policy in order to mitigate the impact of foreign exchange rate movements. This policy requires each reportable segment's management to identify all actual and potential foreign currency exposures arising from their operations. This information is communicated to the Corporate office central treasury function, which has the responsibility to execute hedging transactions in accordance with policy requirements. In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching long-term debt in a foreign currency with assets denominated in the same currency.

Foreign exchange management

Owner	Hedged exposures	Hedging policy[1]	Risk-mitigation strategies
Aerospace reportable segments	Forecast cash outflows denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars and pounds sterling.	Hedge 85% of the identified exposures for the first three months, 75% for the next 15 months and up to 50% for the following six months.	Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars and pounds sterling.
Transportation	Forecast cash inflows and outflows denominated in a currency other than the functional currency of the entity incurring the cash flows.	Hedge 100% of the identified exposures at the time of order intake.	Use of forward foreign exchange contracts, mainly to sell or purchase Canadian dollars, euros, U.S. dollars, Swiss francs, Swedish kronor and other Western European currencies.

[1] Deviations from the policy are allowed, subject to pre-authorization and maximum pre-determined risk limits.

Owner	Hedged exposures	Hedging policy[1]	Risk-mitigation strategies
Corporate office	Forecast cash outflows other than interest, denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars.	Hedge 85% of the identified exposures for the first 18 months and up to 75% for the following six months.	Use of forward foreign exchange contracts mainly to sell U.S. dollars and buy Canadian dollars.
	Interest cash outflows in currencies other than the U.S. dollar, i.e. the euro and the Canadian dollar.	Hedge 100% of the identified exposure unless the exposure is recognized as an economic hedge of an exposure arising from the translation of financial statements in foreign currencies to the U.S. dollar.	Use of forward foreign exchange contracts mainly to sell U.S. dollars and buy euros and Canadian dollars.
	Balance sheet exposures, including long-term debt and net investments in foreign operations with non-U.S. dollar functional currencies.	Hedge 100% of the identified exposures affecting the Corporation's net income.	Asset/liability management techniques. Designation of long-term debt as hedges of our net investments in foreign operations with non-U.S. dollar functional currencies.

[1] Deviations from the policy are allowed, subject to pre-authorization and maximum pre-determined risk limits.

Aerospace reportable segments

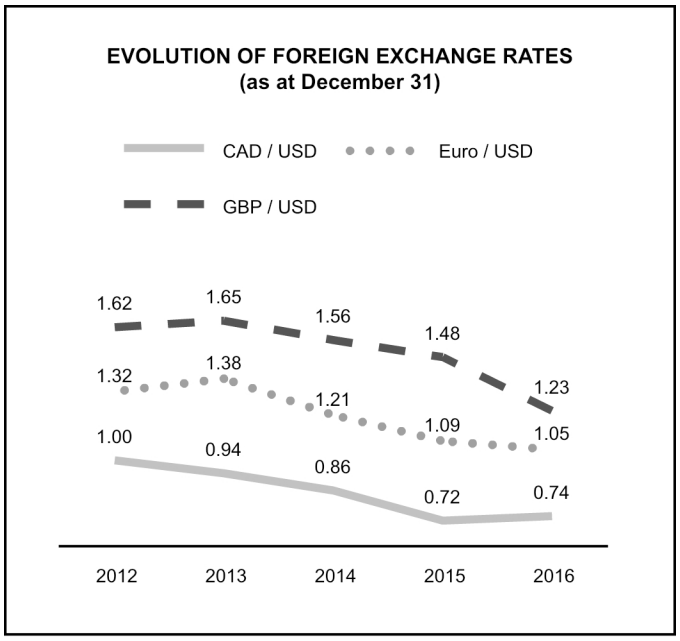
The hedged portion of our aerospace reportable segments' significant foreign currency denominated costs for the fiscal years ending December 31, 2017 and 2018 was as follows as at December 31, 2016:

	Canadian dollars		Pounds sterling	
For fiscal years	2017	2018	2017	2018
Business Aircraft expected costs denominated in foreign currency	$1,368	$1,407	—	—
Commercial Aircraft expected costs denominated in foreign currency	$748	$823	—	—
Aerostructures and Engineering Services expected costs denominated in foreign currency	$234	$249	£304	£307
Hedged portion of expected costs denominated in foreign currency	81%	42%	85%	41%
Weighted-average hedge rates – foreign currency/USD	0.7745	0.7642	1.5078	1.3084

Sensitivity analysis

A U.S. one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact Business Aircraft, Commercial Aircraft and Aerostructures and Engineering Services' expected costs for the year ending December 31, 2017 by approximately $14 million, $7 million and $2 million, respectively, before giving effect to forward foreign exchange contracts ($3 million, $1 million and less than $1 million impacts, respectively, after giving effect to such contracts).

A U.S. one-cent change in the value of the pound sterling compared to the U.S. dollar would impact Aerostructures and Engineering Services' expected costs for the fiscal year ending December 31, 2017 by approximately $3 million, before giving effect to forward foreign exchange contracts (less than $1 million impact after giving effect to such contracts).



Transportation and Corporate office
Transportation's foreign currency exposure, arising from its long-term contracts, spreads over many years. Such exposures are generally entirely hedged at the time of order intake, contract-by-contract, for a period that is often shorter than the maturity of the cash flow exposure. Upon maturity of the hedges, Transportation enters into new hedges in a rollover strategy for periods up to the maturity of the cash flow exposure. As such, Transportation's results of operations are not significantly exposed to gains and losses from transactions in foreign currencies, but remain exposed to translation and cash flow risks on a temporary basis. On a cumulative basis, however, cash outflows or inflows upon rollover of these hedges are offset by cash inflows or outflows in opposite directions when the cash flow exposure materializes.

The identified cash flow exposures at our Corporate office are not significant and mainly arise from expenses denominated in Canadian dollars. Balance sheet exposure at Corporate office arises mainly from investments in foreign operations and long-term debt. Despite our risk mitigation strategies, the impact of foreign currency fluctuations on equity can be significant given the size of our investments in foreign operations with non-U.S. dollar functional currencies, mainly the euro.

Sensitivity analysis
For investments in foreign operations exposed to foreign currency movements, a 1% fluctuation of the relevant currencies as at December 31, 2016 would have impacted equity, before the effect of income taxes, by $11 million.

Exposure to credit risk

The effective monitoring and controlling of credit risk is a key component of our risk management activities. Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure.

Credit risk management

Owner	Key risks	Risk mitigation measures initiated by management
Corporate office	Through normal treasury activities, we are exposed to credit risk through derivative financial instruments and investing instruments.	Credit risks arising from treasury activities are managed by a central treasury function in accordance with the Corporate Foreign Exchange Risk Management Policy and the Corporate Investment Management Policy. The objective of these policies is to minimize exposure to credit risk from treasury activities by ensuring that we transact strictly with investment-grade financial institutions and money market funds, based on pre-established consolidated counterparty risk limits per financial institution and fund.
All reportable segments	We are exposed to credit risk through trade receivables arising from normal commercial activities and lending activities, related primarily to aircraft loans and lease receivables provided to customers in connection with the sale of commercial aircraft.	Credit risks arising from normal commercial activities and lending activities are managed and controlled by each reportable segment, in accordance with the Corporate office policy. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and our experience with the customers. The credit risk and credit limits are dynamically reviewed based on fluctuations in the customers' financial results and payment behaviour. These customer credit ratings and credit limits are critical inputs in determining the conditions under which credit or financing is extended to customers, including obtaining collateral to reduce exposure to losses. Specific governance is in place to ensure that credit risk arising from large transactions is analyzed and approved by the appropriate level of management before financing or credit support is offered to the customer.
Commercial Aircraft	In connection with the sale of certain products, mainly commercial aircraft, we may provide credit guarantees in the form of lease and loan payment guarantees. Substantially all financial support involving potential credit risk lies with regional airline customers.	Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are usually triggered if customers do not perform during the term of the financing under the relevant financing arrangements. In the event of default, we usually act as agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. This exposure arising from credit guarantees is partially mitigated by the net benefit expected from the estimated value of aircraft and other assets available to mitigate exposure under these guarantees. In addition, lease subsidy liabilities would be extinguished in the event of credit default by certain customers.

Exposure to liquidity risk

The management of exposure to liquidity risk requires a constant monitoring of expected cash inflows and outflows, which is achieved through maintenance of detailed forecasts of cash flows and liquidity position, as well as long-term operating and strategic plans. Liquidity adequacy is continually monitored, taking into consideration historical volatility, the economic environment, seasonal needs, the maturity profile of indebtedness, access to capital markets, the level of customer advances, working capital requirements, the funding of product development and other financial commitments. We engage in certain working capital financing initiatives such as the sale of receivables, aircraft sale and leaseback transactions and the negotiation of extended payment terms with certain suppliers. We continually monitor any financing opportunities to optimize our capital structure and maintain appropriate financial flexibility.

Exposure to interest rate risk

Our future cash flows are exposed to fluctuations from changing interest rates, arising mainly from assets and liabilities indexed to variable interest rates, including fixed-rate long-term debt synthetically converted to variable interest rates. For these items, cash flows could be impacted by a change in benchmark rates such as LIBOR, Euribor or Banker's Acceptance. The Corporate office central treasury function manages these exposures as part of the overall risk management policy.

We are also exposed to gains and losses on certain assets and liabilities as a result of changes in interest rates, principally financial instruments carried at fair value and credit and residual value guarantees. The financial instruments carried at fair value include certain aircraft loans and lease receivables, investments in securities, investments in financing structures, lease subsidies and derivative financial instruments.

Sensitivity analysis
A 100-basis point increase in interest rates impacting the measurement of financial instruments carried at fair value and credit and residual value guarantees, excluding net retirement benefit liabilities, would have negatively impacted EBT for fiscal year 2016 by $10 million.

NON-GAAP FINANCIAL MEASURES

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

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

Non-GAAP financial measures	
Adjusted EBIT	EBIT before special items plus interest adjustment for operating leases and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
Adjusted EBITDA	Adjusted EBIT plus amortization and impairment charges on PP&E and intangible assets, and amortization adjustment for operating leases.
Adjusted interest	Interest paid, as per the supplemental information provided in the consolidated statements of cash flows, plus accretion expense on sale and leaseback obligations and interest adjustment for operating leases.

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

We analyze our capital structure using global metrics, based on adjusted EBIT, adjusted EBITDA, adjusted interest and adjusted debt. Refer to the Capital structure section for more detail.

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

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

- EBIT before special items to EBIT – see the Results of operations tables in the reportable segments and the Consolidated results of operations section; and
- free cash flow usage before net interest and income taxes received or paid and free cash flow usage to cash flows from operating activities – see the Free cash flow usage table in the Liquidity and capital resources section.

Reconciliation of EBITDA before special items and EBITDA to EBIT

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
EBIT	**$ 74**	$ (657)	**$ (58)**	$ (4,838)
Amortization	**99**	123	**371**	438
Impairment charges on PP&E and intangible assets[(1)]	**10**	296	**10**	4,300
EBITDA	**183**	(238)	**323**	(100)
Special items excluding impairment charges on PP&E and intangible assets[(1)]	**20**	377	**475**	1,092
EBITDA before special items	**$ 203**	$ 139	**$ 798**	$ 992

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

Reconciliation of adjusted net income (loss) to net loss and computation of adjusted EPS

	Fourth quarters ended December 31			
	2016		2015	
	(per share)		(per share)	
Net loss	**$ (259)**		$ (677)	
Adjustments to EBIT related to special items[1]	**30**	**$ 0.01**	673	$ 0.30
Adjustments to net financing expense related to:				
Loss on repurchase of long-term debt[1]	**86**	**0.04**	—	—
Accretion on net retirement benefit obligations	**16**	**0.01**	17	0.01
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments	**(12)**	**(0.01)**	(5)	0.00
Tax impact of special[1] and other adjusting items	**(2)**	**0.00**	1	0.00
Adjusted net income (loss)	**(141)**		9	
Net (income) loss attributable to NCI	**8**		(2)	
Preferred share dividends, including taxes	**(14)**		(2)	
Adjusted net income (loss) attributable to equity holders of Bombardier Inc.	**$ (147)**		$ 5	
Weighted-average diluted number of common shares (in thousands)	**2,194,304**		2,221,868	
Adjusted EPS	**$ (0.07)**		$ 0.00	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Fourth quarters ended December 31	
	2016	2015
Diluted EPS	**$ (0.12)**	$ (0.31)
Impact of special[1] and other adjusting items	**0.05**	0.31
Adjusted EPS	**$ (0.07)**	$ 0.00

Reconciliation of adjusted net income (loss) to net loss and computation of adjusted EPS

	Fiscal years ended December 31			
	2016		2015	
	(per share)		(per share)	
Net loss	**$ (981)**		$ (5,340)	
Adjustments to EBIT related to special items[1]	**485**	**$ 0.22**	5,392	$ 2.59
Adjustments to net financing expense related to:				
Loss on repurchase of long-term debt[1]	**86**	**0.04**	22	0.01
Accretion on net retirement benefit obligations	**66**	**0.03**	72	0.03
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments[1]	**63**	**0.03**	75	0.04
Interest portion of gains related to special items[1]	**26**	**0.01**	—	—
Transaction costs related to the conversion option embedded in the CDPQ investment[1]	**8**	**0.01**	—	—
Tax impact of special[1] and other adjusting items	**(21)**	**(0.01)**	105	0.05
Adjusted net income (loss)	**(268)**		326	
Net (income) loss attributable to NCI	**(41)**		(7)	
Preferred share dividends, including taxes	**(32)**		(23)	
Adjusted net income (loss) attributable to equity holders of Bombardier Inc.	**$ (341)**		$ 296	
Weighted-average diluted number of common shares (in thousands)	**2,212,547**		2,082,683	
Adjusted EPS	**$ (0.15)**		$ 0.14	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Fiscal years ended December 31	
	2016	2015
Diluted EPS	**$ (0.48)**	$ (2.58)
Impact of special[1] and other adjusting items	**0.33**	2.72
Adjusted EPS	**$ (0.15)**	$ 0.14

[1] Refer to the Consolidated results of operations section for details regarding special items.

Reconciliation of adjusted debt to long-term debt

	As at December 31	
	2016	2015
Long-term debt	**$ 8,769**	$ 8,979
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	**(278)**	(386)
Long-term debt, net	**8,491**	8,593
Sale and leaseback obligations	**25**	133
Operating lease obligations[1]	**668**	563
Adjusted debt	**$ 9,184**	$ 9,289

Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

	Fiscal years ended December 31	
	2016	2015
EBIT	**$ (58)**	$ (4,838)
Special items[2]	**485**	5,392
Interest received	**20**	156
Interest adjustment for operating leases[3]	**51**	67
Adjusted EBIT	**498**	777
Amortization adjustment for operating leases[4]	**74**	63
Amortization	**371**	438
Adjusted EBITDA	**$ 943**	$ 1,278

Reconciliation of adjusted interest to interest paid

	Fiscal years ended December 31	
	2016	2015
Interest paid	**$ 565**	$ 427
Accretion expense on sale and leaseback obligations	**2**	9
Interest adjustment for operating leases[3]	**51**	67
Adjusted interest	**$ 618**	$ 503

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

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

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

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

BUSINESS AIRCRAFT

The data presented in this MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure. See the Non-GAAP financial measures section in Overview for further detail.

KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and related metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Order backlog, as a measure of future revenues. • Book-to-bill ratio[(1)], as an indicator of future revenues. • Revenues and delivery units, as measures of growth. • Market share (in terms of revenues and units delivered), as measures of our competitive positioning.
Profitability	• EBIT, EBIT margin, EBIT before special items[(2)] and EBIT margin before special items[(2)], as measures of performance.
Liquidity	• Free cash flow[(2)], as a measure of liquidity generation.
Customer satisfaction	• On-time aircraft deliveries, as a measure of meeting our commitment to customers. • Fleet dispatch reliability, as a measure of our products' reliability. • Regional availability of parts and material to support customer requests, as a measure of meeting customer needs for the entire life of the aircraft.
Execution	• Achievement of program development milestones, as a measure of flawless execution.

(1) Defined as the ratio of net orders received over aircraft deliveries, in units.
(2) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

HIGHLIGHTS OF THE YEAR

Aligned business to current market conditions, while achieving key milestones on the *Global 7000* and *Global 8000* aircraft program

REVENUES	EBIT MARGIN	EBIT MARGIN BEFORE SPECIAL ITEMS[1]	NET ADDITIONS TO PP&E & INTANGIBLE ASSETS	ORDER BACKLOG
$5.7 billion	**8.3%**	**6.4%**	**$721 million**	**$15.4 billion**

RESULTS

For the fiscal years ended December 31	2016	2015	Variance
Revenues	**$ 5,741**	$ 6,996	(18)%
Aircraft deliveries (in units)	**163**	199	(36)
Net orders (in units)[2]	**114**	(24)	138
Book-to-bill ratio[3]	**0.7**	nmf	nmf
EBIT	**$ 477**	$ (1,252)	nmf
EBIT margin	**8.3%**	(17.9)%	nmf
EBIT before special items[1]	**$ 369**	$ 308	20 %
EBIT margin before special items[1]	**6.4%**	4.4 %	200 bps
EBITDA before special items[1]	**$ 528**	$ 492	7 %
EBITDA margin before special items[1]	**9.2%**	7.0 %	220 bps
Net additions to PP&E and intangible assets	**$ 721**	$ 722	— %
As at December 31	**2016**	2015	
Order backlog (in billions of dollars)	**$ 15.4**	$ 17.2	(10)%

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section for reconciliations to the most comparable IFRS measures.
[2] The net orders for 2016 and 2015 include 38 cancellations and 143 cancellations, respectively.
[3] Ratio of net orders received over aircraft deliveries, in units.

KEY HIGHLIGHTS AND EVENTS

- Business aircraft's 2016 financial performance exceeded guidance on all fronts, delivering a total of 163 aircraft, while reaching revenues of $5.7 billion and EBIT margins before special items[1] of 6.4%. The planned revenue decrease, was compensated by a 200-bps increase in profitability, mainly resulting from proactive management of production rates in line with market demand, as well as business model enhancements and transformation initiatives.
- Financial results for 2016 demonstrated our continued focus on driving sustainable margin expansion through increasing production efficiency, transforming our cost structure, improving our production agility and the enhancement to our pre-owned aircraft business.
- We also made significant progress on the development of the *Global 7000* and *Global 8000* aircraft program, setting the standard for a new category of large business jets. We successfully completed, on November 4, 2016, the maiden flight of the first *Global 7000* FTV, dedicated to testing basic system functionality and assessing the handling and flying qualities of the aircraft. The *Global 7000* aircraft is the first and only clean-sheet business jet with four living spaces. Engineered with a next-generation transonic wing design, the aircraft offers a steep approach capability and short field performance, coupled with highly efficient engines, the largest cabin in this category and a highly advanced cockpit.[2]
- In line with our strategy to grow our aftermarket business, during the year, we announced plans to expand our service centre network in strategic locations such as at the Biggin Hill Airport in London, England, in Fort Lauderdale, Florida, Tucson, Arizona and in Tianjin, China. We are currently ramping up capabilities at these facilities.

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section for reconciliations to the most comparable IFRS measures.
[2] See the *Global 7000* and *Global 8000* aircraft program disclaimer at the end of this MD&A.

PROFILE

World-class products

We design, develop, manufacture, market and provide aftermarket support for three families of business jets - *Learjet*, *Challenger* and *Global.* Our business jet portfolio spans from the light to the large categories.

With approximately 4,600 aircraft in service worldwide, Business Aircraft has developed a service and support network of service facilities including wholly-owned service centres in the U.S., Europe and Asia, regional support office (RSO) locations, mobile repair trucks and world-class aircraft parts availability sustained by parts facilities, including depots, hubs and repair facilities worldwide.

MARKET SEGMENT: BUSINESS AIRCRAFT

LIGHT BUSINESS JETS

Models: *Learjet 70, Learjet 75*

Market category: Light business jets

Key features[(1)]: The *Learjet* family of aircraft features exceptional range and fast cruise speeds, impressive high climb rates and operating ceilings.

Learjet 70 aircraft

MID-SIZE BUSINESS JETS

Models: *Challenger 350* and *Challenger 650*

Market category: Medium business jets

Key features[(1)]: The *Challenger* family of aircraft features productivity-enhancing business tools, with the most comfortable cabins in its category. Each aircraft offers low operating costs, high reliability, and can be customized with industry-leading cabin communication equipment.

Challenger 350 aircraft

(1) Under certain operating conditions, when compared to aircraft currently in service.

LARGE BUSINESS JETS

Models: *Global 5000, Global 6000, Global 7000*[1] and *Global 8000*[1]

Market category: Large business jets

Key features[2]: The flagship *Global* aircraft family covers the large jet category with four aircraft models that offer performance, comfort, and productivity for long-range missions and the fastest in-flight internet connectivity worldwide. The segment-defining *Global 7000* aircraft extends the family with even longer range and will link virtually any key city pair worldwide, non-stop. The *Global 7000* aircraft will enter into service in the second half of 2018.

Global 7000 aircraft

[1] Currently under development. See the *Global 7000* and *Global 8000* aircraft program disclaimer at the end of this MD&A.
[2] Under certain operating conditions, when compared to aircraft currently in service.

MARKET SEGMENT: CUSTOMER SERVICES

MAINTENANCE

Services portfolio: Extensive capabilities to accommodate maintenance, refurbishment and modification of business aircraft, component repair and overhaul services as well as dispatching mobile repair teams to customers' aircraft.

Key features: Offering worldwide service and support through wholly-owned service centres, authorized service facilities including line maintenance facilities, one wholly-owned line maintenance station, Bombardier mobile response vehicles and one aircraft.

PARTS AND SMART SERVICES

Services portfolio: Providing new and used parts, as well as repairs to customer owned parts, and a growing portfolio of innovative cost-per-flight-hour parts and maintenance plans available for *Learjet*, *Challenger* and *Global* aircraft. Options include *Smart Parts, Smart Parts Plus, Smart Parts Preferred* and *Smart Parts Maintenance Plus*.

Key features: Supporting 24/7 parts support with parts facilities worldwide anchored by two major hubs in Chicago and Frankfurt. A sophisticated inventory management system ensures worldwide parts availability throughout the depot and hub network as well as the wholly-owned service centres. Repair facilities in North America and Europe provide repair services on customer owned parts. Unlimited access to *Parts Express* to shuttle parts in support of aircraft-on-ground requirements. From coverage on exchanges and repairs of airframe components, including flight deck avionics, *Smart Services* provides budget predictability and worldwide parts availability.

CUSTOMER SUPPORT

Services portfolio: Comprehensive portfolio of business aircraft customer support including 24-hour customer response centres, customer services engineering, a network of field service personnel, customer response team trucks, regional support offices, technical publications, and EIS support.

Key features: Providing operators with a single point of contact, 24 hours a day, 365 days a year, for all critical and aircraft-on-the-ground requests and supporting all customer requirements from EIS throughout ownership of the aircraft by leveraging a global support network of strategically located teams.

TRAINING

Services portfolio: Providing a complete range of flight crew and technical training services on business aircraft at two facilities and through a network of strategic partnerships worldwide. We also provide technical service on site at customer locations.

Key features: One of the only business jet manufacturers which provides training on its own aircraft programs. Training is provided through custom state-of-the art classroom technology systems, and a suite of high fidelity training devices and certified Level D Full Flight Simulators.

INDUSTRY AND ECONOMIC ENVIRONMENT

Stabilizing market dynamics with long-term positive outlook

2016 in review

As predicted in our 2016 market forecast,[1] business aviation industry deliveries decreased in 2016 as a result of original equipment manufacturers (OEMs) adjusting to market dynamics. In recent months, the market is showing signs of improvement in the industry confidence index, U.S. corporate profits and pre-owned business jet inventory levels. As well, the industry continues to improve its book-to-bill ratio.

World GDP growth in 2016 stands at 2.2%,[2] due to modest growth in developed markets combined with the soft recovery in emerging markets. The UBS Business Jet Market Index, a measure of industry confidence, has increased in the fourth quarter of 2016 to 51 points, and is now above the threshold of market stability. Forecast U.S. Corporate profits for 2016 also increased to $2.1 trillion.[3] As well, the inventory of pre-owned aircraft expressed as a percentage of the overall fleet has been stable at a healthy level. The positive trend in these key market drivers should stimulate demand for business aircraft.

The following key indicators are used to monitor the health of the business aviation market in the short term:

Indicator	Current situation	Status
Industry confidence	The UBS Business Jet Market Index, which measures industry confidence, increased in the fourth quarter of 2016, mainly due to increased customer interest and an improved outlook on business conditions. The worldwide index is currently at 51, the highest level since the first quarter of 2015 and back above the threshold of market stability.	▲
Corporate profits	Forecast U.S. corporate profits have increased year-over-year by 2.1% to $2.1 trillion for 2016.[3]	▲
Pre-owned business jet inventory levels	The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet has slightly decreased over the past year and is at 11.3%. We consider this level of pre-owned inventory to be within the normal historical range for the overall market. In the light category, the level of pre-owned business aircraft inventory has slightly increased. In the medium category, the level of pre-owned business aircraft has decreased. In the large category, the level of pre-owned business aircraft inventory has slightly decreased in the current year and remains below what we consider to be the normal range for the overall market.	►
Aircraft utilization rates	Business jet utilization in the U.S. slightly increased by 0.2% in 2016 compared to 2015. Business jet utilization in Europe remained essentially the same in 2016 compared to 2015.	►
Aircraft shipments and billings	In the business aircraft market categories in which we compete, business aircraft deliveries and total billings declined in 2016 compared to 2015 due to several OEMs realigning production to market demand.[4]	▼

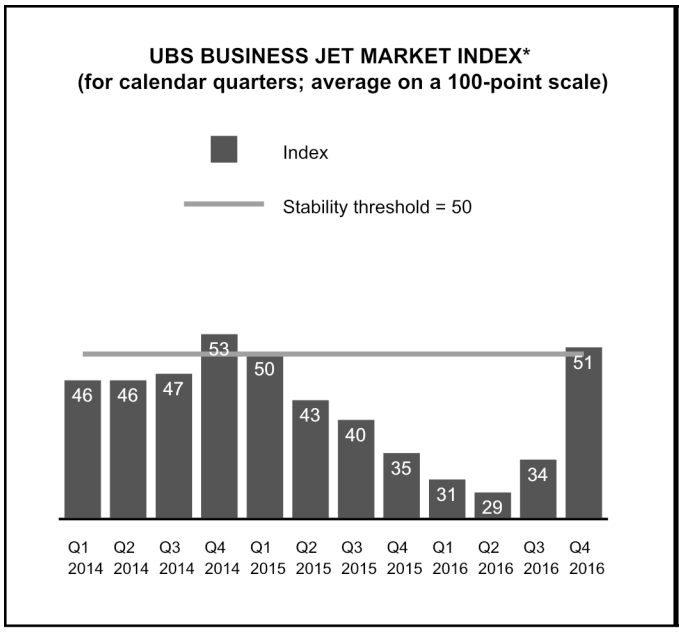
▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

[1] Bombardier Business Aircraft Market Forecast for the 10-year period from 2016 to 2025 released in May 2016 and available at ir.bombardier.com.

[2] According to “Oxford Economics Global Data Report” dated January 16, 2017.

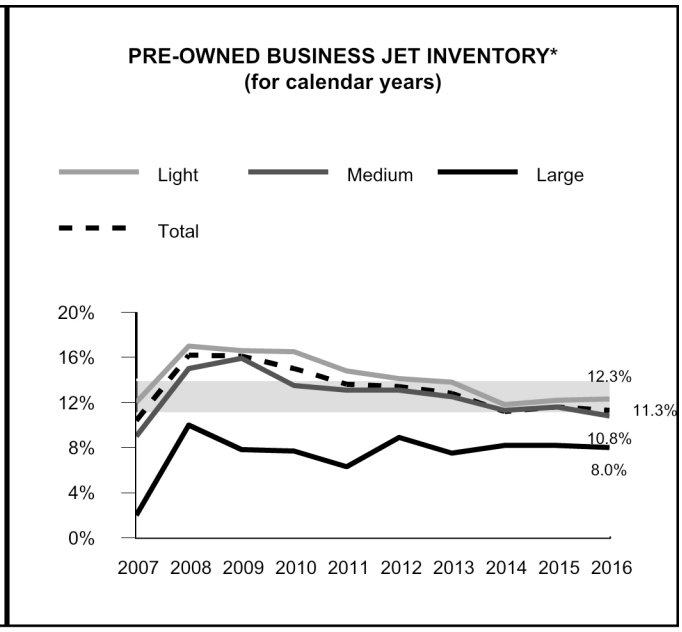
[3] According to the U.S. Bureau of Economic Analysis News Release dated December 22, 2016.

[4] Based on our estimates and public disclosure records of certain competitors.



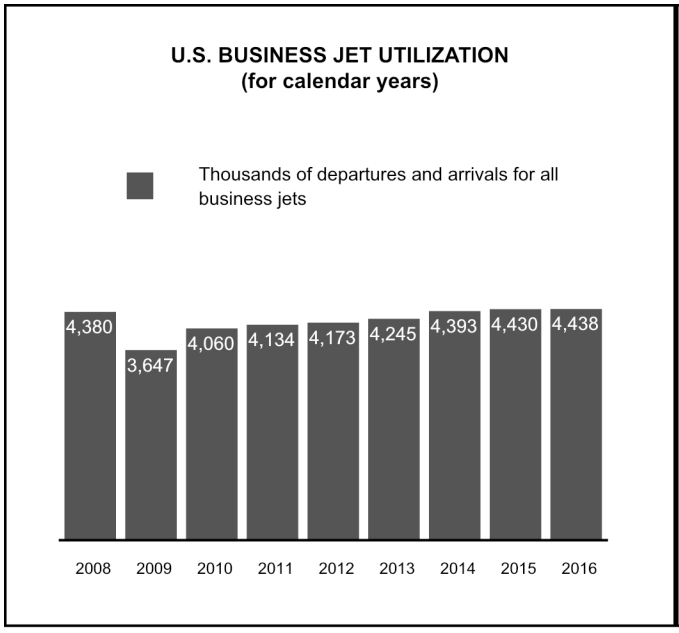
Source: UBS

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

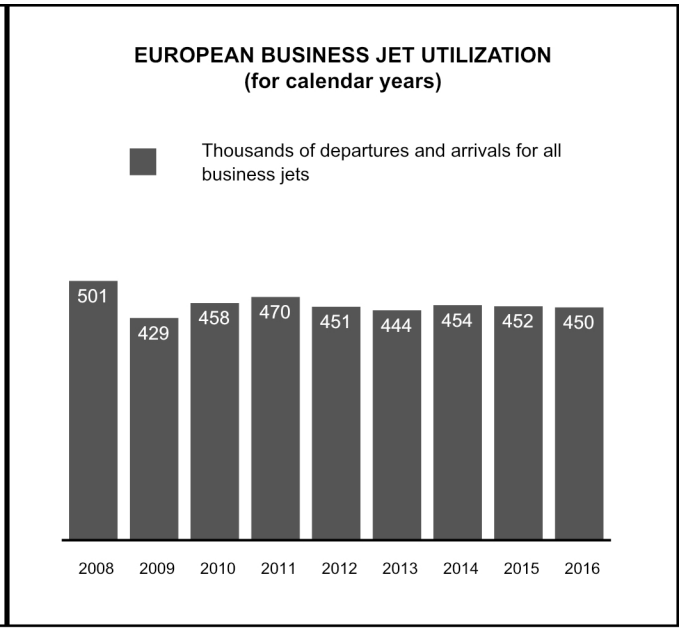


Sources: JETNET and Ascend online

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



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



Source: Eurocontrol

Short-term outlook

We project the continued stabilization of the business jet market due to a better economic outlook combined with the introduction of new aircraft models and technologies.

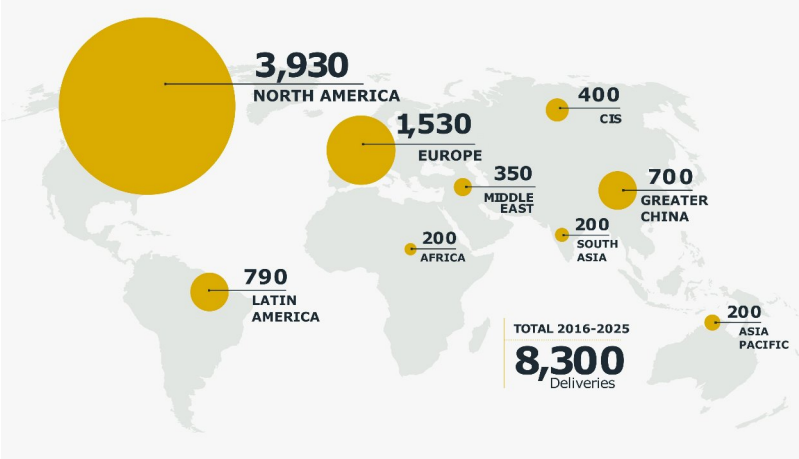
GDP growth for North America and Europe is estimated to be 2.2% and 1.7%, respectively for 2017, while emerging markets are forecast to gradually come out of their respective economic slowdowns.[(1)]

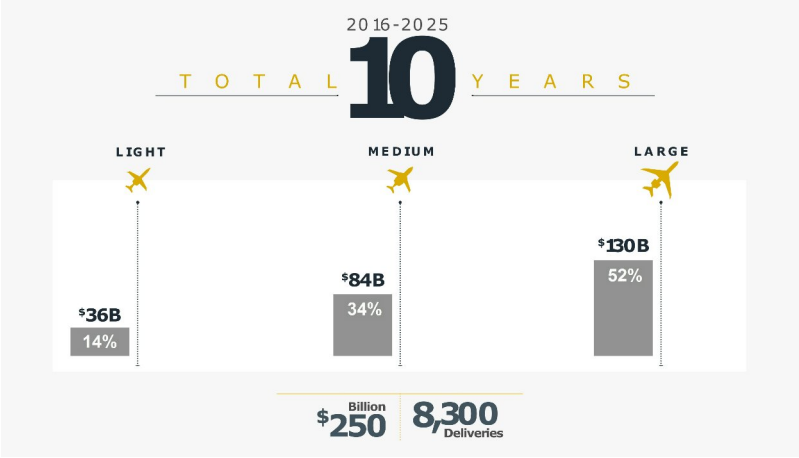
[(1)] According to “Oxford Economics Global Data Report” dated January 16, 2017.

Long-term outlook

The overall market for business jets is expected to show strong long-term growth. We anticipate significant growth to be driven by continued wealth creation in mature markets, increased penetration of business jets in emerging markets, and the introduction of new aircraft programs. Replacement demand is expected to remain steady as pre-owned aircraft inventory levels and residual values normalize. Demand from charter and fractional operators is also expected to remain stable, making business travel more and more accessible worldwide.

In May 2016, we released our annual business aircraft market forecast for the 10-year period for calendar years 2016 to 2025. The "Bombardier Business Aircraft Market Forecast" estimates a total of 8,300 business jet deliveries, representing approximately $250 billion in industry revenues.[1][2] More than half of industry revenues are expected to be driven by demand for large aircraft.



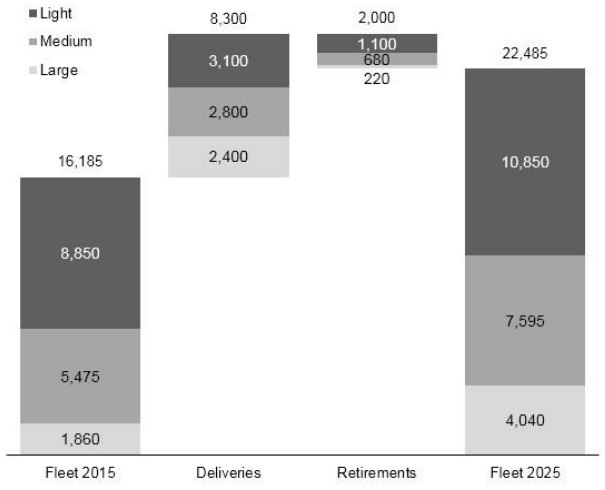


The worldwide business aircraft fleet is expected to increase from approximately 16,200 aircraft at the end of 2015 to approximately 22,500 aircraft in 2025. North America is expected to receive the greatest number of new business jet deliveries in the 10-year period with 3,930 aircraft, followed by Europe with 1,530 aircraft. Notably, Latin America is expected to become the third largest market for business jet deliveries, with 790 deliveries between 2016 and 2025.

Emerging markets, such as Greater China, CIS, Middle East and South Asia, are expected to have a strong and positive impact on the business aircraft market in the long term as well, with growth forecast to exceed the global average.

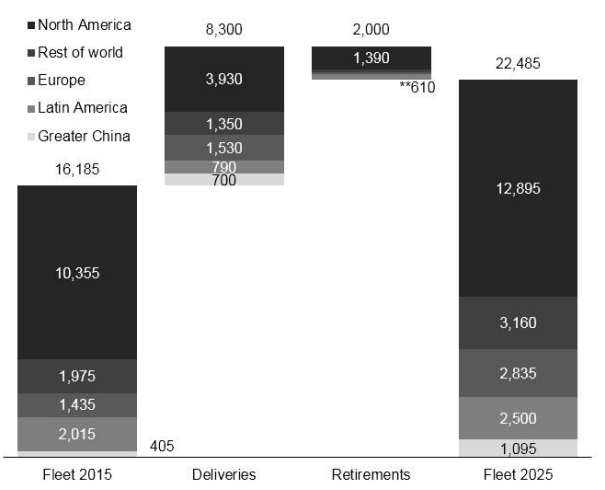
[1] As stated in our "Business Aircraft Market Forecast", published in May 2016 and available at ir.bombardier.com.
[2] Unit values are based on Business & Commercial Aviation (B&CA) Magazine and Purchase Planning Handbook 2016 list prices.

BUSINESS AIRCRAFT FLEET EVOLUTION BY CATEGORY 2016-2025*



* In units. As stated in our "Business Aircraft Market Forecast", published in May 2016 and available at ir.bombardier.com.

BUSINESS AIRCRAFT FLEET EVOLUTION BY GEOGRAPHIC REGION 2016-2025*



* In units. As stated in our "Business Aircraft Market Forecast", published in May 2016 and available at ir.bombardier.com.

** Includes 305, 165, 130 and 10 retirements for Latin America, Rest of world, Europe and Greater China regions, respectively.

Customer services

Business Aircraft's worldwide customer services network includes wholly owned service centres, parts hubs, parts depots, line maintenance facilities, regional support offices, customer response centres, mobile customer response teams, training centres as well authorized service facilities and authorized training providers.

The demand for service and support is driven by the size of the fleet of Bombardier business aircraft, by the number of hours flown by said fleet and the average age of the fleet. Based on business aircraft's large installed base, we will continue to focus on these high margin activities.

Market indicators

Indicator	Current situation	Status
Installed base	The installed base for active in-service Bombardier business aircraft increased by 2.4% to 4,595 in 2016 compared to 2015.(1)	▲
Average annual flight hours	Based on our estimates, Bombardier business aircraft average annual flight hours slightly increased by 0.6% in 2016 compared to last year.	►
Average age of fleet	Typically, aircraft direct maintenance costs increase as an aircraft ages. Therefore, the average age of the fleet of Bombardier aircraft will impact the size of the maintenance market. The average age of the Bombardier business aircraft fleet remained essentially the same in 2016 compared to 2015.(1)	►

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

(1) Based on data obtained from Ascend fleet database by Flightglobal.

Short-term outlook

Based on the market indicators above, the demand for parts and service programs is expected to grow. We continue to actively seek out strategic locations for expansion in order to move closer to customers, further improve response times and build stronger relationships around the globe.

Historically, the U.S. represented the largest share of the fleet for business aircraft, however, wealth creation and economic development in non-traditional markets is driving a shift in the proportion of the business aircraft fleet outside of the U.S. This trend in demand impacts the geographical layout of our support network. In non-traditional markets, the strategy is to increase our local customer-support presence and leverage third parties to deploy the full span of services.

Long-term outlook

The continued growth of the installed base is expected to stimulate demand for customer services. While traditional markets such as North America and Europe should dominate in terms of market size, the fleet growth in non-traditional markets should create new opportunities for aftermarket services.

ANALYSIS OF RESULTS

Exceeded guidance on all fronts

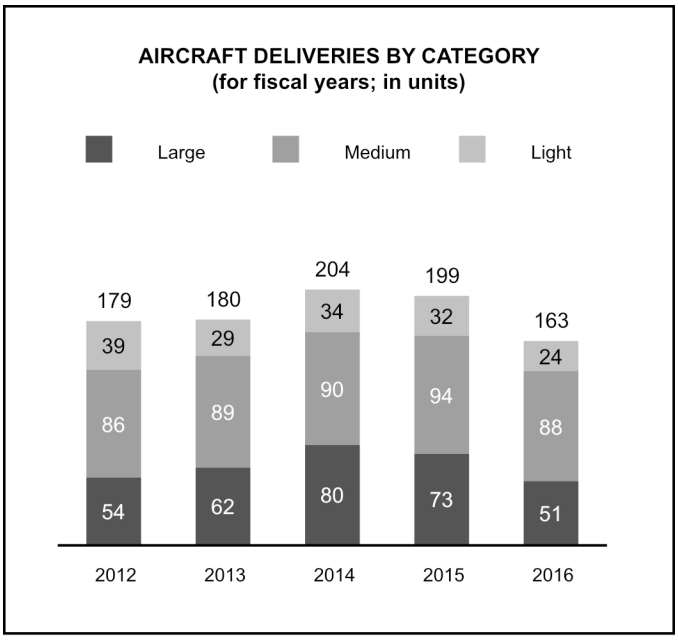
Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Revenues	**$ 1,651**	$ 2,086	**$ 5,741**	$ 6,996
EBITDA before special items[1]	**$ 150**	$ 83	**$ 528**	$ 492
Amortization[2]	**50**	55	**159**	184
EBIT before special items[1]	**100**	28	**369**	308
Special items	**1**	380	**(108)**	1,560
EBIT	**$ 99**	$ (352)	**$ 477**	$ (1,252)
EBIT margin before special items[1]	**6.1%**	1.3 %	**6.4%**	4.4 %
EBIT margin	**6.0%**	(16.9)%	**8.3%**	(17.9)%

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.
[2] Amortization is included in cost of sales, SG&A and R&D expense based on the underlying function of the asset.

Revenues

The $435-million and $1,255-million decreases for the fourth quarter and the fiscal year, respectively, are mainly due to planned lower aircraft deliveries following our decision to reduce production rates in 2015 and a return to a normal historical level of revenues from sales of pre-owned aircraft.



Special items

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

Special items in EBIT were as follows:

		Fourth quarters ended December 31		Fiscal years ended December 31	
	Ref	**2016**	2015	**2016**	2015
Pension obligation	1	**$ —**	$ —	**$ (63)**	$ —
Impairment and other charges - *Learjet 85* aircraft program	2	**(5)**	—	**(59)**	1,169
Restructuring charges	3	**6**	—	**14**	11
Write-off of deferred costs	4	**—**	194	**—**	194
Termination of sales representative and distribution agreements	5	**—**	133	**—**	133
Impairment charge - *Learjet* family of aircraft	6	**—**	53	**—**	53
		$ 1	$ 380	**$ (108)**	$ 1,560
EBIT margin impact		**(0.1)%**	(18.2)%	**1.9%**	(22.3)%

1. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to $63 million was reversed.
2. In 2015, represents an impairment charge of $925 million on aerospace program tooling as well as a $244 million charge related to the write-downs of inventory and other assets as well as the recording of other provisions and other financial liabilities, as a result of the cancellation of the *Learjet 85* aircraft program due to the lack of sales following the prolonged market weakness. A credit of $6 million related to this special item is included in Corporate and Elimination.

   In 2016, based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, we reduced the related provisions by $59 million, of which $5 million was recorded in the fourth quarter. The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.
3. In 2016, represents restructuring charges related to the restructuring actions announced in February and October 2016.

   In 2015, the special items mainly related to a $13-million restructuring charge for the workforce reduction of 1,000 employees associated with the *Learjet 85* aircraft program.
4. Mainly related to restructuring of customer commercial agreements.
5. Costs incurred in connection with the termination of third-party sales representative and distribution agreements to increase the number of direct-to-market channels.
6. Represents an impairment charge on the remaining *Learjet* family aerospace program tooling, following the prolonged market weakness in the light business aircraft category.

EBIT margin

There was an increase of 22.9 percentage points in EBIT margin for the fourth quarter ended December 31, 2016 compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) increased by 4.8 percentage points, mainly as a result of:

- favourable impacts of business model enhancements related to pre-owned aircraft activities; and
- higher overall aircraft margin.

There was an increase of 26.2 percentage points in EBIT margin for the fiscal year ended December 31, 2016 compared to last fiscal year. The EBIT margin before special items (see explanation of special items above) for the fiscal year increased by 2.0 percentage points, mainly as a result of:

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

Partially offset by:

- lower absorption of SG&A expenses; and
- lower profitability in the light aircraft category, which included inventory write-downs, offset the favourable margin in the large and medium aircraft categories.

The *Global 7000* aircraft has completed its maiden flight and is now in the testing phase

Investment in product development

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Program tooling[1]	**$ 220**	$ 194	**$ 710**	$ 674
R&D expense[2]	**2**	1	**6**	4
	$ 222	$ 195	**$ 716**	$ 678
As a percentage of revenues	**13.4%**	9.3%	**12.5%**	9.7%

[1] Net amount capitalized in aerospace program tooling.

[2] Excluding amortization of aerospace program tooling of $38 million and $120 million, respectively, for the fourth quarter and fiscal year ended December 31, 2016 ($39 million and $125 million, respectively, for the fourth quarter and fiscal year ended December 31, 2015), as the related investments are already included in aerospace program tooling.

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

The carrying amount of business aircraft program tooling[1] as at December 31, 2016 was $2.6 billion, compared to $2.0 billion as at December 31, 2015. The increase in the net carrying value of business aircraft program tooling as at December 31, 2016 is mainly due to tooling additions for the *Global 7000* and *Global 8000* aircraft program.

[1] Capitalized borrowing costs included in the business aircraft aerospace program tooling balance amounted to $266 million as at December 31, 2016 ($157 million as at December 31, 2015).

Reconciliation of the carrying amount of aerospace program tooling

Balance as at December 31, 2015	**$ 2,041**
Investment in product development	**710**
Amortization of aerospace program tooling	**(120)**
Balance as at December 31, 2016	**$ 2,631**

Recognizing the long-term nature of product development activities, as well as the significant human and financial resources required, a gated product development process is followed focusing on early identification and mitigation of potential risks. All programs follow the Bombardier Engineering System throughout the product development cycle. The product development process is constantly refined to integrate the lessons learned from our programs and from the industry. The stages in the process are described hereafter and specific milestones must be met before a product can move from one stage of development to another. The gates consist of exit reviews with different levels of management and technical experts to demonstrate feasibility, customer acceptance and financial return. Designing products with minimal environmental impacts throughout their entire lifecycle is central to our product responsibility strategy. In addition to the Design for Environment approach, health and safety considerations are also embedded in product design.

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

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

On November 4, 2016, we completed the successful maiden flight of the first *Global 7000* flight test vehicle, FTV1, dedicated to testing basic system functionality and assessing the handling and flying qualities of the aircraft.

In December, the *Global 7000* FTV1 arrived at Bombardier's Flight Testing Centre in Wichita. In parallel to the flight test program, we are completing work on the *Global 7000* aircraft interior test rig, which will simulate real-world flexing and bending conditions of the fuselage. In addition, a second rig is testing cabin systems integration to ensure all systems operate with the highest level of reliability when the aircraft enters into service.

Progress continues on building the program's other *Global 7000* FTVs, all of which are in various stages of production and assembly.

The *Global 7000* and *Global 8000* aircraft program manufacturing process makes use of the highest caliber technology, including a state-of-the-art automated positioning system using laser-guided measuring to join the wing structure to the fuselage with a very high level of precision.

The engine supplier received engine certification from the U.S. Federal Aviation Administration (FAA) in April 2016.

The category-defining *Global 7000* aircraft is expected to enter into service in the second half of 2018. It will set the standard for a new category of large business jets, as the first and only clean-sheet business jet with four living spaces.

Aircraft deliveries exceeded guidance in a challenging environment

Business aircraft deliveries

	Fourth quarters ended December 31		Fiscal years ended December 31	
(in units)	**2016**	2015	**2016**	2015
Light				
Learjet 70/75	**11**	11	**24**	32
Medium				
Challenger 300/350	**19**	18	**62**	68
Challenger 605/650	**11**	14	**26**	25
Challenger 850	**—**	—	**—**	1
Large				
Global 5000/Global 6000	**13**	21	**51**	73
	54	64	**163**	199

Deliveries in the fourth quarter ended December 31, 2016 include the sale of one aircraft to Commercial Aircraft who will modify the aircraft with specialized aircraft solutions to suit the needs of an external customer for mission requirements. In our consolidated financial statements, the revenue and margin associated with this aircraft have been reversed and will be recognized when Commercial Aircraft completes the specialized work on the aircraft.

For the three-year period ended December 31, 2016, we captured a 36% market share in the overall market in which we compete, based on revenue, and 32% of the market share based on units delivered. We were the market leader in terms of units delivered and second in terms of revenues. This compares with a market share of 35% and 33%, based on revenues and units delivered respectively for the three-year period ended December 31, 2015; we were also the market leader in terms of units delivered and second in terms of revenues.[(1)]

[(1)] Based on our estimates, competitors' public disclosure, the General Aviation Manufacturers Association (GAMA) shipment reports, Ascend Flight Global and B&CA Magazine list prices.

Significant increase in gross orders

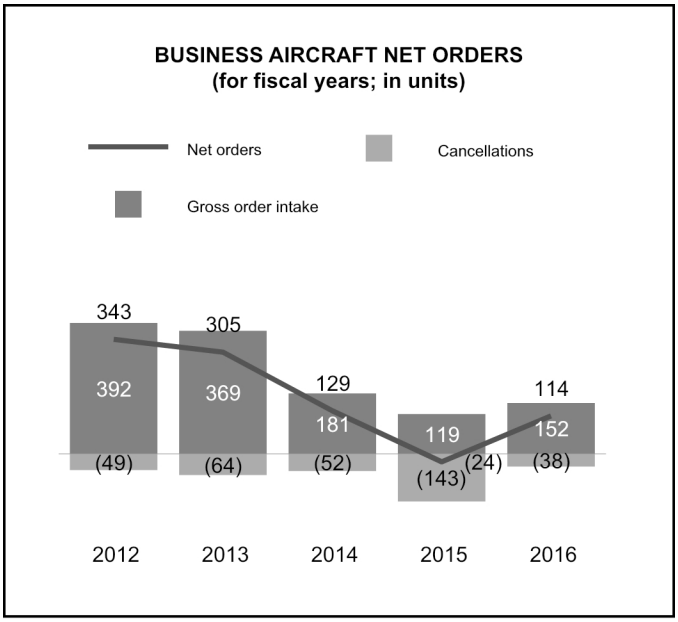
Net orders

	Fourth quarters ended December 31		Fiscal years ended December 31	
(in units)	**2016**	2015	**2016**	2015
Gross orders	**30**	31	**152**	119
Cancellations	**(8)**	(50)	**(38)**	(143)
Net orders	**22**	(19)	**114**	(24)

We received significantly higher gross orders in 2016 compared to 2015. In 2015, we took proactive actions to improve the quality of the order backlog, which contributed to a lower level of cancellations in 2016 compared to the previous year.

The net negative orders for the fourth quarter ended December 31, 2015 are mainly due to the cancellation of 24 firm orders, following the restructuring of certain customer commercial agreements.

In addition to the cancellation of 24 firm orders in the fourth quarter of 2015, the net negative orders for fiscal year 2015 are due to cancellations of 74 *Learjet 85* aircraft orders, of which 64 orders were canceled in the third quarter of 2015 following our decision to cancel the aircraft program due to the lack of sales following the prolonged market weakness.



Industry-leading backlog

Order backlog

	As at	
(in billions of dollars)	**December 31, 2016**	December 31, 2015
	$ 15.4	$ 17.2

Book-to-bill ratio[1]

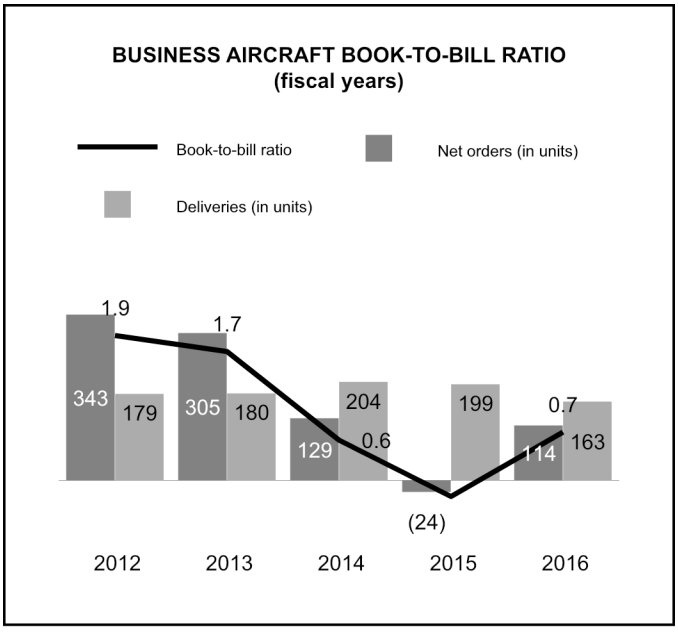
	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Net orders	**22**	(19)	**114**	(24)
Deliveries	**54**	64	**163**	199
	0.4	nmf	**0.7**	nmf

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

The decrease in order backlog as at December 31, 2016 reflects lower order intake than deliveries for business aircraft.

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

The gross book-to-bill ratio, defined as gross orders received over aircraft deliveries in units, was 0.9 for the year ended December 31, 2016 compared to 0.6 for the same period last year.



Workforce

Total number of employees

	As at	
	December 31, 2016	December 31, 2015
Permanent[1]	**9,000**	10,100
Contractual[2]	**400**	300
	9,400	10,400
Percentage of permanent employees covered by collective agreements	**41%**	43%

[1] Including inactive employees.
[2] Including non-employees and agency outsourced personnel.

The workforce as at December 31, 2016 decreased by 1,000 employees, or 10%, when compared to last year.

This reduction is mainly related to our decision, in February 2016, to take steps to optimize our workforce with a combination of manpower reduction and strategic hiring in line with our transformation plan. The workforce reductions announced in February 2016 have been essentially achieved during fiscal year 2016.

The reduction also includes initial impacts of our October 2016 announcement to take further restructuring actions, including streamlining administrative and non-production functions across the organization and workforce optimization, partially offset by strategic hiring to support ramp-up for the *Global 7000* and *Global 8000* aircraft program as well as our growth strategy in aftermarket business.

Our incentive-based compensation plan for non-unionized employees across our sites rewards the collective efforts of our employees in achieving our objectives using performance indicator targets. A total of 5,550 employees worldwide, or 62% of permanent employees, participate in the program. In 2016, as part of this program, incentive-based compensation was linked to the achievement of targeted results, based on EBIT before special items and free cash flow.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	Latest guidance for 2016	What we did in 2016	What's next for 2017[1]
Growth and deliveries	Revenues of approximately $5.5 billion. Above 150 deliveries.	Revenues of $5.7 billion. 163 deliveries.	Revenues of approximately $5.0 billion. Approximately 135 deliveries.
Profitability[2]	EBIT margin before special items[2] above 6.0%.	EBIT margin before special items[2] of 6.4%.	EBIT margin before special items[2] of approximately 7.5%.

Update on 2016 guidance

In November 2016, we indicated Business Aircraft was in line to achieve revenue, delivery and profitability[2] guidance for 2016. Revenues had benefited from a favourable mix with higher proportion of medium and large aircraft, compared to the original forecast. EBIT before special items[2] also reflected stronger operational performance. Based on results for the first nine months of 2016, we refined revenue guidance for 2016 from greater than $5.0 billion and approximately 150 deliveries to approximately $5.5 billion and over 150 deliveries. We also refined profitability guidance[2] for 2016 from approximately 6% to greater than 6%.

[1] See Forward-looking statements in boxed text below for details regarding the assumptions on which the guidance is based. Also see forward-looking statements disclaimer in Overview.
[2] Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measure for 2016.

Our 2016 revenues and profitability results have both exceeded the revised guidance provided in November 2016, reaching $5.7 billion in revenues and 6.4% in EBIT margin before special items, while deliveries reached 163 units, well above the revised guidance of 150 units. The additional deliveries relative to guidance stem from capturing market opportunities, particularly in the fourth quarter. The combination of higher deliveries with a higher proportion of medium and large aircraft explains the stronger revenues and EBIT performance. The higher EBIT performance is largely attributable to stronger operational performance driven by progress on transformation initiatives.

Our strategy to achieve 2017 guidance

2017 will see a planned revenue reduction to $5.0 billion, supported by 135 deliveries, mainly reflecting an adjustment to volumes of *Learjet* family of aircraft. Delivery profiles for the *Challenger* and *Global* families of aircraft are generally expected to continue from production levels set in the later part of 2016. While prudently re-setting revenues to a lower level for 2017, Business Aircraft will continue to expand its margin, both in dollars and percentage, towards approximately 7.5%,[(1)(2)] mainly driven by progress on transformation initiatives and active management towards a higher quality backlog.

[(1)] See Forward-looking statements in boxed text below for details regarding the assumptions on which the guidance is based. Also see forward-looking statements disclaimer in Overview.

[(2)] Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric.

Forward-looking statements

Forward-looking statements[(1)] in this section of the MD&A are based on:

- deliveries based on current firm order backlog and estimated future order intake;[(2)]
- a lower level of aircraft deliveries in fiscal year 2017 compared to fiscal year 2016, mainly due to the production rate reset on the *Learjet 75* aircraft, and growth from customer services;
- the alignment of production rates to market demand;
- the continued deployment and execution of key transformation initiatives, especially those impacting direct and indirect procurement costs, labour efficiency and working capital improvement;
- our ability to execute and deliver business model enhancement initiatives;
- our ability to meet scheduled EIS dates and planned costs for the *Global 7000* and *Global 8000* aircraft program;
- our ability to recruit and retain highly skilled resources to deploy our product development strategy;
- the ability of our supply base to support planned production rates;
- competitive global environment and global economic conditions to remain similar; and
- stability of foreign exchange rates.

[(1)] Also refer to the Guidance and forward-looking statements section in Overview.

[(2)] Demand forecast is based on the analysis of main market indicators, including real GDP growth, industry confidence, corporate profitability within our customer base, pre-owned business jet inventory levels, aircraft utilization, aircraft shipments and billings, installed base and average age of the fleet. For more details, refer to the market indicators in the Industry and economic environment section.

COMMERCIAL AIRCRAFT

The data presented in this MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure. See the Non-GAAP financial measures section in Overview for further detail.

KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and associated metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Order backlog, as a measure of future revenues. • Book-to-bill ratio[1], as an indicator of future revenues. • Revenues and delivery units, as measures of growth. • Market share (in terms of revenues and units delivered), as measures of our competitive positioning.
Profitability	• EBIT, EBIT margin, EBIT before special items[2] and EBIT margin before special items[2], as measures of performance.
Liquidity	• Free cash flow[2], as a measure of liquidity generation.
Customer satisfaction	• On-time aircraft deliveries, as a measure of meeting our commitment to customers. • Fleet dispatch reliability, as a measure of our products' reliability. • Regional availability of parts and material to support customer requests, as a measure of meeting customer needs for the entire life of the aircraft.
Execution	• Achievement of program development milestones, as a measure of flawless execution.

[1] Defined as the ratio of net orders received over aircraft deliveries, in units.
[2] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

HIGHLIGHTS OF THE YEAR

C Series family of aircraft begins revenue generation

REVENUES	EBIT	EBIT BEFORE SPECIAL ITEMS[1]	NET ADDITIONS TO PP&E & INTANGIBLE ASSETS	ORDER BACKLOG
$2.6 billion	**($903 million)**	**($417 million)**	**$392 million**	**436 units**

RESULTS

For the fiscal years ended December 31	**2016**	2015	Variance
Revenues	**$ 2,617**	$ 2,395	9 %
Aircraft deliveries (in units)	**86**	76	10
Net orders (in units)	**161**	51	110
Book-to-bill ratio[2]	**1.9**	0.7	1.2
EBIT	**$ (903)**	$ (3,970)	nmf
EBIT margin	**(34.5)%**	nmf	nmf
EBIT before special items[1]	**$ (417)**	$ (170)	(145)%
EBIT margin before special items[1]	**(15.9)%**	(7.1)%	(880) bps
EBITDA before special items[1]	**$ (353)**	$ (66)	nmf
EBITDA margin before special items[1]	**(13.5)%**	(2.8)%	(1070) bps
Net additions to PP&E and intangible assets	**$ 392**	$ 963	(59)%
As at December 31	**2016**	2015	
Order backlog (in units)	**436**	361	75

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section for reconciliations to the most comparable IFRS measures.
[2] Ratio of net orders received over aircraft deliveries, in units.

KEY HIGHLIGHTS AND EVENTS

- Commercial aircraft's financial performance for 2016 was marked by the production ramp-up and the start of the revenue-generating phase of the *C Series* aircraft program. Revenues and deliveries were in line with guidance. The EBIT loss compares favourably relative to guidance, stemming from strong execution while ramping up production and cost control during the initial months following EIS, supported by the reliability of the aircraft in service. Our focus is now on improving efficiency while ramping up to full production, continuing to increase our order backlog, delivering the *C Series* aircraft and providing customer support.
- Commercial Aircraft reached a historic milestone in 2016 as it certified and brought to market both variants of the *C Series* aircraft, the first all-new clean-sheet designed family of single-aisle aircraft in the 100- to 150-seat segment in nearly 30 years. With a total of seven aircraft delivered by year end, both the *CS100* and *CS300* aircraft are delivering on their operating cost advantage, superior operating flexibility, exceptional performance and range, as well as passenger comfort.
  - We delivered the first *CS100* aircraft to launch operator Swiss International Air Lines (SWISS) on June 29, 2016 and supported their preparation for commercial service which began on July 15, 2016.
  - On November 28, 2016, the first *CS300* aircraft was delivered to launch operator Air Baltic Corporation AS (airBaltic). The aircraft's first commercial flight took place on December 14, 2016.
- During the year, significant orders solidified the *C Series* aircraft program in the 100- to 150-seat category. A total of 129 firm orders and 80 options were added to the backlog, from Delta Air Lines, Air Canada, airBaltic and Air Tanzania, with a combined value of $10.1 billion at list prices. In conjunction with the firm orders recorded in the second quarter, we recorded an onerous contract provision of $492 million on a consolidated basis. At EIS, the program had over 350 aircraft in our firm order backlog and approximately 600 aircraft when including options.
- During the year, we closed the $1.0-billion investment by the Government of Québec (through Investissement Québec) in return for a 49.5% equity stake in a newly-created limited partnership, the C Series Aircraft Limited Partnership (CSALP), which will carry on the operations related to our *C Series* aircraft program and continues to be consolidated in our financial results.

PROFILE

A leading portfolio of aircraft in the 60- to 150-seat categories

We design and manufacture a broad portfolio of commercial aircraft in the 60- to 150-seat categories, including, the *CRJ700*, *CRJ900* and *CRJ1000* regional jets as well as the clean-sheet *C Series* mainline jets and the *Q400* turboprop. We provide aftermarket services for these aircraft as well as for the 20- to 59-seat range category. There are approximately 2,300 active Bombardier aircraft currently in service. We also provide solutions for governments, agencies and specialized organizations worldwide by modifying business and commercial aircraft to suit customer needs for different mission requirements.

MARKET SEGMENT: COMMERCIAL AIRCRAFT

COMMERCIAL JETS

Models: *CS100* and *CS300*

Market category: 100- to 150-seat commercial jets

Key features[1]: Comprised of the *CS100* and the larger *CS300* airliner, the *C Series* family of aircraft represents the fusion of performance and technology. The result is aircraft that deliver unmatched performance and economics in the 100- to 150-seat market segment. Setting a new standard in single-aisle cabin design and flexibility, the *C Series* aircraft offer an unrivaled passenger experience with larger seats, overhead bins and windows. The aircraft's groundbreaking geared turbofan engine, combined with the aircraft's advanced aerodynamics, delivers reduced fuel burn, noise, and emissions.

C Series family of aircraft

REGIONAL JETS

Models: *CRJ700, CRJ900* and *CRJ1000*

Market category: 60- to 100-seat regional jets

Key features[1]: Designed for hub expansion and point-to-point services, the *CRJ Series* aircraft family is optimized for medium to long distance regional routes. The most successful regional aircraft program, the *CRJ Series* family, features best-in-class operating costs, fuel burn and emissions. The *CRJ Series* aircraft family now includes an improved cabin with a more open entrance area and greater on-board storage capacity, delivering an enhanced passenger experience.

CRJ900 aircraft

[1] Under certain operating conditions, when compared to aircraft currently in service for short-haul flights up to 500 NM.

TURBOPROPS

Model: *Q400*

Market category: 60- to 90-seat turboprops

Key features[1]: With its jet-like speed and an extended range, industry-leading passenger experience and reduced environmental footprint, the *Q400* aircraft is versatile and can be adapted to meet varied operational requirements. It is the only in-production turboprop that can be configured to accommodate up to 90 passengers. The cargo-passenger combi *Q400* aircraft is available in various configurations and offers cargo capacity while accommodating passengers.

[1] Under certain operating conditions, when compared to aircraft currently in service for short-haul flights up to 500 NM.

Q400 aircraft

SPECIALIZED AIRCRAFT

Models: Various Bombardier business and commercial aircraft

Key features: Provides solutions for governments, agencies and specialized organizations worldwide by modifying commercial and business aircraft to suit customer needs for different mission requirements including: maritime patrol, medical and government VIP transport, intelligence surveillance, reconnaissance and communication platforms, and military transport.

MARKET SEGMENT: CUSTOMER SERVICES

MAINTENANCE SERVICES

Services portfolio: Extensive capabilities to accommodate aircraft maintenance, refurbishment and modification for commercial aircraft.

Key features: Offering worldwide service and support through wholly-owned or operated service centres, authorized service facilities (ASF) and mobile repair teams.

PARTS AND SMART SERVICES

Services portfolio: Providing new and used parts, initial provisioning services, tooling, repair of customer-owned parts, rentals, and *Smart Parts* program.

Key features: Supporting customers for all their parts needs with parts distribution hubs, and parts depots worldwide. The *Smart Parts* program provides budget predictability and cost protection for our customers.

CUSTOMER SUPPORT

Services portfolio: Comprehensive portfolio of customer services including: regional support offices, 24-hour customer response centres, technical publications, engineering solutions, maintenance planning, customer liaison pilots, a network of field service personnel, mobile repair teams, start-up technicians, EIS support, and e-services.

Key features: Providing operators with a single point of contact, 24 hours a day, 365 days a year, for all critical and aircraft-on-the-ground requests. In 2016, the strength of the customer service network across the globe continued to grow, with the extension of several ASF agreements across the *Q Series* and *CRJ Series* platforms and the addition of an European *C Series* platform ASF.

TRAINING

Services portfolio: A complete range of flight crew and technical training services on commercial and specialized aircraft at our facility and through a network of strategic partnerships and collaborations worldwide. In addition, we have approved third-party training providers to provide worldwide training services under our oversight.

Key features: As an original equipment manufacturer (OEM), we quickly modify courseware and training devices to reflect ongoing aircraft enhancements and provide a wide portfolio of training solutions to suit our customers' needs.

INDUSTRY AND ECONOMIC ENVIRONMENT

Strong fundamentals supporting the positive long-term outlook for the 100-150 seat commercial aircraft category

The commercial aircraft market continues its strong performance as passenger traffic levels and airline financial performance maintained impressive levels in 2016. The following key indicators are used to monitor the health of the commercial airline industry in the short term:

Indicator	Current situation	Status
Passenger traffic levels	The demand for new aircraft is primarily driven by the demand for air travel. Scheduled domestic and international passenger traffic, measured by revenue passenger kilometres (RPK), were 5.7% and 6.7% higher, respectively, for the year-to-date period ended December 2016 compared to the same period last year.[1]	▲
	For domestic commercial air travel specifically, increases in China, the U.S. and India account for most of the 5.7% increase in RPK compared to the same period last year, which was partially offset by a decline in Brazil. On the international commercial air travel side, increases in Asia Pacific, Europe and the Middle-East account for most of the 6.7% increase in RPK compared to the same period last year.[1]	
	Airlines achieved both domestic and international average passenger load factors of 82.2% and 79.6%, respectively, for the year-to-date period ended December 2016 compared to 81.5% and 79.7%, respectively, for the same period last year. In the first half of 2016, the upward trend in passenger traffic moderated due to headwinds from high-profile terrorist attacks, political instability and subdued economic activity. However in the second half of the year, passengers adjusting to the uncertain environment and a moderate upturn in the global economic cycle led to an acceleration in the upward trend in passenger traffic.[1]	▲
	During 2016, regional passenger traffic measured by RPK for the four leading U.S. network carriers and their affiliates[2], which represent a major portion of the regional airline passenger traffic in the U.S., our largest market, slightly increased by 0.8% compared to 2015.	►
	These airlines achieved an average passenger load factor of 80.3% in 2016, down from the 81.4% experienced in 2015.	▼
Fuel prices	Planning is difficult for airlines when the price for one of the largest components of their operating costs remains volatile. The average annual price of Brent crude oil decreased from $52 per barrel in 2015 to $44 in 2016. Following the decision by the Organization of the Petroleum Exporting Countries (OPEC) at its November 2016 meeting to limit crude oil supply and signs that non-OPEC suppliers will follow suit, oil prices rose to a 17-month high in December. At the end of 2016, the price stood at $55 per barrel. During the first week of February 2017, the price was approximately $56 per barrel.[3] The futures market is now pricing in a weak upward trend in oil prices with prices remaining relatively low until 2020.[1]	▼
	Although low fuel prices could lead some airlines to delay their decision to renew their fleet in the short term, it should continue to help improve airline profitability, which in turn would provide an opportunity for airlines to reinvest in their fleets. The high volatility in crude oil prices should result in continued demand for more fuel efficient aircraft.	▲
Airline profitability	Airline financial performance slightly improved in 2016. Airline profits are estimated to be $35.6 billion in 2016, a record high and a seventh consecutive year of positive net profits for the industry. North American airlines are expected to generate the highest profit in terms of dollars and profit margins due to a combination of consolidation, helping to increase load factors, ancillaries and lower fuel costs, followed by airlines in Europe and Asia-Pacific. Airline financial performance is forecast to weaken in 2017 with total profits of $29.8 billion as a result of higher anticipated fuel costs and expected reduction in passenger growth as the demand stimulus from lower oil prices tapers off.[4] With record-high profitability levels, airlines should be more inclined to reinvest in their fleets.	▲

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

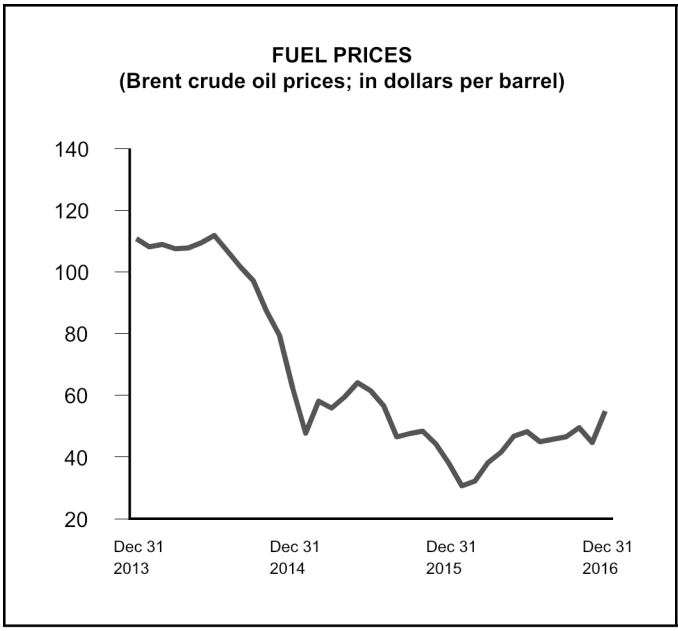
[1] Per IATA's December 2016 "Air Passenger Market Analysis and Airlines Financial Monitor" reports.
[2] Delta Air Lines, American Airlines, United Airlines, and Alaska Air.
[3] According to the U.S. Energy Information Administration's (EIA) website.
[4] Per IATA's forecast in the "Economic Performance of the Airline Industry" December 2016 year-end report.

Indicator	Current situation	Status
Environmental regulations	Environmental issues and new environmental regulations should increasingly shape the world's airline industry. These issues can be broadly categorized as: local air quality, aircraft emissions and community noise. The aviation industry has consistently improved its environmental performance throughout its history and is expected to continue to do so. The aviation industry has committed to carbon-neutral growth by 2020 and a 50% reduction in carbon emissions from 2005 levels by 2050. The application of new technology in aircraft designs is expected to be important in meeting these commitments and should speed up retirement of older aircraft worldwide.[1] Moreover, the recent ICAO Assembly Resolution decided to implement a global market-based measure in the form of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).	▲
Aircraft shipments	In the 60- to 100-seat category, the delivery trend has remained consistent over the past two years validating the strong demand in this market segment.[2] In the 100- to 150-seat category, the decrease in number of deliveries indicates a transition period in the market segment.[2] We anticipate an increase in deliveries as manufacturers ramp up production levels of newer generation aircraft.	► ▼ ▲
Replacement demand	We estimate that most commercial aircraft have life cycles ranging between 15 to 30 years. As at December 31, 2016, approximately 1,280 aircraft representing an estimated 21% of the world's active fleet in the 60- to 150-seat aircraft category is over 15 years old compared to 19% at the end of 2015.[2]	▲

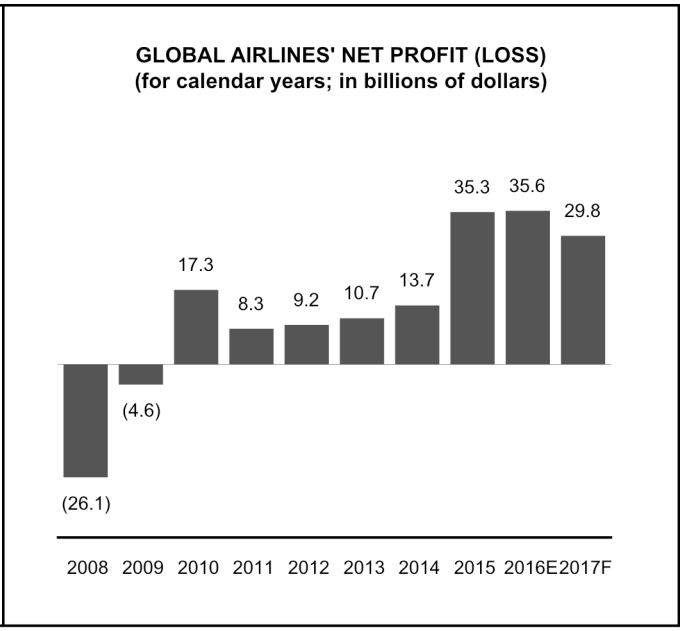
▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

[1] According to our "Commercial Aircraft Market Forecast", published in June 2015 and available at ir.bombardier.com.

[2] Based on data obtained from Ascend fleet database by Flightglobal.



Source: U.S. EIA



Sources: IATA's forecast in the "Economic Performance of the Airline Industry" December 2016 year-end report.
E: Estimate; F: Forecast

According to IATA, the world's airlines are set to post a collective record net profit for 2016. Airline financial performance improved in most regions during the year, particularly in the U.S. where the improvement was driven by airline mergers and lower fuel costs.[1]

[1] Per IATA's forecast in the "Economic Performance of the Airline Industry" December 2016 year-end report.

The state of the world economy and those of individual countries are key factors in the demand for air travel. As such, the health of the aerospace industry is a function of general economic conditions, with a lag typically between economic recovery and the time it takes to reflect on the original equipment manufacturers' deliveries and revenues. Real GDP growth is a widely accepted measure of economic activity. Worldwide real GDP increased by 2.2% in 2016, which is lower than the 2.7% increase in 2015.[(1)]

Short-term outlook

The current overall positive trend in market indicators as well as the future anticipated growth in GDP rates are expected to further increase the demand for air travel and the demand for new aircraft is expected to follow. The world economy is projected to grow by 2.6% in 2017 and 2.9% in 2018 and 2.8% in 2019.[(1)]

We believe that the market for larger regional aircraft and smaller mainline aircraft should grow in North America as airlines continue to focus on fleet optimization, fuel-efficiency and reducing environmental impacts. The GDP in the U.S., the largest market for commercial aircraft, is expected to grow at 2.3% in 2017, 2.5% in 2018 and 1.8% in 2019, compared to 1.6% in 2016.[(1)]

In Europe, the GDP is expected to grow at 1.7% in 2017, 2018 and 2019.[(1)] In this context, we do not expect much growth in demand for regional aircraft in Europe. European airlines are likely to continue to focus on consolidation and operational restructuring.

In regions with high growth potential for commercial aviation such as in Greater China and India, growth in 2017 is expected to be at 6.3% and 6.7%, respectively, compared to 6.7% and 7.1% in 2016, respectively. In recovering economies like the CIS and Latin America, after a decline in 2016, the expected growth in 2017 is 1.6% and 1.1% respectively.[(1)]

The strong correlation between passenger traffic and economic growth in non-traditional markets should translate into continued aircraft demand in the near future. This demand is expected to be met by a combination of pre-owned and new aircraft.

[(1)] According to "Oxford Economics Global Data Report" dated January 16, 2017.

Long-term outlook

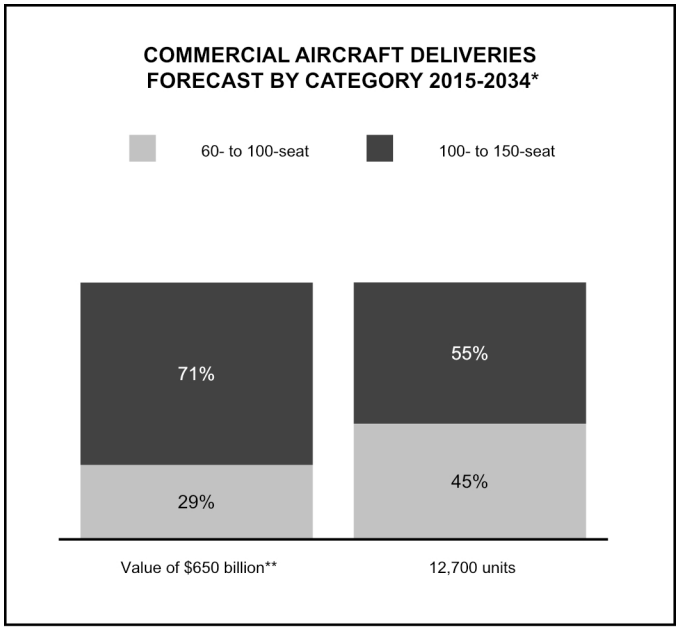
We remain confident that continuing economic growth should increase demand for air travel over the next 20 years. The financial outlook for the world's airlines is improving as economic growth returns to most regions.

In June 2015, we released our global market forecast for the 20-year period from 2015 to 2034.[(1)]

The "Commercial Aircraft Market Forecast" predicts 12,700 aircraft deliveries for 60- to 150-seat commercial aircraft in the next 20 years.

The 20-year deliveries are valued at $650 billion, largely in the 100- to 150-seat segment.[(2)] Over the next 20 years, 5,000 60- to 150-seat commercial aircraft are expected to be retired.

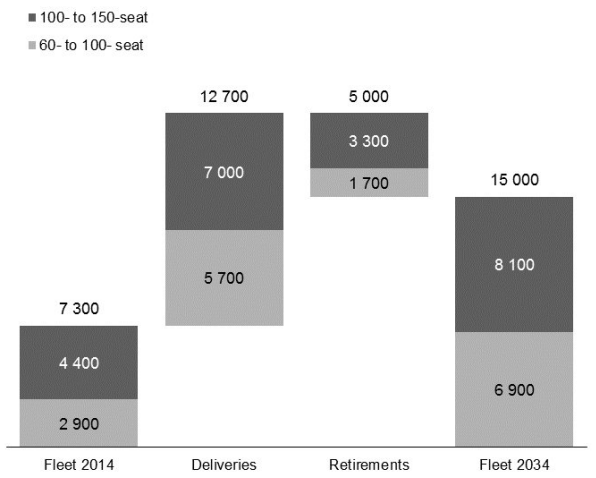
[(1)] Available at ir.bombardier.com.
[(2)] Revenues are based on estimated segment 2014 list prices.



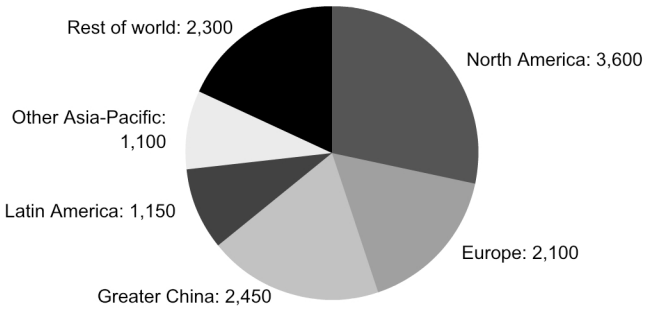
* As stated in our "Commercial Aircraft Market Forecast", published in June 2015 and available at ir.bombardier.com
**Unit values based on Business & Commercial Aviation (B&CA) magazine 2014 list prices.

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

COMMERCIAL AIRCRAFT FLEET EVOLUTION BY CATEGORY 2015-2034*



60- TO 150- SEAT COMMERCIAL AIRCRAFT DELIVERIES FORECAST BY REGION 2015-2034*



* In units. As stated in our "Commercial Aircraft Market Forecast", published in June 2015 and available at ir.bombardier.com.

Most new 60- to 150-seat aircraft deliveries to mature aviation markets such as North America, Europe, Oceania and Northeast Asia (Japan and South Korea) are expected to replace retiring aircraft fleets.

In emerging markets, demand for air travel is growing with increasing GDP and an expanding middle class. The airline industries in the emerging regions of Other Asia-Pacific, Greater China, India, Latin America and the CIS are at different stages of maturity, but all are expected to require aircraft with different seat capacities and operating economics to meet passenger demand.

In the long-term, the worldwide 60- to 150-seat fleet is forecast to grow to 15,000 units by 2034. Approximately 55% of the forecast deliveries are in the 100- to 150-seat segment, for a value of approximately $460 billion.[(1)(2)] Airlines in this segment, who have been constrained to the currently available technology on these aircraft, are anticipated to witness a major fleet transformation. The aircraft in service today in this market segment are older than larger single-aisle aircraft. There had been little activity to renew the fleet in this segment and as of today, the *C Series* is the only clean-sheet design for this market and has entered into service in 2016. While there are other redesigned aircraft expected to enter the market, the *C Series* offers superior economics and passenger comfort. We anticipate to capture a leading share of the 7,000 deliveries in the 100- to 150-seat aircraft market over the next 20 years.[(1)] Environmental regulations and the requirement to upsize from regional aircraft should provide positive growth for this segment of the market.

The 60- to 100-seat aircraft market should see substantial growth over the forecast period with demand for 5,700 aircraft worth $190 billion.[(1)(2)] Overall, demand for regional aircraft in the 60- to 100-seat aircraft market is expected to be approximately equally split between turboprops and jets in terms of units.

[(1)] According to our "Commercial Aircraft Market Forecast", published in June 2015 and available at ir.bombardier.com.
[(2)] Revenues are based on estimated segment 2014 list prices.

Customer services

Commercial Aircraft's worldwide customer services network includes wholly-owned or operated service centres, parts hubs, parts depots, regional support offices, customer response centres, mobile repair team, training centre, as well as authorized service facilities and authorized training providers.

The demand for customer services is driven by the size of the fleet of Bombardier commercial aircraft, the number of hours flown by said fleet and the average age of the fleet.

Customer services market indicators

Indicator	Current situation	Status
Installed base	The installed base for active in-service Bombardier commercial aircraft increased in 2016 to 2,326 aircraft compared to 2,210 in 2015.[1]	▲
Average daily flight hours	Based on our estimates, Bombardier aircraft average daily flight hours decreased by approximately 1.3% for commercial aircraft for the 12-month period ended October 31, 2016 compared to the same period last year.	▼
Average age of fleet	Typically, aircraft direct maintenance costs increase as an aircraft ages. Therefore, the average age of the fleet of Bombardier aircraft is expected to impact the size of the maintenance market. There has been a slight increase in the average age of the Bombardier commercial aircraft fleet in 2016 compared to 2015.[1]	▲

▲ ►▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

[1] Based on data obtained from Ascend fleet database by Flightglobal.

Short-term outlook

Historically, the U.S. represented the largest share of deliveries for commercial aircraft; however, wealth creation and economic development in non-traditional markets is driving a shift in the proportion of commercial aircraft delivered outside of the U.S. This trend in demand impacts the geographical layout of our support network. In the non-traditional markets, the strategy is to increase our local customer services presence and leverage third-parties to deploy the full span of services.

Long-term outlook

The continued growth of the installed base is expected to stimulate demand for customer services. While traditional markets such as North America and Europe should dominate in terms of market size, the fleet growth in non-traditional markets is accelerating and creating new opportunities for customer services.

In the next 10 years, commercial aircraft industry deliveries should see the highest growth rates in emerging economies such as South Asia and China. This growing demand, along with our customer services offerings, is expected to drive growth outside of traditional markets.[1]

Airline financial performance has been improving in the past years to achieve record high levels,[2] but margins are still driven by major cost drivers such as labour, maintenance, and fuel. Operators are increasingly relentless in managing costs, including focusing significant attention on managing maintenance expenses.

The global commercial air transport fleet stands at over 27,000 aircraft, approximately 33% of which are domiciled in North America and 25% of the global fleet is in Europe. Asia-Pacific, including China and India, has slightly more than 25% of the world's fleet.[3] This composition will change over the next 10 years. North America's share is expected to decline 7%, as its net growth is constrained by significant re-fleeting efforts of the large operators. The Asian markets are expected to see the highest growth rates, making it the largest world region over this forecast period and thus the centre of development for the maintenance, repair and overhaul (MRO) industry.[4]

The 2015 commercial air global MRO demand was $64.3 billion. It is expected to grow to $96 billion by 2025 at a CAGR of 4.1% per annum.[3]

[1] As stated in our "Commercial Aircraft Market Forecast", published in June 2015 and available at ir.bombardier.com.
[2] Per IATA's forecast in the "Economic Performance of the Airline Industry" December 2016 year-end report.
[3] According to the "MRO Market Update & Industry Trends" presentation at the Aviation Week MRO Europe on October 18-20, 2016 by ICF International.
[4] According to the "2016 Global Fleet and MRO Market Economic Assessment" report prepared by CAVOK, a division of Oliver Wyman.

ANALYSIS OF RESULTS

Strong execution while ramping up production of *C Series* aircraft

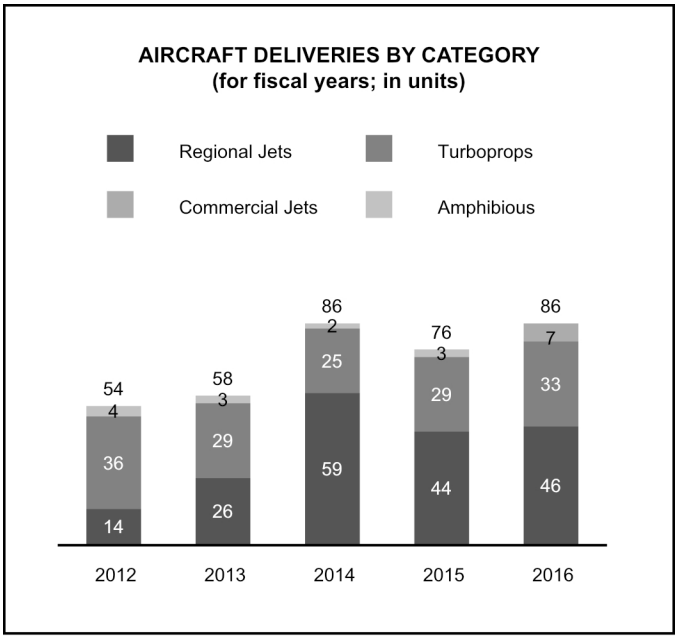
Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Revenues	**$ 699**	$ 644	**$ 2,617**	$ 2,395
EBITDA before special items[1]	**$ (127)**	$ (58)	**$ (353)**	$ (66)
Amortization[2]	**14**	29	**64**	104
EBIT before special items[1]	**(141)**	(87)	**(417)**	(170)
Special items	**3**	240	**486**	3,800
EBIT	**$ (144)**	$ (327)	**$ (903)**	$ (3,970)
EBIT margin before special items[1]	**(20.2)%**	(13.5)%	**(15.9)%**	(7.1)%
EBIT margin	**(20.6)%**	(50.8)%	**(34.5)%**	nmf

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.
[2] Amortization is included in cost of sales, SG&A and R&D expense based on the underlying function of the asset.

Revenues

The $55-million and the $222-million increases for the fourth quarter and the fiscal year, respectively, are mainly due to higher revenues from sales of new and pre-owned aircraft, partially offset by lower revenues due to the sale of our amphibious aircraft program.



Special items

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

The special items were as follows:

		Fourth quarters ended December 31		Fiscal years ended December 31	
	Ref	**2016**	2015	**2016**	2015
Onerous contracts provision - *C Series* aircraft program	1	**$ —**	$ —	**$ 516**	$ —
Pension obligation	2	**—**	—	**(33)**	—
Restructuring charge	3	**3**	—	**3**	(1)
Impairment and other charges - *C Series* aircraft program	4	**—**	—	**—**	3,249
Changes in estimates and fair value	5	**—**	—	**—**	312
Impairment charge - *CRJ1000* aircraft program tooling	6	**—**	240	**—**	240
		$ 3	$ 240	**$ 486**	$ 3,800
EBIT margin impact		**(0.4)%**	(37.3)%	**(18.6)%**	nmf

1. In conjunction with the closing of *C Series* firm orders in the second quarter of 2016, on a consolidated basis, we recorded an onerous contracts provision of $492 million, net of $24 million included in Corporate and Elimination.
2. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to $33 million was reversed.
3. In 2016, represents restructuring charges related to the restructuring actions announced in October 2016.

   The restructuring charge in 2015 related to an adjustment to a restructuring provision recorded in 2014.
4. Represents an impairment charge of $3.1 billion on aerospace program tooling, and inventory write-downs and other provisions of $179 million, following the completion of an in-depth review of the *C Series* aircraft program as well as discussions with the Government of Québec which resulted in the October 2015 memorandum of understanding. An offset of $14 million related to this special item is included in Corporate and Elimination.
5. Related to an increase in provisions for credit guarantees and RVGs as a result of changes in assumptions concerning residual value curves of regional aircraft due to difficult market conditions for regional pre-owned aircraft and a higher probability that the guaranteed party will exercise the RVG given the recent experience with respect to RVG and a loss on certain financial instruments due to changes in estimated fair value.
6. Represents an impairment charge of $240 million on the remaining *CRJ1000* aircraft program development costs. The impairment was due to the lack of recent order intake as well as low firm order backlog for the *CRJ1000* aircraft, mainly stemming from pilot scope clauses in the U.S., which have restricted the use, number and seating capacity of regional aircraft flying on behalf of network carriers. Over the near term, we do not anticipate scope clause relaxation in the U.S., during which time, we will not be able to sell the *CRJ1000* aircraft in the U.S. market. A charge of $3 million related to this special item is included in Corporate and Elimination.

EBIT margin

There was a significant increase in EBIT margin for the fourth quarter ended December 31, 2016 compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the fourth quarter decreased by 6.7 percentage points mainly as a result of:

- higher other expenses related to a net negative variance of provisions for credit and residual value guarantees and financial instruments carried at fair value; and
- losses related to the *C Series* aircraft program as a result of the ramp-up in production, mainly related to early production units.[1]

There was a significant increase in EBIT margin for the fiscal year compared to the same period last year. The EBIT margin before special items (see explanation of special items above) for the fiscal year decreased by 8.8 percentage points mainly as a result of:

- losses related to the *C Series* aircraft program as a result of the ramp-up in production, mainly related to early production units;[1]
- higher other expenses related to a net negative variance of provisions for credit and residual value guarantees and financial instruments carried at fair value; and
- lower margins related to aircraft deliveries.

Partially offset by:

- lower R&D expenses, mainly due to lower amortization of aerospace program tooling as a result of the lower carrying amount of the *CRJ* aircraft family program development costs; and
- a one-time write-down of used spares inventory related to the *CRJ200* aircraft program recorded in the third quarter of 2015.

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

Both variants of the game-changing *C Series* aircraft program achieved EIS

Investment in product development

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Program tooling[1]	**$ 113**	$ 220	**$ 365**	$ 937
R&D expense[2]	**2**	1	**4**	3
	$ 115	$ 221	**$ 369**	$ 940
As a percentage of revenues	**16.5%**	34.3%	**14.1%**	39.2%

[1] Net amount capitalized in aerospace program tooling, as well as the amount that was paid to suppliers upon delivery of the aircraft for acquired development costs carried out by them.

[2] Excluding amortization of aerospace program tooling of $10 million and $24 million, respectively, for the fourth quarter and fiscal year ended December 31, 2016 ($12 million and $60 million, respectively, for the fourth quarter and fiscal year ended December 31, 2015), as the related investments are already included in aerospace program tooling.

Program tooling additions relate to the development of the *C Series* aircraft program. For the fourth quarter and fiscal year ended December 31, 2016, program tooling additions declined compared to the same periods last year as the *C Series* aircraft program have been certified.

The carrying amount of commercial aircraft program tooling[1] as at December 31, 2016 was $2.6 billion, compared to $1.9 billion as at December 31, 2015. The increase in the net carrying value of commercial aircraft program tooling as at December 31, 2016 is mainly due to tooling additions for the *C Series* aircraft program.

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

Reconciliation of the carrying amount of aerospace program tooling

Balance as at December 31, 2015	$	1,914
Investment in product development		352
Acquired development costs carried out by vendors[1]		344
Amortization of aerospace program tooling		(24)
Balance as at December 31, 2016	**$**	**2,586**

(1) Amount recognized as aerospace program tooling at the first delivery of the *CS100* aircraft that is related to acquired development costs carried out by our vendors. The amount is a non-cash item as it is repayable upon future delivery of the aircraft and will impact the net additions to PP&E and intangible assets in the cash flow once the payments are made to the suppliers upon delivery of the aircraft.

The *C Series* aircraft program

The *CS100* airliner obtained its EASA and U.S. FAA type validations following the type certification received from Transport Canada. The first *CS100* aircraft was delivered to SWISS on June 29, 2016 and entered into commercial service on July 15, 2016.

After obtaining its type certification from Transport Canada, the *CS300* aircraft obtained EASA and U.S. FAA type validation. The first *CS300* aircraft was delivered to launch operator airBaltic on November 28, 2016 and the aircraft's first commercial flight took place on December 14, 2016.

Both the *CS100* and *CS300* are demonstrating a high level of reliability for an all-new aircraft.

Environmental Product Declaration

On September 26, 2016, an environmental product declaration (EPD®) on the *CS100* aircraft was published by the International EPD® System disclosing information about the aircraft's environmental impact throughout its life cycle. The publication of the EPD® was a first in the aerospace industry.

Same Type Rating

Transport Canada, the EASA and the FAA have concluded operational evaluations on the *CS100* and *CS300* aircraft and determined both models will share a common pilot type rating. The Same Type Rating (STR), which reflects more than 99 per cent parts commonality between the two aircraft, allows operators to benefit from the cost-effective, minimal training required to transition pilots from one model to the other. The aircraft's commonality also extends to maintenance procedures and ground handling and offers cost savings opportunities to customers.

Performance results

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

(1) Key performance targets under certain operating conditions when compared to aircraft currently in production for flights of 500 nautical miles.

Production ramp-up and customer support activities

Our focus will be to ramp up to full production, deliver aircraft and provide full support to our customers:

- The *C Series* aircraft's full-flight simulator is playing a significant role in pilot training for both aircraft variants.
- In June 2016, we launched the *C Series* aircraft program's new state-of-the-art Customer Response Centre (CRC) in Mirabel, Canada. The CRC, which is already supporting *C Series* customers, provides 24/7/365 access to technical services, engineering expertise and global material services.
- During the year, we announced 10-year and 5-year *Smart Parts* agreements with SWISS and airBaltic respectively. Under the agreements, we will provide comprehensive component maintenance, repair and overhaul services, access to a strategically located spare part exchange pool and on-site inventory based at the airlines' respective main hub.

Higher level of deliveries driven by EIS of both *C Series* aircraft models

Aircraft deliveries

	Fourth quarters ended December 31		Fiscal years ended December 31	
(in units)	**2016**	2015	**2016**	2015
Commercial jets				
CS100	**3**	—	**5**	—
CS300	**2**	—	**2**	—
Regional jets				
CRJ700	**—**	—	**1**	2
CRJ900	**5**	6	**37**	38
CRJ1000	**3**	3	**8**	4
Turboprops				
Q400	**10**	10	**33**	29
Amphibious	**—**	1	**—**	3
	23	20	**86**	76

Deliveries of commercial aircraft for the fiscal year ended December 31, 2016 increased compared to last year, mainly due to the EIS of the *C Series* family of aircraft in 2016.

For the three-year period ended December 31, 2016, we captured 29% of the market in the 60- to 100-seat category based on units delivered. This compares to a market share of 28% for the three-year period ended December 31, 2015.[(1)]

[(1)] Our estimates based on delivery data available from Ascend fleet database by Flightglobal.

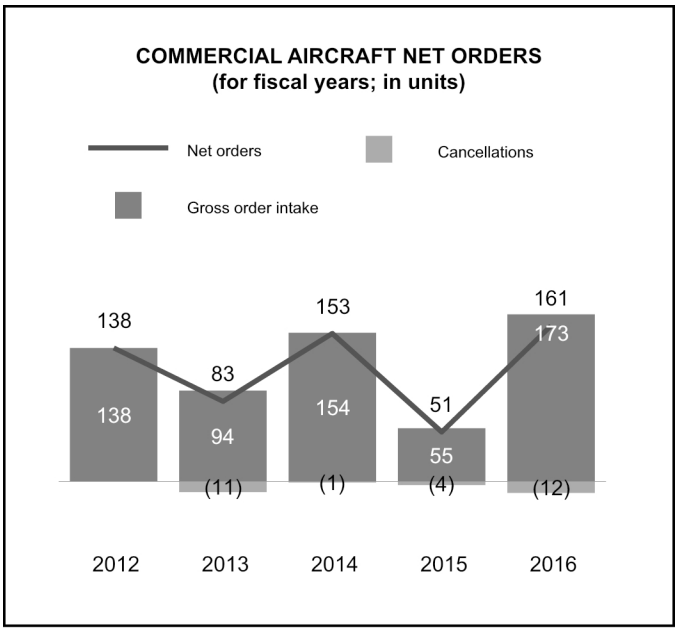
Pivotal year for *C Series* order intake

Net orders

	Fourth quarters ended December 31		Fiscal years ended December 31	
(in units)	**2016**	2015	**2016**	2015
Commercial jets				
CS100	**—**	—	**75**	—
CS300	**2**	—	**42**	—
Regional jets				
CRJ700	**—**	—	**—**	2
CRJ900	**—**	18	**19**	25
CRJ1000	**—**	—	**—**	(2)
Turboprops				
Q400	**7**	3	**25**	26
	9	21	**161**	51

The increase in orders in the year ended December 31, 2016 compared to last year is due to significant orders for the *C Series* family of aircraft in the second quarter of 2016.

The cancellations during the fiscal year ended December 31, 2016 is due to the August 2016 restructuring of the purchase agreement signed in 2013 with Moscow-based leasing company Ilyushin Finance Co. (IFC) to align with their current market needs. The firm order has been modified from 32 *CS300* aircraft with options for an additional 10 *CS300* aircraft to 20 *CS300* aircraft and one *Q400* turboprop with options for five additional *Q400* aircraft.



The following significant orders were received during the fiscal year ended December 31, 2016:

Customer	Firm order	Value[1]	Options[2]
Fourth quarter			
United Republic of Tanzania (Tanzania)[3]	2 *CS300* & 1 *Q400*	$ 200	—
Philippine Airlines, Inc. (Philippines)	5 *Q400*	$ 165	—
Second quarter			
Delta Air Lines, Inc. (U.S.)	75 *CS100*	$ 5,600	50 *CS100*
Air Canada (Canada)	45 *CS300*	$ 3,800	30 *CS300*
Air Baltic Corporation AS (Latvia)	7 *CS300*	$ 506	—
Industrial Bank Financial Leasing Co., Ltd. (also known as CIB Leasing) (China)	10 *CRJ900*	$ 472	—
WestJet Encore Ltd. (Canada)	9 *Q400*	$ 293	—
Chorus Aviation Inc. (Canada)	5 *CRJ900*	$ 229	—

(1) Value of firm order based on list prices.
(2) Not included in the order backlog.
(3) The aircraft will be operated by Air Tanzania.

Subsequent to the end of the fiscal year, Cityjet signed a firm purchase agreement for 6 *CRJ900* aircraft with options for an additional 4 aircraft. Based on list price, the firm order is valued at $280 million and could increase to $467 million if CityJet exercises all its options. This order is not included in the order backlog as at December 31, 2016.

Order backlog and book-to-bill ratio

Commercial aircraft order backlog and options

	As at December 31			
	2016		2015	
(in units)	**Firm orders**	**Options**	Firm orders	Options
Commercial jets				
CS100	**118** [(1)]	**99**	53 [(1) (2)]	49
CS300	**235** [(1)]	**133**	190 [(1) (2)]	113
Regional jets				
CRJ700	**9**	**—**	10	—
CRJ900	**26**	**18**	44	24
CRJ1000	**17**	**—**	25	9
Turboprops				
Q400	**31**	**12**	39	77
	436	**262**	361	272

(1) The total of 353 orders includes 137 firm orders with conversion rights to the other *C Series* aircraft model as at December 31, 2016 (total of 243 orders includes 86 firm orders with conversion rights to the other *C Series* aircraft model as at December 31, 2015).

(2) On June 15, 2015, we announced that launch operator SWISS has converted 10 of its 30 firm-ordered *CS100* aircraft to the larger *CS300* aircraft.

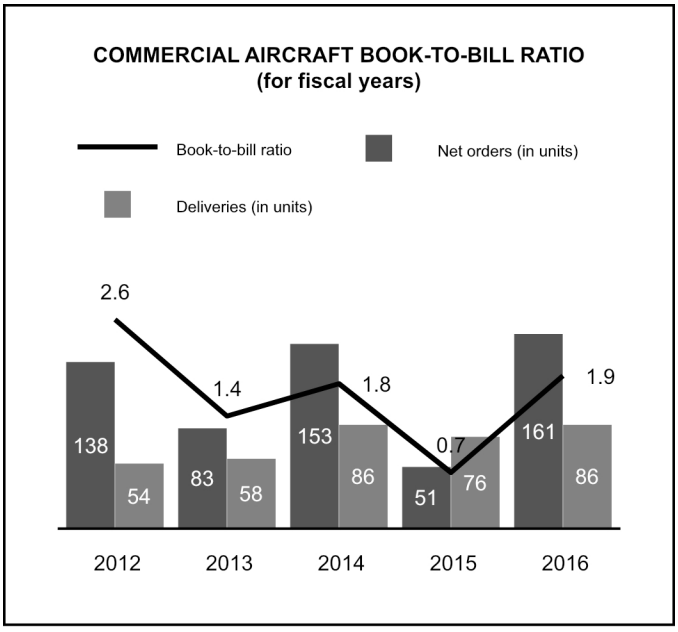
Book-to-bill ratio[(1)]

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Net orders	**9**	21	**161**	51
Deliveries	**23**	20	**86**	76
	0.4	1.1	**1.9**	0.7

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

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

Republic Airways Holdings Inc. (Republic) announced in February 2016 that it and certain of its subsidiaries have filed voluntary petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code. On October 20, 2016, Republic and Bombardier entered into an amendment, which provides for the deferral of the scheduled aircraft payments to Bombardier and the scheduled aircraft deliveries to Republic for the 40 *CS300* aircraft under the original purchase agreement. The U.S. Bankruptcy Court for the Southern District of New York approved the amendment on December 8, 2016.



Workforce

Total number of employees

	As at December 31	
	2016	2015
Permanent[1]	**4,800**	4,500
Contractual[2]	**550**	550
	5,350	5,050
Percentage of permanent employees covered by collective agreements	**42%**	38%

[1] Including inactive employees.
[2] Including non-employees and agency outsourced personnel.

The workforce as at December 31, 2016 increased by 300 employees, or 6%, when compared to previous year.

The increase is mainly related to a higher workforce to support the production ramp-up of the *C Series* aircraft program.

However, the increase was partially offset by initial impacts of our October 2016 announcement to take further restructuring actions, including streamlining administrative and non-production functions across the organization, workforce optimization and site specialization, partially offset by strategic hiring to support ramp-up for the *C Series* aircraft program as well as our growth strategy in aftermarket business.

Our incentive-based compensation plan for non-unionized employees across Commercial Aircraft sites rewards the collective efforts of our employees in achieving our objectives using performance indicator targets. A total of 2,800 employees worldwide, or 58% of permanent employees, participate in the program. In 2016, as part of this program, incentive-based compensation was linked to the achievement of targeted results, based on EBIT before special items and free cash flow.

STRATEGIC PARTNERSHIP

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

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

On June 30 and September 1, 2016, we received the investment in two installments of $500 million each. The proceeds of the investment are being used entirely for cash flow purposes of the *C Series* aircraft program. Under the terms of the limited partnership agreement, we have committed to invest additional capital contributions to CSALP up to a maximum amount of $1.0 billion in case of any liquidity shortfall in CSALP. Additional capital contributions by Bombardier would increase our ownership interest in CSALP.

Also on June 30 and September 1, 2016 we issued, in the name of Investissement Québec, warrants exercisable for a total number of 100,000,000 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.

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.

Subject to certain conditions, we have the right to repurchase Investissement Québec's interest in CSALP at fair market value.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	Latest guidance for 2016	What we did in 2016	What's next for 2017[1]
Growth and deliveries	Revenues of approximately $2.7 billion. Between 85 to 90 deliveries.	Revenues of $2.6 billion. 86 deliveries.	Revenues of approximately $2.9 billion. Between approximately 80 to 85 deliveries.
Profitability[2]	Negative EBIT before special items[2] of approximately $450 million, mainly due to the dilutive impact of the initial years of production of the *C Series* aircraft program.[3]	Negative EBIT before special items[2] of $417 million.	Negative EBIT before special items[2] of approximately $400 million, mainly due to the dilutive impact of the initial years of production of the *C Series* aircraft program.[3]

[1] See Forward-looking statements in boxed text below for details regarding the assumptions on which the guidance is based. Also see forward-looking statements disclaimer in Overview.

[2] Profitability guidance is based on EBIT before special items. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measure for 2016.

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

Update on 2016 guidance

In September 2016, we revised the delivery forecast for the *C Series* aircraft program for 2016, from 15 to 7 aircraft, as a result of engine delivery delays by our supplier Pratt & Whitney. Mainly as a result of this delivery adjustment, we updated Commercial Aircraft delivery guidance for 2016 from approximately 95 deliveries to between 85 to 90 aircraft. Also our free cash flow usage target for the *C Series* aircraft program in 2016 was revised to approximately $1.15 billion and total 2016 Commercial Aircraft revenues were revised from approximately $3.0 billion to approximately $2.7 billion. We delivered 2016 revenues of $2.6 billion on 86 deliveries, in line with our revised 2016 guidance.

In November 2016, following the successful EIS of the *C Series* aircraft program, we increased 2016 Commercial Aircraft profitability guidance from negative EBIT before special items[1] of approximately $550 million to approximately $450 million, based on strong execution while ramping-up production and cost control during the initial months following EIS, supported by the reliability of the *CS100* aircraft in service. For the full year, negative 2016 EBIT before special items[1] of $417 million exceeded our revised guidance as a result of continuing strong execution and cost control as the *CS300* aircraft entered into service.

[1] Profitability guidance is based on EBIT before special items. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measure for 2016.

Our strategy to achieve 2017 guidance

2017 is expected to see acceleration in the production ramp-up of the *C Series* aircraft family, to between 30 and 35 planned deliveries, in line with our five-year plan. Our production approach for the *CRJ Series* family and *Q400* aircraft will consist of rate adjustments to approximately 50 deliveries in 2017, reflecting our backlog.[1]

The profitability guidance for 2017 is negative EBIT before special items of approximately $400 million.[2] As production of the *C Series* aircraft program ramps up, we expect that the dilutive impact of the initial years of production of the aircraft program will be partially offset by the expected savings as we mature the production learning curve and leverage stronger operational performance driven by transformation initiatives.[1]

(1) See Forward-looking statements in boxed text below for details regarding the assumptions on which the guidance is based. Also see forward-looking statements disclaimer.
(2) Profitability guidance is based on EBIT before special items. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric.

Forward-looking statements:

Forward-looking statements[1] in this section of the MD&A are based on:

- deliveries based on current firm order backlog and estimated future order intake;[2]
- ability to ramp-up production and deliveries and meet planned costs of the *C Series* aircraft program, including learning curve improvements;
- our ability to strengthen our market position and product value proposition for the *CRJ Series* and *Q400* aircraft programs;
- the alignment of production rates to market demand;
- the continued deployment and execution of key transformation initiatives, especially those impacting direct and indirect procurement costs, labour efficiency and working capital improvement;
- our ability to recruit and retain highly skilled resources;
- the ability of our supply base to support planned production rates;
- competitive global environment and global economic conditions to remain similar; and
- stability of foreign exchange rates.

(1) Also see the Guidance and forward-looking statements section in Overview.
(2) Demand forecast is based on the analysis of main market indicators, including real GDP growth, passenger traffic levels, fuel prices, airline profitability, environmental regulations, aircraft shipments, replacement demand, installed base, aircraft utilization rates and average age of fleet. For more details, refer to the market indicators in the Industry and economic environment section.

AEROSTRUCTURES AND ENGINEERING SERVICES

The data presented in this MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure. See the Non-GAAP financial measures section in Overview for further detail.

KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and associated metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Revenue, as a measure of growth. • Market share in terms of revenues, as a measure of our competitive positioning.
Profitability	• EBIT, EBIT margin, EBIT before special items[(1)] and EBIT margin before special items[(1)], as measures of performance.
Liquidity	• Free cash flow[(1)], as a measure of liquidity generation.
Customer satisfaction	• On-time delivery of aerostructures, as a measure of meeting our commitment to customers.
Execution	• Achievement of program development milestones, as a measure of flawless execution.

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

HIGHLIGHTS OF THE YEAR

Contributing to Bombardier's improved operating performance

REVENUES	EBIT MARGIN	EBIT MARGIN BEFORE SPECIAL ITEMS[1]
$1.5 billion	**8.3%**	**8.0%**

RESULTS			
For the fiscal years ended December 31	**2016**	2015	Variance
Revenues	**$ 1,549**	$ 1,797	(14)%
External order intake	**392**	474	(17)%
External book-to-bill ratio[2]	**0.9**	0.9	—
EBIT	**$ 128**	$ 105	22 %
EBIT margin	**8.3%**	5.8%	250 bps
EBIT before special items[1]	**$ 124**	$ 104	19 %
EBIT margin before special items[1]	**8.0%**	5.8%	220 bps
EBITDA before special items[1]	**$ 175**	$ 154	14 %
EBITDA margin before special items[1]	**11.3%**	8.6%	270 bps
Net additions to PP&E and intangible assets	**$ 20**	$ 26	(23)%
As at December 31	**2016**	2015	
External order backlog	**$ 42**	$ 80	(48)%

(1) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section for reconciliations to the most comparable IFRS measures.
(2) Ratio of new external orders over external revenues.

KEY HIGHLIGHTS AND EVENTS

- We have achieved revenue and profitability guidance for 2016.
- In February 2016, we decided to optimize our workforce with a combination of manpower reductions and strategic hiring. Approximately 80% of these 2,500 workforce reductions were achieved during fiscal year 2016. In October 2016, we announced further restructuring actions, including streamlining administrative and non-production functions across the organization, workforce optimization and site specialization, partially offset by strategic hiring to support ramp-up for the *C Series* aircraft program and *Global 7000* and *Global 8000* aircraft program.

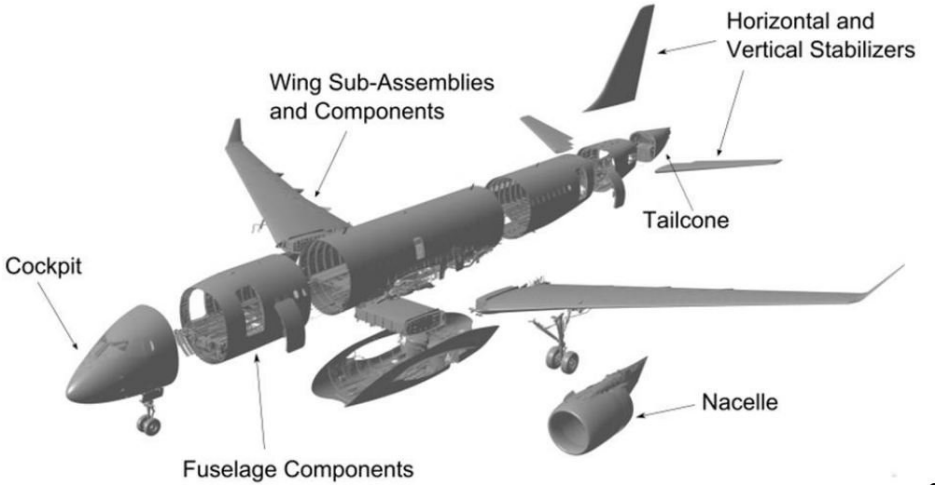
PROFILE

World class capabilities

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

Our people, capabilities and state-of-the-art technologies provide customers with products and services in the following areas:

- Design, manufacturing and aftermarket support for complex composite and metallic aerostructures, including:
  - cockpit and fuselage components;
  - horizontal stabilizers, vertical stabilizers and tailcones;
  - complete composite wings, including wing sub-assemblies and components; and
  - engine nacelles.
- Design, manufacturing and aftermarket support for associated aircraft systems including:
  - electrical harnesses;
  - tubing components; and
  - high pressure ducting.
- Engineering solutions including:
  - aircraft structures design and stress analysis; and
  - ground test services.



We are present on four continents including manufacturing and engineering sites in Montréal, Canada; Belfast, Northern Ireland; Querétaro, Mexico; and Casablanca, Morocco. In addition, there are service centres in Dallas, U.S. and in Belfast, Northern Ireland, which provide maintenance services for structures, including major modifications and repairs.

INDUSTRY AND ECONOMIC ENVIRONMENT

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

The following key indicators are used to monitor the health of the aerostructures and engineering services industry in the short term:

Indicator	Current situation	Status
Number of new products in development or upgrades to existing platforms by original equipment manufacturers	Development of new single-aisle products could be launched in the next decade while other new programs are expected to enter the market from China and Russia.[1] In the business aircraft market, several new programs are expected to enter into service by 2020.[2]	▲
Original equipment manufacturer production rates / units delivered	The order backlogs of commercial aircraft original equipment manufacturers in the industry remain at strong levels.[3] Bombardier is ramping-up its *C Series* aircraft program. Despite the fact that certain original equipment manufacturers decreased production rates on business aircraft programs, the market is expected to continue its stabilization.[4]	▲

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

(1) Based on "Counterpoint Market Intelligence Limited (CPMIL) 2016 - The twelfth review of the Aerostructures Market" from Counterpoint.

(2) Based on our "Business Aircraft Market Forecast", published in May 2016 and available on Bombardier's dedicated investor relations website at ir.bombardier.com.

(3) Based on "Morgan Stanley Research, Airlines+A&D Update" dated January 23, 2017.

(4) Refer to the Industry and economic environment section in Business Aircraft for details.

Given that the industry's revenues are generated from original equipment manufacturers in the aerospace market, it is subject to the same industry and economic drivers described in Business Aircraft and Commercial Aircraft. Refer to the Industry and economic environment sections of Business Aircraft and Commercial Aircraft for further discussion of the overall aerospace market which influences the aerostructures business.

The current status of some market drivers are expected to have a positive impact over the short-term for the aerostructures industry. The commercial aircraft market continues its strong performance as passenger traffic levels and airline financial performance maintained impressive levels in 2016. Meanwhile, we project the continued stabilization of the business jet market due to a better economic outlook combined with the introduction of new aircraft models and technologies, as supported by the markedly improved industry confidence to above the threshold of market stability,[1] increased U.S. corporate profits and a stable level of pre-owned aircraft inventory. Overall, we remain confident in the long-term potential for significant growth in the aircraft industry.

In 2016, a referendum took place whereby British citizens voted to exit the European Union, commonly known as "Brexit", which could create uncertainty in the region.

The long-term outlook for Aerostructures and Engineering Services remains strong. Our relevant and accessible market for aerostructures and related aftermarket (including components repair and overhaul, spare parts and other engineering services) is currently estimated to be a $63-billion market worldwide, with forecast annual growth of 3.9% to 2026.[2] The market is predominantly composed of the manufacture of wings and fuselages, mostly for large commercial aircraft.

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

(2) Our relevant and accessible aerostructures market is the world market for civil aviation aerostructures and aftermarket services, excluding the share of markets associated with contracts that are awarded to local players without open competition. Based on data from "Counterpoint Market Intelligence Limited (CPMIL) 2016 - The twelfth review of the Aerostructures Market" from Counterpoint and "ICF International - Aerostructures & Components MRO Market Overview, April 28, 2016".

ANALYSIS OF RESULTS

Stronger operational performance

Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Revenues				
Intersegment revenues	**$ 215**	$ 321	**$ 1,119**	$ 1,290
External revenues	**104**	122	**430**	507
	$ 319	$ 443	**$ 1,549**	$ 1,797
EBITDA before special items[1]	**$ 42**	$ 3	**$ 175**	$ 154
Amortization[2]	**12**	12	**51**	50
EBIT before special items[1]	**30**	(9)	**124**	104
Special items	**6**	—	**(4)**	(1)
EBIT	**$ 24**	$ (9)	**$ 128**	$ 105
EBIT margin before special items[1]	**9.4%**	(2.0)%	**8.0%**	5.8%
EBIT margin	**7.5%**	(2.0)%	**8.3%**	5.8%

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.
[2] Amortization is included in cost of sales, SG&A and R&D expense based on the underlying function of the asset.

Revenues

The $124-million decrease for the three-month period is due to:

- lower intersegment revenues ($106 million), mainly due to lower volume for business and commercial regional aircraft, due to rate adjustments; and
- lower external revenues ($18 million), mainly due to lower volume, partially offset by an increase in aftermarket sales.

The $248-million decrease for the fiscal year is due to:

- lower intersegment revenues ($171 million), mainly due to lower volume for business aircraft related to production rate decreases implemented in 2015, partially offset by higher volume for the *C Series* aircraft program related to the production ramp-up; and
- lower external revenues ($77 million), mainly due to lower volume, partially offset by an increase in aftermarket sales.

Special items

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

The special items for fiscal year 2016 represent:

- a $43-million decrease in the pension obligation. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation was reversed; and
- restructuring charges of $39 million related to the restructuring actions announced in February and October 2016, of which $6 million was recognized in the fourth quarter.

The special item in fiscal year 2015 related to an adjustment to a restructuring provision recorded in 2014.

EBIT margin

The EBIT margin for the fourth quarter ended December 31, 2016 increased by 9.5 percentage points compared to the same period last fiscal year. The EBIT margin before special items (see explanation of special items above) for the fourth quarter increased by 11.4 percentage points, mainly as a result of the following items, which include timing elements:

- higher margins on intersegment commercial aircraft contracts, mainly due to the recognition of expected losses on early units of the *C Series* aircraft program, under long-term contract accounting recognized in 2015, partially offset by lower margins on regional aircraft;
- lower pension expense as a result of changes to a pension plan under a new collective agreement executed in 2015, which increased retirement benefit obligations in 2015; and
- higher margin on aftermarket sales.

The EBIT margin percentage for the fiscal year ended December 31, 2016 increased by 2.5 percentage points compared to last fiscal year. The EBIT margin before special items (see explanation of special items above) for the fiscal year increased by 2.2 percentage points, mainly as a result of:

- the recognition of lower expected losses on early units of the *C Series* aircraft program, under long-term contract accounting;
- higher margins on external contracts, mainly due to lower costs resulting from improved performance, as well as improved pricing;
- lower pension expense as a result of changes to a pension plan under a new collective agreement executed in 2015, which increased retirement benefit obligations in 2015; and
- higher margin on aftermarket sales.

Order backlog and book-to-bill ratio

External order backlog

	As at	
	December 31, 2016	December 31, 2015
	$ 42	$ 80

External order intake and book-to-bill ratio

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
External order intake	**$ 84**	$ 103	**$ 392**	$ 474
External book-to-bill ratio[(1)]	**0.8**	0.8	**0.9**	0.9

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

Workforce

Total number of employees

		As at
	December 31, 2016	December 31, 2015
Permanent[1]	**8,950**	10,400
Contractual[2]	**1,050**	1,700
	10,000	12,100
Percentage of permanent employees covered by collective agreements	**70%**	70%

[1] Including inactive employees.
[2] Including non-employees and agency outsourced personnel.

The workforce as at December 31, 2016 decreased by 2,100 employees, or 17%, when compared to last year.

This reduction is mainly related to our decision, in February 2016, to take steps to optimize our workforce with a combination of manpower reduction and strategic hiring in line with our transformation plan. Aerostructures and Engineering Services planned to reduce its workforce by an estimated 2,500 production and non-production employees throughout 2016 and 2017.[1] Approximately 80% of these 2,500 workforce reductions were achieved during fiscal year 2016.

In October 2016, we announced further restructuring actions, including streamlining administrative and non-production functions across the organization, workforce optimization and site specialization, partially offset by strategic hiring to support ramp-up for the *C Series* aircraft program and *Global 7000* and *Global 8000* aircraft program as well as our growth strategy in aftermarket business.

Our incentive-based compensation plan for non-unionized employees across our sites rewards the collective efforts of our employees in achieving our objectives using performance indicator targets. A total of 3,400 employees worldwide, or 38% of permanent employees, participate in the program. In 2016, as part of this program, incentive-based compensation was linked to the achievement of targeted results, based on EBIT before special items and free cash flow.

Our agreement with Unite the Union and the General Machinists & Boilermakers in Belfast, Northern Ireland, expired in January 2016. We are currently in discussion with the union to renew the collective agreement.

[1] Forward-looking statement. See the forward-looking statements disclaimer.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	Latest guidance for 2016	What we did in 2016	What's next for 2017[1]
Growth	Revenues of approximately $1.6 billion, mainly from intersegment contracts with Business Aircraft and Commercial Aircraft.	Revenues of $1.5 billion, of which $1.1 billion was from intersegment contracts.	Revenues of approximately $1.7 billion, mainly from intersegment contracts with Business Aircraft and Commercial Aircraft.
Profitability[2]	EBIT margin before special items[2] of approximately 8.0%.	EBIT margin before special items[2] of 8.0%.	EBIT margin before special items[2] above 8.5%.

Update on 2016 guidance

In November 2016, we revised Aerostructures and Engineering Services' revenue guidance for 2016 from approximately $1.8 billion to approximately $1.6 billion, mainly due to production alignment with our internal customers, Business Aircraft and Commercial Aircraft. Our 2016 revenue of $1.5 billion is in line with our revised guidance.

In addition, we increased our profitability guidance[2] for 2016 from approximately 7.5% to approximately 8.0%, mainly driven by transformation initiatives benefiting mostly the second half of 2016. Our 2016 EBIT before special items[2] of 8.0% is in line with our revised guidance.

Our strategy to achieve 2017 guidance

2017 revenues are expected to improve to approximately $1.7 billion driven by intersegment contracts with Business Aircraft and Commercial Aircraft, which includes the ramp-up of *C Series* aircraft program cockpit and wing production. 2017 is expected to see margin expansion to EBIT before special items[2] above 8.5% leveraging stronger operational performance driven by transformation initiatives.[1]

[1] See Forward-looking statements in boxed text below for details regarding the assumptions on which the guidance is based. Also see forward-looking statements disclaimer in Overview.
[2] Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measure for 2016.

Forward-looking statements:

Forward-looking statements[1] in this section of the MD&A are based on:

- a higher level of production in fiscal year 2017 compared to fiscal year 2016;[2]
- ability to ramp-up production and deliveries and meet planned costs of the *C Series* aircraft program, including learning curve improvements;
- the continued deployment and execution of key transformation initiatives, especially those impacting direct and indirect procurement costs, labour efficiency and working capital improvement;
- the ability of our global manufacturing footprint to leverage lower cost geographies and emerging economies;
- our ability to meet scheduled EIS dates and planned costs for new aircraft programs;
- our ability to recruit and retain highly skilled resources;
- the ability of our supply base to support our planned production rates;
- competitive global environment and global economic conditions to remain similar; and
- stability of foreign exchange rates.

[1] Also see the Guidance and forward-looking statements section in Overview.
[2] Demand forecast is based on the main market indicators including number of new products in development or upgrades to existing platforms by original equipment manufacturers and production rates. For details refer to the market indicators in the Industry and economic environment section.

TRANSPORTATION

The data presented in this MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure. See the Non-GAAP financial measures section in Overview for further detail.

KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and associated metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Order backlog, as a measure of future revenues. • Book-to-bill ratio[1], as an indicator of future revenues. • Revenues by product segments and the geographic diversification of revenues, as measures of growth and sustainability of competitive positioning. • Market position, as a measure of our competitive positioning.
Profitability	• EBIT, EBIT margin, EBIT before special items[2] and EBIT margin before special items[2], as measures of performance.
Liquidity	• Free cash flow[2], as a measure of liquidity generation.
Customer satisfaction	• Various customer satisfaction metrics, focusing on the four main dimensions: sales and prices, customer orientation, project execution and product offering.
Execution	• Achievement of product development and delivery milestones, as a measure of flawless execution.

[1] Defined as new orders over revenues.

[2] Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section for reconciliations to the most comparable IFRS measures in 2016 and 2015.

HIGHLIGHTS OF THE YEAR

Transformation supporting margin growth and strong order intake

REVENUES	EBIT MARGIN	EBIT MARGIN BEFORE SPECIAL ITEMS[1]	ORDER INTAKE	ORDER BACKLOG
$7.6 billion	**5.2%**	**7.4%**	**$8.5 billion**	**$30.1 billion**

RESULTS

For the fiscal years ended December 31	2016	2015	Variance
Revenues	**$ 7,574**	$ 8,281	(9)%
Order intake (in billions of dollars)	**$ 8.5**	$ 8.8	(3)%
Book-to-bill ratio[2]	**1.1**	1.1	—
EBIT	**$ 396**	$ 465	(15)%
EBIT margin	**5.2%**	5.6%	(40) bps
EBIT before special items[1]	**$ 560**	$ 465	20 %
EBIT margin before special items[1]	**7.4%**	5.6%	180 bps
EBITDA before special items[1]	**$ 657**	$ 564	16 %
EBITDA margin before special items[1]	**8.7%**	6.8%	190 bps
Net additions to PP&E and intangible assets	**$ 116**	$ 155	(25)%
As at December 31	**2016**	2015	
Order backlog (in billions of dollars)	**$ 30.1**	$ 30.4	(1)%

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

(2) Defined as new orders over revenues.

KEY HIGHLIGHTS AND EVENTS

- Our operational transformation is gaining traction. During 2016, the EBIT margin before special items[1] of 7.4% exceeded our profitability guidance. Our 2016 revenues of $7.6 billion are lower than guidance, which is mainly attributed to our active project management resulting in the continued deferral of certain revenue under long-term contract accounting.
- Strong order intake of $8.5 billion across all product segments and geographic regions, leading to a book-to-bill ratio of 1.1 for the fiscal year and bringing the backlog to $30.1 billion at year end:
  - In September 2016, we signed contracts with Angel Trains and Abellio Greater Anglia in the U.K. to supply 665 *AVENTRA* vehicles and maintenance services for Abellio's East Anglia rail franchise. The contracts are valued at a total of $1.2 billion;
  - In November and December 2016, SNCF in France exercised options for 40 *OMNEO* Premium double deck Electrical Multiple Units (EMUs) and 52 additional Francilien EMUs for a total value of $990 million;
  - In December 2016, we signed a framework agreement with Austrian Federal Railways (ÖBB), Austria, for the delivery of up to 300 *TALENT* 3 EMUs, valued at up to $1.9 billion based on list price, under which ÖBB holds several call-offs for trainsets to be used for regional and suburban rail transport. The first call-off order under the framework contract for 21 *TALENT* 3 EMUs was also signed in December and is valued at $156 million based on list price.
- On February 11, 2016, we closed the sale to the CDPQ of a $1.5-billion equity investment in convertible shares representing a 30% stake in Bombardier Transportation (Investment) UK Limited (BT Holdco), which following the completion of a corporate reorganization, owns essentially all of the assets and liabilities of Bombardier's Transportation business segment. BT Holdco continues to be controlled by Bombardier Inc. and consolidated in its results.

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

- Continually driving new state-of-the-art mobility solutions:
  - In September 2016, we launched our *TALENT* 3 trains and introduced our *MOVIA* Maxx platform concept and *OPTIFLO* signalling system at InnoTrans, the world's largest fair for transport technology, held in Berlin, Germany.
  - In December 2016, Kuala Lumpur's new *INNOVIA* Metro 300 system started passenger service. The new driverless trains are equipped with Linear Induction Motor propulsion technology allowing for operation on tighter curves, with less noise and greatly reduced wheel and track wear.
- During fiscal year 2016, the workforce reductions of approximately 3,200 employees in Transportation announced in February 2016 were achieved, and we recognized restructuring charges of $159 million in special items. In October 2016, as we continue our transformation plan, we announced further restructuring actions, including streamlining our administrative and non-production functions across the organization and leveraging our worldwide footprint to create centres of excellence for design, engineering and manufacturing activities. The impact of these restructuring actions on overall employment will be partially offset by strategic hiring to support major rail contract wins as well as our growth strategy in aftermarket business.

PROFILE

The broadest and most innovative portfolio in the industry serving customers worldwide

Transportation offers a portfolio of efficient products and services in the rail industry, covering the full spectrum of rail solutions, ranging from complete trains to sub-systems, services, system integration and signalling. Based on this suite of innovative technologies, we have won orders across all product segments and major geographies, underlining the competitiveness of our products and services worldwide.

We have production and engineering sites and service centres around the world. The global headquarters is located in Berlin, Germany.

MARKET SEGMENT: ROLLING STOCK

INTERCITY, HIGH-SPEED TRAINS, AND VERY HIGH-SPEED TRAINS

Application: Equipment for medium and long-distance operations.

Major products: *REGINA*, *TWINDEXX* Express and *ZEFIRO* family

Key features: Solutions offering very high operating flexibility, high comfort and safety standards for the passengers in combination with high efficiency, covering the full spectrum of speed requirements: intercity (160-200 km/h), high-speed (200-250 km/h) and very high-speed (250-380 km/h).

ZEFIRO very high speed train

COMMUTER AND REGIONAL TRAINS

Application: Suburban and regional rail transit for urban centres and surrounding regions.

Major products: *AVENTRA*, *OMNEO*, *SPACIUM*, *TALENT* 2, *TALENT* 3, *TWINDEXX* Vario, *ELECTROSTAR*

Key features: Broad product line featuring electric, diesel and dual mode multiple unit trains/vehicles, along with locomotive-hauled coaches in both single- and double-deck configurations. Our modular train platforms offer very high flexibility to transit authorities and operators, as well as high levels of comfort and capacity.

AVENTRA Electric Multiple Unit

LIGHT RAIL VEHICLES

Application: Efficient surface transit in urban centres and surrounding suburban conurbations.

Major products: *FLEXITY* family (*FLEXITY* 2, ELF, Freedom, High / Low Floor and Tram-Train)

Key features: Our broad portfolio of *FLEXITY* vehicles feature high technical capabilities and performance coupled with low life-cycle costs. Based on adaptable modular platforms our vehicle range offers a full spectrum of smart innovative light rail solutions to enhance the connectivity and identity of cities worldwide.

FLEXITY tram

METROS

Application: High-capacity mobility for urban mass transit.

Major products: *MOVIA* and *INNOVIA* platforms

Key features: Flexible modular product platform adaptable to the requirements of customers across diverse markets, with a track record for rapid, reliable, cost and energy efficient operation, including driverless solutions. In January 2017, we won a GOOD DESIGN™ award for the design of our Swedish *MOVIA* Metro C30 project for the city of Stockholm.

ELECTRIC AND DIESEL LOCOMOTIVES

Application: Locomotives for intercity, regional and freight rail service.

Major products: *TRAXX* platform, *ALP* electric and dual-power locomotives

Key features: Versatile product platform offering electric, diesel-electric, dual-power and multi-system propulsion, last-mile diesel or battery drive features. Innovative solutions increase power and reliability in combination with high energy efficiency. Homologated in several countries in Europe, enabling cross-border service.

TRAXX dual power locomotive

PROPULSION AND CONTROLS

Application: Complete propulsion and control product portfolio for all rail vehicles and e-mobility applications, delivering electric power to the wheels and the rest of the vehicles with strong reliability, power efficiency and high safety.

Major products: Products of the *MITRAC* platform, including traction and auxiliary converters for underframe, rooftop and machine room mounting; drives (motors and gears), train control management systems (TCMS), high voltage equipment and complete system solutions. Innovative train to wayside communication solutions round off the portfolio.

Key features: A leader in reliability, modular design, high safety (SIL 2 compliance), energy efficiency, integration of new technologies and ease of maintenance, which keep initial investments and life cycle costs low.

BOGIES

Application: *C*omplete spectrum of bogies which match the entire range of *Bombardier* vehicles as well as third-party rail vehicles around the globe.

Major products: *FLEXX* bogies portfolio including latest technologies: *FLEXX* Eco, *FLEXX* Urban, *FLEXX* Speed, *FLEXX* Power and the award-winning *WAKO* Technology

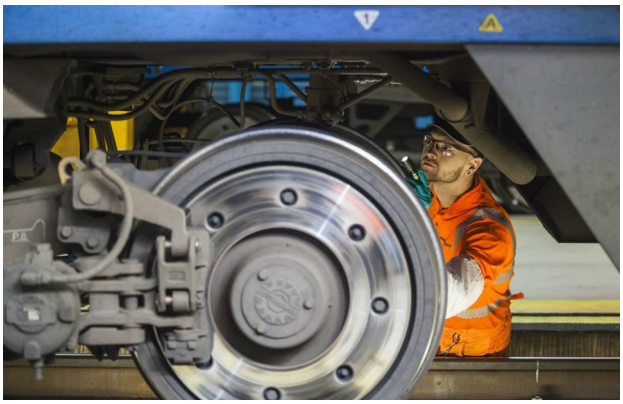
Key features: Advanced product technology and complete aftermarket services covering the full spectrum of rolling stock applications. Our track-friendly bogies are designed to ensure safe and smooth operation and reduce wheel and rail wear, minimizing operational costs and noise.

MARKET SEGMENT: SERVICES

MATERIAL SOLUTIONS

Application: Supply chain, spare parts inventory management, obsolescence management and technical support services for rail operators.

Key features: Advanced material supply solutions together with global engineering and purchasing power through global network of parts and components suppliers. Logistics capability to source and deliver what is needed, when needed, where needed.



FLEET MANAGEMENT

Application: Comprehensive portfolio of fleet and operations management services.

Key features: Robust and effective 'back office' solutions support rail operators in delivering their 'front line' service every day. Engineering expertise, whole life maintenance techniques and tools optimize availability, reliability, punctuality, safety and cost over the whole life cycle of the fleet.

ASSET LIFE MANAGEMENT, COMPONENT RE-ENGINEERING AND OVERHAUL

Application: Upgrade, life extension and overhaul of rail vehicles and components.

Key features: Broad portfolio of system and component upgrades executed at our specialized facilities and customer sites. We leverage our engineering and supply chain strength to bring operational performance and whole life cost advantages.

MARKET SEGMENT: SYSTEM AND SIGNALLING

MASS TRANSIT AND AIRPORT SYSTEMS

Application: Fully Automated People Mover (APM), metro, monorail and light rail systems.

Major products: *INNOVIA* APM 300 system, *INNOVIA* Monorail 300 system, *INNOVIA* Metro 300 system, *FLEXITY* 2 tram system

Key features: Broad rolling stock portfolio for urban and airport applications that can be customized to provide a complete turnkey system solution. Strong track record for reliability and availability across 60 complete systems around the world.

INNOVIA Monorail 300 system

MAINLINE SYSTEMS

Application: System solutions for intercity and high-speed applications covering medium- to long-distance operations.

Key features: Turnkey approach to provide reliable rail systems for mainline applications featuring very high passenger comfort and safety standards. Highly experienced in systems integration and engineering.

OPERATIONS AND MAINTENANCE OF SYSTEMS

Application: Operations and maintenance (O&M) services for fully automated transit and mass transit systems.

Key features: Strong O&M experience in automated, driverless technologies, including APM, metro and monorail systems, as well as fleet management solutions for urban and intercity transportation systems.

MASS TRANSIT SIGNALLING

Application: Rail control and signalling solutions for mass transit systems such as metros, light rail or APMs.

Major products: *CITYFLO* solution

Key features: Complete portfolio of solutions ranging from manual applications (GoA 0) to fully automated Communication-Based Train Control (GoA 4), which helps to increase infrastructure capacity and can be installed without interruption to service.

MAINLINE SIGNALLING

Application: Rail control and signalling solutions for mainline railways ranging from freight traffic to regional and commuter, intercity and very high speed lines.

Major products: *INTERFLO* and *EBI* Cab Automatic Train Control onboard equipment

Key features: Complete portfolio ranging from conventional signalling systems to communication based solutions using the European Rail Traffic Management System technology, operating in several countries inside and outside of Europe.

INTERFLO mainline signaling

INDUSTRIAL SIGNALLING

Application: Rail control and signalling solutions for the industrial sector, major applications in the surface and sub-surface mining and industrial freight industries.

Major products: *INTERFLO* 150 solution

Key features: Innovative signalling system technologies used to increase transport capacity in a secure and cost effective manner. Our technology covers the whole process, enhancing not only the underground operation, but also the transfer of ore from the excavation site to the transportation hub.

OPTIFLO - SERVICE SOLUTIONS FOR SIGNALLING

Application: Comprehensive portfolio of services for mass transit, mainline and industrial sector rail infrastructure and signalling solutions.

Key features: Infrastructure management, technical support, cyber security assessment and other service solutions tailored to ensure the highest levels of availability and reliability as well as cost effective maintenance of rail control and signalling solutions.

INDUSTRY AND ECONOMIC ENVIRONMENT

Good prospects for the rail industry and urban mobility solutions worldwide

The future outlook for the rail market remains positive supported by favourable long-term trends in the rail industry. Urbanization, population growth, and government policies aimed at reducing greenhouse gas emissions are expected to continue to positively impact demand for public transportation.

The following key indicators are used to monitor the health of the rail market:

Indicator	Current situation	Status
Population growth and mass urbanization	The worldwide population is expected to increase from approximately 7.3 to 9.7 billion by 2050, together with the share of people living in urban areas growing from 54% to 66% in the same time period.[1] Population growth and urbanization create an increasing demand for high capacity public transport solutions especially in congested cities and areas.	▲
Environmental awareness	Governments increasingly commit to long-term climate and energy goals. Measures to reach these goals include investments in eco-friendly transport solutions such as rail transport. Rail is responsible for 3.5% of the transport energy-related CO_2 emissions compared to 73.5% for road transportation.[2]	▲
Public funding	Most of the rolling stock business is conducted with rail operators backed by the public sector. Rail infrastructure investments are expected to grow, as governments and multilateral institutions continue to fund projects in the rail industry to support and foster economic development. However public indebtedness and austerity measures may impede public tender processes for some new rail projects.	▲
Liberalization	Liberalization attracts more private operators to enter the market and invest in new rail equipment and services. The European Commission supports the liberalization of domestic passenger rail services within the European Union.	▲
Digitalization	The world is entering into the fourth industrial revolution broadly called the “digital industry revolution“. Rail has already introduced this fourth revolution technology and is projected to continue to develop digitalized mobility solutions in order to help operators improve train punctuality and reliability and passenger experience. While better serving our customers, digitalization of our manufacturing tools and processes will change our way of working, reducing complexity, development costs and ensuring faster time-to-market.	▲

▲ ►▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on our view of the current environment.

[1] According to the United Nations: “World Urbanization Prospects: The 2014 Revision” and “World Population Prospects: The 2015 Revision”.

[2] According to the International Union of Railways: “Railway Handbook 2016. Energy Consumption & CO_2 Emissions”.

The Association of the European Rail Industry (UNIFE) confirmed its positive outlook for the global rail industry in its World Rail Market Study published in September 2016. The study expects the overall accessible rail market[1] to grow with a CAGR of 3.2% over the next five years, compared to a CAGR of 2.7% in the previous survey from 2014. Transportation’s relevant and accessible market[1] is expected to grow even faster with a CAGR of 3.4% over the next 5 years, compared to a CAGR of 2.5% in the previous survey.[2]

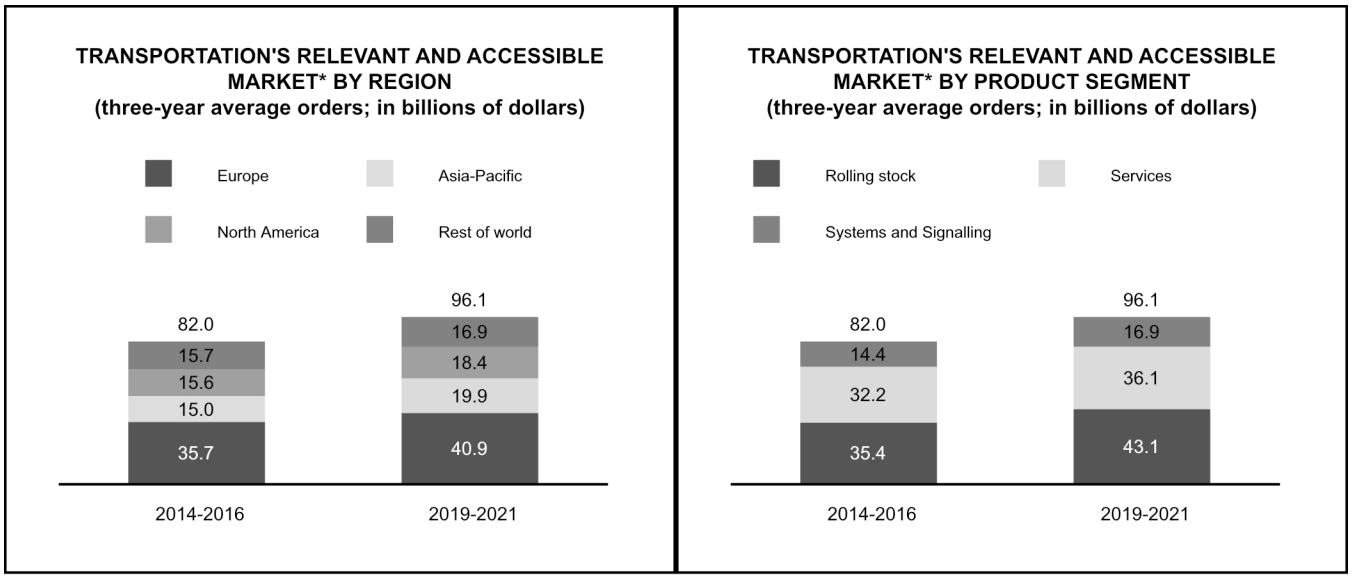
The positive future market outlook is mainly based on mature rail markets such as Western Europe and North America, which are consistently investing in the modernization and replacement of their rolling stock fleets. Furthermore, investments to upgrade and modernize signalling systems will further drive established rail markets such as Western Europe.

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

[2] Based on data from UNIFE World Rail Market Study “Forecast 2016 to 2021” published in September 2016, based on 60 countries representing more than 95% of the world rail market. As large rail projects may significantly impact yearly volume, single year market volumes can be subject to a high degree of volatility. UNIFE therefore focuses on three-year average annual market volumes in order to facilitate comparison between different periods. UNIFE data is updated every two years and is published in euro. An exchange rate of 1€ = $1.1826, the average cumulative exchange rate over the 2014-16 period, was used to convert all figures. Figures for 2014-16 were extrapolated based on UNIFE data for 2013-15 and 2016-18.

The accessible rail control market is also expected to pursue high relative growth in Eastern Europe, Asia-Pacific and the CIS. Supported by a growing rolling stock installed base and gradual liberalization, the services market is expected to grow. Particularly in mature markets, smaller private rail operators emerge and often outsource their maintenance requirements while larger incumbents tend to further outsource their services needs which, to date, were mostly performed in-house.

From a legislation point of view, in 2016, a referendum took place whereby British citizens voted to exit the European Union, commonly known as “Brexit”, which could create uncertainty in the region. Other initiatives however, such as the Fourth Railway Package of the European Union Commission and other regulations regarding the implementation of Positive Train Control in the U.S. will further support the rail industry to continue to improve the degree of liberalization and safety of rail transportation.

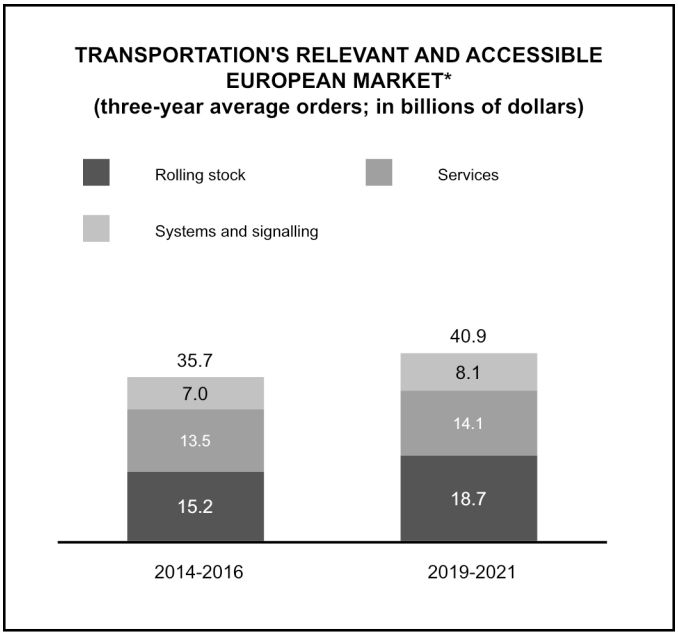


Source: UNIFE World Rail Market Study “Forecast 2016 to 2021” and extrapolated figures.

Europe

In 2016, the order volume remained stable in Europe, reaching levels similar to 2015. Significant orders for commuter and regional trains were placed in the U.K., Germany, France and Italy, including sizeable service agreements. In addition, a large high-speed train contract was awarded in the Netherlands. In Eastern Europe investments were carried on in the commuter and regional trains segment in Poland and Hungary and metro projects were awarded in Turkey and Bulgaria.

The outlook for Europe in the coming years remains positive. Large orders are expected to be tendered in the high-speed train and metro segments, and many mid-sized orders are expected in Germany, the U.K. and France in the commuter and regional train and light rail vehicle (LRV) segments. In Eastern Europe, the LRV and commuter and regional trains segments are expected to drive the market volume.



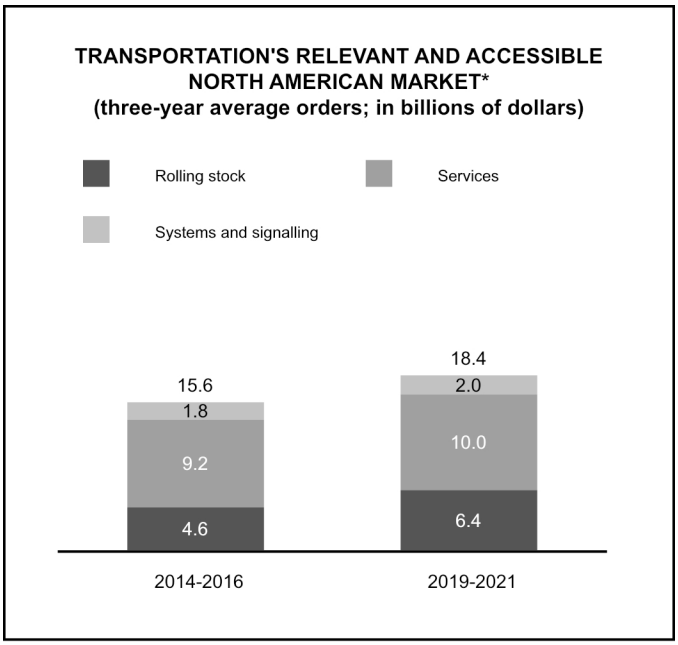
Source: UNIFE World Rail Market Study “Forecast 2016 to 2021” and extrapolated figures.

*Transportation’s relevant and accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition, and excluding the infrastructure, freight wagon and shunter segments.

North America

The North American market indicated a strong increase compared to the preceding year. Urban mobility solutions played a major role with orders awarded in Baltimore, U.S., in the LRV segment along with a long term services contract, and in Chicago and Boston, U.S. in the metro segment. A large high-speed train order was also tendered in the U.S. In the second half of 2016, in Canada and the U.S. several mid-sized operation and maintenance agreements were awarded in the commuter and regional trains segment.

In the coming years LRV is expected to remain the biggest segment in terms of volume in North America, as local authorities have started to modernize and upgrade their fleets in order to meet increased demand and address traffic congestion. Several noteworthy opportunities are predicted in the metro and automated people mover segments, such as the potential tender for operation and maintenance of a new metro in Montreal, Canada. Over the next couple of years in Mexico, local authorities are expected to invest in new urban solutions and to upgrade current metro and LRV fleets.

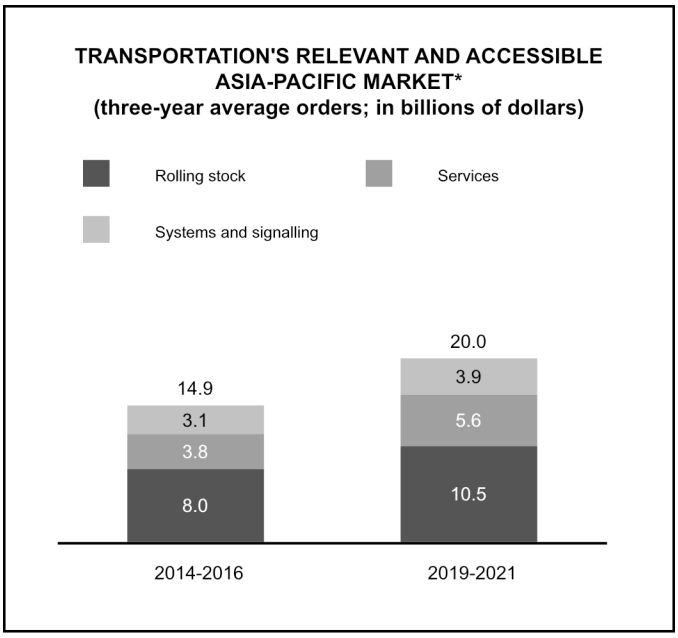


Source: UNIFE World Rail Market Study “Forecast 2016 to 2021” and extrapolated figures.

Asia-Pacific

In Asia-Pacific, the order volume declined compared to last year, due to large orders awarded in China and India for very high-speed trains and locomotives in 2015. In 2016, major projects were signed in Australia and Thailand, including operation and maintenance contracts, in the commuter and regional train segment. In addition, significant metro orders were awarded in the Philippines, India and China. In Taiwan and South Korea sizable rolling stock and service contracts were awarded for automated metro systems, underlying the interest of operators to shift towards more digitalized mobility solutions.

China is forecast to resume its investment in the very high-speed train segment. Further investment is also expected in the monorail segment both in Thailand and China. While in India and Australia we expect opportunities in the commuter and regional train segment.



Source: UNIFE World Rail Market Study “Forecast 2016 to 2021” and extrapolated figures.

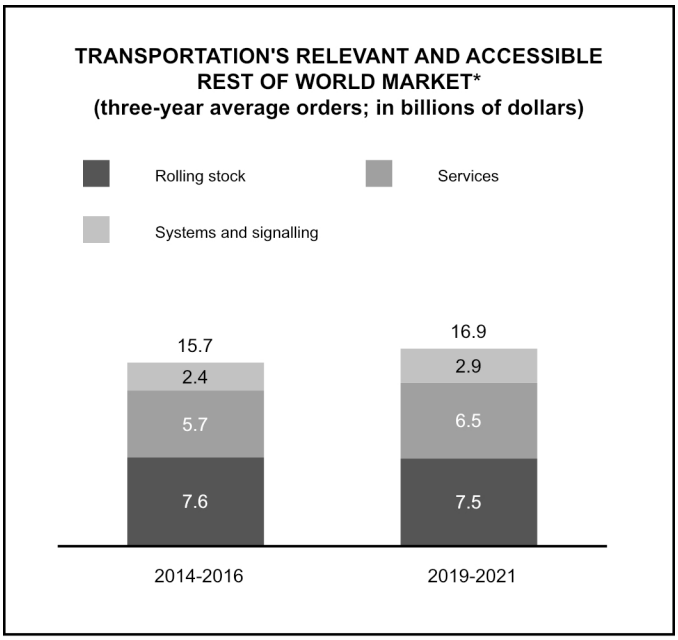
*Transportation’s relevant and accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition, and excluding the infrastructure, freight wagon and shunter segments.

Rest of world[1]

In the Rest of the world region, the level of activity decreased compared to the previous year due to a large service contract related to regional trains awarded in Russia, as well as in Doha, Qatar, for a metro system, in 2015. Furthermore, the locomotives segment continued to be volatile, with less tenders issued over the course of 2016.

Urban transit solutions are expected to drive activity in coming years, with substantial orders in the metro segment in Peru, Russia and Egypt on the horizon. Moreover, opportunities are also expected in the commuter and regional trains and locomotives segments.

[1] The Rest of world region includes South America, Central America, Africa, the Middle East and the CIS.



Source: UNIFE World Rail Market Study "Forecast 2016 to 2021" and extrapolated figures.

ANALYSIS OF RESULTS

We have significantly improved our profitability

Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Revenues				
External revenues	**$ 1,946**	$ 2,162	**$ 7,567**	$ 8,275
Intersegment revenues	**2**	2	**7**	6
	$ 1,948	$ 2,164	**$ 7,574**	$ 8,281
EBITDA before special items[1]	**$ 205**	$ 150	**$ 657**	$ 564
Amortization	**24**	27	**97**	99
EBIT before special items[1]	**181**	123	**560**	465
Special items	**20**	—	**164**	—
EBIT	**$ 161**	$ 123	**$ 396**	$ 465
EBIT margin before special items[1]	**9.3%**	5.7%	**7.4%**	5.6%
EBIT margin	**8.3%**	5.7%	**5.2%**	5.6%

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

External revenues by geographic region

	Fourth quarters ended December 31				Fiscal years ended December 31			
	2016		2015		**2016**		2015	
Europe[1]	**$ 1,298**	**67%**	$ 1,476	68%	**$ 4,946**	**65%**	$ 5,345	64%
North America	**302**	**15%**	294	14%	**1,228**	**16%**	1,297	16%
Asia-Pacific[1]	**233**	**12%**	285	13%	**936**	**13%**	1,047	13%
Rest of world[1][2]	**113**	**6%**	107	5%	**457**	**6%**	586	7%
	$ 1,946	**100%**	$ 2,162	100%	**$ 7,567**	**100%**	$ 8,275	100%

(1) The decreases in Europe reflect negative currency impacts of $73 million for the fourth quarter and $160 million for the fiscal year ended December 31, 2016, while the decreases in Asia-Pacific and Rest of world region in the fiscal year reflect negative currency impacts of $22 million and $40 million, respectively.

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

Revenues

Total external revenues for the fourth quarter and fiscal year ended December 31, 2016, have decreased by $216 million and $708 million, respectively, compared to the same periods last fiscal year. Excluding negative currency impacts of $78 million and $222 million, respectively, revenues have decreased by $138 million, or 6%, and $486 million, or 6%, in the fourth quarter and fiscal year ended respectively, compared to the same periods last fiscal year.

The $138-million decrease excluding currency impact for the fourth quarter is mainly explained by:

- lower activities in rolling stock in Europe and Asia-Pacific following completion of some metro contracts in both regions, some commuter and regional train and light rail vehicle contracts in Europe and some propulsion contracts in Asia-Pacific, partly compensated by ramp-up in production related to some intercity train contracts in Europe ($128 million); and
- lower activities in signalling in Europe and in systems in Asia-Pacific, mainly due to contracts nearing completion ($68 million).

Partially offset by:

- higher activities in systems in the Rest of world region and in signalling in Asia-Pacific ($35 million).

The $486-million decrease excluding currency impact for the fiscal year is mainly explained by:

- lower activities in systems and in signalling in the Rest of world region, Asia-Pacific and Europe, and in systems in North America, mainly due to contracts nearing completion ($304 million); and
- lower activities in rolling stock in Europe and North America following completion of some metro and locomotive contracts in both regions, some light rail vehicle contracts in Europe and some commuter and regional train contracts in North America, as well as active project management and stronger cash discipline, including overall optimization of our supply chain, which delayed recognition of revenue under long-term contract accounting, partly compensated by ramp-up in production related to some intercity train contracts in Europe ($270 million).

Partially offset by:

- higher activities in rolling stock in the Rest of world region and Asia-Pacific mainly due to ramp-up in production related to commuter and regional train contracts in both regions and some locomotive contracts in the Rest of world region ($91 million).

Special items

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

The special items for 2016 represent:

- restructuring charges of $159 million related to the restructuring actions announced in 2016, of which $20 million were recorded in the fourth quarter representing severance provisions of $10 million and impairment of PP&E of $10 million; and
- a foreign exchange loss of $5 million related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation recorded in the first quarter.

EBIT margin

The EBIT margin for the fourth quarter increased by 2.6 percentage points compared to the same period last year. The EBIT margin before special items (see explanation of special items above) for the quarter increased by 3.6 percentage points, mainly as a result of:

- higher margin in systems, services and signalling;
- favourable impact from sales mix on margin due to increased services revenues; and
- lower R&D and SG&A expenses.

Partially offset by:

- lower margin in rolling stock; and
- lower share of income from joint ventures and associates.

The EBIT margin for the fiscal year decreased by 0.4 percentage points compared to last year. The EBIT margin before special items (see explanations of special items above) for the year increased by 1.8 percentage points mainly as a result of:

- higher margin in signalling and services; and
- lower R&D expenses.

Partially offset by:

- lower margin in systems.

Significant orders in all segments worldwide resulting in book-to-bill of 1.1

Order backlog

	As at	
	December 31, 2016	December 31, 2015
(in billions of dollars)	**$ 30.1**	$ 30.4

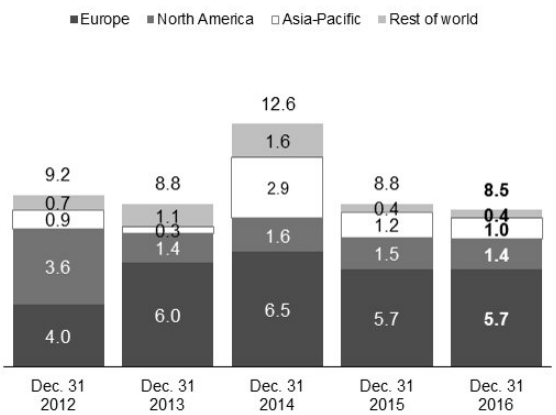
In 2016, we achieved higher order intake than revenues ($0.9 billion), which was offset by the weakening of some foreign currencies versus the U.S. dollar as at December 31, 2016, compared to December 31, 2015 ($1.2 billion), mainly the pound sterling and the euro, resulting in an overall decrease in the order backlog.

Order intake and book-to-bill ratio

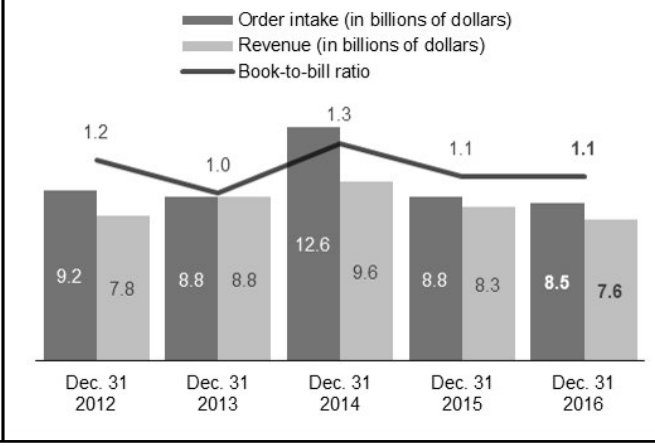
	Fourth quarters ended December 31		Fiscal years ended December 31	
	2016	2015	**2016**	2015
Order intake (in billions of dollars)	**$ 2.3**	$ 3.4	**$ 8.5**	$ 8.8
Book-to-bill ratio[1]	**1.2**	1.6	**1.1**	1.1

[1] Ratio of new orders over revenues.

ORDER INTAKE BY REGION (for fiscal years; in billions of dollars)



ORDER INTAKE AND BOOK-TO-BILL RATIO (for fiscal years)



Excluding negative currency impacts, the order intake for the fourth quarter and fiscal year decreased by $1.1 billion and $74 million, respectively, compared to the same periods last fiscal year. The order intake for the fourth quarter and fiscal year ended December 31, 2016 reflect negative currency impacts of $57 million and $295 million, respectively. Nevertheless, the new orders are mainly based on existing platforms and include a higher share of services, signalling and systems contracts, further improving the overall backlog quality.

In 2016, we won several orders across various regions and product segments, including several significant orders in Europe, and maintained a leading position[1] in our relevant and accessible rail market[2] with a cumulative order intake of $29.9 billion over the past three years.

[1] Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.
[2] Our relevant and accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition, and excluding the infrastructure, freight wagon and shunter segments.

The significant orders obtained during the fiscal year ended December 31, 2016 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value	
Fourth quarter						
Société Nationale des Chemins de fer Français (SNCF)	France	*OMNEO* Electrical Multiple Units (EMUs)	400	Rolling stock	$ 620	
SNCF	France	Francilien EMUs	364	Rolling stock	$ 370	
Agence Métropolitaine de Transport (AMT)	Canada	8 years of operations and fleet maintenance (O&M) services	n/a	Services	$ 246	
Austrian Federal Railways (ÖBB)	Austria	*TALENT* 3 EMUs	126	Rolling stock	$ 156	(1)
Göteborgs Spårvägar	Sweden	*FLEXITY* trams	40	Rolling stock	$ 109	(2)
Third quarter						
Angel Trains Ltd	U.K.	*AVENTRA* EMUs	665	Rolling stock	$ 1,100	
Metrolinx	Canada	*BiLevel* commuter rail cars	125	Rolling stock	$ 328	
Arriva CrossCountry Trains (XC)	U.K.	Fleet maintenance services	n/a	Services	$ 302	
Abellio Greater Anglia	U.K.	Fleet maintenance services	n/a	Services	$ 108	
Second quarter						
Landesnahverkehrsgesellschaft Niedersachsen mbH (LNVG)	Germany	Fleet maintenance services	n/a	Services	$ 393	
Abellio Rail Südwest GmbH	Germany	*TALENT* 2 EMUs	167	Rolling stock	$ 244	
Akiem S.A.	France	*TRAXX* locomotives	26	Rolling stock	$ 107	(1)
First quarter						
City of Edmonton	Canada	*FLEXITY* trams, signalling and related depot equipment; O&M services[3]	n/a	Rolling stock, Services, System and signalling	$ 280	(2)
Israel Railways (ISR)	Israel	*TWINDEXX* Vario double-deck coaches	60	Rolling stock	$ 120	

[1] Based on list price.
[2] Contract signed as part of a consortium. Only our share of the value is stated.
[3] Operations and maintenance of the light rail transit system performed together with other consortium partners over a 30-year period.
n/a: Not applicable

The firm order with ÖBB for 21 *TALENT* 3 EMUs is part of a framework agreement signed in December 2016 for the delivery of up to 300 *TALENT* 3 EMUs, valued at up to $1.9 billion based on list price. Under this framework agreement ÖBB holds several call-offs for trainsets to be used for regional and suburban rail transport.

Subsequent to the end of the fiscal year, in January 2017, we received an official notice from SNCF, France, to supply, in consortium with Alstom, 71 new trains for the RER lines D and E of the Île-de-France (greater Paris) network. The order, which is not included in our order backlog as at December 31, 2016, is valued at $1.22 billion for the Alstom-Bombardier consortium with our share of the contract valued at $395 million. This first order is part of a framework contract also signed in January. Syndicat des transports d'Île-de-France (STIF) has dedicated an estimated $3.97 billion in financing for up to 255 trains (130 for the RER line D and 125 for the RER line E), their largest financing to date.

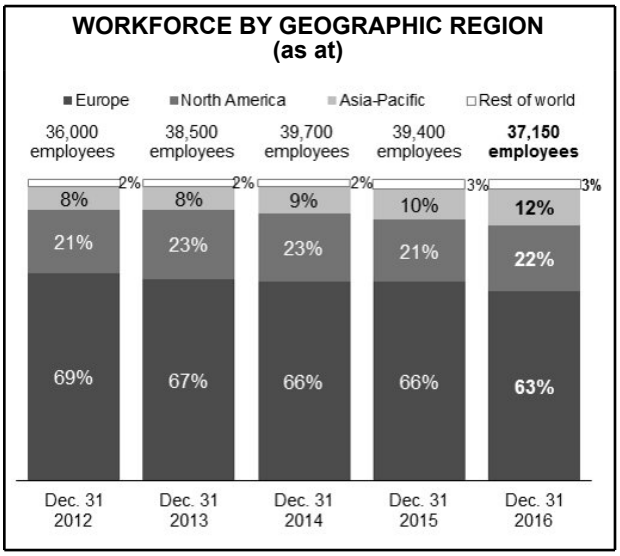
Workforce

Total number of employees

		As at
	December 31, 2016	December 31, 2015
Permanent[(1)]	**33,050**	34,650
Contractual	**4,100**	4,750
	37,150	39,400
Percentage of permanent employees covered by collective agreements	**65%**	65%

(1) Including inactive employees.

In February 2016, we decided to take steps to optimize our workforce with a combination of manpower reduction and strategic hiring in line with our transformation plan. The workforce reductions of approximately 3,200 of Transportation's production and non-production employees have been achieved during fiscal year 2016. These measures mainly impacted the permanent and contractual workforce in Europe and the contractual workforce in North America. During 2016, these workforce reductions were partially offset by hiring in certain growth areas, notably to support the ramp-up of strategic programs and projects worldwide, resulting in an increased contractual workforce in Asia-Pacific. The reduction of permanent headcount in the Rest of world region is mainly due to timing of work on orders received.



In October 2016, we announced further restructuring actions as we continue to execute our five-year transformation plan. These actions support our efforts to build our earnings growth potential and highlight our focus on improving productivity, reducing costs and optimizing our worldwide footprint to deliver increased value to customers and shareholders. Specific actions to be taken include streamlining our administrative and non-production functions across the organization and leveraging our worldwide footprint to create centres of excellence for design, engineering and manufacturing activities. The impact of these restructuring actions on overall employment will be partially offset by strategic hiring to support major rail contract wins as well as our growth strategy in aftermarket business.

Our incentive-based employee compensation rewards the collective efforts of our employees in achieving our objectives, using performance indicator targets. A total of 2,550 employees worldwide, or 8% of permanent employees, participate in the program. In 2016, as part of this program, incentive-based compensation was linked to the achievement of targeted results, based on EBIT before special items and free cash flow.

SALE OF A MINORITY SHARE

Sale of a 30% stake in Bombardier Transportation to the CDPQ for $1.5 billion

On February 11, 2016, we 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 Limited (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 continues to be consolidated in Bombardier's financial results.

Key terms of the investment
The CDPQ is entitled to its pro-rata portion (on an as-converted basis, initially equal to 30% of BT Holdco common shares) of any dividends declared.

Dividends are 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 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 performance targets jointly agreed to as part of Transportation's business plan.

If 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 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%.

As at December 31, 2016, the CDPQ's percentage of ownership on conversion of its shares would be 30% since Transportation has met its performance target for fiscal year 2016. As a result, the CDPQ's minimum return for 2017 will be 9.5%.

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 February 11, 2021, 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. This requirement was met as at the end of each quarter of 2016. 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). The warrants are exercisable until February 11, 2023 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.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	Latest guidance for 2016	What we did in 2016	What's next for 2017[1]
Growth	Revenues of approximately $8.0 billion, based on the current foreign exchange rates in 2016.	Revenues of $7.6 billion.	Revenues of approximately $8.5 billion, based on the assumption that foreign exchange rates will remain stable in 2017 compared to 2016.
Profitability[2]	EBIT margin before special items[2] above 6.5%.	EBIT margin before special items[2] of 7.4%.	EBIT margin before special items[2] of approximately 7.5%.

Update on 2016 guidance

In November 2016, we revised Transportation's revenue guidance for 2016 from approximately $8.5 billion based on stable foreign exchange rates in 2016 compared to 2015, to approximately $8.0 billion based on foreign exchange rates at that time. The revision was mainly due to active project management as we apply stronger cash discipline and de-risk project execution, and also encompassed changes in exchange rates during 2016. This in turn is deferring recognition of certain costs and associated recognition of revenue under long-term contract accounting. Our 2016 revenues of $7.6 billion are lower than our revised guidance and are mainly attributed to continued deferral of certain revenue under long-term contract accounting.

[1] See forward-looking statements in boxed text below for details regarding the assumptions on which the guidance is based. Also see forward-looking statements disclaimer in Overview.
[2] Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measure for 2016.

Also in November 2016, we indicated Transportation was in line to exceed original profitability guidance[1] of above 6%, mainly driven by transformation initiatives and stronger contract execution. We increased profitability guidance[1] for 2016 to above 6.5%. 2016 EBIT margin before special items[1] of 7.4% has exceeded the revised guidance mainly driven by good progress on transformation initiatives and stronger contract execution, particularly in our Chinese joint ventures.

[1] Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measure for 2016.

Our strategy to achieve 2017 guidance

2017 planned revenues of approximately $8.5 billion is attributed to strong 2016 order intake of $8.5 billion and book-to-bill ratio of 1.1, leading to a backlog of $30.1 billion. New orders are mainly based on existing platforms and include a higher share of services, signalling and systems contracts, further improving the overall backlog quality and reducing pressure on critical resources. EBIT before special items of approximately 7.5% planned in 2017 is driven by the benefits of transformation initiatives, partially offset by increased investment in structural transformation to create engineering and manufacturing centres of excellence, as well as higher investments in standardized product and service platforms. As we are moving forward with the transformation of our company, our future profitability growth remains based on three pillars: revenue conversion and mix, a systematic products and services offering, and continuation of operational transformation.

Forward-looking statements

Forward-looking statements[1] in this section of the MD&A are based on:

- normal contract execution of current order backlog and the continued deployment and execution of key transformation initiatives, especially those impacting direct and indirect procurement costs, labour efficiency and working capital improvement;
- the realization of upcoming tenders and our ability to capture them;
- our ability to transfer best practices and technology across production;
- our ability to execute and deliver business model enhancement initiatives;
- our ability to recruit and retain highly skilled resources to deploy our product development and project execution strategy;
- revenue conversion and phase out of our legacy contracts;
- a sustained level of public sector spending;
- the ability of our supply base to support the execution of projects;
- competitive global environment and global economic conditions to remain similar; and
- stability of foreign exchange rates.

[1] Also see the Guidance and forward-looking statements section in Overview.

OTHER

OFF-BALANCE SHEET ARRANGEMENTS

Factoring facilities

In the normal course of its business, Transportation has set up factoring facilities under which it can sell, without credit recourse, qualifying trade receivables. For more details, refer to Note 16 - Trade and other receivables, to the consolidated financial statements.

Credit and residual value guarantees

In connection with the sale of certain of our products, mainly commercial aircraft, we have provided financing support in the form of credit and residual value guarantees to enhance the ability of certain customers to arrange third-party financing for their acquisitions.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing under the relevant financing arrangements. The remaining terms of these financing arrangements range from 1 to 10 years. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value at an agreed-upon date. In most cases, these guarantees are provided as part of a customer financing arrangement (these arrangements have remaining terms ranging from 1 to 11 years). The value of the underlying asset may be adversely affected by a number of factors. To mitigate the exposure, the financing arrangements generally require the aircraft used as collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it

provides for a contractually limited payment to the guaranteed parties, which is typically a specified maximum amount of the first losses incurred by the guaranteed party. A claim under the guarantee may typically be made only at the end of the financing arrangement, upon the sale of the underlying asset to a third party.

When credit and residual value guarantees are provided in connection with a financing arrangement for the same underlying asset, residual value guarantees can only be exercised if the credit guarantee expires without having been exercised and, as such, the guarantees are mutually exclusive.

For more details, refer to Note 38 – Commitments and contingencies, to the consolidated financial statements.

Financing commitments

We sometimes provide financing support to facilitate our customers' access to capital. This support may take a variety of forms, including providing assistance to customers in accessing and structuring debt and equity for aircraft acquisitions or providing assurance that debt and equity are available to finance such acquisitions.

As at December 31, 2016, we had no commitments to arrange financing for customers in relation to the future sale of aircraft.

Financing structures related to the sale of commercial aircraft

In connection with the sale of commercial aircraft, we have provided credit and/or residual value guarantees and subordinated debt to, and retained residual interests in, certain entities created solely to provide financing related to the sale of commercial aircraft. Commercial Aircraft also provides administrative services to certain of these entities in return for a market fee.

Typically, these entities are financed by third-party long-term debt and equity. Often, equity investors benefit from tax incentives. The aircraft serve as collateral for the entities' long-term debt.

For more details, refer to Note 37 – Unconsolidated structured entities, to the consolidated financial statements.

RISKS AND UNCERTAINTIES

We operate in industry segments which present a variety of risk factors and uncertainties. The risks and uncertainties described below are those that we currently believe could materially affect our business activities, financial condition, cash flows and results of operations, but are not necessarily the only risks and uncertainties that we face. If any of these risks, or any additional risks and uncertainties presently unknown to us or that we currently consider as being not material, actually occur or become material risks, our business activities, financial condition, cash flows and results of operations could be materially adversely affected.

General economic risk	General economic risk is the risk of potential loss due to unfavourable economic conditions. These factors include, but are not limited to, government budget compression, reduced levels of public and private capital expenditures, declining business confidence, political and economic pressures, including those arising from increasing government deficits and sovereign debt overruns, and crises in the credit markets.
Business environment risk	Business environment risk is the risk of potential loss due to external risk factors. These factors may include the financial condition of the airline industry (including scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates) and business aircraft customers, the financial condition of the rail industry, trade policy, as well as increased competition from other businesses including new entrants in market segments in which we compete. In addition, political instability and force majeure events such as acts of terrorism, natural disasters, global health risks, or the outbreak of war or continued hostilities in certain regions of the world could result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of our products.

Operational risk	Operational risk is the risk of potential loss due to the nature of our operations. Sources of operational risk include development of new products and services, development of new business and the complexity of obtaining certification and homologation of products and services. In addition, the large and complex projects that are characteristic of our businesses are often structured as fixed-price contracts and thus exposed to production and project execution risks. Furthermore, our cash flows are subject to pressures based on project-cycle fluctuations and seasonality and our businesses are capital intensive, which require that we regularly incur significant capital expenditures and investment over multi-year periods prior to realizing cash flows under a project. Other sources of operational risk include our ability to successfully implement our strategy and transformation plan, actions of business partners, product performance warranty and casualty claim losses, the use of estimates and judgments in accounting, regulatory and legal conditions, environmental, health and safety issues, as well as dependence on customers, suppliers (including supply chain management) and human resources. We are also subject to risks related to problems with reliance on information systems, reliance on and protection of intellectual property rights and adequacy of insurance coverage.
Financing risk	Financing risk is the risk of potential loss due to the liquidity of our financial assets including counterparty credit risk, access to capital markets, restrictive debt covenants, financing support provided for the benefit of certain customers and government support.
Market risk	Market risk is the risk of potential loss due to adverse movements in market factors including foreign currency fluctuations, changing interest rates, decreases in residual values of assets, increases in commodity prices and inflation rate fluctuations.

General economic risk

The markets in which we operate may from time to time be affected by a number of local, regional and global factors. Since our sales and operations are undertaken around the world, including through manufacturing and production capacity in Europe and in North America, and partnerships and joint ventures in regions such as Asia and Africa, we may be directly or indirectly affected by an unfavourable political or economic slowdown occurring within these geographic zones and our business may be exposed to a number of related risks, such as fluctuations in exchange rates and restrictions on the transfer of capital.

Should the current uncertain global economic situation persist over time or deteriorate, should the economic headwinds in certain countries, regions or key markets intensify or spread to other countries, or should the global economic environment deteriorate, this could, in particular, result in potential buyers postponing the purchase of our products or services, lower order intake, order cancellations or deferral of deliveries, lower availability of customer financing, an increase in our involvement in customer financing, downward pressure on selling prices, increased inventory levels, decreased level of customer advances, slower collection of receivables, reduction in production activities, paused or discontinued production of certain products, termination of employees or adverse impacts on suppliers.

Brexit

On June 23, 2016, a referendum took place whereby British citizens voted to exit the European Union, commonly known as “Brexit”. Bombardier could be impacted by Brexit in both our aerospace and rail businesses. In 2016, 45% of our revenues were generated in Europe, of which 18% was generated in the U.K.

Brexit could result in increased geopolitical and economic risks and could cause disruptions to and create uncertainty surrounding our businesses, including affecting our relationships with existing and future customers, suppliers and employees, which could in turn have an adverse effect on our financial results and operations. There could also be greater restrictions on imports and exports between the U.K. and European Union countries and could also result in increased regulatory complexities.

The announcement of Brexit caused significant currency exchange fluctuations. The U.S. dollar strengthened against other currencies, particularly the pound sterling and the euro. Our revenues are denominated mainly in U.S. dollars for aircraft sales and mainly in euro and other currencies for our rail business. The strengthening of the U.S. dollar relative to these other currencies could adversely affect our results of operations, particularly in the rail business, where a potential devaluation of the local currency or of the euro relative to the U.S. dollar coupled with potential increased inflation risk, may expose us to losses and could impair our customers’ purchasing power.

Business environment risk

Financial condition of the airline industry and business aircraft customers

The airline industry's financial condition and viability, including airlines' ability to secure financing, can influence the demand for our commercial aircraft. The nature of the airline industry makes it difficult to predict when economic downturns or recoveries will impact the industry, and economic cycles may be longer than expected. Continued cost pressures and efforts to achieve acceptable profitability in the airline industry may constrain the selling price of our aerospace products. Scope clauses in pilot union agreements in the U.S. restrict the operation of smaller jetliners by major airlines or by their regional affiliates and, therefore, may restrict demand in the regional aircraft market.

The purchase of aerospace products and services may represent a significant investment for a corporation, an individual or a government. When economic or business conditions are unfavourable, potential buyers may delay the purchase of our aerospace products and services. The availability of financing is also an important factor and credit scarcity can cause customers to either defer deliveries or cancel orders.

An increased supply of used aircraft as companies restructure, downsize or discontinue operations could also add downward pressure on the selling price of new and used business and commercial aircraft. We could then be faced with the challenge of finding ways to further reduce costs and improve productivity to sustain a favourable market position at acceptable profit margins. The loss of any major commercial airline or fractional ownership or charter operator as a customer or the termination of a contract could significantly impact our financial results.

Financial condition of the rail industry

The rail industry has historically been resilient during economic downturns. Challenging economic and financial conditions in specific areas, however, may have a negative impact on some rail operators. As customers deal with budget pressures and discipline and even austerity measures, it may result in projects being reduced in size, postponed or even cancelled. Such actions by public or private rail operators may negatively impact our order intake and revenues and put significant pressure on our cost structure and prices. These conditions may be exacerbated in times of declining investment activity.

A significant proportion of our rail business in any given period relies on government agencies and other public institutions, which have historically represented the vast majority of the value of the orders that we book annually. The amount public institutions are able to invest and spend depends on complex political and economic factors and could vary from one fiscal year to the next. Economic slowdown and public budgetary restrictions can cause a decrease in infrastructure investments, delays in placing orders and delays in executing contracts or payments, as well as a decrease in fiscal and other incentive-based measures to promote research and development. In periods of over-indebtedness (or of a sovereign debt crisis), the implementation of austerity or public spending reduction programs can lead to a negative impact on the volume of orders placed for transportation infrastructure projects.

In addition, intense competition in the rail industry and demands by customers in the current economic environment have resulted in certain adverse impacts, including the lower level and later receipt of advance payments. This evolution of contract terms may adversely impact our cash flows and may require us to obtain and deploy increased amounts of capital from other sources, including factoring facilities, which may adversely affect our return on equity, financial condition and results of operations. In addition, there can be no assurance that if such customer payment and advances terms continue to evolve in a manner adverse to the manufacturers we will be able to access sufficient replacement working capital to finance the execution of projects on acceptable terms or at all.

Trade policy

As a globally operating organization, our businesses are subject to government policies related to import and export restrictions and business acquisitions, support for export sales, and world trade policies including specific regional trade practices. As a result, we are exposed to risks associated with changing priorities by government and supranational agencies.

In addition, protectionist trade policies and changes in the political and regulatory environment in the markets in which we operate, such as foreign exchange import and export controls, tariffs and other trade barriers and price or exchange controls, could affect our business in several national markets, impact our sales and profitability and make the repatriation of profits difficult, and may expose us to penalties, sanctions and reputational damage.

Increased competition from other businesses including new entrants in market segments in which we compete

In the aerospace market segments in which we compete, competitors are developing numerous aircraft programs, with entries-into-service expected throughout the next decade. We face the risk that market share may be eroded if potential customers opt for competitors' products. We may also be negatively impacted if we are not able to meet product support expectations or provide an international presence for our diverse customer base.

In the rail market, we face intense competition in the markets and geographies in which we operate. We face competition from strong competitors, some of which are larger and may have greater resources in a given business or region, as well as competitors from emerging markets and new entrants, which may have a better cost structure. Some rail transportation market segments in which we operate, and some of the significant market participants in our businesses, are undergoing consolidation. Such consolidation may increase pressure on prices and profit margins, as well as on payment terms and conditions, manufacturing timeframes and the technologies proposed and services provided to clients, which could weaken our position in certain markets. Furthermore, certain competitors might be more effective and faster in capturing available market opportunities, which in turn may negatively impact our results, revenues and market share.

Political instability

Political instability, which may result from various factors, including social or economic factors, in certain regions of the world may be prolonged and unpredictable. Any prolonged political instability in markets in which we participate could lead to delays or cancellation of orders, deliveries or projects in which we have invested significant resources, particularly when the customers are state-owned or state-controlled entities.

Geopolitical and economic risks, international sanctions and the recent decreases in the price of oil affecting many energy-exporting nations have raised new concerns in international economies. Beyond any immediate impact, these developments may also negatively affect the evolution of the global economy.

In addition, geopolitical events in the geographic areas in which we operate can increase difficulties relative to the conditions under which the contracts we have signed are executed, extend execution periods or trigger unexpected legislative or regulatory changes that could significantly increase the costs of execution initially projected for these contracts and which could have a material adverse effect on our business, financial condition, cash flows and results of operations.

Force majeure events or natural disasters

Force majeure events and natural disasters (including seismic and severe weather-related events such as ice storms, hurricanes, flooding, tornadoes or other calamities) are unpredictable and may have significant adverse results such as: personal injury or fatality; damage to or destruction of ongoing projects, facilities or equipment; environmental damage; delays or cancellations of orders and deliveries; delays in the receipt of materials from our suppliers; delays in projects; or legal liability.

Operational risk

Developing new products and services

Changes resulting from global trends such as climate change, volatile fuel prices, the growth of developing markets, urbanization, population growth and demographic factors influence customer demands in our main aerospace and rail transportation markets. To remain competitive and meet customers' needs, we are required to anticipate these changes and must continuously develop and design new products, improve existing products and services and invest in and develop new technologies. Introducing new products or technologies requires a significant commitment to R&D investment, including maintaining a significant level of highly skilled employees. Furthermore, our investments in new products or technologies may or may not be successful.

Our results may be impacted if we invest in products that are not accepted in the marketplace, if customer demand or preferences change, if new products are not approved by regulatory authorities (or if we fail to design or obtain homologation or accreditation for new products or technologies), are not brought to market in a timely manner, in particular, as compared to our competitors, or if our products become obsolete. We may incur cost overruns in developing new products and there is the risk that our products will not meet performance specifications to which we have committed to customers.

Our results could also be negatively impacted if we fail to design or obtain accreditation for new technologies and platforms on budget and in a timely manner. Further, our long-term growth, competitiveness and continued profitability are dependent on our ability to anticipate and adapt to changes in markets and to reduce the costs of producing high-quality, new and existing products, to continue to develop our product mix and to align our global presence with worldwide market opportunities.

In a highly competitive environment, we are and will remain exposed to the risk that more innovative or more competitive products, services or technologies are developed by competitors or introduced on the market more quickly or that the products we develop are not accepted by the market.

Business development

Our businesses are dependent on obtaining new orders and customers, thus continuously replenishing our order backlog. Our results may be negatively impacted if we are unable to effectively execute strategies to gain access to new markets, capture growth or successfully establish roots in new markets. Our book-to-bill ratio, which we define as new orders over revenues or units delivered, is an indicator that we use to track potential future revenues. However, the realization of revenues from new orders is based on certain assumptions, including the assumption that our relevant contracts will be performed in full in accordance with their terms. The termination or modification of any one or more major contracts may have a material and adverse effect on future revenues. We cannot guarantee that we will realize all of the revenues initially anticipated in our new orders, and any such shortfall may be significant.

Although we have developed and continue to develop our presence in many geographic markets, access to certain markets can prove to be difficult to secure, particularly if there is a local competitor benefiting from a stronghold in its home market. These types of situations could put us in an unfavourable position relative to some of our competitors and present challenges to our strategy and competitive strength in those zones.

Certification and homologation process

We are subject to stringent certification and approval requirements, as well as to the ability of regulatory bodies to perform these assessments on a timely basis, which vary by country and can delay the certification of our products. Non-compliance with current or future regulatory requirements imposed by Transport Canada (TC), the U.S. Federal Aviation Administration (FAA), the European Aviation Safety Agency (EASA), the Transport Safety Institute in the U.S. or other regulatory authorities could result in service interruption of our products, fewer sales or slower deliveries, an unplanned build-up of inventories, reduction in inventory values or impairment of assets.

The marketing and EIS of our rail products require compliance with rail transportation security standards that differ widely at the global level and are governed by various relevant regulatory authorities. This creates a complex process for securing the homologation of trains. The process for securing the homologation of trains is highly involved and may take longer and be more costly than initially anticipated due to the extent of testing and other supporting technical elements required by the relevant authorities, which elements may change over time. Our contracts increasingly include language that requires us to bear the risks and obligations associated with the homologation process, including risks relating to changes in law or regulation or the interpretation or application of regulations in respect of homologation.

Delays caused by the homologation process, or increased engineering or production costs relating to homologation, may lead to delays in our ability to deliver our products and complete our contracts, as well as contract cost overruns relative to our estimates and models and the payment of significant penalties or damages, service interruptions affecting the products, or even the risk of cancellation of all or a portion of the contract in extreme cases of prolonged delays. There can be no assurance regarding the time frame required for obtaining certification or homologation.

Fixed-price and fixed-term commitments and production and project execution

We have historically offered, and expect to continue to offer, a significant portion of our products through pre-agreed fixed-price contracts with a stipulated delivery schedule, rather than contracts under which payment is determined solely on a time-and-material basis. Generally, we cannot terminate contracts unilaterally.

We are exposed to risks associated with these fixed-price contracts, including unexpected technological problems, difficulties with partners, subcontractors and suppliers, logistical difficulties and other execution issues that could lead to cost overruns, late delivery penalties or delays in receiving milestone payments. We may also incur late delivery penalties if we are unable to increase production rates sufficiently quickly to meet our commitments. In addition, due to the nature of the bidding process, long-term contract revenues are based, in part, on cost estimates. Our estimates of the costs for completing a project are subject to a number of assumptions, including future economic conditions, cost and availability of labour and raw materials, labour productivity, employment levels and salaries, facility utilization rates, inflation rates, foreign exchange rates and construction and technical standards to be applied to the project, and are influenced by the nature and complexity of the work to be performed. Due to the complexity and the length of many of the projects in which we participate, the actual investment, costs and productivity may differ materially from what we had initially modelled or anticipated. In addition, many of our contracts contain requirements to comply with mandatory performance levels for the equipment we deliver or a fixed delivery schedule. If we are unable to comply with these obligations, our clients could request the payment of contractual penalties, or terminate the contract in question, or even claim compensation.

The revenue, cash flow and profitability of large, complex, long-term projects vary significantly in accordance with the progress of the project and depend on a variety of factors, some of which are beyond our control, such as specification modifications and change orders demanded by the customer, increasing regulatory requirements in relation to homologation, unexpected technological problems, logistical difficulties and other execution issues that could lead to engineering cost and time overruns, production cost overruns, late delivery penalties and liquidated damages payments and postponement or delays in contract execution. In the context of large, complex, long-term contracts, such overruns and issues can be material in terms of cost and time, may lead to withholding of payment by customers or risk of cancellation of all or a portion of contract by the customer, and may have a material adverse impact on our business, results, cash flows, financial position and reputation. In addition, we may incur late delivery penalties in the event of an inability to increase production rates quickly enough to meet commitments under such large contracts. The profit margins generated by some of these contracts can, as a result, prove to be lower than those initially projected, or even be zero-margin or loss contracts.

In addition, many of our long-term contracts are signed with customers that are governmental or quasi-public entities. These types of customers require that we comply with project bidding and open market specifications, which may limit our ability to negotiate certain contractual terms and conditions and can force us to accept less favourable conditions. For example, customers may require manufacturers to bear an increasing proportion of the homologation regulatory risk, may insist on payment schedules that reduce or eliminate advance payments or that lead to negative cash-flow during the execution of a project, and may require mandatory technical performance

levels and requirements associated with the issuance of parent company guarantees and bonds. For the most part, our rail transportation business is subject to public procurement protocols, which often take the form of adherence contracts that cannot be amended in any meaningful sense, causing bidders to risk disqualification if they attempt to reflect contingencies or special considerations in their offers. Moreover, public procurement protocols often feature specifications that are subject to numerous change orders, which may result in disputes regarding allocation of costs in respect of such change orders or specification modifications. These particularities could potentially expose our business to significant additional risks or costs that could adversely affect the profitability of our projects.

Additionally, for certain projects, contracts in our rail transportation business impose manufacturing or purchasing requirements in the countries in which the project is being executed. Such contracts may require us to build local production capacities, partner with local entities, and/or secure third-party purchases from local suppliers. Such terms and conditions can lead to pressures on costs, target volumes and execution.

Cash flows and capital expenditures

Our businesses are cyclical and highly capital intensive due to their nature. In the ordinary course of our business, the structure and duration of many of our complex, long-term projects and product development programs require us to invest significantly in engineering, development and production for many years before deliveries are made and the product begins to generate cash flow. In addition, we are regularly required to incur capital expenditures in order to, among other matters, maintain equipment, increase operating efficiency, develop and design new products, improve existing products and services, invest in and develop new technologies and maintain a significant level of highly skilled employees. Our ability to negotiate and collect customer advances and progress payments is therefore an important element of our cash flow and working capital management. However, intense competition in the markets in which we operate and demands by customers in the current economic environment have resulted in fewer and lower advance payments, which could place significant financial pressures on our operations. Discrepancies between our disbursements and amounts received on orders placed, or even any reduction in the overall volume of orders placed or a deterioration of the payment terms on these orders has an automatic adverse impact on the evolution in working capital requirements and results of operations.

Seasonality

In addition, our cash flows are, to a certain degree, subject to seasonal fluctuations and we expect a disproportionate amount of our cash flows from operations to be received or paid by us during our fourth quarter. We expect this trend to continue. While the payment terms with certain of our vendors extend beyond the amount of time necessary to collect proceeds from our customers, no assurance can be given that we will be able to maintain such terms. As a result of fourth quarter cash receipts, at December 31 of each year, our cash and cash equivalents balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). Our interim results can be affected by these seasonal fluctuations.

Deployment and execution of strategic initiatives related to cost reductions and working capital improvement

In 2015, we launched the multi-phased, multi-year Bombardier transformation plan focusing on three priorities: improve cash generation, reduce costs and drive performance. As with any large, company-wide transformation there are inherent risks in the timing of the deployment and in the planned value to be achieved. More specifically, the timing and magnitude of the specific initiatives and subsequent benefits, if any, could be affected by a multitude of external and internal factors including, but not limited to: the evolution of the demands and requirements of our businesses, variations in planned production volumes and schedules, the outcome of negotiations with suppliers and unions, changing legislation, changes in socio-economic conditions in the countries in which we operate, evolutions in the labour market for key talent, and changes in the priorities of the business. There can be no assurance that these initiatives, or other initiatives, will enable us to reach our objectives, or that any such measures will be implemented successfully or within the set time frame. A failure to successfully implement our strategy and transformation initiatives, or if such measures prove insufficient, could have an adverse impact on our business activities, financial condition, profitability and outlook.

Business partners

In some of the projects carried out through consortia or other partnership vehicles in which we participate, partners are jointly and severally liable to the customer. The success of these partnerships is dependent on satisfactory performance by us and our business partners. Failure of the business partners to fulfill their contractual obligations could result in additional financial and performance obligations, which could result in increased costs, unforeseen delays or impairment of assets. In addition, a partner withdrawing from a consortium during the bid phase may result in the loss of a potential order.

In order to penetrate new markets and strengthen our partnerships, we have implemented a number of joint ventures and partnerships in various countries and regions, such as Africa, the Middle East and Asia (in particular, China). These operations involve certain risks, in particular in relation to potential political or economic instability depending on the countries, in the difficulties that may arise in evaluating assets and liabilities relating to these operations, in integrating people, activities, technologies and products, as well as in implementing governance and compliance systems and procedures.

Product performance warranty and casualty claim losses

The products that we manufacture are highly complex and sophisticated and may contain defects that are difficult to detect or correct. These products are subject to detailed specifications, which are listed in the individual contracts with customers, as well as to stringent certification or approval requirements. Defects may be found in products before and after they are delivered to the customer. When discovered, we may incur significant additional costs to modify and/or retrofit our products and we may not be able to correct defects in a timely manner or at all. The occurrence of defects and failures in our products could give rise to non-conformity costs, including warranty and damage claims, negatively affect our reputation and profitability and result in the loss of customers. Correcting such defects could require significant investment.

In addition, due to the nature of our business, liability claims may arise from accidents, incidents or disasters involving products and services that we have provided, including claims for serious personal injuries or death. These accidents may be caused by climatic factors or human error.

If any of our products is proven to have quality issues, fails to meet the national or industrial standards or has potential risks to the safety of human and properties, we may have to recall such products, be subject to penalties, have our operating licences or permits revoked, suspend production and sale of our products, or be ordered to take corrective measures. A product recall may also affect our reputation and brand name, result in a decreased demand for our products and lead to stricter scrutiny by regulatory agencies over our operations.

We cannot be certain that current insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that we will be able to obtain insurance coverage at acceptable levels and costs in the future.

Regulatory and legal risks

We are subject to numerous risks relating to current and future regulations, as well as legal proceedings, both present or that may arise in the future. For example, the harmonization of the European railway market through the new European standards will require investment to upgrade our existing products to comply with regulatory requirements, without which regulatory authorities and thus our customer may not accept our products. Unavailability of compliant products may lead to a loss of market share.

We may become party to lawsuits in the ordinary course of business, including those involving allegations of late deliveries of goods or services, product liability, product defects, quality problems and intellectual property infringement. Material losses may be incurred related to litigation beyond the limits or outside the coverage of current insurance and existing provisions for litigation-related losses may not be sufficient to cover the ultimate loss or expenditure. In addition, employee, agent, supplier or partner misconduct or failure to comply with anti-bribery and other government laws and regulations could harm our reputation, reduce revenues and profitability,

and subject us to criminal and civil enforcement actions. Moreover, legal proceedings resulting in judgments or findings against us may harm our reputation and place us at a disadvantage for future orders or contract awards.

Also refer to Note 38 – Commitments and contingencies, to our consolidated financial statements, for information regarding current investigations in Transportation and the dispute with Metrolinx as well as the lawsuit filed by Triumph Aerostructures LLC.

Environmental, health and safety risks

Our products, as well as our manufacturing and service activities, are subject to environmental laws and regulations in each of the jurisdictions in which we operate, governing, among other things, product performance or materials content, energy use and greenhouse gas emissions, air, water and noise pollution, the use, storage, labelling, transportation and disposal or release of hazardous substances, human health and safety risks arising from the exposure to hazardous or toxic materials or defective products and the remediation of soil and groundwater contamination on or under our properties (whether or not caused by us), or on or under other properties and caused by our current or past operations, including our disposal of hazardous wastes at third party sites. These laws and regulations may cause us to incur costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations, and may negatively impact the market for our products.

Environmental, health and safety regulatory requirements, or enforcement thereof, may become more stringent in the future and we may incur additional costs to be compliant with such future requirements or enforcement. In addition, we may have contractual or other liabilities for environmental matters relating to businesses, products or properties that we have in the past closed, sold or otherwise disposed of, or will close, sell or dispose of in the future.

Dependence on customers

While we have a varied customer base, in any given period a limited number of contracts or customers may account for a significant portion of our revenues for some of our products. Although we constantly seek to expand our customer base, we believe that in any given period revenues and results may continue to be significantly affected by a limited number of customers due to the nature of some of our products. Consequently, the loss of such a customer or changes to their orders could result in fewer sales and/or a lower market share. Since the majority of our rail transportation customers are governments or public-sector companies or operate under public contracts, our order intake is also dependent to a significant degree on public-sector budgets and spending policies.

Dependence on suppliers

Our manufacturing operations are dependent on a limited number of suppliers for the delivery of raw materials (mainly aluminum, advanced aluminum alloy and titanium) and major systems (such as engines, wings, nacelles, landing gear, avionics, flight controls and fuselages) for our aerospace products, and raw materials (mainly steel and aluminum), services (mainly engineering, civil and electrical subcontracts) and major systems (such as brakes, doors, heating, ventilation and air conditioning) for our rail transportation products.

Disruptions in our supply chain can impact our ability to deliver on schedule. Moreover, failure by one or more suppliers to meet performance specifications, quality standards or delivery schedules could adversely affect our ability to meet our commitments to customers, in particular if we are unable to purchase the key components and parts from those suppliers upon agreed terms or in a cost-effective manner and if we cannot find alternative suppliers on commercially acceptable terms in a timely manner. We may not be able to recover any costs or liability we incur (including liability to our customers) as a result of any such failure from the applicable supplier, which could have a material adverse effect on our financial condition and results of our operations.

Some of our suppliers participate in the development of products such as aircraft or rolling stock platforms. The advancement of many of our new product development programs also relies on the performance of these key suppliers and, therefore, supplier delays which go unmitigated could result in delays to a program as a whole.

These suppliers subsequently deliver major components and own some of the intellectual property related to key components they have developed. Our contracts with these suppliers are therefore on a long-term basis. The replacement of such suppliers, if possible, could be costly and take a significant amount of time.

Human resources (including collective agreements)

Employment market competition is fierce when it comes to hiring the highly qualified managers and specialists needed to complete the work we require, particularly in certain emerging countries. In many of our business areas we intend to expand our business activities, for which we will need highly skilled employees. The success of our development plans depends, in part, on our ability to develop skills, to retain employees, and to recruit and integrate additional managers and skilled employees. Human resource risk includes the risk of delays in the recruitment of or inability to retain and motivate highly skilled employees, including those involved in R&D and manufacturing activities that are essential to our success. There is no guarantee that we will be successful in recruiting, integrating and retaining such employees as needed to accompany our business development, in particular in emerging countries. Conversely, the measures to adapt headcount to evolution in demand may result in pressures from our workforce and social risks, which may have an adverse impact on our expected costs reductions and production capacities.

In addition, we are party to several collective agreements that are due to expire at various times in the future. An inability to renew these collective agreements on mutually agreeable terms, as they become subject to renegotiation from time to time, could result in work stoppages or other labour disturbances such as strikes, walkouts or lock-outs, and/or increased costs of labour, which could adversely affect our ability to deliver products and services in a timely manner and on budget and could adversely affect our financial condition and results.

Additionally, as a result of our continuing review of our businesses and processes to reduce cost, improve our manufacturing platform, and better position ourselves in the marketplace, it may be necessary to curtail production or permanently shut down facilities, leading to the transfer of employees to new production facilities and processes or to the reduction of our workforce. This could materially adversely impact our relationship with our employees, as well as result in asset write-downs at affected facilities.

Reliance on information systems

We may face certain security threats, including cybersecurity threats, to the confidentiality, availability and integrity of our systems. Information contained on our systems include proprietary or sensitive information on our customers, suppliers, partners, employees, business information, research and development activities and our intellectual property. Our partners and suppliers also face risks of unauthorized access to their information systems which may contain our confidential information.

Management supervises and maintains control, enforcement and monitoring systems designed to prevent, detect and respond to unauthorized activity in our systems. We rely on our partners and suppliers to do the same. However, considering the complexity and evolving nature of the threats, we cannot ensure that the measures taken will be sufficient to counter any such unauthorized access to information systems, nor that our assessment and mitigation measures are sufficient. A system failure, cyberattack or a breach of systems could result in disruption of activities and operational delays, significant financial or information losses, diminished competitive advantage and/or reputational harm.

Reliance on and protection of intellectual property

We regularly apply for new patents and actively manage our intellectual property portfolio to secure our technological position. However, our patents and other intellectual property may not prevent competitors from independently developing, or obtaining through licensing, alternative technologies that are substantially equivalent or superior to ours, and we cannot provide assurance that the measures we have taken will be sufficient to prevent any misappropriation of our intellectual property. Furthermore, we cannot assure that all our registration applications will be successful, or our registered intellectual property rights will not be subject to any objection. If the steps we have taken and the protection afforded by law do not adequately safeguard our intellectual property rights, or we are not able to register or defend our intellectual property rights, and our competitors exploit our

intellectual property in the manufacture and sale of competing products in the markets we operate, such events could materially and adversely affect our business.

We could also face claims by others that we are improperly using intellectual property owned by them or otherwise infringing their rights in intellectual property. Irrespective of the validity or the successful assertion of such claims, we could incur costs in either defending or settling any intellectual property disputes alleging infringement. Adverse rulings in any litigation or proceeding could result in the loss of our proprietary rights and subject us to significant liabilities or even business disruption. Any potential intellectual property litigation against us could also force us to, among other things, cease selling the challenged products, develop non-infringing alternatives or obtain licences from owner of the infringed intellectual property. We may not be successful in developing such alternatives or in obtaining such licences on reasonable terms or at all, which could damage our reputation and affect our financial condition and profitability.

Adequacy of insurance coverage for our business, products and properties

We maintain insurance policies in accordance with the needs of our business. However, we cannot guarantee that our insurance policies will provide adequate coverage should we face extraordinary occurrences that result in losses. We may not obtain certain insurance coverage or may experience difficulties in obtaining the insurance coverage we need at acceptable levels and costs in the future, which could materially and adversely affect our business, financial condition and results of operations. We do not carry any insurance for business interruption or loss of profit arising from accidents at any of our manufacturing facilities or other disruptions of our operations.

Accidents or natural disasters may also result in significant property damage, disruption of our operations and personal injuries or fatalities, and our insurance coverage may be inadequate to cover such losses. In the event of an uninsured loss or a loss in excess of our insured limits, we could suffer damage to our reputation and/or lose all or a portion of our production capacity as well as future revenues expected to be generated by the relevant facilities. Any material loss not covered by our insurance could adversely affect our business, financial condition and results of operations.

Financing risk

Liquidity and access to capital markets

Our businesses are cyclical and highly capital intensive. In the ordinary course of our business, we rely on cash and cash equivalents, cash flows generated by operations, capital market resources such as debt and equity and other financing arrangements such as revolving credit facilities and receivables factoring facilities to satisfy our financing needs. There can be no assurance that such working capital cash sources will be available to us in the future on acceptable terms or at all.

Our ability to achieve our business and cash generation plans is based on a number of assumptions which involve significant judgments and estimates of future performance, borrowing capacity and credit availability, which cannot at all times be assured.

From time to time, we undertake various financing initiatives to solidify our liquidity position. We plan to continue to explore various initiatives such as certain business activities' potential participation in industry consolidation. There are no assurances that we will be able to implement these or any other strategic options on favourable terms and timing or at all, and, if implemented, that such actions would have the planned results.

While we believe that our expected cash flows from operating activities, combined with available short-term capital resources will enable the development of new products to enhance competitiveness and support growth and will enable us to meet all other expected financial requirements in the foreseeable future, there can be no assurance that this will be the case.

If our cash flows and other capital resources are insufficient to fund the required work on our ongoing contracts, programs and projects, as well as our capital expenditures and debt service obligations, we could be forced to

reduce or delay deliveries, investments and capital expenditures or to seek additional debt or equity capital. We may not be able to obtain alternative capital resources, if necessary, on favourable terms or at all.

A decline in credit ratings, a significant reduction in the surety or financing market global capacity, widening credit spreads, changes in our outlook or guidance, significant changes in market interest rates or general economic conditions or an adverse perception by banks and capital markets of our financial condition or prospects could all significantly increase our cost of financing or impede our ability to access financial markets. Our credit ratings may be impacted by many factors, including factors outside of our control relating to the industries or countries and regions in which we operate, and, accordingly, no assurance can be given that our credit ratings may not be downgraded in the future. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, may increase our cost of financing.

Our right to convert into cash certain deposits or investments, held in financing structures to guarantee our obligations, may be subject to restrictions. Additionally, in some countries, cash generated by operations may be subject to restrictions on the right to convert and/or repatriate money and may thus not be available for immediate use.

Retirement benefit plan risk

We are required to make contributions to a number of pension plans, most of which are presently in a deficit position. Pension funding requirements are dependent on regulatory requirements and on the valuations of plan assets and liabilities, which are subject to a number of factors, including expected returns on plan assets, long-term interest rates, as well as applicable actuarial practices and various other assumptions. The potential requirement to make additional contributions as a result of changes to regulations, actuarial assumptions or other factors may reduce the amount of funds available for operating purposes, thus limiting our financial flexibility and weakening our financial condition.

There is no assurance that retirement benefit plan assets will earn the expected rates of return. The ability of our retirement benefit plan assets to earn these expected rates of return depends in large part on the performance of capital markets. Market conditions also affect the discount rates used to calculate our net retirement benefit liabilities and could also impact our retirement benefit costs, cash funding requirements and liquidity position.

The net retirement benefit liability is highly sensitive to variations to the underlying discount rate, which represents the market rate for high-quality corporate fixed-income investments at the end of each reporting period consistent with the currency and estimated term of the benefit obligations. As a result, the discount rates change is based on market conditions.

Credit risk

We are exposed to credit risk through our derivative financial instruments and other investing activities carried out as part of our normal treasury activities, as well as through our trade receivables arising from normal commercial activities and through financing activities provided to our aerospace customers primarily in the form of aircraft loans and lease receivables. Reduced liquidity may result if our customers or other counterparties are unable to make payment of amounts owed to us, or delay these payments, and we may incur impairment losses on these assets. Furthermore, if our customers experience deteriorating credit quality, we may need to provide additional direct or indirect financing support to maintain sales, increasing our exposure to credit risk, or reduce our customers' credit limits, which could negatively affect our revenues.

We also have exposure to banks in the form of periodically placed deposits and credit commitments. In the event the banks with which we transact are unable to withstand regulatory or liquidity pressures, credit facilities, including letter of credit facilities, may become unavailable or we may not be able to extend such facilities upon their maturity.

Substantial debt and significant interest payment requirements

We currently have, and expect to continue to have, a substantial amount of debt and significant interest payment requirements. Our level of indebtedness could have significant consequences, including the following:

- it may be more difficult to satisfy our obligations with respect to our indebtedness;
- our vulnerability to general adverse economic and industry conditions may be increased;
- we may be required to dedicate a substantial portion of our cash flows from operations to interest and principal repayments on our indebtedness, reducing the availability of cash flows to fund capital expenditures, working capital, acquisitions, new business initiatives and other general corporate purposes;
- our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate may be limited;
- we may be placed at a disadvantage compared to our competitors that have less debt or greater financial resources;
- it may limit, along with the financial and other restrictive covenants to which we are subject, among other things, our ability to borrow additional funds on commercially reasonable terms, or at all;
- we may be required to monetize assets on terms that are unfavourable to us; and
- we may be required to offer debt or equity securities on terms that are not favourable to us or our shareholders.

For more information regarding our long-term debt, see Note 27 - Long-term debt, to our consolidated financial statements.

Restrictive debt covenants

The indentures governing certain of our indebtedness, revolving credit facilities and letter of credit facilities contain covenants that, among other things, restrict our ability, and in some cases the ability of our subsidiaries, to:

- incur additional debt and provide guarantees;
- repay subordinated debt;
- create or permit certain liens;
- use the proceeds from the sale of assets and capital stock of subsidiaries;
- pay dividends and make certain other disbursements;
- allow our subsidiaries to pay dividends or make other payments;
- engage in certain transactions with affiliates; and
- enter into certain consolidations, mergers or transfers of all or certain assets.

These restrictions could impair our ability to finance future operations or capital needs, or engage in other business activities that may be beneficial.

We are subject to various financial covenants under our letter of credit facilities and unsecured revolving credit facilities which must be met on a quarterly basis. The $400-million letter of credit facility[(1)] and the $400-million unsecured revolving facility[(1)] include financial covenants requiring a minimum EBITDA to fixed charges ratio, maximum gross debt and minimum EBITDA thresholds and a minimum liquidity level of $750 million, all calculated based on an adjusted consolidated basis (i.e. excluding Transportation). Transportation's €3.31-billion letter of credit facility and €658-million unsecured revolving facility require a minimum liquidity level of €600 million as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a Transportation stand-alone basis.[(2)]

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

[(2)] These terms and ratios are defined in their respective agreements and do not correspond to our global metrics or to specific terms used in the MD&A. Minimum liquidity is not defined as solely based on cash and cash equivalents as presented in the consolidated statement of financial position.

Our ability to comply with these covenants may also be affected by events beyond our control. A breach of any of these agreements or our inability to comply with these covenants could result in a default under these facilities, which would permit our banks to request immediate defeasance or cash cover of all outstanding letters of credit, and our bond holders and other lenders to declare amounts owed to them to be immediately payable. If any of these facilities is accelerated, or we are subject to significant cash cover calls, we may not have access to

sufficient liquidity or credit to refinance such facilities on terms acceptable to us or at all. Furthermore, if we incur additional debt in the future, we may be subject to additional covenants, which may be more restrictive than those to which we are subject now. In addition, failure to comply with the obligations contained in our existing or future indentures or loan agreements could require us to immediately cash cover, or repay debt under other agreements that may contain cross-acceleration or cross-default provisions. There can be no assurance that we would be able to obtain waivers or amendments of any such defaults, or be able to cash cover or refinance such facilities, on terms acceptable to us or at all.

Financing support provided for the benefit of certain customers

From time to time, we provide aircraft financing support to customers. We may provide, directly or indirectly, credit and residual value guarantees or guarantee of a maximum credit spread, to support financing for certain customers such as airlines or to support financing by certain special purpose entities created solely i) to purchase our commercial aircraft and to lease those aircraft to airline companies or ii) to purchase financial assets such as loans and lease receivables related to the sale of our commercial aircraft. Under these arrangements, we are obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make the loan or lease payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at an agreed-upon date. A substantial portion of these guarantees has been extended to support original debtors or lessees with less than investment grade credit ratings.

Government support

From time to time, we receive various types of government financial support. Some of these financial support programs require the repayment of amounts to the government at the time of product delivery. The level of government support reflects government policy and depends on fiscal spending levels and other political and economic factors. We cannot predict if future government-sponsored support will be available. The loss of or any substantial reduction in the availability of government support could negatively impact our liquidity assumptions related to the development of aircraft or rail products and services. In addition, any future government support received by our competitors could have a negative impact on our competitiveness, sales and market share.

Market risk

Foreign exchange risk

Our financial results are reported in U.S. dollars and a significant portion of our sales and operating costs are transacted in currencies other than U.S. dollars, most often euros, Canadian dollars, pounds sterling, Swiss francs, Swedish kronor and Mexican pesos. In situations where we are not fully hedged, our results of operations are affected by movements in these currencies against the U.S. dollar. Significant fluctuations in relative currency values against the U.S. dollar could thus have a significant impact on our future profitability. Additionally, the settlement timing of foreign currency derivatives could significantly impact our liquidity.

Interest rate risk

Changes in interest rates may result in fluctuations in our future cash flows related to variable-rate financial assets and liabilities, including long-term fixed-rate debt synthetically converted to variable interest rates. Changes in interest rates may also affect our future cash flows related to commitments to provide financing support to facilitate customers' access to capital. For these items, cash flows could be impacted by changes in benchmark rates such as Libor, Euribor or Bankers' Acceptance. In addition, we are exposed to gains and losses arising from changes in interest rates, including marketability risk, through our financial instruments carried at fair value such as certain aircraft loans and lease receivables, investments in securities and certain derivatives.

Residual value risk

We are exposed to residual value risks through RVGs provided in support of commercial aircraft sales. These RVGs may be provided either directly to an airline, a lessor or to a financing party that participates in a long-term financing associated with the sale of commercial aircraft. RVGs are offered as a strip of the value of an aircraft with a ceiling and a floor. If the underlying aircraft is sold at the end of the financing period (or during this period in limited circumstances), the resale value is compared to the RVG strip. We are required to make payments under these RVGs when the resale value of the aircraft falls below the ceiling of the strip covered by the guarantee, but our payment is capped at the floor of the strip if the resale value of the aircraft is below that level.

Commodity price risk

We are exposed to commodity price risk relating principally to fluctuations in the cost of materials used in our supply chain, such as aluminum, advanced aluminum alloy, titanium, steel and other materials that we use to manufacture our products, and which represent a significant portion of our cost of sales. We do not maintain significant inventories of raw materials and components and parts. The prices and availabilities of raw materials and components and parts may vary significantly from period to period due to factors such as consumer demand, supply, market conditions and costs of raw materials. In particular, raw materials required for our operations, may be subject to pricing cyclicality and periodic shortages from time to time. We cannot guarantee that corresponding variations in cost will be fully reflected in contract prices, and we may be unable to recoup these raw material price increases, which could affect the profitability of such contracts.

Inflation risk

Our aerospace businesses are exposed to inflation risk relating to fluctuations in costs and revenue for aircraft orders received but for which the delivery of the aircraft will take place several years in the future. Revenues for these orders are adjusted for price escalation clauses linked to inflation. At Transportation, contract cost estimates are subject to inflation rate assumptions. Estimated revenues at completion are adjusted for price escalation clauses, several of which are linked to inflation. Fluctuations in inflation rates could nevertheless have a significant impact on our future profitability if the inflation rate assumption used varies from the actual inflation rate, and this is a particularly acute risk in respect of large long-term contracts which may have an impact on our results for several years.

ACCOUNTING AND REPORTING DEVELOPMENTS

Future changes in accounting policies

Financial instruments

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

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

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

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

IFRS 9 will be effective for our fiscal year beginning on January 1, 2018. We are currently assessing the impact of the adoption of this standard on our consolidated financial statements. We do not expect significant hedge accounting differences in respect of our aerospace segments. We continue to analyze the application of hedge accounting under the new standard in respect of long-term contracts in our Transportation segment. Our preliminary analysis has not identified significant recognition or measurement differences in respect of classification and measurement.

Revenue Recognition

In May 2014, the IASB released IFRS 15, *Revenue from contracts with customers*, which supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue* as well as other related interpretations. 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. Revenue is recognized when, or as, the customer obtains control of the goods or services.

The standard will be effective for our fiscal year beginning on January 1, 2018, and as a result IFRS 15 will be adopted in the first quarter of 2018. At that time we will restate our 2017 results, with an opening adjustment to equity as at January 1, 2017.

We are continuing to assess the impact of the new standard on our consolidated financial statements.

The majority of long-term manufacturing and service contracts at Transportation currently accounted for under the percentage-of-completion method are expected to meet the requirements for revenue recognition over time. We anticipate our accounting for customer options will change, in particular with respect to when the options are considered in estimated revenues at completion. This change will result in the deferral of revenue and margin and a reduction of equity at transition. We are currently assessing whether the new standard will result in the deferral of revenue recognition in respect of certain variable consideration such as estimated price escalation and penalties.

Revenues from the sale of new aircraft will continue to be recognized when the aircraft have been delivered.

We are assessing whether there is a significant financing component on orders where timing of cash receipts and revenue recognition differ substantially.

IFRS 15 indicates IAS 37, *Provisions, Contingent liabilities and Contingent Assets*, should be applied to onerous contracts but contains no other requirements as to their measurement. When the new revenue standard is adopted all loss provisions for contracts with customers will need to follow the same policy. We are assessing whether it would be appropriate to measure loss provisions on contracts with customers based on all costs that will be attributed to a contract, consistent with the approach currently used for long-term contracts. This change in accounting policy, if adopted, would increase the amount of onerous contract provisions and result in a reduction of equity at transition.

While these changes will impact the timing of revenue and margin recognition, and will result in a reduction of equity at transition, there will be no changes to the treatment of cash flows and cash will still be collected in line with contractual terms.

We will provide further updates during the course of 2017 as we advance in our assessment.

Leases

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

IFRS 16 will be effective for our fiscal year beginning on January 1, 2019. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements. Where we are a lessee, we expect IFRS 16 will result in on-balance sheet recognition of most of our leases that are considered operating leases under IAS 17. This will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the present value of the future lease payments. Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense.

FINANCIAL INSTRUMENTS

An important portion of the consolidated balance sheets is composed of financial instruments. Our financial assets include cash and cash equivalents, trade and other receivables, aircraft loans and lease receivables, investments in securities, investments in financing structures, long-term contract receivables, restricted cash and derivative financial instruments with a positive fair value. Our financial liabilities include trade and other payables, long-term debt, short-term borrowings, lease subsidies, government refundable advances, vendor non-recurring costs, sale and leaseback obligations and derivative financial instruments with a negative fair value. Derivative financial instruments are mainly used to manage exposure to foreign exchange and interest rate risks. They consist mostly of forward foreign exchange contracts and interest rate swap agreements.

The use of financial instruments exposes us primarily to credit, liquidity and market risks, including foreign exchange and interest rate risks. A description on how we manage these risks is included in the Risk management section of Overview and in Note 33 – Financial risk management, to the consolidated financial statements.

Fair value of financial instruments

All financial instruments are required to be recognized at their fair value on initial recognition, plus transaction costs for financial instruments not at FVTP&L. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as FVTP&L or AFS are carried at fair value, while all others are carried at amortized cost. The classification of financial instruments as well as the revenues, expenses, gains and losses associated with these instruments are provided in Note 2 - Summary of significant accounting policies and in Note 14 – Financial instruments, to the consolidated financial statements.

Note 34 - Fair value of financial instruments, to the consolidated financial statements, provides a detailed description of the methods and assumptions used to determine the fair values of financial instruments. These values 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 we have immediate access. However, there is no active market for most of our financial instruments. In the absence of an active market, we determine 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, we use 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.

Note 34 – Fair value of financial instruments, to the consolidated financial statements, also provides a three-level fair value hierarchy, categorizing financial instruments by the inputs used to measure their fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). In cases where the inputs used to measure fair value are categorized within different levels of hierarchy, the fair value measurement is reported at the lowest level of the input that is significant to the entire measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, taking into account factors specific to the asset or liability. The fair value hierarchy is not meant to provide insight on the liquidity characteristics of a particular asset or on the degree of sensitivity of an asset or liability to other market inputs or factors.

We consider gains and losses arising from certain changes in fair value of financial instruments incidental to our core performance, such as those arising from changes in market yields, as our intention is to continue to hold these instruments for the foreseeable future. These gains and losses are excluded from adjusted net income and adjusted EPS to provide users of the financial statements a better understanding of the core results of our business and enable better comparability of results from one period to another and with peers.

In connection with the sale of commercial aircraft, we hold financial assets and have incurred financial liabilities, measured at fair value, some of which are reported as Level 3 financial instruments, including certain aircraft loans and lease receivables, certain investments in financing structures and lease subsidies. The fair values of these financial instruments are determined using various assumptions, with the assumption on marketability risk being the most likely to change the fair value significantly from period to period. The fair value of aircraft loans and lease receivables was also moderately impacted by credit rating changes in the recent past.

Sensitivity analysis
Our main exposures to changes in fair value of financial instruments are related to changes in foreign exchange, interest rates, aircraft residual value curves, credit ratings and marketability adjustments. Note 33 – Financial risk management and Note 34 – Fair value of financial instruments, to the consolidated financial statements, present sensitivity analyses assuming variations in foreign exchange and interest rates.

RELATED PARTY TRANSACTIONS

Related parties, as defined by IFRS, are our joint ventures, associates and key management personnel. A description of our transactions with these related parties is included in Note 36 – Transactions with related parties, to the consolidated financial statements.

CRITICAL JUDGMENTS AND ACCOUNTING ESTIMATES

Our significant accounting policies and use of estimates and judgment are described in Note 2 – Summary of significant accounting policies and Note 4 – Use of estimates and judgment, to the consolidated financial statements. The preparation of financial statements in conformity with IFRS requires the use of estimates and judgment. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if:

- the estimate requires us to make assumptions about matters that are highly uncertain at the time the estimate is made; and
- we could have reasonably used different estimates in the current period, or changes in the estimate are reasonably likely to occur from period to period that would have a material impact on our financial condition, our changes in financial condition or our results of operations.

Our best estimates regarding the future are based on the facts and circumstances available at the time estimates are made. We use historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results will differ from the estimates used, and such differences could be material.

Our budget and strategic plan cover a five-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. We prepare a budget and a strategic plan covering a five-year period, on an annual basis, using a process whereby a detailed one-year budget and four-year strategic plan are prepared by each reportable segment and then consolidated. Cash flows and profitability included in the budget and strategic plan are based on existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and in-force collective agreements. The budget and strategic plan are subject to approval at various levels, including senior management and the Board of Directors. We use the budget and strategic plan, as well as additional projections or assumptions, to derive the expected results for periods thereafter. We then track performance as compared to the budget and strategic plan at various levels within the Corporation. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's most critical estimates and judgments. The sensitivity analyses below should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

Long-term contracts

Transportation conducts most of its business under long-term manufacturing and service contracts and the aerospace segments have some long-term maintenance service contracts, as well as design and development contracts for third parties. Revenues and margins from long-term contracts relating to the designing, engineering or manufacturing of specially designed products (including rail vehicles, vehicle overhaul and signaling contracts) and service contracts are recognized using the percentage-of-completion method of accounting. The long-term nature of these contracts requires estimates of total contract costs and revenues at completion.

Estimated revenues at completion are adjusted for change orders, anticipated options for additional assets, claims, performance incentives, price escalation clauses and other contract terms that provide for the adjustment of prices. If it is probable that changes in revenues will occur and the amount can be measured reliably, they are included in estimated revenues at completion.

Contract costs include material, direct labour, manufacturing overhead and other costs, such as warranty and freight. Estimated contract costs at completion incorporate forecasts for material usage and costs, including escalation clauses, labour hours and costs, foreign exchange rates (including the effect of hedges) and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers. We apply judgment to determine the probability that we will incur additional costs from delays or other penalties and such costs, if probable, are included in estimated costs at completion.

Recognized revenues and margins are subject to revisions as contracts progress towards completion. We conduct quarterly reviews of estimated costs and revenues to completion on a contract-by-contract basis, including a review of escalation assumptions. In addition, a detailed annual review is performed on a contract-by-contract basis as part of the budget and strategic plan process. The effect of any revision may be significant and is recorded by way of a cumulative catch-up adjustment in the period in which the estimates are revised.

Sensitivity analysis
A 1% increase in the estimated future costs to complete all ongoing long-term contracts would have decreased Transportation's gross margin for 2016 by approximately $86 million.

Aerospace program tooling

Our aerospace segments capitalize development costs as aerospace program tooling when certain criteria for deferral are met. Aerospace program tooling is amortized over the expected number of aircraft to be produced, beginning on the date of completion of the first aircraft of a program, and an impairment test is performed at least annually for aircraft programs under development and for specific programs when there is an indication that the asset may be impaired. An impairment charge is recorded when the recoverable amount of a group of assets generating independent cash inflows (a CGU) is less than the carrying value of those assets. The recoverable amounts of aerospace CGUs are based on fair value less costs of disposal, generally determined using a discounted cash flow model.

If key estimates change significantly, amortization expense may be understated or capitalized costs may not be recoverable and aerospace program tooling may be overstated.

Aerospace program tooling amortization and the calculation of recoverable amounts used in impairment testing require estimates of the expected number of aircraft to be delivered over the life of each program. The expected number of aircraft is based on management's aircraft market forecasts and our expected share of each market. Such estimates are reviewed in detail as part of the budget and strategic plan process. For purposes of impairment testing, we exercise judgment to identify independent cash inflows to identify CGUs by family of aircraft. Other key estimates used to determine the recoverable amount include the applicable discount rate, the expected future cash flows over the remaining life of each program, which include costs to complete the development activities, if any, as well as potential upgrades and derivatives expected over the life of the program. The estimated cost of potential upgrades and derivatives is based on past experience with previous programs. The expected future cash flows also include cash flows from aftermarket activities, as well as expected cost savings due to synergies from the perspective of a market participant.

The discount rate is based on a weighted average cost of capital calculated using market-based inputs, available directly from financial markets or based on a benchmark sampling of representative publicly-traded companies in the aerospace sector. The recoverable amounts were established during the fourth quarter of 2016, using a post-tax discount rate of 10.0%.

The estimated future cash flows for the first five years are based on the budget and strategic plan. After the initial five years, long-range forecasts prepared by management are used. Forecast future cash flows are based on management's best estimate of future sales under existing firm orders, expected future orders, timing of payments based on expected delivery schedules, revenues from related services, procurement costs based on existing contracts with suppliers, labour costs, general market conditions, foreign exchange rates and applicable income tax rates.

Given that an annual impairment test is required for aircraft programs under development, an assessment was prepared for the *Global 7000* and *Global 8000* aircraft program and we concluded there was no impairment.

Since the *C Series* aircraft program recently entered into service and given that a significant impairment charge was recorded in 2015, an assessment was prepared again this year and we concluded there was no impairment.

In 2015, we recorded significant impairment charges related to multiple aircraft programs. Based on our 2016 annual assessment, there is no indication that previously recognized impairment losses may no longer exist or may have decreased.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

A 10% decrease, evenly distributed over future periods, in the expected future net cash inflows for the *Global 7000* and *Global 8000* aircraft program and the *C Series* aircraft program would not have resulted in an impairment charge in fiscal year 2016.

An increase of 100-basis points in the discount rate used to perform the impairment tests would not have resulted in an impairment charge in fiscal year 2016 for the *Global 7000* and *Global 8000* aircraft program and the *C Series* aircraft program.

Goodwill

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill is monitored by management at the Transportation operating segment level. An impairment assessment is performed at least annually, and whenever circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that goodwill might be impaired. We selected the fourth quarter to perform an annual impairment assessment of goodwill.

During the fourth quarter of 2016, an impairment test was completed. The recoverable amount of the Transportation operating segment was calculated based on fair value less cost to sell using a discounted cash flow model. We did not identify any impairment.

Estimated future cash flows were based on the budget and strategic plan for the first 5 years and a growth rate of 1% was applied to derive a terminal value beyond the initial 5-year period. The post-tax discount rate is also a key estimate in the discounted cash flow model and was based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount in fiscal year 2016 was 8.5%.

Sensitivity analysis
A 100-basis point change in the post-tax discount rate would not have resulted in an impairment charge in 2016.

Valuation of deferred income tax assets

To determine the extent to which deferred income tax assets can be recognized, we estimate the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget and strategic plan by tax jurisdiction on an undiscounted basis and are reviewed on a quarterly basis. We exercise judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable profits and availability of prudent tax planning strategies. See Note 12 - Income taxes for more details.

Tax contingencies

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of our international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between our actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense or recovery already recorded. We establish tax provisions for possible consequences of audits by the tax authorities of each country in which we operate. The amount of such provisions is based on various factors, such as experience from previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of each legal entity.

Credit and residual value guarantees

Credit and residual value guarantees are generally provided to airlines or to participants in financing structures created in connection with the sale of commercial aircraft. A corresponding provision is recorded, measured at the amounts expected to be paid under the guarantees using an internal valuation model based on stochastic simulations.

The amounts expected to be paid under the guarantees may depend on whether credit defaults occur during the term of the original financing. When a credit default occurs, the credit guarantee may be called upon. In the absence of a credit default the RVG may be triggered. In both cases, the guarantees can only be called upon if there is a loss upon the sale of the aircraft. Therefore, the value of the guarantee is in large part impacted by the future value of the underlying aircraft, as well as on the likelihood that credit or residual value guarantees will be called upon at the expiry of the financing arrangements. Aircraft residual value curves, prepared by management based on information from external appraisals and adjusted to reflect specific factors of the current aircraft market and a balanced market in the medium and long term, are used to estimate the underlying aircraft future value. The amount of the liability is also significantly impacted by the current market assumption for interest rates since payments under these guarantees are mostly expected to be made in the medium to long term. Other key estimates in calculating the value of the guarantees include default probabilities, estimated based on published credit ratings when available or, when not available, on internal assumptions regarding the credit risk of customers. The estimates are reviewed on a quarterly basis.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

Assuming a decrease of 10% in the residual value curves of all commercial aircraft as at December 31, 2016, Commercial Aircraft's EBIT for 2016 would have been negatively impacted by $28 million.

Assuming an increase of 10% in the likelihood that residual value guarantees will be called upon at the expiry of the financing arrangements as at December 31, 2016, Commercial Aircraft's EBIT for 2016 would have been negatively impacted by $57 million.

Assuming a 100-basis point decrease in interest rates as at December 31, 2016, Commercial Aircraft's EBT for 2016 would have been negatively impacted by $12 million. Assuming a 100-basis point increase in interest rates as at December 31, 2016, Commercial Aircraft's EBT for 2016 would have been positively impacted by $12 million.

Retirement and other long-term employee benefits

The actuarial valuation process used to measure pension and other post-employment benefit costs, assets and obligations is dependent on assumptions regarding discount rates, compensation and pre-retirement benefit increases, inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. The impacts from changes in discount rates and, when significant, from key events and other circumstances, are recorded quarterly.

Discount rates are used to determine the present value of the expected future benefit payments and represent the market rates for high-quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit liabilities.

As the Canadian high-quality corporate bond market, as defined under IFRS, includes relatively few medium- and long-term maturity bonds, we establish the discount rate for our Canadian pension and other post-employment plans by constructing a yield curve using three maturity ranges. The first maturity range of the curve is based on observed market rates for AA-rated corporate bonds with maturities of less than six years. In the longer maturity ranges, due to the smaller number of high-quality bonds available, the curve is derived using market observations and extrapolated data. The extrapolated data points are created by adding a term-based yield spread over long-term provincial bond yields. This term-based spread is extrapolated between a base spread and a long spread. The base spread is based on the observed spreads between AA-rated corporate bonds and AA-rated provincial bonds for the 5 to 10 years to maturity range. The long spread is determined as the spread required at the point of average maturity of AA-rated provincial bonds in the 11 to 30 years to maturity range such that the average AA-rated corporate bond spread above AA-rated provincial bonds is equal to the extrapolated spread derived by applying the ratio of the observed spreads between A-rated corporate bonds and AA-rated provincial bonds for the 11 to 30 years to maturity range over the 5 to 10 years to maturity range, to the base spread. For maturities longer than the average maturity of AA-rated provincial bonds in the 11 to 30 years to maturity range, the spread is assumed to remain constant at the level of the long spread.

We determine the expected rates of compensation increases considering the current salary structure, as well as historical and anticipated wage increases, in the context of current economic conditions.

See Note 22 – Retirement benefits, to the consolidated financial statements, for further details regarding assumptions used and sensitivity analysis to changes in critical actuarial assumptions.

Consolidation

We consolidate entities when, based on an evaluation of the substance of our relationship, we establish that we control the investee. We control an investee when we are exposed to, or have rights to, variable returns from our involvement with the investee and the ability to use power over the investee to affect the amount of our returns. This evaluation includes the use of judgment to determine whether rights held by NCI, such as the CDPQ's rights in respect of BT and Investissement Québec's rights in respect of CSALP, are protective in nature as opposed to substantive. We reassess the initial determination of control if facts or circumstances indicate that there may be changes to one or more elements of control.

From time to time, we participate in structured entities where voting rights are not the dominant factor in determining control. In these situations, we may use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether we are exposed to, or have rights to, significant variable returns. The quantitative analyses involve estimating the future cash flows and performance of the investee and analyzing the variability in those cash flows. The qualitative analyses involve consideration of factors such as the purpose and design of the investee and whether we are acting as an agent or principal. There is a significant amount of judgment exercised in evaluating the results of these analyses as well as in determining if we have power to affect the investee's returns, including an assessment of the impact of potential voting rights, contractual agreements and de facto control.

Onerous contract provision

An onerous contract provision is recorded if it is more likely than not that the unavoidable costs of meeting the obligations under a firm contract, other than long-term contracts related to designing, engineering or manufacturing specifically designed products and service contracts for which revenue is recognized using the percentage of completion method of accounting, exceed the economic benefits expected to be received under the contract. Judgment is used to determine which costs are considered unavoidable and the calculation of the unavoidable costs require estimates of expected future costs, including anticipated future cost reductions related to performance improvements and transformation initiatives. Unavoidable costs exclude the allocation of certain indirect overheads which are included in the cost of inventories, such as amortization. As early production units in a new aircraft program require higher costs than units produced later in the program, cost estimates also depend on expected delivery schedules. The estimates are reviewed on a quarterly basis.

CDPQ investment equity and derivative liability components

The convertibles shares issued to the CDPQ contain no obligation for Bombardier to deliver cash or other financial assets to the CDPQ. Judgment was used to conclude that the CDPQ's convertible share investment in BT Holdco is considered 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, as opposed to the entire instrument being characterized as a liability. We present convertible shares in equity (NCI) and derivative component as a liability.

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 being established first and the residual amount allocated to the equity component. The liability component is remeasured quarterly using management's best estimate of the present value of the settlement amount. Management uses an internal valuation model based on stochastic simulations to estimate the fair value of the conversion option embedded in the BT Holdco 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 entitlement; and the fair value of the common shares on an as converted basis. This value is dependent on Transportation meeting the performance incentives agreed upon with the CDPQ, 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, using the best estimate of Transportation's expected results over the remaining term of the instrument and a standard deviation derived from historic results. 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. Management uses internal assumptions to determine the term of the instrument and the future performance of Transportation, derived from the budget and strategic plan.

See Note 34 - Fair value of financial instruments for a sensitivity analysis on the variability in the fair value of the conversion option as a result of a reasonably likely change in the expected future performance of Transportation.

CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Regulation 52-109, we have filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Disclosure controls and procedures

The CEO and the CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Corporation has been made known to them; and
- information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective.

Internal controls over financial reporting

The CEO and the CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our internal controls over financial reporting. Based on this evaluation, the CEO and the CFO concluded that the internal controls over financial reporting are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 Framework).

Changes in internal controls over financial reporting

No changes were made to our internal controls over financial reporting that occurred during the quarter and fiscal year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FOREIGN EXCHANGE RATES

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

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

	December 31, 2016	December 31, 2015	Increase/(Decrease)
Euro	**1.0541**	1.0887	(3%)
Canadian dollar	**0.7430**	0.7202	3%
Pound sterling	**1.2312**	1.4833	(17%)

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

	December 31, 2016	December 31, 2015	Decrease
Euro	**1.0812**	1.0954	(1%)
Canadian dollar	**0.7497**	0.7501	0%
Pound sterling	**1.2416**	1.5176	(18%)

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

	December 31, 2016	December 31, 2015	Decrease
Euro	**1.1072**	1.1092	0%
Canadian dollar	**0.7549**	0.7838	(4%)
Pound sterling	**1.3561**	1.5280	(11%)

SHAREHOLDER INFORMATION

Authorized, issued and outstanding share data, as at February 14, 2017

	Authorized	Issued and outstanding	
Class A Shares (multiple voting)[1]	3,592,000,000	313,900,550	
Class B Shares (subordinate voting)[2]	3,592,000,000	1,879,142,745	[3]
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521	
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479	
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000	

[1] Ten votes each, convertible at the option of the holder into one Class B Subordinate Voting Share.
[2] Convertible at the option of the holder into one Class A Share under certain conditions.
[3] Net of 53,533,118 Class B Subordinate Voting Shares purchased and held in trust in connection with the PSU and RSU plans.

Warrant, share option, PSU, DSU and RSU data as at December 31, 2016

Warrants issued and outstanding	205,851,872
Options issued and outstanding under the share option plans	97,039,186
PSUs, DSUs and RSUs issued and outstanding under the PSU, DSU and RSU plans	64,061,479
Class B Subordinate Voting Shares held in trust to satisfy PSU and RSU obligations	53,533,118

Information

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

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

SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from, and should be read in conjunction with, the consolidated financial statements for fiscal years ended December 31, 2016, 2015 and 2014.

The following table provides selected financial information for the last three fiscal years.

Fiscal years ended December 31	**2016**	2015	2014
Revenues	**$ 16,339**	$ 18,172	$ 20,111
Net income (loss) attributable to equity holders of Bombardier Inc.	**$ (1,022)**	$ (5,347)	$ (1,260)
EPS (in dollars)			
Basic and diluted	**$ (0.48)**	$ (2.58)	$ (0.74)
Cash dividends declared per share (in Canadian dollars)			
Class A Shares (multiple voting)	**$ —**	$ —	$ 0.10
Class B Shares (subordinate voting)	**$ —**	$ —	$ 0.10
Series 2 Preferred Shares	**$ 0.68**	$ 0.70	$ 0.75
Series 3 Preferred Shares	**$ 0.78**	$ 0.78	$ 0.78
Series 4 Preferred Shares	**$ 1.56**	$ 1.56	$ 1.56

As at December 31	**2016**	2015	2014
Total assets	**$ 22,826**	$ 22,903	$ 27,614
Non-current financial liabilities	**$ 9,737**	$ 9,527	$ 8,229

The quarterly data table is shown hereafter.

February 15, 2017

BOMBARDIER INC.
QUARTERLY DATA (UNAUDITED)
(the quarterly data has been prepared in accordance with IAS 34, Interim financial reporting, except market price ranges)
(in millions of U.S. dollars, except per share amounts)

Fiscal years	**2016**					2015				
	Total	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**	Total	Fourth quarter	Third quarter	Second quarter	First quarter
Revenues										
Business Aircraft	**$ 5,741**	**$ 1,651**	**$ 1,314**	**$ 1,473**	**$ 1,303**	$ 6,996	$ 2,086	$ 1,558	$ 1,815	$ 1,537
Commercial Aircraft	**2,617**	**699**	**538**	**764**	**616**	2,395	644	480	598	673
Aerostructures and Engineering Services	**1,549**	**319**	**337**	**425**	**468**	1,797	443	411	472	471
Transportation	**7,574**	**1,948**	**1,782**	**1,964**	**1,880**	8,281	2,164	1,985	2,091	2,041
Corporate and Elimination	**(1,142)**	**(237)**	**(235)**	**(317)**	**(353)**	(1,297)	(320)	(296)	(356)	(325)
	$ 16,339	**$ 4,380**	**$ 3,736**	**$ 4,309**	**$ 3,914**	$ 18,172	$ 5,017	$ 4,138	$ 4,620	$ 4,397
EBIT										
Business Aircraft	**$ 477**	**$ 99**	**$ 84**	**$ 212**	**$ 82**	$ (1,252)	$ (352)	$ (1,115)	$ 119	$ 96
Commercial Aircraft	**(903)**	**(144)**	**(107)**	**(586)**	**(66)**	(3,970)	(327)	(3,624)	(10)	(9)
Aerostructures and Engineering Services	**128**	**24**	**20**	**69**	**15**	105	(9)	30	42	42
Transportation	**396**	**161**	**125**	**87**	**23**	465	123	109	115	118
Corporate and Elimination	**(156)**	**(66)**	**(59)**	**(33)**	**2**	(186)	(92)	(35)	(40)	(19)
	(58)	**74**	**63**	**(251)**	**56**	(4,838)	(657)	(4,635)	226	228
Financing expense[1]	**819**	**281**	**195**	**187**	**170**	418	95	129	92	108
Financing income[1]	**(70)**	**(49)**	**(14)**	**(11)**	**(10)**	(70)	(21)	(12)	(20)	(23)
EBT	**(807)**	**(158)**	**(118)**	**(427)**	**(104)**	(5,186)	(731)	(4,752)	154	143
Income taxes	**174**	**101**	**(24)**	**63**	**34**	154	(54)	136	29	43
Net income (loss)	**$ (981)**	**$ (259)**	**$ (94)**	**$ (490)**	**$ (138)**	$ (5,340)	$ (677)	$ (4,888)	$ 125	$ 100
Attributable to										
Equity holders of Bombardier Inc.	**$ (1,022)**	**$ (251)**	**$ (79)**	**$ (531)**	**$ (161)**	$ (5,347)	$ (679)	$ (4,891)	$ 125	$ 98
NCI	**41**	**(8)**	**(15)**	**41**	**23**	7	2	3	—	2
	$ (981)	**$ (259)**	**$ (94)**	**$ (490)**	**$ (138)**	$ (5,340)	$ (677)	$ (4,888)	$ 125	$ 100
EPS (in dollars)										
Basic and diluted	**$ (0.48)**	**$ (0.12)**	**$ (0.04)**	**$ (0.24)**	**$ (0.07)**	$ (2.58)	$ (0.31)	$ (2.20)	$ 0.06	$ 0.05
Market price range of Class B Subordinate Voting Shares (in Canadian dollars)										
High	**$ 2.28**	**$ 2.20**	**$ 2.19**	**$ 2.28**	**$ 1.43**	$ 4.24	$ 1.82	$ 2.35	$ 2.79	$ 4.24
Low	**$ 0.72**	**$ 1.70**	**$ 1.56**	**$ 1.21**	**$ 0.72**	$ 1.03	$ 1.10	$ 1.03	$ 2.24	$ 2.26

[1] The amounts presented on a yearly basis may not correspond to the sum of the four quarters as certain reclassifications to quarterly figures to or from financing income and financing expense may be required on a cumulative basis.

BOMBARDIER INC.
HISTORICAL FINANCIAL SUMMARY
(in millions of U.S. dollars, except per share amounts, number of common shares and shareholders of record)

For the fiscal years ended December 31	2016	2015	2014	2013	2012
Revenues	**$ 16,339**	$ 18,172	$ 20,111	$ 18,151	$ 16,414
EBIT before special items[1]	**$ 427**	$ 554	$ 923	$ 893	$ 806
Special items	**485**	5,392	1,489	(30)	140
EBIT	**(58)**	(4,838)	(566)	923	666
Financing expense	**819**	418	249	271	295
Financing income	**(70)**	(70)	(75)	(119)	(165)
EBT	**(807)**	(5,186)	(740)	771	536
Income taxes	**174**	154	506	199	66
Net income (loss)	**$ (981)**	$ (5,340)	$ (1,246)	$ 572	$ 470
Attributable to					
Equity holders of Bombardier Inc.	**$ (1,022)**	$ (5,347)	$ (1,260)	$ 564	$ 460
NCI	**$ 41**	$ 7	$ 14	$ 8	$ 10
Adjusted net income (loss)[1]	**$ (268)**	$ 326	$ 648	$ 608	$ 671
EPS (in dollars)					
Basic and diluted	**$ (0.48)**	$ (2.58)	$ (0.74)	$ 0.31	$ 0.25
Adjusted[1]	**$ (0.15)**	$ 0.14	$ 0.35	$ 0.33	$ 0.36
General information					
Export revenues from Canada	**$ 6,383**	$ 7,335	$ 8,086	$ 6,767	$ 6,129
Net additions to PP&E and intangible assets	**$ 1,201**	$ 1,862	$ 1,964	$ 2,287	$ 2,074
Amortization	**$ 371**	$ 438	$ 417	$ 391	$ 364
Impairment charges on PP&E and intangible assets	**$ 10**	$ 4,300	$ 1,266	$ —	$ 9
Dividend per common share (in Canadian dollars)					
Class A	**$ 0.00**	$ 0.00	$ 0.10	$ 0.10	$ 0.10
Class B Subordinate Voting	**$ 0.00**	$ 0.00	$ 0.10	$ 0.10	$ 0.10
Dividend per preferred share (in Canadian dollars)					
Series 2	**$ 0.68**	$ 0.70	$ 0.75	$ 0.75	$ 0.75
Series 3	**$ 0.78**	$ 0.78	$ 0.78	$ 0.78	$ 1.05
Series 4	**$ 1.56**	$ 1.56	$ 1.56	$ 1.56	$ 1.56
Market price ranges (in Canadian dollars)					
Class A Shares					
High	**$ 3.35**	$ 4.24	$ 4.68	$ 5.42	$ 5.00
Low	**$ 0.89**	$ 1.18	$ 3.30	$ 3.81	$ 3.08
Close	**$ 2.33**	$ 1.49	$ 4.13	$ 4.60	$ 3.83
Class B Subordinate Voting Shares					
High	**$ 2.28**	$ 4.24	$ 4.68	$ 5.43	$ 4.93
Low	**$ 0.72**	$ 1.03	$ 3.41	$ 3.80	$ 2.97
Close	**$ 2.16**	$ 1.34	$ 4.15	$ 4.61	$ 3.76
As at December 31					
Number of common shares (in millions)	**2,193**	2,220	1,740	1,739	1,730
Book value per common share (in dollars)	**$ (2.58)**	$ (1.99)	$ (0.18)	$ 1.20	$ 0.50
Shareholders of record	**14,781**	14,491	14,166	13,503	13,544

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures for definitions of these metrics and reconciliations to the most comparable IFRS measures in 2016 and 2015.

BOMBARDIER INC.
HISTORICAL FINANCIAL SUMMARY (CONTINUED)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31	2016	2015	2014	2013	2012
Assets					
Cash and cash equivalents	**$ 3,384**	$ 2,720	$ 2,489	$ 3,397	$ 2,557
Trade and other receivables	**1,291**	1,473	1,538	1,492	1,311
Inventories	**5,844**	6,978	7,970	8,234	7,540
Other financial assets	**336**	450	530	637	443
Other assets	**441**	484	592	626	564
Current assets	**11,296**	12,105	13,119	14,386	12,415
PP&E	**1,949**	2,061	2,092	2,066	1,933
Aerospace program tooling	**5,174**	3,975	6,823	6,606	4,770
Goodwill	**1,855**	1,978	2,127	2,381	2,316
Deferred income taxes	**705**	761	875	1,231	1,421
Investments in joint ventures and associates	**332**	356	294	318	311
Other financial assets	**915**	870	1,328	1,568	1,339
Other assets	**600**	797	956	807	670
Non-current assets	**11,530**	10,798	14,495	14,977	12,760
	$ 22,826	$ 22,903	$ 27,614	$ 29,363	$ 25,175
Liabilities					
Trade and other payables	**$ 3,239**	$ 4,040	$ 4,216	$ 4,089	$ 3,310
Provisions	**822**	1,108	990	881	1,000
Advances and progress billings in excess of long-term contract inventories	**1,539**	1,408	1,698	2,352	1,763
Advances on aerospace programs	**1,550**	2,002	3,339	3,228	3,053
Other financial liabilities	**608**	991	1,010	1,009	455
Other liabilities	**2,175**	2,274	2,182	2,227	2,212
Current liabilities	**9,933**	11,823	13,435	13,786	11,793
Provisions	**1,444**	918	562	584	608
Advances on aerospace programs	**1,535**	1,534	1,608	1,688	1,600
Long-term debt	**8,738**	8,908	7,627	6,988	5,360
Retirement benefits	**2,647**	2,159	2,629	2,161	2,999
Other financial liabilities	**999**	619	602	717	601
Other liabilities	**1,019**	996	1,096	990	957
Non-current liabilities	**16,382**	15,134	14,124	13,128	12,125
	26,315	26,957	27,559	26,914	23,918
Equity (deficit)					
Attributable to equity holders of Bombardier Inc.	**(5,243)**	(4,067)	42	2,426	1,211
Attributable to NCI	**1,754**	13	13	23	46
	(3,489)	(4,054)	55	2,449	1,257
	$ 22,826	$ 22,903	$ 27,614	$ 29,363	$ 25,175