BOMBARDIER INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2016 and 2015

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and MD&A of Bombardier Inc. and all other information in the financial report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with IFRS as issued by the International Accounting Standards Board. The MD&A has been prepared in accordance with the requirements of Canadian Securities Administrators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented in the MD&A is consistent with that in the consolidated financial statements.

Bombardier Inc.'s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have designed disclosure controls and procedures and internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to Bombardier Inc. has been made known to them; and information required to be disclosed in Bombardier Inc.'s filings is recorded, processed, summarized and reported within the time periods specified in Canadian securities legislation.

Bombardier Inc.'s CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures and internal controls over financial reporting as of the end of the fiscal year 2016. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures and internal controls over financial reporting were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 framework). In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of the end of the fiscal year 2016. In compliance with the Canadian Securities Administrators' National Instrument 52-109, Bombardier Inc.'s CEO and CFO have provided a certification related to Bombardier Inc.'s annual disclosure to the Canadian Securities Administrators, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and 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 meets periodically with management, as well as with the internal and independent auditors, to review the consolidated financial statements, independent auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the independence and the fees of the independent auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The independent auditors have full and free access to the Audit Committee to discuss their audit and related matters.

Alain Bellemare
President and Chief Executive Officer

John Di Bert, CPA, CA
Senior Vice President and Chief Financial Officer

February 15, 2017

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the accompanying consolidated financial statements of Bombardier Inc. which comprise the consolidated statements of financial position as at December 31, 2016, 2015 and January 1, 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for fiscal years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bombardier Inc. as at December 31, 2016, 2015 and January 1, 2015, and its financial performance and its cash flows for fiscal years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Ernst & Young LLP [1]

Ernst & Young LLP
Montréal, Canada

February 15, 2017

[1] CPA auditor, CA, public accountancy permit no. A112431

CONSOLIDATED FINANCIAL STATEMENTS

For fiscal years 2016 and 2015
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

The following table shows the abbreviations used in the consolidated financial statements.

Term	Description	Term	Description
AFS	Available for sale	FVTP&L	Fair value through profit and loss
BPS	Basis points	HFT	Held for trading
CCTD	Cumulative currency translation difference	IAS	International Accounting Standard(s)
CDPQ	Caisse de dépôt et placement du Québec	IASB	International Accounting Standards Board
CGU	Cash generating unit	IFRS	International Financial Reporting Standard(s)
CSALP	C Series Aircraft Limited Partnership	L&R	Loans and receivables
DB	Defined benefit	MD&A	Management's discussion and analysis
DC	Defined contribution	NCI	Non-controlling interests
DDHR	Derivative designated in a hedge relationship	OCI	Other comprehensive income (loss)
DSU	Deferred share unit	PP&E	Property, plant and equipment
EBIT	Earnings (loss) before financing expense, financing income and income taxes	PSG	Performance security guarantee
		PSU	Performance share unit
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	R&D	Research and development
		RSU	Restricted share unit
		RVG	Residual value guarantee
EBT	Earnings (loss) before income taxes	SG&A	Selling, general and administrative
EIS	Entry-into-service	U.K.	United Kingdom
EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.	U.S.	United States of America

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME
For the fiscal years ended December 31
(in millions of U.S. dollars, except per share amounts)

	Notes	**2016**	2015
Revenues		**$ 16,339**	$ 18,172
Cost of sales	17	**14,622**	16,199
Gross margin		**1,717**	1,973
SG&A		**1,133**	1,213
R&D	6	**287**	355
Share of income of joint ventures and associates	35	**(126)**	(149)
Other income	7	**(4)**	—
Special items	8	**485**	5,392
EBIT		**(58)**	(4,838)
Financing expense	9	**819**	418
Financing income	9	**(70)**	(70)
EBT		**(807)**	(5,186)
Income taxes	12	**174**	154
Net loss		**$ (981)**	$ (5,340)
Attributable to			
Equity holders of Bombardier Inc.		**$ (1,022)**	$ (5,347)
NCI		**41**	7
		$ (981)	$ (5,340)
EPS (in dollars)	13		
Basic and diluted		**$ (0.48)**	$ (2.58)

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the fiscal years ended December 31
(in millions of U.S. dollars)

	Notes		**2016**		2015
Net loss		**$**	**(981)**	$	(5,340)
OCI					
Items that may be reclassified to net income					
Net change in cash flow hedges					
Foreign exchange re-evaluation			**(3)**		12
Net gain (loss) on derivative financial instruments			**26**		(508)
Reclassification to income or to the related non-financial asset(1)(2)			**310**		449
Income taxes	12		**(82)**		(6)
			251		(53)
AFS financial assets					
Net unrealized loss			**(1)**		(5)
CCTD					
Net investments in foreign operations			**(178)**		(94)
Net gain on related hedging items			**—**		2
			(178)		(92)
Items that are never reclassified to net income					
Retirement benefits					
Remeasurement of defined benefit plans(3)			**(755)**		592
Income taxes	12		**73**		(11)
			(682)		581
Total OCI			**(610)**		431
Total comprehensive loss		**$**	**(1,591)**	$	(4,909)
Attributable to					
Equity holders of Bombardier Inc.		**$**	**(1,564)**	$	(4,914)
NCI			**(27)**		5
		$	**(1,591)**	$	(4,909)

(1) Includes $252 million of loss reclassified to the related non-financial asset for fiscal year 2016 ($327 million of loss for fiscal year 2015).
(2) $76 million of net deferred gain is expected to be reclassified from OCI to the carrying amount of the related non-financial asset or to income during fiscal year 2017.
(3) Includes net actuarial gains (losses).

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

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

	Notes		**December 31 2016**		December 31 2015		January 1 2015
Assets							
Cash and cash equivalents	15	**$**	**3,384**	$	2,720	$	2,489
Trade and other receivables	16		**1,291**		1,473		1,538
Inventories	17		**5,844**		6,978		7,970
Other financial assets	18		**336**		450		530
Other assets	19		**441**		484		592
Current assets			**11,296**		12,105		13,119
PP&E	20		**1,949**		2,061		2,092
Aerospace program tooling	21		**5,174**		3,975		6,823
Goodwill	21		**1,855**		1,978		2,127
Deferred income taxes	12		**705**		761		875
Investments in joint ventures and associates			**332**		356		294
Other financial assets	18		**915**		870		1,328
Other assets	19		**600**		797		956
Non-current assets			**11,530**		10,798		14,495
		$	**22,826**	$	22,903	$	27,614
Liabilities							
Trade and other payables	23	**$**	**3,239**	$	4,040	$	4,216
Provisions	24		**822**		1,108		990
Advances and progress billings in excess of long-term contract inventories	17		**1,539**		1,408		1,698
Advances on aerospace programs			**1,550**		2,002		3,339
Other financial liabilities	25		**608**		991		1,010
Other liabilities	26		**2,175**		2,274		2,182
Current liabilities			**9,933**		11,823		13,435
Provisions	24		**1,444**		918		562
Advances on aerospace programs			**1,535**		1,534		1,608
Long-term debt	27		**8,738**		8,908		7,627
Retirement benefits	22		**2,647**		2,159		2,629
Other financial liabilities	25		**999**		619		602
Other liabilities	26		**1,019**		996		1,096
Non-current liabilities			**16,382**		15,134		14,124
			26,315		26,957		27,559
Equity (deficit)							
Attributable to equity holders of Bombardier Inc.			**(5,243)**		(4,067)		42
Attributable to NCI	10		**1,754**		13		13
			(3,489)		(4,054)		55
		$	**22,826**	$	22,903	$	27,614
Commitments and contingencies	38						

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

On behalf of the Board of Directors,

Pierre Beaudoin
Director

Sheila Fraser
Sheila Fraser, FCPA, FCA
Director

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the fiscal years ended
(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.											
	Share capital			Retained earnings (deficit)			Accumulated OCI					
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remea-surement losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total equity (deficit)
As at January 1, 2015	$ 347	$ 1,381	$ —	$ 1,151	$ (2,661)	$ 92	$ 12	$ (322)	$ 42	$ 42	$ 13	$ 55
Total comprehensive income												
Net income (loss)	—	—	—	(5,347)	—	—	—	—	—	(5,347)	7	(5,340)
OCI	—	—	—	—	581	—	(5)	(53)	(90)	433	(2)	431
	—	—	—	(5,347)	581	—	(5)	(53)	(90)	(4,914)	5	(4,909)
Issuance of share capital	—	822	—	—	—	—	—	—	—	822	—	822
Dividends												
Preferred shares	—	—	—	(23)	—	—	—	—	—	(23)	—	(23)
Capital distribution	—	—	—	—	—	—	—	—	—	—	(4)	(4)
Shares distributed - DSU plans	—	1	—	—	—	—	—	—	—	1	—	1
Shares purchased - RSU plans	—	(9)	—	—	—	—	—	—	—	(9)	—	(9)
Share-based expense	—	—	—	—	—	14	—	—	—	14	—	14
Purchase of NCI	—	—	—	—	—	—	—	—	—	—	(1)	(1)
As at December 31, 2015	$ 347	$ 2,195	$ —	$ (4,219)	$ (2,080)	$ 106	$ 7	$ (375)	$ (48)	$ (4,067)	$ 13	$ (4,054)
Total comprehensive income												
Net income (loss)	—	—	—	(1,022)	—	—	—	—	—	(1,022)	41	(981)
OCI	—	—	—	—	(692)	—	(1)	252	(101)	(542)	(68)	(610)
	—	—	—	(1,022)	(692)	—	(1)	252	(101)	(1,564)	(27)	(1,591)
Issuance of warrants(1)	—	—	73	—	—	—	—	—	—	73	—	73
Issuance of NCI(1)	—	—	—	368	—	—	—	—	—	368	1,845	2,213
Dividends												
Preferred shares	—	—	—	(32)	—	—	—	—	—	(32)	—	(32)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(77)	(77)
Shares purchased - PSU plans	—	(43)	—	—	—	—	—	—	—	(43)	—	(43)
Share-based expense	—	—	—	—	—	22	—	—	—	22	—	22
As at December 31, 2016	**$ 347**	**$ 2,152**	**$ 73**	**$ (4,905)**	**$ (2,772)**	**$ 128**	**$ 6**	**$ (123)**	**$ (149)**	**$ (5,243)**	**$ 1,754**	**$ (3,489)**

(1) Related to the convertible shares issued to the CDPQ in relation to the sale of a minority stake in Transportation, which are compound instruments, and the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec. See Note 10 – Non-controlling interest for more details.

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the fiscal years ended December 31
(in millions of U.S. dollars)

	Notes	2016	2015
Operating activities			
Net loss		**$ (981)**	$ (5,340)
Non-cash items			
Amortization	20, 21	**371**	438
Impairment charges on PP&E and intangible assets	8, 20, 21	**10**	4,300
Deferred income taxes	12	**31**	63
Gains on disposals of PP&E and intangible assets	7	**(19)**	(3)
Share of income of joint ventures and associates	35	**(126)**	(149)
Share-based expense	29	**22**	14
Loss on repurchase of long-term debt	8	**86**	22
Dividends received from joint ventures and associates		**141**	77
Net change in non-cash balances	30	**602**	598
Cash flows from operating activities		**137**	20
Investing activities			
Additions to PP&E and intangible assets		**(1,255)**	(1,879)
Proceeds from disposals of PP&E and intangible assets		**54**	17
Proceeds from investment in financing structure		**—**	150
Additions to AFS investments in securities		**—**	(64)
Proceeds from disposal of AFS investments in securities		**—**	54
Other		**6**	(12)
Cash flows from investing activities		**(1,195)**	(1,734)
Financing activities			
Net proceeds from issuance of long-term debt	27	**1,367**	2,218
Repayments of long-term debt	27	**(1,566)**	(831)
Dividends paid(1)		**(17)**	(19)
Purchase of Class B Shares held in trust under the PSU and RSU plans		**(43)**	(9)
Net proceeds from issuance of shares	28	**—**	822
Issuance of NCI, net of transaction costs(2)		**2,418**	—
Dividends to NCI		**(77)**	—
Other		**(108)**	(132)
Cash flows from financing activities		**1,974**	2,049
Effect of exchange rates on cash and cash equivalents		**(252)**	(104)
Net increase in cash and cash equivalents		**664**	231
Cash and cash equivalents at beginning of year		**2,720**	2,489
Cash and cash equivalents at end of year		**$ 3,384**	$ 2,720
Supplemental information(3)(4)			
Cash paid for			
Interest		**$ 565**	$ 427
Income taxes		**$ 111**	$ 92
Cash received for			
Interest		**$ 20**	$ 156
Income taxes		**$ 5**	$ 15

(1) Related to preferred shares.
(2) Related to the convertible shares issued to the CDPQ in relation to the sale of a minority stake in Transportation, which are compound instruments, and the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec. See Note 10 – Non-controlling interest for more details.
(3) Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.
(4) Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivables after the effect of hedges and the interest portion related to the settlement of an interest-rate swap, if any.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2016 and 2015
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

1. BASIS OF PREPARATION

Bombardier Inc. is incorporated under the laws of Canada. The consolidated financial statements include the accounts of Bombardier Inc. and its subsidiaries ("the Corporation" or "our" or "we"). The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft, as well as major aircraft structural components, and rail transportation equipment and systems, and is a provider of related services. The Corporation carries out its operations in four distinct segments: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation. The main activities of the Corporation are described in Note 5 - Segment disclosure.

The Corporation's consolidated financial statements for fiscal years 2016 and 2015 were authorized for issuance by the Board of Directors on February 15, 2017.

Statement of compliance

The Corporation's consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IFRS, as issued by the IASB.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated.

Basis of consolidation

Subsidiaries – Subsidiaries are fully consolidated from the date of acquisition and continue to be consolidated until the date control over the subsidiaries ceases.

The Corporation consolidates investees, including structured entities when, based on the evaluation of the substance of the relationship with the Corporation, it concludes that it controls the investees. The Corporation controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Corporation's principal subsidiaries, whose revenues or assets represent more than 10% of total revenues or more than 10% of total assets of Aerospace or Transportation segments, are as follows:

Subsidiary	Location
C Series Aircraft Limited Partnership	Canada
Bombardier Transportation GmbH	Germany
Bombardier Transportation (Holdings) UK Ltd	U.K.
Bombardier Transport France S.A.S.	France
Learjet Inc.	U.S.

Revenues and assets of these subsidiaries combined with those of Bombardier Inc. totalled 66% of consolidated revenues and 75% of consolidated assets for fiscal year 2016 (70% and 74% for fiscal year 2015).

Joint ventures – Joint ventures are those entities over which the Corporation exercises joint control, requiring unanimous consent of the parties sharing control of relevant activities such as, strategic financial and operating decision making and where the parties have rights to the net assets of the arrangement. The Corporation recognizes its interest in joint ventures using the equity method of accounting.

Associates – Associates are entities in which the Corporation has the ability to exercise significant influence over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting.

Foreign currency translation

The consolidated financial statements are expressed in U.S. dollars, the functional currency of Bombardier Inc. The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of most foreign subsidiaries is their local currency, the euro, Pound sterling, various other European currencies and the U.S. dollar in Transportation, and mainly the U.S. dollar in the aerospace segments.

Foreign currency transactions – Transactions denominated in foreign currencies are initially recorded in the functional currency of the related entity using the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Any resulting exchange difference is recognized in income except for exchange differences related to retirement benefits asset and liability, as well as financial liabilities designated as hedges of the Corporation's net investments in foreign operations, which are recognized in OCI. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rate in effect at the date the fair value is determined. Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.

Foreign operations – Assets and liabilities of foreign operations whose functional currency is other than the U.S. dollar are translated into U.S. dollars using closing exchange rates. Revenues and expenses, as well as cash flows, are translated using the average exchange rates for the period. Translation gains or losses are recognized in OCI and are reclassified in income on disposal or partial disposal of the investment in the related foreign operation.

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

			Exchange rates as at		**Average exchange rates for fiscal years**
	December 31 2016	December 31 2015	January 1 2015	**2016**	2015
Euro	**1.0541**	1.0887	1.2141	**1.1072**	1.1092
Canadian dollar	**0.7430**	0.7202	0.8633	**0.7549**	0.7838
Pound sterling	**1.2312**	1.4833	1.5587	**1.3561**	1.5280

Revenue recognition

Long-term contracts – Revenues from long-term contracts related to designing, engineering or manufacturing specifically designed products (including rail vehicles, vehicles overhaul and signaling contracts) and service contracts are recognized using the percentage-of-completion method of accounting. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. 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. If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in cost of sales in the period in which the negative gross margin is identified. When the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are expected to be recovered.

When a contract covers a number of products, the construction of each product is treated as a separate contract when (1) separate proposals have been submitted for each product, (2) each product has been subject to separate negotiation, and (3) the costs and revenues of each product can be identified. A group of contracts, whether with a single customer or with several customers, are treated as a single contract when (1) the group of contracts is negotiated as a single package, (2) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin, and (3) the contracts are performed concurrently or in a continuous sequence. Options for additional assets are treated as a separate contract when (1) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract or (2) the price of the asset is negotiated without regard to the original contract price.

Aerospace programs – Revenues from the sale of new aircraft are recognized when the aircraft has been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. All costs incurred or to be incurred in connection with the sale, including warranty costs and sales incentives, are charged to cost of sales or as a deduction from revenues at the time revenue is recognized.

Multiple deliverables – Sales of goods and services sometimes involve the provision of multiple components. In these cases, the Corporation determines whether the contract or arrangement contains more than one unit of accounting. When certain criteria are met, such as when the delivered item has value to the customer on a stand-alone basis, the recognition criteria are applied to the separate identifiable components of a single transaction to reflect the substance of the transaction. Conversely, two or more transactions may be considered together for revenue recognition purposes, when the commercial effect cannot be understood without reference to a series of transactions as a whole. Revenue is allocated to the separate components based on their relative fair value.

***Other* –** Revenues from the sale of pre-owned aircraft and spare parts are recognized when the goods have been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

Government assistance and refundable advances

Government assistance, including investment tax credits, is recognized when there is a reasonable assurance that the assistance will be received and that the Corporation will comply with all relevant conditions. Government assistance related to the acquisition of inventories, PP&E and intangible assets is recorded as a reduction of the cost of the related asset. Government assistance related to current expenses is recorded as a reduction of the related expenses.

Government refundable advances are recorded as a financial liability if there is reasonable assurance that the amount will be repaid. Government refundable advances provided to the Corporation to finance research and development activities on a risk-sharing basis are considered part of the Corporation’s operating activities and are therefore presented as cash flows from operating activities in the statement of cash flows.

Special items

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

Income taxes

The Corporation applies the liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future income tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for tax losses carried forward. Deferred income tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect for the year in which the differences are expected to reverse.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

Deferred income tax assets and liabilities are recognized directly in income, OCI or equity based on the classification of the item to which they relate.

Earnings per share

Basic EPS is computed based on net income attributable to equity holders of Bombardier Inc. less dividends on preferred shares, including taxes, divided by the weighted-average number of Class A Shares (multiple voting) and Class B Shares (subordinate voting) outstanding during the fiscal year.

Diluted EPS are computed using the treasury stock method, giving effect to the exercise of all dilutive elements. CDPQ’s convertible share investment in BT Holdco is factored into diluted EPS by adjusting net income attributable to equity holders of Bombardier Inc. to reflect their share of Transportation’s earnings on an as converted basis. See Note 10 – Non-controlling interest for more details.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation 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. Financial liabilities of the Corporation 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.

Financial instruments are recognized in the consolidated statement of financial position when the Corporation becomes a party to the contractual obligations of the instrument. On initial recognition, financial instruments are recognized at their fair value plus, in the case of financial instruments not at FVTP&L, transaction costs that are directly attributable to the acquisition or issue of financial instruments. Subsequent to initial recognition, financial instruments are measured according to the category to which they are classified, which are: a) financial instruments classified as HFT, b) financial instruments designated as FVTP&L, c) AFS financial assets, d) L&R, or e) other than HFT financial liabilities. Their classification is determined by management on initial recognition based on the purpose for their acquisition. Financial instruments are subsequently measured at amortized cost, unless they are classified as AFS or HFT or designated as FVTP&L, in which case they are subsequently measured at fair value.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Corporation has transferred its rights to receive cash flows from the asset and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

For transactions where it is not obvious whether the Corporation has transferred or retained substantially all the risks and rewards of ownership, the Corporation performs a quantitative analysis to compare its exposure to the variability in asset cash flows before and after the transfer. Judgment is applied in determining a number of reasonably possible scenarios that reflect the expected variability in the amount and timing of net cash flows, and then in assigning each scenario a probability with greater weighting being given to those outcomes which are considered more likely to occur.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing liability is replaced by another from the same creditor on substantially different terms, or the terms of the liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

a) Financial instruments classified as HFT

Cash and cash equivalents – Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions and money market funds, with maturities of three months or less from the date of acquisition.

Derivative financial instruments – Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest-rate market risks, generally through forward foreign exchange contracts and interest rate swap agreements. Derivative financial instruments include derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts.

Derivative financial instruments are classified as HFT, unless they are designated as hedging instruments for which hedge accounting is applied (see below). Changes in the fair value of derivative financial instruments not designated in a hedging relationship, excluding embedded derivatives, are recognized in cost of sales or financing expense or financing income, based on the nature of the exposure.

Embedded derivatives of the Corporation include call options on long-term debt as well as foreign exchange and other derivative instruments not closely related to sale or purchase agreements. Call options on long-term debt that are not closely related to the host contract are measured at fair value, with the initial value recognized as an increase of the related long-term debt and amortized to net income using the effective interest method. Upon initial recognition, the fair value of the foreign exchange instruments not designated in a hedge relationship is recognized in cost of sales. Subsequent changes in fair value of embedded derivatives are recorded in cost of sales, other expense (income) or financing expense or financing income, based on the nature of the exposure.

b) Financial instruments designated as FVTP&L

Financial instruments may be designated on initial recognition as FVTP&L if any of the following criteria is met: (i) the financial instrument contains one or more embedded derivatives that otherwise would have to be accounted for separately; (ii) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or liability or recognizing the gains and losses on them on a different basis; or (iii) the financial asset and financial liability are part of a group of financial assets, financial liabilities, or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The Corporation has designated as FVTP&L, certain aircraft loans and lease receivables, certain investments in financing structures, trade-in commitments and lease subsidies, which were all designated as FVTP&L based on the above criterion (iii).

Subsequent changes in fair value of such financial instruments are recorded in other expense (income), except for the fair value changes arising from a change in interest rates which are recorded in financing expense or financing income.

c) AFS financial assets

Investments in securities are usually classified as AFS. They are accounted for at fair value if reliably measurable, with unrealized gains and losses included in OCI, except for foreign exchange gains and losses on monetary investments, such as fixed income investments, which are recognized in income. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

When a decline in the fair value of an AFS financial asset has been recognised in OCI and there is objective evidence that the asset is impaired, the cumulative loss equal to the difference between the acquisition cost of the investments and its current fair value, less any impairment loss on that financial asset previously recognized in net income, is removed from AOCI and recognized in net income. Impairment losses recognized in net income for financial instruments classified as AFS can be reversed, except for investments in equity instruments.

d) L&R

Trade and other receivables, restricted cash, certain aircraft loans and lease receivables, certain investments in financing structures, long-term contract receivables and other financial assets, are classified as L&R. Financial assets classified as L&R are measured at amortized cost using the effective interest rate method less any impairment losses.

Trade receivables as well as other financial assets classified as L&R are subject to periodic impairment review and are classified as impaired when there is objective evidence that an impairment loss has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

e) **Other than HFT financial liabilities**
Trade and other payables, short-term borrowings, long-term debt, government refundable advances, vendor non-recurring costs, sale and leaseback obligations and certain other financial liabilities are classified as other than HFT liabilities and are measured at amortized cost using the effective interest rate method.

Hedge accounting

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative and non-derivative hedging financial instruments are expected to substantially offset the changes in the fair value of the hedged item attributable to the underlying risk exposure.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There are three permitted hedging strategies.

Fair value hedges – The Corporation generally applies fair value hedge accounting to certain interest-rate derivatives and forward foreign exchange contracts hedging the exposures to changes in the fair value of recognised financial assets and financial liabilities. In a fair value hedge relationship, gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income.

Cash flow hedges – The Corporation generally applies cash flow hedge accounting to forward foreign exchange contracts and interest-rate derivatives entered into to hedge foreign exchange risks on forecasted transactions and recognized assets and liabilities. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income as a reclassification adjustment when the hedged item affects net income. However, when an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized in OCI are reclassified in the initial carrying amount of the related asset.

Hedge of net investments in foreign operations – The Corporation generally designates certain long-term debt as hedges of its net investments in foreign operations. The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when corresponding exchange gains or losses arising from the translation of the foreign operations are recorded in net income.

The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item. Gains and losses on derivatives not designated in a hedge relationship and gains and losses on the ineffective portion of effective hedges are recorded in cost of sales or financing expense or financing income for the interest component of the derivatives or when the derivatives were entered into for interest rate management purposes.

Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risks and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

When the Corporation is the lessee – Leases of assets classified as finance leases are presented in the consolidated statements of financial position according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in financing expense. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease.

When the Corporation is the lessor – Assets subject to finance leases, mainly commercial aircraft, are initially recognized at an amount equal to the net investment in the lease and are included in aircraft lease receivables. Interest income is recognized over the term of the applicable leases based on the effective interest rate method. Assets under operating leases, mostly pre-owned regional and business aircraft, are included in PP&E. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and is included in revenues.

Inventory valuation

Long-term contracts – Long-term contract inventories include materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition, as well as estimated contract margins. Advances and progress billings received on account of work performed for long-term contracts are deducted from related long-term contract inventories. Advances and progress billings received in excess of related long-term contract inventories are shown as liabilities.

Aerospace program and finished products – Aerospace program work in progress, raw materials, and finished product inventories are valued at the lower of cost or net realizable value. Cost is generally determined using the unit cost method, except for the cost of spare part inventory that is determined using the moving average method. The cost of manufactured inventories comprises all costs that are directly attributable to the manufacturing process, such as materials, direct labour, manufacturing overhead, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs, except for raw materials for which it is determined using replacement cost. The Corporation estimates the net realizable value using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

Impairment of inventories – Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

Retirement and other long-term employee benefits

Retirement benefit plans are classified as either defined benefit plans or defined contribution plans.

Defined benefit plans

Retirement benefit liability or asset recognised on the consolidated statement of financial position is measured at the difference between the present value of the defined benefit obligation and the fair value of plan asset at the reporting date. When the Corporation has a surplus in a defined benefit plan, the value of any plan asset recognized is restricted to the asset ceiling - i.e. the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (“asset ceiling test”). A minimum liability is recorded when legal minimum funding requirements for past services exceed economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. A constructive obligation is recorded as a defined benefit obligation when there is no realistic alternative but to pay employee benefits. Retirement benefit liability or asset includes the effect of any asset ceiling, minimum liability and constructive obligation.

The cost of pension and other benefits earned by employees is actuarially determined for each plan using the projected unit credit method, and management's best estimate of salary escalation, retirement ages, life expectancy, inflation, discount rates and health care costs. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. These assets are measured at fair value at the end of the reporting period, which is based on published market mid-price information in the case of quoted securities. The discount rates are determined at each reporting date by reference to market yields at the end of the reporting period on high quality corporate fixed-income investments consistent with the currency and the estimated terms of the related retirement benefit liability.

The remeasurement gains and losses (including the foreign exchange impact) arising on the plan assets and defined benefit obligation and the effect of any asset ceiling and minimum liability are recognized directly in OCI in the period in which they occur and are never reclassified to net income. Past service costs (credits) are recognized directly in income in the period in which they occur.

The accretion on net retirement benefit obligations is included in financing income or financing expense. The remaining components of the benefit cost are either capitalized as part of labour costs and included in inventories and in certain PP&E and intangible assets during their construction, or are recognized directly in income. The benefit cost recorded in net income is allocated to labour costs based on the function of the employee accruing the benefits.

Defined contribution plans
Contributions to defined contribution plans are recognized in net income as incurred or are either capitalized as part of labour costs and included in inventories and in certain PP&E and intangible assets during their construction. The benefit cost recorded in net income is allocated to labour costs based on the function of the employee accruing the benefits.

Other long-term employee benefits – The accounting method is similar to the method used for defined benefit plans, except that all actuarial gains and losses are recognized immediately in income. Other long-term employee benefits are included in other liabilities.

Property, plant and equipment
PP&E are carried at cost less accumulated amortization and impairment losses. The cost of an item of PP&E includes its purchase price or manufacturing cost, borrowing costs as well as other costs incurred in bringing the asset to its present location and condition. If the cost of certain components of an item of PP&E is significant in relation to the total cost of the item, the total cost is allocated between the various components, which are then separately depreciated over the estimated useful lives of each respective component. The amortization of PP&E is computed on a straight-line basis over the following useful lives:

Buildings	5 to 75 years
Equipment	2 to 15 years
Other	3 to 20 years

The amortization method and useful lives are reviewed on a regular basis, at least annually, and changes are accounted for prospectively. The amortization expense and impairments are recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying asset or in special items. Amortization of assets under construction begins when the asset is ready for its intended use.

When a significant part is replaced or a major inspection or overhaul is performed, its cost is recognized in the carrying amount of the PP&E if the recognition criteria are satisfied, and the carrying amount of the replaced part or previous inspection or overhaul is derecognized. All other repair and maintenance costs are charged to income when incurred.

Intangible assets

Internally generated intangible assets include development costs (mostly aircraft prototype design and testing costs) and internally developed or modified application software. These costs are capitalized when certain criteria for deferral such as proven technical feasibility are met. The costs of internally generated intangible assets include the cost of materials, direct labour, manufacturing overheads and borrowing costs and exclude costs which were not necessary to create the asset, such as identified inefficiencies.

Acquired intangible assets include the cost of development activities carried out by vendors for which the Corporation controls the underlying output from the usage of the technology, as well as the cost related to externally acquired licences, patents and trademarks.

Intangible assets are recorded at cost less accumulated amortization and impairment losses and include goodwill, aerospace program tooling, as well as other intangible assets such as licenses, patents and trademarks. Other intangible assets are included in other assets.

Amortization of aerospace program tooling begins at the date of completion of the first aircraft of the program. Amortization of other intangibles begins when the asset is ready for its intended use. Amortization expense is recognized as follows:

	Method	Estimated useful life
Aerospace program tooling	Unit of production	Expected number of aircraft to be produced(1)
Other intangible assets		
Licenses, patents and trademarks	Straight-line	3 to 20 years
Other	Straight-line	3 to 5 years

(1) As at December 31, 2016, the remaining number of units to fully amortize the aerospace program tooling, except for aerospace program tooling under development, is expected to be produced over the next 14 years.

The amortization methods and estimated useful lives are reviewed on a regular basis, at least annually, and changes are accounted for prospectively. The amortization expense is recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying assets.

The Corporation does not have indefinite-life intangible assets, other than goodwill. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Borrowing costs

Borrowing costs consist of interest on long-term debt and other costs that the Corporation incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset and are deducted from the financing expense to which they relate. The Corporation suspends the capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. All other borrowing costs are expensed in the period they occur.

Impairment of PP&E and intangible assets

The Corporation assesses at each reporting date whether there is an indication that a PP&E or intangible asset may be impaired. If any indication exists, the Corporation estimates the recoverable amount of the individual asset, when possible.

When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the CGU level. Most of the Corporation's non-financial assets are tested for impairment at the CGU level. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

- The fair value less costs to sell reflects the amount the Corporation could obtain from the asset's disposal in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. If there is no binding sales agreement or active market for the asset, the fair value is assessed by using appropriate valuation models dependent on the nature of the asset or CGU, such as discounted cash flow models.

- The value in use is calculated using estimated net cash flows, with detailed projections generally over a five-year period and subsequent years being extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

When the recoverable amount is less than the carrying value of the related asset or CGU, the related assets are written down to their recoverable amount and an impairment loss is recognized in net income.

For PP&E and intangible assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset. The reversal of impairment losses is limited to the amount that would bring the carrying value of the asset or CGU to the amount that would have been recorded, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years. Such reversal is recognized to income in the same line item where the original impairment was recognized.

Intangible assets not yet available for use and goodwill are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset or CGU might be impaired. Impairment losses relating to goodwill are not reversed in future periods.

Provisions
Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at their present value.

Product warranties – A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. The interest component associated with product warranties, when applicable, is recorded in financing expense. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and in service and counter-warranty coverage available from the Corporation's suppliers. Claims for reimbursement from third parties are recorded if their realization is virtually certain. Product warranties typically range from one to five years, except for aircraft structural and bogie warranties that extend up to 20 years.

***Credit and residual value guarantees* –** Credit and residual value guarantees related to the sale of aircraft are recorded at the amount the Corporation expects to pay under these guarantees when the revenue for the related product is recognized. Subsequent to initial recognition, changes in the value of these guarantees are recorded in other expense (income), except for the changes in value arising from a change in interest rates, which are recorded in financing expense or financing income.

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.

Residual value guarantees provide protection, through contractually limited payments, to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value. In most cases, these guarantees are provided as part of a financing arrangement.

***Restructuring provisions* –** Restructuring provisions are recognised only when the Corporation has an actual or a constructive obligation. The Corporation has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline. Furthermore, the affected employees or worker councils must have been notified of the plan's main features.

Onerous contracts – If it is more likely than not that the unavoidable costs of meeting the obligations under a firm contract, other than a long-term contract with a customer, exceed the economic benefits expected to be received under it, a provision for onerous contracts is recorded in cost of sales, except for the interest component, which is recorded in financing expense. Unavoidable costs include anticipated cost overruns, as well as expected costs associated with late delivery penalties and technological problems, and exclude the allocation of certain indirect overheads which are included in the cost of inventories such as amortization. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

Termination benefits – Termination benefits are usually paid when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes termination benefits when it is demonstrably committed, through a detailed formal plan without possibility of withdrawal, to terminate the employment of current employees.

Environmental costs – A provision for environmental costs is recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Legal asset retirement obligations and environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate, or prevent environmental contamination that has yet to occur, are included in PP&E and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.

Litigation – A provision for litigation is recorded in case of legal actions, governmental investigations or proceedings when it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated.

Share-based payments

Equity-settled share-based payment plans – Equity-settled share-based payments are measured at fair value at the grant date. For the PSUs, DSUs and RSUs, the value of the compensation is measured based on the closing price of a Class B Share (subordinate voting) of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and is based on the PSUs, DSUs and RSUs that are expected to vest. For share option plans, the value of the compensation is measured using a Black-Scholes option pricing model. The effect of any change in the number of options, PSUs, DSUs and RSUs that are expected to vest is accounted for in the period in which the estimate is revised. Compensation expense is recognized on a straight-line basis over the vesting period, with a corresponding increase in contributed surplus. Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

Cash-settled share-based payments – Cash-settled share-based payments are measured at fair value at the grant date with a corresponding liability. Until the liability is settled, the fair value of the liability is remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in income. Limited PSUs, DSUs and RSUs are cash-settled share-based payments, for which the value of the compensation is measured based on the closing price of a Class B Share (subordinate voting) of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and is based on the PSUs, DSUs and RSUs that are expected to vest.

Employee share purchase plan – The Corporation's contributions to the employee share purchase plan are measured at cost and accounted for in the same manner as the related employee payroll costs. Compensation expense is recorded at the time of the employee contribution.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

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

IFRS 9 will be effective for the Corporation's fiscal year beginning on January 1, 2018. The Corporation is currently assessing the impact of the adoption of this standard on its consolidated financial statements. The Corporation does not expect significant hedge accounting differences in respect of aerospace segments. The Corporation continues to analyze the application of hedge accounting under the new standard in respect of long-term contracts in the Transportation segment. The Corporation's 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.

For the Corporation the standard comes into effect January 1, 2018, and as a result IFRS 15 will be adopted in the first quarter of 2018. At that time the Corporation will restate its 2017 results, with an opening adjustment to equity as at January 1, 2017.

The Corporation is continuing to assess the impact of the new standard on its 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. The Corporation anticipates its 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. The Corporation is 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.

The Corporation is 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. The Corporation is 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.

The Corporation will provide further updates during the course of 2017 as it advances in its 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 the Corporation's fiscal year beginning on January 1, 2019. The Corporation is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements. Where the Corporation is a lessee, the Corporation expect IFRS 16 will result in on-balance sheet recognition of most of its 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.

4. USE OF ESTIMATES AND JUDGMENT

The application of the Corporation's accounting policies requires management to use estimates and judgments that can have a significant effect on the revenues, expenses, comprehensive income, assets and liabilities recognized and disclosures made in the consolidated financial statements. Estimates and judgments are significant when:

- the outcome is highly uncertain at the time the estimates and judgments are made; and
- if different estimates or judgments could reasonably have been used that would have had a material impact on the consolidated financial statements.

Management's best estimates regarding the future are based on the facts and circumstances available at the time estimates are made. Management uses 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.

Management's 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. Management prepares a budget and 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. Management uses the budget and strategic plan, as well as additional projections or assumptions, to derive the expected results for periods thereafter. Management then tracks 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, vehicles 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. Management applies judgment to determine the probability that the Corporation 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. Management conducts 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 fiscal year 2016 by approximately $86 million.

Aerospace program tooling – 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 the Corporation's 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, management exercises 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 inputs used in the discounted cash flow model are Level 3 inputs (inputs that are not based on observable market data).

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%.

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.

Since 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 the Corporation concluded there was no impairment.

Since the *C Series* aircraft program recently entered into service and a large impairment charge was recorded in 2015, an assessment was prepared again this year and the Corporation concluded there was no impairment.

In fiscal year 2015, the Corporation recorded an impairment charge of $3,070 million on the *C Series* aircraft program aerospace program tooling, an impairment charge of $919 million related to the remaining *Learjet 85* aircraft development costs, an impairment charge of $243 million related to the remaining balance on the *CRJ1000* aircraft program development costs and an impairment charge of $53 million related to the remaining *Learjet* family development costs. Based on the 2016 annual assessment, there is no indication that previously recognized impairment losses may no longer exist or may have decreased. See Note 21 - Intangible assets for more details.

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 – The recoverable amount of the Transportation operating segment, the group of CGUs at which level goodwill is monitored by management, is based on fair value less costs of disposal using a discounted cash flow model. During the fourth quarter of 2016, the Corporation completed its annual goodwill impairment test for the Transportation segment and did not identify any impairment. The fair value measurement is categorized within Level 3 of the fair value hierarchy.

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%. 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, management estimates 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. Management exercises 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 international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense or recovery already recorded. The Corporation establishes tax provisions for possible consequences of audits by the tax authorities of each country in which it operates. 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 – The Corporation uses 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 residual value guarantee 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, the discount rate for the Corporation's Canadian pension and other post-employment plans is established 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 were 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.

Expected rates of compensation increases are determined 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 for further details regarding assumptions used and sensitivity analysis to changes in critical actuarial assumptions.

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 equity and derivative liability components – The convertibles shares issued to CDPQ contain no obligation for the Corporation to deliver cash or other financial assets to 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. The Corporation presents convertible shares in its 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 was established first and the residual amount was allocated to the equity component. The liability component is remeasured quarterly using the Corporation's best estimate of the present value of the settlement amount. The Corporation 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. The Corporation 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.

Consolidation – From time to time, the Corporation participates in structured entities where voting rights are not the dominant factor in determining control. In these situations, management may use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether the Corporation is exposed to, or has 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 the Corporation is 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 the Corporation has power to affect the investee's returns, including an assessment of the impact of potential voting rights, contractual agreements and de facto control.

Also, the Corporation uses 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. The Corporation reassesses the initial determination of control if facts or circumstances indicate that there may be changes to one or more elements of control.

5. SEGMENT DISCLOSURE

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

Business Aircraft

A global leader in the design, manufacture and aftermarket support for three families of business jets (*Learjet, Challenger* and *Global)*, spanning from the light to large categories.

Commercial Aircraft

Commercial Aircraft designs and manufactures a broad portfolio of commercial aircraft in the 60- to 150-seat categories, including the *Q400* turboprops, the *CRJ Series* family of regional jets as well as the all-new *C Series* mainline jets. Commercial Aircraft provides aftermarket support for these aircraft as well as for the 20- to 59-seat range category.

Aerostructures and Engineering Services

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

Transportation

Transportation provides the most comprehensive product range and services offering in the rail industry and covers the full spectrum of rail solutions, ranging from complete trains to subsystems, services, system integration, signalling and e-mobility solutions.

The segmented information is prepared using the accounting policies described in Note 2 – Summary of significant accounting policies.

The revenue recognition policies of Aerostructures and Engineering Services follow the Corporation's policies for either long-term contracts or aerospace programs depending on the nature of the contracts, except for intersegment contracts for design and engineering activities. Aerostructures and Engineering Services does not recognize revenues and costs for design and engineering work on intersegment contracts, except for the *C Series* aircraft program, for which profits or losses are recognized on a percentage-of-completion basis.

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

2016	**Transportation**	**Business Aircraft**	**Commercial Aircraft**	**Aerostructures and Engineering Services**	**Corporate and Elimination**	**Total**
Results of operations						
External revenues	$ 7,567	$ 5,718	$ 2,617	$ 430	$ 7	$ 16,339
Intersegment revenues	7	23	—	1,119	(1,149)	—
Total revenues	7,574	5,741	2,617	1,549	(1,142)	16,339
EBIT before special items	560	369	(417)	124	(209)	427
Special items(1)	164	(108)	486	(4)	(53)	485
EBIT	$ 396	$ 477	$ (903)	$ 128	$ (156)	(58)
Financing expense						819
Financing income						(70)
EBT						(807)
Income taxes						174
Net loss						$ (981)
Other information						
R&D(2)	$ 103	$ 126	$ 28	$ 8	$ 22	$ 287
Net additions to PP&E and intangible assets(3)	$ 116	$ 721	$ 392	$ 20	$ (48)	$ 1,201
Amortization	$ 97	$ 159	$ 64	$ 51	$ —	$ 371
Impairment charges on PP&E(4)	$ 10	$ —	$ —	$ —	$ —	$ 10

2015	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	$ 8,275	$ 6,996	$ 2,394	$ 507	$ —	$ 18,172
Intersegment revenues	6	—	1	1,290	(1,297)	—
Total revenues	8,281	6,996	2,395	1,797	(1,297)	18,172
EBIT before special items	465	308	(170)	104	(153)	554
Special items(1)	—	1,560	3,800	(1)	33	5,392
EBIT	$ 465	$ (1,252)	$ (3,970)	$ 105	$ (186)	(4,838)
Financing expense						418
Financing income						(70)
EBT						(5,186)
Income taxes						154
Net loss						$ (5,340)
Other information						
R&D(2)	$ 150	$ 129	$ 63	$ 13	$ —	$ 355
Net additions to PP&E and intangible assets(3)	$ 155	$ 722	$ 963	$ 26	$ (4)	$ 1,862
Amortization	$ 99	$ 184	$ 104	$ 50	$ 1	$ 438
Impairment charges on intangible assets(5)	$ —	$ 983	$ 3,310	$ —	$ (3)	$ 4,290
Impairment charges on PP&E(4)	$ —	$ 10	$ —	$ —	$ —	$ 10

(1) See Note 8 – Special items for more details.
(2) Includes tooling amortization. See Note 6 – Research and development for more details.
(3) As per the consolidated statements of cash flows.
(4) See Note 20 – Property, plant and equipment for more details.
(5) See Note 21 – Intangible assets for more details.

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

		December 31, 2016		December 31, 2015		January 1, 2015
Assets						
Total assets	**$**	**22,826**	$	22,903	$	27,614
Assets not allocated to segments						
Cash and cash equivalents		**3,384**		2,720		2,489
Income tax receivable(1)		**41**		56		64
Deferred income taxes		**705**		761		875
Segmented assets		**18,696**		19,366		24,186
Liabilities						
Total liabilities		**26,315**		26,957		27,559
Liabilities not allocated to segments						
Interest payable(2)		**141**		154		124
Income taxes payable(3)		**222**		224		248
Long-term debt(4)		**8,769**		8,979		7,683
Segmented liabilities	**$**	**17,183**	$	17,600	$	19,504
Net segmented assets						
Transportation	**$**	**(33)**	$	354	$	226
Business Aircraft	**$**	**1,448**	$	395	$	440
Commercial Aircraft	**$**	**434**	$	467	$	3,693
Aerostructures and Engineering Services	**$**	**142**	$	434	$	204
Corporate and Elimination	**$**	**(478)**	$	116	$	119

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

The Corporation's revenues and PP&E and intangible assets are, allocated to countries, as follows:

	Revenues for fiscal years [(1)]		PP&E and intangible assets as at [(2)]		
			December 31	December 31	January 1
	2016	2015	**2016**	2015	2015
North America					
United States	**$ 4,782**	$ 5,599	**$ 262**	$ 300	$ 1,198
Canada	**1,342**	1,312	**5,977**	4,009	5,839
Mexico	**114**	108	**37**	36	84
	6,238	7,019	**6,276**	4,345	7,121
Europe					
Germany	**1,613**	1,901	**938**	983	1,092
United Kingdom	**1,340**	1,354	**773**	1,667	1,801
France	**1,219**	1,118	**31**	36	43
Switzerland	**522**	384	**358**	368	368
Other	**2,694**	2,487	**635**	645	670
	7,388	7,244	**2,735**	3,699	3,974
Asia-Pacific					
China	**442**	709	**4**	6	7
Australia	**516**	605	**23**	24	28
India	**154**	259	**22**	21	24
Other	**547**	815	**3**	4	4
	1,659	2,388	**52**	55	63
Other					
Russia	**255**	268	**2**	1	1
Other	**799**	1,253	**25**	28	39
	1,054	1,521	**27**	29	40
	$ 16,339	$ 18,172	**$ 9,090**	$ 8,128	$ 11,198

(1) Allocated to countries based on the location of the customer.
(2) PP&E and intangible assets, excluding goodwill, are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.

6. RESEARCH AND DEVELOPMENT

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

	2016	2015
R&D expenditures	**$ 1,486**	$ 1,794
Less: development expenditures capitalized to aerospace program tooling	**(1,345)**	(1,624)
	141	170
Add: amortization of aerospace program tooling	**146**	185
	$ 287	$ 355

7. OTHER INCOME

Other income was as follows, for fiscal years:

		2016		2015
Changes in estimates and fair value[1][2]	**$**	**29**	$	(4)
Gains on disposals of PP&E and intangible assets		**(19)**		(3)
Severance and other involuntary termination costs (including changes in estimates)[1]		**(6)**		20
Other		**(8)**		(13)
	$	**(4)**	$	—

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

8. SPECIAL ITEMS

Special items were as follows, for fiscal years:

		2016		2015
Onerous contracts provision - *C Series* aircraft program[1]	**$**	**492**	$	—
Restructuring charges[2]		**215**		9
Pension obligation[3]		**(139)**		—
Loss on repurchase of long-term debt[4]		**86**		22
Impairment and other charges - *Learjet 85* aircraft program[5]		**(59)**		1,163
Tax litigation[6]		**40**		50
Foreign exchange gains related to the sale of a minority stake in Transportation[7]		**(38)**		—
Transaction costs[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
Write-off of prepaid sales concessions and deferred contract costs[12]		**—**		194
Termination of sales representative and distribution agreements[13]		**—**		133
Impairment charge - *Learjet* family of aircraft[14]		**—**		53
Tax impacts of special items[15]		**(20)**		106
	$	**585**	$	5,561
Of which is presented in				
Special items in EBIT	**$**	**485**	$	5,392
Financing expense - loss on repurchase of long-term debt[4]		**86**		22
Financing expense - interest related to tax litigation[6]		**26**		—
Financing expense - transaction costs[8]		**8**		—
Financing expense - loss on financial instruments[10]		**—**		41
Income taxes - effect of special items		**(20)**		106
	$	**585**	$	5,561

1. Represents provision for onerous contracts in conjunction with the closing of *C Series* aircraft firm orders in the second quarter of 2016.
2. For fiscal year 2016, represents severance charges of $227 million, partially offset by curtailment gains of $22 million, and impairment charges of PP&E of $10 million related to the restructuring actions announced in February 2016 and October 2016. For fiscal year 2015, represents restructuring charges of $13 million related to the workforce reduction announced in January 2015 of approximately 1,000 positions, as a result of the decision to pause the *Learjet 85* aircraft program, and a reversal of restructuring provisions taken in prior year of $4 million.
3. The Corporation had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that the Corporation does not expect to grant such

increases in the foreseeable future in line with the Corporation's current practice, the constructive obligation amounting to $139 million was reversed.

4. For fiscal year 2016, represents the loss related to the redemption of the $650-million and $750-million Senior Notes due 2018. For fiscal year 2015, represents the loss related to the redemption of the $750-million Senior Notes due 2016.
5. For fiscal year 2015, represents an impairment charge of $919 million on aerospace program tooling, and 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. See Note 17 - Inventories, Note 21 - Intangible assets and Note 24 - Provisions. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by $59 million for fiscal year 2016. 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 investment in a minority stake in Transportation.
8. Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco. See Note 10 – Non-controlling interest for more details.
9. For fiscal year 2015, represents an impairment charge of $3,070 million 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. See Note 17 - Inventories, Note 21 - Intangible assets and Note 24 - Provisions.
10. For fiscal year 2015, 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.
11. For fiscal year 2015, 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. See Note 21 - Intangible assets.
12. For fiscal year 2015, mainly related to restructuring of customer commercial agreements.
13. For fiscal year 2015, 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. For fiscal year 2015, represents an impairment charge of $53 million on the remaining *Learjet* family aerospace program tooling following the prolonged market weakness in the light business aircraft category. See Note 21 - Intangible assets.
15. For fiscal year 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 investment in a minority stake in Transportation.

Restructuring

As the Corporation moves forward with its transformation plan, in February 2016 the Corporation decided to optimize its workforce with a combination of manpower reductions and strategic hiring. The goal was to resize the organization in line with current business needs and increase its competitiveness. The company planned to reduce its workforce by an estimated 7,000 production and non-production employees throughout 2016 and 2017. 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. These reductions have been largely achieved in 2016 as planned.

In October 2016, the Corporation announced further restructuring actions. The Corporation will streamline its administrative and non-production functions across the organization. Approximately 7,500 positions will be impacted as the Corporation executes its workforce optimization and site specialization actions through 2018.

These workforce optimizations will be partially offset by strategic hiring to support the ramp-up for key growth programs, including the *C Series* and *Global 7000 and 8000* aircraft programs, major rail contract wins, as well as to support the growth strategy in aftermarket businesses.

Over the course of the 2016 resizing, the Corporation recorded restructuring charges of $215 million, consisting mainly of severance, as special items. The Corporation anticipates recording $250 million to $300 million in restructuring charges, to be reported as special items when accrued, in 2017.

9. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows, for fiscal years:

		2016		2015
Financing expense				
Loss on repurchase of long-term debt[1]	**$**	**86**	$	22
Net loss on certain financial instruments[2][3]		**80**		82
Accretion on net retirement benefit obligations		**66**		72
Accretion on other financial liabilities		**59**		28
Tax litigation[4]		**26**		—
Amortization of letter of credit facility costs		**24**		20
Accretion on provisions		**13**		7
Transaction costs[5]		**8**		—
Other		**82**		30
		444		261
Interest on long-term debt, after effect of hedges		**375**		157
	$	**819** [6]	$	418 [6]
Financing income				
Changes in discount rates of provisions	**$**	**(17)**	$	(7)
Other		**(21)**		(20)
		(38)		(27)
Interest on cash and cash equivalents		**(13)**		(7)
Income from investment in securities		**(11)**		(15)
Interest on loans and lease receivables, after effect of hedges		**(8)**		(21)
		(32)		(43)
	$	**(70)** [7]	$	(70) [7]

(1) Represents the loss related to the redemption of the $650-million and $750-million Senior Notes due 2018 for fiscal year 2016, which was recorded as a special item ($22 million represents the loss related to the redemption of the $750-million Senior Notes due 2016 for fiscal year 2015, which was recorded as a special item).

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

(3) Includes $41 million of special items for fiscal year 2015. See Note 8 – Special items for more details.

(4) Represents a change in the estimates used to determine the provision related to tax litigation. See Note 8 – Special items for more details.

(5) Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco. See Note 10 – Non-controlling interest for more details.

(6) Of which $446 million represents the interest expense calculated using the effective interest rate method for financial liabilities classified as other than HFT for fiscal year 2016 ($192 million for fiscal year 2015).

(7) Of which $23 million represents the interest income calculated using the effective interest rate method for financial assets classified as L&R for fiscal year 2016 ($14 million for fiscal year 2015).

Borrowing costs capitalized to PP&E and intangible assets totalled $122 million for fiscal year 2016, using an average capitalization rate of 5.48% ($305 million and 5.31% for fiscal year 2015). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

10. NON-CONTROLLING INTEREST

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

		December 31, 2016
		BT Holdco
Current assets	$	**3,885**
Non-current assets		**3,824**
Total assets	**$**	**7,709**
Current liabilities	$	**5,413**
Non-current liabilities		**1,440**
Total liabilities	**$**	**6,853**
Net assets	**$**	**856**

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

		2016
		BT Holdco
Revenues	$	**7,574**
Net income	$	**9**
Comprehensive loss	$	**(392)**
Cash flows from operating activities	$	**666**
Cash flows from investing activities	$	**(80)**
Cash flows from financing activities	$	**(322)**

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

		BT Holdco
Balance as at December 31, 2015	$	**—**
Issuance of NCI		**1,281**
Minimum return entitlement		**146**
OCI		**(80)**
Dividends		**(73)**
Balance as at December 31, 2016	**$**	**1,274**

CDPQ investment in BT Holdco

On February 11, 2016, Bombardier closed the sale to the CDPQ of a $1.5-billion convertible share investment in Bombardier Transportation's newly-created holding company, Bombardier Transportation (Investment) UK 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 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 condition was met as at December 31, 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 Shares equal to $1.66, the U.S. dollar equivalent of $2.21 CDN at the date of execution of the subscription agreement.

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

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

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

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

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

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

Bombardier received the investment in two installments of $500-million each on June 30, 2016 and September 1, 2016. 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, the Corporation has committed to invest additional capital contributions in CSALP up to a maximum amount of $1.0 billion in case of any liquidity shortfall in CSALP. Additional capital contributions by the Corporation would increase its ownership interest in CSALP.

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

As at December 31, 2016, CSALP had total assets amounting to $3,933 million, of which $2,535 million was aerospace program tooling ($3,322 million as at June 30, 2016 of which $2,425 million was aerospace program tooling). CSALP has no long-term debt.

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

Warrants
Also on June 30 and September 1, 2016 Bombardier 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 warrants contain market standard adjustment provisions, including in the event of corporate changes, stock splits, reverse stock splits, non-cash dividends or distributions of rights, options or warrants to all or substantially all shareholders.

Fair value of warrants
The fair value of warrants as at June 30, 2016 was $0.58 per warrant and as at September 1, 2016 was $0.66 per warrant, for a total amount of $62 million. The fair value of each warrant was determined using a Black-Scholes option pricing model, which incorporates the share price at the issuance date, and the following assumptions, as at June 30, 2016 and as at September 1, 2016:

	September 1, 2016	June 30, 2016
Risk-free interest rate	0.64%	0.57%
Expected life	5 years	5 years
Expected volatility in market price of shares	48.84%	49.41%
Expected dividend yield	0.00%	0.00%

11. EMPLOYEE BENEFIT COSTS

Employee benefit costs(1) were as follows, for fiscal years:

	Notes	**2016**	2015
Wages, salaries and other employee benefits		**$ 4,887**	$ 5,411
Retirement benefits(2)	22	**255**	478
Share-based expense	29	**22**	14
Restructuring, severance and other involuntary termination costs	7, 8	**221**	25
		$ 5,385	$ 5,928

(1) Employee benefit costs include costs capitalized as part of the cost of inventories and other self-constructed assets.
(2) Includes defined benefit and defined contribution plans.

12. INCOME TAXES

Analysis of income tax expense

Details of income tax expense were as follows, for fiscal years:

		2016		2015
Current income taxes	**$**	**143**	$	91
Deferred income taxes		**31**		63
	$	**174**	$	154

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows, for fiscal years:

	2016	2015
EBT	**$ (807)**	$(5,186)
Canadian statutory tax rate	**26.8 %**	26.8 %
Income tax recovery at statutory rate	**(216)**	(1,390)
Increase (decrease) resulting from		
Non-recognition of tax benefits related to tax losses and temporary differences	**383**	1,618
Write-down of deferred income tax assets	**72**	311
Income tax rates differential of foreign subsidiaries and other investees	**(1)**	(130)
Recognition of previously unrecognized tax losses or temporary differences	**(65)**	(284)
Permanent differences	**(6)**	(49)
Effect of substantively enacted income tax rate changes	**3**	(9)
Other	**4**	87
Income tax expense	**$ 174**	$ 154 [1]
Effective tax rate	**(21.6)%**	(3.0)%

[1] An income tax expense of $106 million was recorded for fiscal year 2015 as a result of the special item in relation to the reorganization and consolidation of Transportation under one holding entity necessary to facilitate the planned investment in a minority stake in Transportation.

The Corporation's applicable Canadian statutory tax rate is the Federal and Provincial combined tax rate applicable in the jurisdiction in which the Corporation operates.

Details of deferred income tax expense were as follows, for fiscal years:

		2016		2015
Non-recognition of tax benefits related to tax losses and temporary differences	**$**	**383**	$	1,618
Origination and reversal of temporary differences		**(362)**		(1,573)
Write-down of deferred income tax assets		**72**		311
Recognition of previously unrecognized tax losses or temporary differences		**(65)**		(284)
Effect of substantively enacted income tax rate changes		**3**		(9)
	$	**31**	$	63

Deferred income taxes

The significant components of the Corporation's deferred income tax asset and liability were as follows, as at:

	December 31, 2016		December 31, 2015		January 1, 2015	
	Asset	**Liability**	Asset	Liability	Asset	Liability
Operating tax losses carried forward	**$ 1,891**	**$ —**	$ 1,928	$ —	$ 1,919	$ —
Retirement benefits	**588**	**—**	459	—	609	—
Advance and progress billings in excess of long-term contract inventories and advances on aerospace programs	**628**	**—**	817	—	1,007	—
Inventories	**790**	**—**	469	—	120	—
Provisions	**809**	**—**	596	—	428	—
Other financial assets and other assets	**(49)**	**—**	(95)	—	(161)	—
PP&E	**11**	**—**	(30)	—	(55)	—
Other financial liabilities and other liabilities	**135**	**—**	253	—	231	—
Intangible assets	**(136)**	**—**	(48)	—	(436)	—
Other	**99**	**—**	173	—	175	—
	4,766	**—**	4,522	—	3,837	—
Unrecognized deferred tax assets	**(4,061)**	**—**	(3,761)	—	(2,962)	—
	$ 705	**$ —**	$ 761	$ —	$ 875	$ —

The changes in the net deferred income tax asset were as follows for the fiscal years:

	2016	2015
Balance at beginning of year, net	**$ 761**	$ 875
In net income	**(31)**	(63)
In OCI		
Retirement benefits	**73**	(11)
Cash flow hedges	**(82)**	(6)
Other(1)	**(16)**	(34)
Balance at end of year, net	**$ 705**	$ 761

(1) Mainly comprises foreign exchange rate effects.

The net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to $13,939 million as at December 31, 2016, of which $1,401 million relates to retirement benefits that will reverse through OCI ($12,548 million as at December 31, 2015 of which $1,170 million relates to retirement benefits that will reverse through OCI and $9,688 million as at January 1, 2015 of which $1,718 million relates to retirement benefits that will reverse through OCI). Of these amounts, approximately $10,560 million as at December 31, 2016 has no expiration date ($9,832 million as at December 31, 2015 and $7,383 million as at January 1, 2015) and approximately $2,007 million relates to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income ($1,846 million as at December 31, 2015 and $2,214 million as at January 1, 2015) and $359 million relate to the Corporation's operations in France where a minimum income tax is payable on 50% of taxable income ($476 million as at December 31, 2015 and $444 million as at January 1, 2015).

In addition, the Corporation has $1,537 million of unused investment tax credits, most of which can be carried forward for 20 years and $72 million of net capital losses carried forward for which deferred tax assets have not been recognized ($1,467 million and $75 million as at December 31, 2015 and $694 million and $80 million as at January 1, 2015). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

Net deferred tax assets of $520 million were recognized as at December 31, 2016 ($663 million as at December 31, 2015 and $242 million as at January 1, 2015) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income, projections for future taxable income and prudent tax planning strategies, management believes it is probable the Corporation will realize the benefits of these deductible differences and operating tax losses carried forward. See Note 4 – Use of estimates and judgment for more information on how the Corporation determines the extent to which deferred income tax assets are recognized.

No deferred tax liabilities have been recognized on undistributed earnings of the Corporation's foreign subsidiaries, joint ventures and associates when they are considered to be indefinitely reinvested, as the Corporation has control or joint control over the dividend policy, unless it is probable that these temporary differences will reverse. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to corporation and/or withholding taxes. Taxable temporary differences for which a deferred tax liability was not recognized amount to approximately $392 million as at December 31, 2016 ($369 million as at December 31, 2015 and $343 million as at January 1, 2015).

13. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows, for fiscal years:

		2016		2015
(Number of shares, stock options, PSUs, DSUs, RSUs and warrants in thousands)				
Net loss attributable to equity holders of Bombardier Inc.	**$**	**(1,022)**	$	(5,347)
Preferred share dividends, including taxes		**(32)**		(23)
Net loss attributable to common equity holders of Bombardier Inc.	**$**	**(1,054)**	$	(5,370)
Weighted-average number of common shares outstanding		**2,212,547**		2,082,683
Net effect of stock options, PSUs, DSUs, RSUs, warrants and conversion option		**—**		—
Weighted-average diluted number of common shares		**2,212,547**		2,082,683
EPS (in dollars)				
Basic and diluted	**$**	**(0.48)**	$	(2.58)

The effect of the exercise of stock options, PSUs, DSUs, RSUs and warrants was included in the calculation of diluted EPS in the above table, except for 258,707,646 for fiscal year 2016 (76,722,282 stock options, PSUs, DSUs and RSUs for fiscal year 2015) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation's Class B Shares (subordinate voting) or predetermined financial performance targets had not been met or the effect of the exercise would be antidilutive. The calculation of diluted EPS did not include the impact of the CDPQ conversion option since the minimum return entitlement was greater than CDPQ's shares of the BT Holdco net income on an as converted basis assuming Transportation does not achieve its performance targets.

14. FINANCIAL INSTRUMENTS

Net gains (losses) on financial instruments recognized in income were as follows, for fiscal years:

		2016		2015
Financial instruments measured at amortized cost				
L&R - impairment charges	**$**	**(15)**	$	(7)
Financial instruments measured at fair value				
FVTP&L - changes in fair value				
Designated as FVTP&L				
Financial assets	**$**	**5**	$	(101)
Financial liabilities	**$**	**(18)**	$	22
Required to be classified as HFT				
Derivatives not designated in hedging relationships	**$**	**(41)**	$	(70)
Other[(1)]	**$**	**(52)**	$	(26)

(1) Excluding the interest income portion related to cash and cash equivalents of $13 million for the fiscal year 2016 ($7 million for fiscal year 2015).

Carrying amounts and fair value of financial instruments

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

	FVTP&L						
	HFT	**Designated**	**AFS**	**Amortized cost** (1)	**DDHR**	**Total carrying value**	**Fair value**
December 31, 2016							
Financial assets							
Cash and cash equivalents	**$ 3,384**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 3,384**	**$ 3,384**
Trade and other receivables	**—**	**—**	**—**	**1,291**	**—**	**1,291**	**1,291**
Other financial assets	**144**	**227**	**374**	**310**	**196**	**1,251**	**1,272**
	$ 3,528	**$ 227**	**$ 374**	**$ 1,601**	**$ 196**	**$ 5,926**	**$ 5,947**
Financial liabilities							
Trade and other payables	**$ —**	**$ 6**	**n/a**	**$ 3,233**	**$ —**	**$ 3,239**	**$ 3,239**
Long-term debt(2)	**—**	**—**	**n/a**	**8,769**	**—**	**8,769**	**8,624**
Other financial liabilities	**259**	**141**	**n/a**	**808**	**368**	**1,576**	**1,616**
	$ 259	**$ 147**	**n/a**	**$ 12,810**	**$ 368**	**$ 13,584**	**$ 13,479**
December 31, 2015							
Financial assets							
Cash and cash equivalents	$ 2,720	$ —	$ —	$ —	$ —	$ 2,720	$ 2,720
Trade and other receivables	—	—	—	1,473	—	1,473	1,473
Other financial assets	13	230	348	380	349	1,320	1,326
	$ 2,733	$ 230	$ 348	$ 1,853	$ 349	$ 5,513	$ 5,519
Financial liabilities							
Trade and other payables	$ —	$ 1	n/a	$ 4,039	$ —	$ 4,040	$ 4,040
Long-term debt(2)	—	—	n/a	8,979	—	8,979	6,767
Other financial liabilities	41	135	n/a	702	661	1,539	1,426
	$ 41	$ 136	n/a	$ 13,720	$ 661	$ 14,558	$ 12,233
January 1, 2015							
Financial assets							
Cash and cash equivalents	$ 2,489	$ —	$ —	$ —	$ —	$ 2,489	$ 2,489
Trade and other receivables	—	—	—	1,538	—	1,538	1,538
Other financial assets	43	578	330	422	485	1,858	1,869
	$ 2,532	$ 578	$ 330	$ 1,960	$ 485	$ 5,885	$ 5,896
Financial liabilities							
Trade and other payables	$ —	$ 18	n/a	$ 4,198	$ —	$ 4,216	$ 4,216
Long-term debt(2)	—	—	n/a	7,683	—	7,683	7,692
Other financial liabilities	73	172	n/a	719	592	1,556	1,655
	$ 73	$ 190	n/a	$ 12,600	$ 592	$ 13,455	$ 13,563

(1) Financial assets are classified as L&R and financial liabilities as other than HFT.
(2) Includes the current portion of long-term debt.
n/a: Not applicable

Offsetting financial assets and financial liabilities

The Corporation is subject to enforceable master netting agreements related mainly to its derivative financial instruments and cash and cash equivalents which contain a right of set-off in case of default, insolvency or bankruptcy. The amounts that are subject to the enforceable master netting agreements, but which do not meet some or all of the offsetting criteria, are as follows as at:

Description of recognized financial assets and liabilities		Amount recognized in the financial statements		Amounts subject to master netting agreements		Net amount not subject to master netting agreements
December 31, 2016						
Derivative financial instruments - assets	**$**	**340**	**$**	**(177)**	**$**	**163**
Derivative financial instruments - liabilities	**$**	**(627)**	**$**	**321**	**$**	**(306)**
Cash and cash equivalents	**$**	**3,384**	**$**	**(144)**	**$**	**3,240**
December 31, 2015						
Derivative financial instruments - assets	$	362	$	(216)	$	146
Derivative financial instruments - liabilities	$	(702)	$	455	$	(247)
Cash and cash equivalents	$	2,720	$	(239)	$	2,481
January 1, 2015						
Derivative financial instruments - assets	$	528	$	(271)	$	257
Derivative financial instruments - liabilities	$	(665)	$	344	$	(321)
Cash and cash equivalents	$	2,489	$	(73)	$	2,416

Derivatives and hedging activities

The carrying amounts of all derivative and non-derivative financial instruments in a hedge relationship were as follows, as at:

	December 31, 2016		December 31, 2015		January 1, 2015	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges						
Interest-rate swaps	**$ 58**	**$ —**	$ 93	$ —	$ 226	$ —
Derivative financial instruments designated as cash flow hedges[(1)]						
Forward foreign exchange contracts	**138**	**368**	256	661	259	592
Derivative financial instruments classified as HFT[(2)]						
Forward foreign exchange contracts	**58**	**86**	13	41	29	72
Interest-rate swaps	**—**	**—**	—	—	—	1
Embedded derivative financial instruments						
Conversion option	**—**	**170**	—	—	—	—
Call options on long-term debt	**11**	**—**	—	—	14	—
Other	**75**	**3**	—	—	—	—
	144	**259**	13	41	43	73
Total derivative financial instruments	**$ 340**	**$ 627**	$ 362	$ 702	$ 528	$ 665
Non-derivative financial instruments designated as hedges of net investment						
Long-term debt	**$ —**	**$ —**	$ —	$ —	$ —	$ 23

(1) The maximum length of time of derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 24 months as at December 31, 2016.

(2) Held as economic hedges, except for embedded derivative financial instruments.

The net losses on hedging instruments designated in fair value hedge relationships and net gains on the related hedged items attributable to the hedged risk recognized in financing expense, amounted to $24 million and $25 million respectively for fiscal year 2016 (net losses of $46 million and net gains of $50 million respectively for fiscal year 2015). The methods and assumptions used to measure the fair value of financial instruments are described in Note 34 – Fair value of financial instruments.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Cash	**$ 1,375**	$ 1,235	$ 997
Cash equivalents			
Term deposits	**1,105**	746	796
Money market funds	**904**	739	696
Cash and cash equivalents	**$ 3,384**	$ 2,720	$ 2,489

See Note 31 – Credit facilities for details on covenants related to cash and cash equivalents.
See Note 10 – Non-controlling interest for details on the agreement with CDPQ related to a consolidated Bombardier cash position of at least $1.25 billion at the end of each quarter.

16. TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows, as at:

	Total	Not past due	Past due but not impaired[3] less than 90 days	Past due but not impaired[3] more than 90 days	Impaired[4]
December 31, 2016[1][2]					
Trade receivables, gross	**$ 1,209**	**$ 861**	**$ 118**	**$ 121**	**$ 109**
Allowance for doubtful accounts	**(44)**	**—**	**—**	**—**	**(44)**
	1,165	**$ 861**	**$ 118**	**$ 121**	**$ 65**
Other	**126**				
Total	**$ 1,291**				
December 31, 2015[1][2]					
Trade receivables, gross	$ 1,372	$ 908	$ 263	$ 72	$ 129
Allowance for doubtful accounts	(36)	—	—	—	(36)
	1,336	$ 908	$ 263	$ 72	$ 93
Other	137				
Total	$ 1,473				
January 1, 2015[1][2]					
Trade receivables, gross	$ 1,453	$ 717	$ 238	$ 381	$ 117
Allowance for doubtful accounts	(39)	—	—	—	(39)
	1,414	$ 717	$ 238	$ 381	$ 78
Other	124				
Total	$ 1,538				

(1) Of which $349 million and $428 million are denominated in euros and other foreign currencies, respectively, as at December 31, 2016 ($390 million and $452 million, respectively, as at December 31, 2015 and $355 million and $475 million, respectively, as at January 1, 2015).
(2) Of which $259 million represents customer retentions relating to long-term contracts as at December 31, 2016 based on normal terms and conditions ($233 million as at December 31, 2015 and $419 million as at January 1, 2015).
(3) Of which $183 million of trade receivables relates to Transportation long-term contracts as at December 31, 2016, of which $121 million were more than 90 days past due ($243 million as at December 31, 2015, of which $69 million were more than 90 days past due and $525 million as at January 1, 2015, of which $376 million were more than 90 days past due). Transportation assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole.
(4) Of which a gross amount of $27 million of trade receivables are individually impaired as at December 31, 2016 ($66 million as at December 31, 2015 and $71 million as at January 1, 2015).

The factors that the Corporation considers to classify trade receivables as impaired are as follows: the customer is in bankruptcy or under administration, payments are in dispute, or payments are in arrears. Further information on financial risk is provided in Note 33 – Financial risk management.

Allowance for doubtful accounts – Changes in the allowance for doubtful accounts were as follows, for fiscal years:

		2016		2015
Balance at beginning of year	**$**	**(36)**	$	(39)
Provision for doubtful accounts		**(15)**		(7)
Amounts written-off		**4**		6
Recoveries		**2**		1
Effect of foreign currency exchange rate changes		**1**		3
Balance at end of year	**$**	**(44)**	$	(36)

Off-balance sheet factoring facilities

In the normal course of its business, Transportation has factoring facilities mainly in Europe to which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €820 million ($864 million) were outstanding under such facilities as at December 31, 2016 (€871 million ($948 million) as at December 31, 2015 and €974 million ($1,183 million) as at January 1, 2015). Trade receivables of €993 million ($1,099 million) were sold to these facilities during fiscal year 2016 (€1,293 million ($1,435 million) during fiscal year 2015).

17. INVENTORIES

Inventories were as follows, as at:

		December 31, 2016		December 31, 2015		January 1, 2015
Aerospace programs	**$**	**3,187**	$	4,215	$	4,600
Long-term contracts						
Production contracts						
Cost incurred and recorded margins		**6,995**		7,064		7,369
Less: advances and progress billings		**(5,457)**		(5,490)		(5,558)
		1,538		1,574		1,811
Service contracts						
Cost incurred and recorded margins		**221**		223		310
Less: advances and progress billings		**(6)**		(17)		(17)
		215		206		293
Finished products(1)		**904**		983		1,266
	$	**5,844**	$	6,978	$	7,970

(1) Finished products include 1 new aircraft not associated with a firm order and 12 pre-owned aircraft, totaling $67 million as at December 31, 2016 (4 new aircraft and 54 pre-owned aircraft, totaling $279 million as at December 31, 2015 and 1 new aircraft and 57 pre-owned aircraft, totaling $485 million as at January 1, 2015).

Finished products as at December 31, 2016 include $19 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities ($81 million as at December 31, 2015 and $248 million as at January 1, 2015). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled $13,611 million for fiscal year 2016 ($15,232 million for fiscal year 2015). These amounts include $244 million of write-downs for fiscal year 2016 ($359 million for fiscal year 2015). Reversal of write-down of $16 million is recognized for fiscal year 2016 ($7 million for fiscal year 2015). An additional write-down of $57 million was recognized in special items for fiscal year 2015. See note 8 - Special items for more details.

Under certain contracts, title to inventories is vested to the customer as the work is performed, in accordance with contractual arrangements and industry practice. In addition, in the normal course of business, the Corporation provides performance bonds, bank guarantees and other forms of guarantees to customers, mainly in Transportation, as security for advances received from customers pending performance under certain contracts. In accordance with industry practice, the Corporation remains liable to the purchasers for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance.

Advances and progress billings received on long-term contracts in progress were $7,002 million as at December 31, 2016 ($6,916 million as at December 31, 2015 and $7,273 million as at January 1, 2015). Revenues include revenues from Transportation long-term contracts, which amounted to $5,849 million for fiscal year 2016 ($6,208 million for fiscal year 2015).

In connection with certain long-term contracts, Transportation enters into arrangements whereby amounts are received from third-party advance providers in exchange for the rights to customer payments. There is no recourse to Transportation if the customer defaults on its payment obligations assigned to the third-party advance provider. Amounts received under these arrangements are included as advances and progress billings in reduction of long-term contracts (production contracts) inventories and amounted to €471 million ($496 million) as at December 31, 2016 (€334 million ($364 million) as at December 31, 2015). The third-party advance providers could request repayment of these amounts if Transportation fails to perform its contractual obligations under the related long-term contract.

18. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Investments in securities(1)(2)	**$ 380**	$ 359	$ 346
Derivative financial instruments(3)	**340**	362	528
Long-term contract receivables(4)	**231**	298	321
Investments in financing structures(2)	**211**	197	360
Aircraft loans and lease receivables(2)(5)	**64**	81	275
Restricted cash	**10**	11	17
Other	**15**	12	11
	$ 1,251	$ 1,320	$ 1,858
Of which current	**$ 336**	$ 450	$ 530
Of which non-current	**915**	870	1,328
	$ 1,251	$ 1,320	$ 1,858

(1) Includes $78 million of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at December 31, 2016 ($80 million as at December 31, 2015 and $70 million January 1, 2015).

(2) Carried at fair value, except for $2 million of aircraft loans and lease receivables, $6 million of investments in securities and $46 million of investment in financing structures carried at amortized cost as at December 31, 2016 ($2 million, $11 million and $46 million, respectively, as at December 31, 2015 and $12 million, $16 million and $45 million, respectively, as at January 1, 2015).

(3) See Note 14 – Financial instruments.

(4) See Note 33 – Financial risk management.

(5) Financing with three airlines represents 75% of the total aircraft loans and lease receivables as at December 31, 2016 (three airlines represented 64% as at December 31, 2015 and January 1, 2015). Aircraft loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors.

19. OTHER ASSETS

Other assets were as follows, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Prepaid sales concessions and deferred contract costs[1]	**$ 300**	$ 341	$ 659
Sales tax and other taxes	**238**	244	238
Prepaid expenses	**145**	174	202
Retirement benefits[2]	**124**	251	159
Intangible assets other than aerospace program tooling and goodwill[3]	**112**	114	156
Deferred financing charges	**51**	72	37
Income taxes receivable	**41**	56	64
Other	**30**	29	33
	$ 1,041	$ 1,281	$ 1,548
Of which current	**$ 441**	$ 484	$ 592
Of which non-current	**600**	797	956
	$ 1,041	$ 1,281	$ 1,548

(1) Note 8 – Special items.
(2) See Note 22 – Retirement benefits.
(3) See Note 21 – Intangible assets

20. PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows, as at:

	Land	Buildings	Equipment	Construction in progress	Other	Total
Cost						
Balance as at December 31, 2015	**$ 87**	**$ 2,409**	**$ 1,418**	**$ 155**	**$ 406**	**$ 4,475**
Additions	**—**	**24**	**55**	**107**	**12**	**198**
Disposals	**(6)**	**(22)**	**(68)**	**—**	**(45)**	**(141)**
Transfers	**—**	**19**	**60**	**(90)**	**11**	**—**
Effect of foreign currency exchange rate changes	**(4)**	**(43)**	**(21)**	**(11)**	**—**	**(79)**
Balance as at December 31, 2016	**$ 77**	**$ 2,387**	**$ 1,444**	**$ 161**	**$ 384**	**$ 4,453**
Accumulated amortization and impairment						
Balance as at December 31, 2015	**$ —**	**$ (1,216)**	**$ (935)**	**$ —**	**$ (263)**	**$ (2,414)**
Amortization	**—**	**(60)**	**(121)**	**—**	**(12)**	**(193)**
Impairment	**(1)**	**(6)**	**(3)**	**—**	**—**	**(10)**
Disposals	**—**	**14**	**47**	**—**	**10**	**71**
Effect of foreign currency exchange rate changes	**—**	**29**	**14**	**—**	**(1)**	**42**
Balance as at December 31, 2016	**$ (1)**	**$ (1,239)**	**$ (998)**	**$ —**	**$ (266)**	**$ (2,504)**
Net carrying value	**$ 76**	**$ 1,148**	**$ 446**	**$ 161**	**$ 118**	**$ 1,949**

	Land	Buildings	Equipment	Construction in progress	Other	Total
Cost						
Balance as at January 1, 2015	$ 91	$ 2,413	$ 1,347	$ 171	$ 422	$ 4,444
Additions	3	25	61	139	45	273
Disposals	(2)	(11)	(52)	—	(59)	(124)
Transfers	—	70	77	(148)	1	—
Effect of foreign currency exchange rate changes	(5)	(88)	(15)	(7)	(3)	(118)
Balance as at December 31, 2015	$ 87	$ 2,409	$ 1,418	$ 155	$ 406	$ 4,475
Accumulated amortization and impairment						
Balance as at January 1, 2015	$ —	$ (1,212)	$ (864)	$ —	$ (276)	$ (2,352)
Amortization	—	(75)	(108)	—	(25)	(208)
Impairment	—	—	(10)	—	—	(10)
Disposals	—	11	49	—	41	101
Effect of foreign currency exchange rate changes	—	60	(2)	—	(3)	55
Balance as at December 31, 2015	$ —	$ (1,216)	$ (935)	$ —	$ (263)	$ (2,414)
Net carrying value	$ 87	$ 1,193	$ 483	$ 155	$ 143	$ 2,061

Included in the table are assets under finance lease where the Corporation is the lessee, presented in Other, with cost and accumulated amortization amounting to $234 million and $111 million, respectively, as at December 31, 2016 ($245 million and $105 million, respectively, as at December 31, 2015 and $243 million and $91 million, respectively, as at January 1, 2015).

Also included in the table are aircraft under operating leases where the Corporation is the lessor, presented in Other, with a cost and accumulated amortization amounting to $3 million and $3 million, respectively, as at December 31, 2016 ($46 million and $11 million, respectively, as at December 31, 2015 and $35 million and $14 million, respectively, as at January 1, 2015). Rental income from operating leases and amortization of assets under operating leases amounted to $1 million and $1 million, respectively, for fiscal year 2016 ($6 million and $16 million, respectively, for fiscal year 2015).

21. INTANGIBLE ASSETS

Intangible assets were as follows, as at:

	Aerospace program tooling			Goodwill	Other [1][2]	Total
	Acquired	**Internally generated**	**Total [3]**			
Cost						
Balance as at December 31, 2015	**$ 1,864**	**$ 11,320**	**$ 13,184**	**$ 1,978**	**$ 683**	**$ 15,845**
Additions	**516**	**829**	**1,345**	**—**	**35**	**1,380**
Disposals	**—**	**—**	**—**	**—**	**(4)**	**(4)**
Effect of foreign currency exchange rate changes	**—**	**—**	**—**	**(123)**	**(15)**	**(138)**
Balance as at December 31, 2016	**$ 2,380**	**$ 12,149**	**$ 14,529**	**$ 1,855**	**$ 699**	**$ 17,083**
Accumulated amortization and impairment						
Balance as at December 31, 2015	**$ (1,449)**	**$ (7,760)**	**$ (9,209)**	**$ —**	**$ (569)**	**$ (9,778)**
Amortization	**(3)**	**(143)**	**(146)**	**—**	**(32)**	**(178)**
Disposals	**—**	**—**	**—**	**—**	**2**	**2**
Effect of foreign currency exchange rate changes	**—**	**—**	**—**	**—**	**12**	**12**
Balance as at December 31, 2016	**$ (1,452)**	**$ (7,903)**	**$ (9,355)**	**$ —**	**$ (587)**	**$ (9,942)**
Net carrying value	**$ 928**	**$ 4,246**	**$ 5,174**	**$ 1,855**	**$ 112**	**$ 7,141**

	Aerospace program tooling			Goodwill	Other [1][2]	Total
	Acquired	Internally generated	Total [3]			
Cost						
Balance as at January 1, 2015	$ 1,639	$ 9,923	$ 11,562	$ 2,127	$ 714	$ 14,403
Additions	225	1,399	1,624	—	20	1,644
Disposals	—	(2)	(2)	—	(14)	(16)
Effect of foreign currency exchange rate changes	—	—	—	(149)	(37)	(186)
Balance as at December 31, 2015	$ 1,864	$ 11,320	$ 13,184	$ 1,978	$ 683	$ 15,845
Accumulated amortization and impairment						
Balance as at January 1, 2015	$ (700)	$ (4,039)	$ (4,739)	$ —	$ (558)	$ (5,297)
Amortization	(25)	(160)	(185)	—	(45)	(230)
Impairment	(724)	(3,561)	(4,285)	—	(5)	(4,290)
Disposals	—	—	—	—	8	8
Effect of foreign currency exchange rate changes	—	—	—	—	31	31
Balance as at December 31, 2015	$ (1,449)	$ (7,760)	$ (9,209)	$ —	$ (569)	$ (9,778)
Net carrying value	$ 415	$ 3,560	$ 3,975	$ 1,978	$ 114	$ 6,067

(1) Presented in Note 19 – Other assets.

(2) Includes internally generated intangible assets with a cost and accumulated amortization of $365 million and $296 million, respectively, as at December 31, 2016 ($365 million and $278 million, respectively, as at December 31, 2015 and $367 million and $254 million, respectively, as at January 1, 2015).

(3) Includes intangible assets under development with a cost of $2,467 million as at December 31, 2016 ($3,622 million as at December 31, 2015 and $6,126 million as at January 1, 2015).

Aerospace program tooling

The net carrying value of aerospace program tooling comprises $2,586 million for Commercial Aircraft, $2,631 million for Business Aircraft, $8 million for Aerostructure and Engineering Services and $(51) million for Corporate and Elimination, respectively, as at December 31, 2016 ($1,914 million, $2,041 million, $20 million and nil, respectively, as at December 31, 2015 and $4,347 million, $2,470 million, $9 million and nil, respectively, as at January 1, 2015).

C Series aircraft program

In October 2015, the Corporation entered into a memorandum of understanding for the *C Series* aircraft program with the Government of Québec. 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 memorandum of understanding, the Corporation performed an impairment test on the *C Series* aircraft program cash generating unit (the "*C Series* aircraft program") which principally consists of capitalized development costs. The Corporation determined that the *C Series* aircraft program carrying amount exceeded its recoverable amount, and accordingly recorded an impairment charge of $3,070 million, in special items, related to the *C Series* aircraft program development costs in fiscal year 2015. After the impairment charge, the remaining balance of the *C Series* aerospace program tooling was $1,850 million as at December 31, 2015.

Learjet 85 aircraft program

In fiscal year 2015, due to the lack of sales following the prolonged market weakness, the Corporation announced the cancellation of the *Learjet 85* aircraft program. As a result, the Corporation recorded an impairment charge on the remaining $919 million of aerospace program tooling related to the *Learjet 85* aircraft program development costs and $5 million on other intangibles, in special items.

CRJ1000 aircraft program

In fiscal year 2015, the Corporation performed an impairment test on the *CRJ1000* aircraft program development costs since there were indicators of impairment due to the lack of recent order intake as well as low firm order backlog, 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 carrier networks. The Corporation determined that the *CRJ1000* aircraft program development costs recoverable amount was negligible and therefore recorded an impairment charge of $243 million, in special items, related to the remaining balance.

Learjet family of aircraft

In fiscal year 2015, the Corporation performed an impairment test on the *Learjet* family cash generating unit (the "*Learjet* family") which principally consists of capitalized development costs. The Corporation determined that the *Learjet* family carrying amount exceeded its recoverable amount, and accordingly recorded an impairment charge of $53 million, in special items, related to the *Learjet* family development costs. The impairment is following the prolonged market weakness in the light business aircraft category. After the impairment charge, the remaining balance of the *Learjet* family aerospace program tooling was nil.

Recoverable amount

The recoverable amounts of all aerospace assets or CGUs were based on fair value less costs of disposal. The fair value measurements are categorized within Level 3 of the fair value hierarchy. The estimate of the fair value less costs of disposal was determined using forecast future cash flows that are based on management's risk-adjusted best estimate of future sales under existing firm orders, expected future orders, timing of payments based on expected delivery schedule, revenues from related services, procurement costs based on existing contracts with suppliers, future labour costs, general market conditions, foreign exchange rates and applicable long-range forecasted income tax rates and a post-tax discount rate of 10% 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 in fiscal year 2016.

Additional information related to the Corporation's impairment testing methodology for aerospace program tooling is included in Note 4 - Use of estimates and judgment.

Goodwill

Goodwill is related primarily to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. Goodwill is monitored by management at the Transportation operating segment level. During the fourth quarter of fiscal year 2016, the Corporation completed an impairment test. The Corporation did not identify any impairment. See Note 4 – Use of estimates and judgment for more details.

22. RETIREMENT BENEFITS

The Corporation sponsors several funded and unfunded defined benefit pension plans as well as defined contribution pension plans in Canada and abroad, covering a majority of its employees. The Corporation also provides other unfunded defined benefit plans, covering certain groups of employees mainly in Canada and the U.S.

Pension plans are categorized as defined benefit ("DB") or defined contribution ("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.

Funded plans are plans for which segregated plan assets are invested in trust. 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.

FUNDED DB PLANS

The Corporation's major DB plans reside in Canada, the U.K. and the U.S., therefore very significant portions of the DB pension plan assets and benefit obligation are located in those countries. The following text focuses mainly on plans registered in these three countries.

Governance

Under applicable pension legislations, the administrator of each plan is either the Corporation, in the case of U.S. plans and Canadian plans registered outside of Québec, or a pension committee, board of trustees or corporate trustee in the case of plans registered in Québec and the U.K.

Plan administrators are responsible for the management of plan assets and the establishment of investment policies, which define, for each plan, investment objectives, target asset allocation, risk mitigation strategies, and other elements required by pension legislation.

Plan assets are pooled in three common investment funds (CIFs) for Canadian, U.K. and U.S. plans, respectively, in order to achieve economies of scale and greater efficiency, diversification and liquidity. The CIFs are broken down by sub-funds or asset classes in order to allow each plan to have its own asset allocation given its associated pension obligation liability profile.

The management of the CIFs has been delegated to three (Canadian, U.K. and U.S.) investment committees (ICs). The ICs are responsible for allocating assets among various sub-funds and asset classes in accordance with each plan's investment policy. They are also responsible for hiring, monitoring and terminating investment managers and have established a multi-manager structure for each sub-fund and asset class. They are supported by Bombardier Inc. Pension Asset Management Services, who oversee the management of the plans' assets and of the CIFs on a daily basis. Daily administration of the plans is delegated to either Bombardier Inc. or to external pension administration service providers. The administrators, the ICs and Bombardier Inc. also rely on the expertise of external legal advisors, actuaries, auditors and investment consultants.

Benefit Policy

DB plan benefits are based on salary and years of service. In Canada and the U.S., since September 1, 2013, all new non-unionized employees join DC plans (i.e. they no longer have the option of joining DB or hybrid plans). Employees who are members of a DB or hybrid plan closed to new members continue to accrue service in their original plan.

In the U.K., eight out of nine DB plans are closed to new members. New employees join DC plans. Pension entitlements are indexed to inflation according to pension legislation and plan rules.

Funding requirements

Actuarial valuations are conducted by independent firms hired by the Corporation or the administrators, as required by pension legislation. The purpose of the valuations is to determine the plans' financial position and the annual contributions to be made by the Corporation to fund both benefits accruing in the year (normal cost) and deficits accumulated over prior years. Minimum funding requirements are set out by applicable pension legislations.

Pension plans in Canada are governed under the Supplemental Pension Plans Act in Québec, the Pension Benefits Act in Ontario and the Income Tax Act. Actuarial valuations are required at least every three years. Depending on the jurisdiction and the funded status of the plan, actuarial valuations may be required annually. Contributions are determined by the appointed actuary and cover future service costs and deficits, as prescribed by laws and actuarial practices. Under the laws in effect, minimum contributions are required to amortize the going-concern deficits (established under the assumption that the plan will continue to be in force) over a period up to fifteen years and, for Ontario registered plans, to amortize solvency deficits (established under the assumption that the plan stops its operations and is being liquidated) over a period of five years. Effective December 31, 2015, Quebec legislation funding rules have changed to eliminate the funding of solvency deficits for ongoing plans. Starting in 2016, funding is based on an "enhanced" going-concern valuation, including a stabilization provision. This provision will be funded by special amortization and current service contributions, and by actuarial gains.

Pension plans in the U.S. are mainly governed under the Employee Retirement Income Security Act, the Internal Revenue Code and the Pension Protection Act of 2006. Actuarial valuations are required annually. Contributions are determined by appointed actuaries and cover future service costs and deficits, as prescribed by law. Funding deficits are generally amortized over a period of seven years.

Pension plans in the U.K. are governed under the Pensions Act of 2004. Actuarial valuations are required at least every three years. The funding deficit amortization period is determined jointly by the administrators and the Corporation.

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 about 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 (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 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

The Corporation's pension plans are exposed to various risks, including equity, interest rate, inflation, foreign exchange, liquidity and longevity risks. Several risk management 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 by the Corporation. 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.

UNFUNDED DB PLANS

Unfunded plans are located in countries where the establishment of funds for segregated plan assets is generally not permitted or not in line with local practice. The Corporation's main unfunded DB plans are located in Germany. Nearly two thirds of the German unfunded DB plan liability relate to former plan members who no longer accrue future service benefits. The Corporation contributes annually to the Pensions-Sicherungs-Verein, Germany's pension protection association, which provides protection for pension benefits up to certain limits in the event that plan sponsors become insolvent.

DC PLANS

A growing proportion of employees are participating in DC plans and, as a result, contributions to DC plans have increased over the past several years. The largest DC plans are located in Canada and in the U.S. The plan administrators and ICs oversee the management of DC plan assets.

OTHER PLANS

The Corporation also provides other unfunded defined benefit plans, consisting essentially of post-retirement healthcare coverage, life insurance benefits and retirement allowances. The Corporation provides post-retirement life insurance and post-retirement health care, with provisions that vary between groups of employees in Canada. New non-unionized hires are generally no longer offered post-retirement health care.

RETIREMENT BENEFITS PLANS

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
Current service cost	**$**	**260**	**$**	**6**	**$**	**266**	$	302	$	7	$	309
Accretion expense		**55**		**11**		**66**		60		12		72
Past service cost (credit) [(1)]		**(140)**		**—**		**(140)**		25		—		25
Curtailment		**(22)**		**—**		**(22)**		(4)		—		(4)
Settlement		**—**		**—**		**—**		(3)		—		(3)
Other		**1**		**—**		**1**		1		—		1
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

(1) Comprises the reversal of constructive obligations of $139 million. See Note 8 – Special items for more details.

n/a: Not applicable

Changes in the cumulative amount of remeasurements gains (losses) of defined benefit plans recognized in OCI, and presented as a separate component of deficit, were as follows, for fiscal years:

Gains (losses)		
Balance as at January 1, 2015	$	(2,661)
Actuarial gains, net		407
Effect of exchange rate changes		185
Income taxes		(11)
Balance as at December 31, 2015		(2,080)
Impact of asset ceiling and minimum liability		(5)
Actuarial losses, net		(764)
Effect of exchange rate changes		14
Income taxes		73
Balance as at December 31, 2016	**$**	**(2,762)**

The following tables present the changes in the defined benefit obligation and fair value of pension plan assets, for fiscal years:

			2016			2015
	Pension benefits	**Other benefits**	**Total**	Pension benefits	Other benefits	Total
Change in benefit obligation						
Obligation at beginning of year	**$ 9,722**	**$ 266**	**$ 9,988**	$ 10,963	$ 327	$ 11,290
Accretion	**365**	**11**	**376**	378	12	390
Current service cost	**260**	**6**	**266**	302	7	309
Plan participants' contributions	**28**	**—**	**28**	34	—	34
Past service cost (credit) [1]	**(140)**	**—**	**(140)**	25	—	25
Actuarial losses (gains) - changes in financial assumptions	**1,247**	**12**	**1,259**	(336)	(4)	(340)
Actuarial losses (gains) - changes in experience adjustments	**21**	**(5)**	**16**	(125)	(14)	(139)
Actuarial gains - changes in demographic assumptions	**(16)**	**(1)**	**(17)**	(21)	(1)	(22)
Benefits paid	**(333)**	**(11)**	**(344)**	(334)	(12)	(346)
Curtailment	**(22)**	**—**	**(22)**	(4)	—	(4)
Settlement	**(4)**	**—**	**(4)**	(10)	—	(10)
Other	**1**	**—**	**1**	(24)	(1)	(25)
Effect of exchange rate changes	**(620)**	**5**	**(615)**	(1,126)	(48)	(1,174)
Obligation at end of year	**$ 10,509**	**$ 283**	**$ 10,792**	$ 9,722	$ 266	$ 9,988
Obligation is attributable to						
Active members	**$ 5,353**	**$ 164**	**$ 5,517**	$ 5,035	$ 163	$ 5,198
Deferred members	**1,603**	**—**	**1,603**	1,368	—	1,368
Retirees	**3,553**	**119**	**3,672**	3,319	103	3,422
	$ 10,509	**$ 283**	**$ 10,792**	$ 9,722	$ 266	$ 9,988
Change in plan assets						
Fair value at beginning of year	**$ 8,080**	**$ —**	**$ 8,080**	$ 8,820	$ —	$ 8,820
Employer contributions	**262**	**11**	**273**	264	12	276
Plan participants' contributions	**28**	**—**	**28**	34	—	34
Interest income on plan assets	**310**	**—**	**310**	318	—	318
Actuarial (losses) gains	**494**	**—**	**494**	(94)	—	(94)
Benefits paid	**(333)**	**(11)**	**(344)**	(334)	(12)	(346)
Settlement	**(4)**	**—**	**(4)**	(7)	—	(7)
Administration costs	**(13)**	**—**	**(13)**	(10)	—	(10)
Other	**—**	**—**	**—**	(20)	—	(20)
Effect of exchange rate changes	**(550)**	**—**	**(550)**	(891)	—	(891)
Fair value at end of year	**$ 8,274**	**$ —**	**$ 8,274**	$ 8,080	$ —	$ 8,080

[1] Comprises the reversal of constructive obligations of $139 million. See Note 8 – Special items for more details.

The following table presents the reconciliation of plan assets and obligations to the amount recognized in the consolidated statements of financial position, as at:

	December 31, 2016		December 31, 2015		January 1, 2015	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Present value of defined benefit obligation	**$ 10,509**	**$ 283**	$ 9,722	$ 266	$ 10,963	$ 327
Fair value of plan assets	**(8,274)**	**—**	(8,080)	—	(8,820)	—
	2,235	**283**	1,642	266	2,143	327
Impact of asset ceiling test and minimum liability[1]	**5**	**—**	—	—	—	—
Net amount recognized	**$ 2,240**	**$ 283**	$ 1,642	$ 266	$ 2,143	$ 327
Amounts included in:						
Retirement benefit						
Liability	**$ 2,364**	**$ 283**	$ 1,893	$ 266	$ 2,302	$ 327
Asset[2]	**(124)**	**—**	(251)	—	(159)	—
Net liability	**$ 2,240**	**$ 283**	$ 1,642	$ 266	$ 2,143	$ 327

(1) Comprises the effect of exchange rate changes.
(2) Presented in Note 19 – Other assets.

The following table presents the allocation of the net retirement benefit liability by major countries, as at:

	December 31, 2016		December 31, 2015		January 1, 2015	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Funded pension plans						
Canada	**$ 562**	**$ —**	$ 589	$ —	$ 826	$ —
U.S.	**375**	**—**	327	—	347	—
U.K.	**493**	**—**	(52)	—	74	—
Other	**99**	**—**	95	—	103	—
	1,529	**—**	959	—	1,350	—
Unfunded pension plans						
Germany	**522**	**—**	492	—	560	—
Canada	**25**	**250**	24	233	29	290
U.S.	**36**	**22**	33	22	32	26
Other	**128**	**11**	134	11	172	11
	711	**283**	683	266	793	327
Net liability	**$ 2,240**	**$ 283**	$ 1,642	$ 266	$ 2,143	$ 327

The following table presents the allocation of benefit obligation and plan assets by major countries, as at:

	December 31, 2016		December 31, 2015		January 1, 2015	
	Benefit obligation	**Plan assets**	Benefit obligation	Plan assets	Benefit obligation	Plan assets
Funded pension plans						
Canada	**$ 4,503**	**$ 3,946**	$ 4,214	$ 3,625	$ 5,015	$ 4,189
U.K.	**3,912**	**3,419**	3,527	3,579	3,805	3,731
U.S.	**993**	**618**	914	587	946	599
Other	**390**	**291**	384	289	404	301
	9,798	**8,274**	9,039	8,080	10,170	8,820
Unfunded pension plans	**994**	**—**	949	—	1,120	—
	$ 10,792	**$ 8,274**	$ 9,988	$ 8,080	$ 11,290	$ 8,820

The fair value of plan assets by level of hierarchy, was as follows, as at:

					December 31, 2016
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	**$ 779**	**$ 611**	**$ 168**	**$ —**
Equity securities				
U.S.	**951**	**945**	**—**	**6**
U.K.	**371**	**360**	**11**	**—**
Canada	**350**	**350**	**—**	**—**
Other	**1,102**	**1,099**	**—**	**3**
	2,774	**2,754**	**11**	**9**
Fixed-income securities				
Corporate	**1,301**	**—**	**1,301**	**—**
Government	**2,351**	**—**	**2,351**	**—**
Other	**27**	**—**	**27**	**—**
	3,679	**—**	**3,679**	**—**
Real return asset securities	**925**	**871**	**—**	**54**
Other	**117**	**—**	**117**	**—**
	$ 8,274	**$ 4,236**	**$ 3,975**	**$ 63**

				December 31, 2015
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 804	$ 655	$ 149	$ —
Equity securities				
U.S.	959	938	15	6
U.K.	282	282	—	—
Canada	343	343	—	—
Other	1,101	1,098	—	3
	2,685	2,661	15	9
Fixed-income securities				
Corporate	1,288	—	1,288	—
Government	2,199	—	2,199	—
Other	26	—	26	—
	3,513	—	3,513	—
Real return asset securities	983	927	—	56
Other	95	—	93	2
	$ 8,080	$ 4,243	$ 3,770	$ 67

				January 1, 2015
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 673	$ 548	$ 125	$ —
Equity securities				
U.S.	931	927	—	4
U.K.	389	371	18	—
Canada	359	359	—	—
Other	1,110	1,110	—	—
	2,789	2,767	18	4
Fixed-income securities				
Corporate	1,201	—	1,201	—
Government	2,642	—	2,642	—
Other	27	—	27	—
	3,870	—	3,870	—
Real return asset securities	911	911	—	—
Other	577	—	503	74
	$ 8,820	$ 4,226	$ 4,516	$ 78

Plan assets did not include any of the Corporation's shares, nor any property occupied by the Corporation or other assets used by the Corporation as at December 31, 2016, 2015 and January 1, 2015.

The following table presents the contributions made for fiscal year 2016 and 2015 as well as the estimated contributions for fiscal year 2017:

	2017 *Estimated*	**2016**	2015
Contribution to			
Funded pension plans	$ 226	**$ 234**	$ 239
Unfunded pension plans	27	**28**	25
Other benefits	10	**11**	12
Total defined benefits plans	263	**273**	276
DC pension plans	87	**84**	78
Total contributions	$ 350	**$ 357**	$ 354

The following table presents information about the maturity profile of the defined benefit obligation expected to be paid, as at:

	December 31, 2016
Benefits expected to be paid	
Within 1 year	**$ 298**
Between 1 and 5 years	**1,383**
Between 5 and 10 years	**2,241**
Between 10 and 15 years	**2,813**
Between 15 and 20 years	**3,238**
	$ 9,973

The following table provides the weighted average duration of the defined benefit obligations related to pension plans, as at:

Duration in years as at	**December 31, 2016**
Funded pension plans	
Canada	**17.0**
U.S.	**16.2**
U.K.	**21.4**
Other	**13.9**
Unfunded pension plans	
Germany	**19.3**
Canada	**13.0**
U.S.	**14.7**
Other	**15.4**

The following table provides the expected payments to be made under the unfunded plans, as at December 31, 2016:

	Germany	**Other**	**Total**
Benefits expected to be paid			
Within 1 year	**$ 16**	**$ 18**	**$ 34**
Between 1 and 5 years	**67**	**81**	**148**
Between 5 and 10 years	**94**	**126**	**220**
Between 10 and 15 years	**111**	**142**	**253**
Between 15 and 20 years	**123**	**151**	**274**
	$ 411	**$ 518**	**$ 929**

The significant actuarial assumptions reflect the economic situation of each country. The weighted-average assumptions used to determine the benefit cost and obligation were as follows, as at:

	December 31, 2016		December 31, 2015		January 1, 2015	
(in percentage)	**Pension benefits**	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit cost						
Discount rate	**3.80%**	**4.19%**	3.69%	4.07%	4.59%	4.97%
Rate of compensation increase	**3.02%**	**3.00%**	3.26%	3.25%	3.36%	3.25%
Inflation rate	**2.21%**	**2.05%**	2.21%	2.05%	2.34%	2.40%
Ultimate health care cost trend rate	**n/a**	**5.12%**	n/a	4.99%	n/a	4.98%
Benefit obligation						
Discount rate	**3.22%**	**3.95%**	3.80%	4.19%	3.69%	4.07%
Rate of compensation increase	**3.00%**	**3.00%**	3.02%	3.00%	3.26%	3.25%
Inflation rate	**2.30%**	**2.25%**	2.21%	2.05%	2.21%	2.05%
Initial health care cost trend rate	**n/a**	**5.23%**	n/a	5.29%	n/a	6.08%
Ultimate health care cost trend rate	**n/a**	**5.07%**	n/a	5.12%	n/a	4.99%

n/a: Not applicable

The mortality tables and the average life expectancy in years of a member at age 45 or 65 is as follows, as at December 31:

(in years)		**Life expectancy over 65 for a male member currently**			
		Aged 65 on December		**Aged 45 on December**	
Country	Mortality tables	**2016**	2015	**2016**	2015
Canada	2014 Private Sector Mortality Table ("CPM2014Priv") projected generationally using the CMP Improvement Scale B ("CPM-B")	**21.7**	21.6	**22.7**	22.7
U.K.	SNA07M_CMI 2013 and S1P(M/F)A CMI 2012	**22.1**	22.1	**23.9**	23.8
U.S.	RP-2014 mortality table projected generationally using the MP-2016 improvement scale(1)	**20.9**	21.3	**22.5**	22.9
Germany	Dr. K Heubeck 2005	**19.0**	18.9	**21.6**	21.5

		Life expectancy over 65 for a female member currently			
		Aged 65 on December		**Aged 45 on December**	
Country	Mortality tables	**2016**	2015	**2016**	2015
Canada	2014 Private Sector Mortality Table ("CPM2014Priv") projected generationally using the CMP Improvement Scale B ("CPM-B")	**24.1**	24.0	**25.1**	25.0
U.K.	SNA07M_CMI 2013 and S1P(M/F)A CMI 2012	**24.3**	24.2	**26.2**	26.1
U.S.	RP-2014 mortality table projected generationally using the MP-2016 improvement scale(1)	**22.9**	23.3	**24.4**	24.9
Germany	Dr. K Heubeck 2005	**23.1**	22.9	**25.6**	25.5

(1) RP-2014 mortality table projected generationally using the MP-2015 improvement scale as at December 31, 2015.

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

Assumption	**Retirement benefit cost for fiscal year 2016**	**Net retirement benefit liability as at December 31, 2016**
Discount rate	$ (30)	$ (479)
Rate of compensation increase	$ 8	$ 85
Inflation rate	$ 6	$ 120

A one year additional life expectancy as at December 31, 2016 for all DB plans would increase the net retirement benefit liability by $271 million and the retirement benefit cost for fiscal year 2016 by $16 million, all other actuarial assumptions remaining unchanged.

As at December 31, 2016, the health care cost trend rate for retirement benefits other than pension, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 5.23% and to decrease progressively to 5.07% by calendar year 2024 and then remain at that level for all participants. A one percentage point change in assumed health care cost trend rates would have the following effects, as at December 31, 2016 and for fiscal year 2016:

		One percentage point increase		One percentage point decrease
Effect on the net retirement benefit liability	$	26	$	(23)
Effect on the retirement benefit cost	$	2	$	(2)

23. TRADE AND OTHER PAYABLES

Trade and other payables were as follows, as at:

		December 31, 2016		December 31, 2015		January 1, 2015
Trade payables	**$**	**2,126**	$	2,812	$	3,037
Accrued liabilities		**639**		613		566
Interest		**141**		154		124
Other		**333**		461		489
	$	**3,239**	$	4,040	$	4,216

24. PROVISIONS

Changes in provisions were as follows, for fiscal years 2016 and 2015:

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other [1]	Total
Balance as at December 31, 2015	**$ 725**	**$ 670**	**$ 66**	**$ 565**	**$ 2,026**
Additions	**298**	**14**	**252** [2]	**763** [3]	**1,327**
Utilization	**(223)**	**(107)**	**(181)**	**(270)**	**(781)**
Reversals	**(110)**	**(22)**	**(18)** [2]	**(121)** [4]	**(271)**
Accretion expense	**1**	**6**	**—**	**6**	**13**
Effect of changes in discount rates	**(2)**	**1**	**—**	**(16)**	**(17)**
Effect of foreign currency exchange rate changes	**(19)**	**—**	**(8)**	**(4)**	**(31)**
Balance as at December 31, 2016	**$ 670**	**$ 562**	**$ 111**	**$ 923**	**$ 2,266**
Of which current	**$ 521**	**$ 59**	**$ 110**	**$ 132**	**$ 822**
Of which non-current	**149**	**503**	**1**	**791**	**1,444**
	$ 670	**$ 562**	**$ 111**	**$ 923**	**$ 2,266**

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other [1]	Total
Balance as at January 1, 2015	$ 773	$ 456	$ 117	$ 206	$ 1,552
Additions	360	265 [5]	47 [2]	394 [3]	1,066
Utilization	(244)	(36)	(67)	(15)	(362)
Reversals	(118)	(15)	(25) [2]	(15)	(173)
Accretion expense	1	6	—	—	7
Effect of changes in discount rates	(1)	(6)	—	—	(7)
Effect of foreign currency exchange rate changes	(46)	—	(6)	(5)	(57)
Balance as at December 31, 2015	$ 725	$ 670	$ 66	$ 565	$ 2,026
Of which current	$ 562	$ 77	$ 65	$ 404	$ 1,108
Of which non-current	163	593	1	161	918
	$ 725	$ 670	$ 66	$ 565	$ 2,026

[1] Mainly comprised of onerous contract provisions, claims and litigations.
[2] See Note 8 – Special items for more details on the addition and the reversal related to restructuring charges.
[3] See Note 8 – Special items for more details on the addition related to the *C Series* aircraft program onerous contracts provision and to the tax litigation provision for fiscal year 2016 (includes addition of other provisions related to the *C Series* aircraft program and to the cancellation of the *Learjet 85* program for fiscal year 2015).
[4] See Note 8 – Special items for more details on the reversals of *Learjet 85* aircraft program cancellation provisions.
[5] See Note 8 – Special items for more details on changes in estimates and fair value related to Credit and residual value guarantees.

25. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Derivative financial instruments[1]	**$ 627**	$ 702	$ 665
Government refundable advances	**395**	411	363
Vendor non-recurring costs	**351**	20	36
Lease subsidies[2]	**141**	135	172
Sale and leaseback obligations	**25**	133	260
Current portion of long-term debt[3]	**31**	71	56
Other	**37**	138	60
	$ 1,607	$ 1,610	$ 1,612
Of which current	**$ 608**	$ 991	$ 1,010
Of which non-current	**999**	619	602
	$ 1,607	$ 1,610	$ 1,612

(1) See Note 14 – Financial instruments.
(2) The amount contractually required to be paid is $160 million as at December 31, 2016 ($182 million as at December 31, 2015 and $206 million as at January 1, 2015).
(3) See Note 27 – Long-term debt.

Sale and leaseback obligations
The Corporation has set up sale and leaseback facilities, which may be used to sell pre-owned business aircraft. For accounting purposes, amounts outstanding under certain of these arrangements are considered financial obligations secured by the pre-owned business aircraft. The arrangements are generally for a term no longer than 24 months. The Corporation may settle the obligation at any time during the arrangement.

26. OTHER LIABILITIES

Other liabilities were as follows, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Employee benefits[1]	**$ 652**	$ 647	$ 661
Supplier contributions to aerospace programs	**650**	606	601
Accruals for long-term contract costs	**579**	606	631
Deferred revenues	**422**	397	450
Income taxes payable	**222**	224	248
Other taxes payable	**163**	212	119
Other	**506**	578	568
	$ 3,194	$ 3,270	$ 3,278
Of which current	**$ 2,175**	$ 2,274	$ 2,182
Of which non-current	**1,019**	996	1,096
	$ 3,194	$ 3,270	$ 3,278

(1) Comprises all employee benefits excluding those related to retirement benefits, which are reported in the line items Retirement benefits and in Other assets (see Note 22 – Retirement benefits).

27. LONG-TERM DEBT

Long-term debt was as follows, as at:

			Interest rate			December 31 2016	December 31 2015	January 1 2015
	Amount in currency of origin	Currency	Contractual [1]	After effect of fair value hedges	Maturity	Amount	Amount	Amount
Senior notes	600	USD	4.75%	n/a	Apr. 2019	**$ 596**	$ 594	$ 593
	850	USD	7.75%	3-month Libor + 4.14[2]	Mar. 2020	**899**	916	922
	780	EUR	6.13%	n/a	May 2021	**931**	985	1,110
	1,400[3]	USD	8.75%	n/a	Dec. 2021	**1,369**	—	—
	500	USD	5.75%	3-month Libor + 3.36[2]	Mar. 2022	**507**	510	504
	1,200	USD	6.00%	3-month Libor + 3.57[2]	Oct. 2022	**1,228**	1,234	1,219
	1,250	USD	6.13%	3-month Libor + 3.48[2]	Jan. 2023	**1,280**	1,290	1,277
	1,500	USD	7.50%	n/a	Mar. 2025	**1,488**	1,487	—
	650[4]	USD	7.50%	n/a	n/a	**—**	677	686
	750[4]	USD	5.50%	n/a	n/a	**—**	740	—
	750[5]	USD	4.25%	n/a	n/a	**—**	—	746
Notes	250	USD	7.45%	n/a	May 2034	**248**	248	248
Debentures	150	CAD	7.35%	n/a	Dec. 2026	**111**	107	129
Other[6]	Various[7]	Various	Various[7]	n/a	2017-2026	**112**	191	249
						$ 8,769	$ 8,979	$ 7,683
Of which current[8]						**$ 31**	$ 71	$ 56
Of which non-current						**8,738**	8,908	7,627
						$ 8,769	$ 8,979	$ 7,683

(1) Interest on long-term debt as at December 31, 2016 is payable semi-annually, except for the other debts for which the timing of interest payments is variable.
(2) The interest-rate swap agreement related to these Senior Notes were partially settled in the fourth quarter of fiscal year 2015. As these interest-rate swap were in a fair value hedge relationship, the related deferred gains recorded in the hedged item will be amortized in interest expense up to the maturity of these debts.
(3) New Senior Notes due December 1, 2021 which carry a coupon of 8.750% per annum and were issued at 99.001% of par. The effective yield is 9.00%.
(4) Repurchased pursuant to an optional redemption exercised in December, 2016.
(5) Repurchased pursuant to an optional redemption exercised in April, 2015.
(6) Includes obligations under finance leases.
(7) The notional amount of other long-term debt is $112 million as at December 31, 2016 ($191 million as at December 31, 2015 and $249 million as at January 1, 2015). The contractual interest rate, which represents a weighted average rate, is 5.43% as at December 31, 2016 (4.78% as at December 31, 2015 and 4.46% as at January 1, 2015).
(8) See Note 25 – Other financial liabilities.
n/a: Not applicable

All Senior notes and Notes rank pari-passu and are unsecured. The Corporation is subject to various financial covenants under the letter of credit facilities and the two unsecured revolving credit facilities, which must be met on a quarterly basis, see Note 31 - Credit facilities for more details. 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 the Corporation's 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. These conditions were all met as at December 31, 2016 and 2015 and January 1, 2015.

The carrying value of long-term debt includes principal repayments, transaction costs, unamortized discounts and the basis adjustments related to derivatives designated in fair value hedge relationships. The following table presents the contractual principal repayments of the long-term debt, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Within 1 year	**$ 31**	$ 71	$ 56
Between 1 and 5 years	**3,736**	2,946	2,127
More than 5 years	**4,829**	5,680	5,193
	$ 8,596	$ 8,697	$ 7,376

28. SHARE CAPITAL

Preferred shares

The preferred shares authorized were as follows, as at December 31, 2016, and 2015 and January 1, 2015:

	Authorized for the specific series
Series 2 Cumulative Redeemable Preferred Shares	12,000,000
Series 3 Cumulative Redeemable Preferred Shares	12,000,000
Series 4 Cumulative Redeemable Preferred Shares	9,400,000

The preferred shares issued and fully paid were as follows, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Series 2 Cumulative Redeemable Preferred Shares	**9,692,521**	9,692,521	9,692,521
Series 3 Cumulative Redeemable Preferred Shares	**2,307,479**	2,307,479	2,307,479
Series 4 Cumulative Redeemable Preferred Shares	**9,400,000**	9,400,000	9,400,000

Series 2 Cumulative Redeemable Preferred Shares	
Redemption:	Redeemable, at the Corporation’s option, at $25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2017 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines fourteen days before the conversion date that, at such time, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being set between 50% to 100% of the Canadian prime rate, and adjusted as follows. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than $24.90 Cdn per share or more than $25.10 Cdn per share.

Series 3 Cumulative Redeemable Preferred Shares	
Redemption:	Redeemable, at the Corporation's option, at $25.00 Cdn per share on August 1, 2017 and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2017 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines fourteen days before the conversion date that, at such time, there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2012 and including July 31, 2017, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 3.134% or $0.7835 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.195875 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Restated Articles of Incorporation.

Series 4 Cumulative Redeemable Preferred Shares	
Redemption:	The Corporation may, subject to certain provisions, on not less than 30 nor more than 60 days' notice, redeem for cash the Series 4 Cumulative Redeemable Preferred Shares at $25.00 Cdn.
Conversion:	The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (subordinate voting) of the Corporation. The number of Class B Shares (subordinate voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of $2.00 Cdn and 95% of the weighted-average trading price of such Class B Shares (subordinate voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or $1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.390625 Cdn per share.

Common shares

All common shares are without nominal or par value.

Class A Shares (multiple voting)	
Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (subordinate voting).
Dividend:	After payment of the priority dividend on the Class B Shares (subordinate voting) mentioned below, the Class A Shares (multiple voting) shall share equally, share for share, with respect to any additional dividends which may be declared in respect of the Class A Shares (multiple voting) and Class B Shares (subordinate voting). These dividends, if declared, shall be payable quarterly on the last day of March, June, September and December of each year.

Class B Shares (subordinate voting)	
Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (multiple voting): (i) if an offer made to Class A (multiple voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (multiple voting) of the Corporation.
Dividend:	The holders of Class B Shares (subordinate voting) are entitled, in priority to the holders of Class A Shares (multiple voting) to non-cumulative dividends of \$0.0015625 Cdn per share, payable quarterly on the last day of March, June, September and December of each year at a rate of \$0.000390625 Cdn per share, if declared. After payment of said priority dividend, the Class B Shares (subordinate voting) shall share equally, share for share, with respect to any additional dividends which may be declared in respect of the Class A Shares (multiple voting) and the Class B Shares (subordinate voting). These dividends, if declared, shall be payable quarterly on the last day of March, June, September and December of each year.

The change in the number of common shares issued and fully paid and in the number of common shares authorized was as follows as at:

Class A Shares (multiple voting)

	December 31, 2016	December 31, 2015
Issued and fully paid		
Balance at beginning of year	**313,900,550**	314,273,255
Converted to Class B	**—**	(372,705)
Balance at end of year	**313,900,550**	313,900,550
Authorized	**3,592,000,000**	2,742,000,000

Class B Shares (subordinate voting)

	December 31, 2016	December 31, 2015
Issued and fully paid		
Balance at beginning of year	**1,932,511,397**	1,444,132,126
Issuance of shares	**164,466**	488,006,566
Converted from Class A	**—**	372,705
	1,932,675,863	1,932,511,397
Held in trust under the PSU and RSU plans		
Balance at beginning of year	**(26,194,908)**	(18,736,908)
Purchased	**(27,338,210)**	(7,458,000)
	(53,533,118)	(26,194,908)
Balance at end of year	**1,879,142,745**	1,906,316,489
Authorized	**3,592,000,000**	2,742,000,000

In February 2015, the Corporation announced the closing of a public offering, with an over-allotment option having been exercised in full for an aggregate of 487,840,350 subscription receipts at a price of \$2.21 Canadian dollars per subscription receipt for aggregate net proceeds of CDN \$1,035 million (\$822 million).

Following resolutions approved on March 27, 2015 and April 29, 2016, the number of Class A Shares and Class B Shares (subordinate voting) authorized has increased from 1,892,000,000 to 2,742,000,000 and then to 3,592,000,000.

The change in the number of warrants exercisable was as follows as at:

	December 31, 2016	December 31, 2015
Balance at beginning of year	**—**	—
Issuance of warrants	**205,851,872**	—
Balance at end of year	**205,851,872**	—

In February 2016, the Corporation issued, in the name of CDPQ, 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), exercisable for a period of seven years at an exercise price per share equal to $1.66 U.S. dollars, being the equivalent of $2.21 Canadian dollars using the exchange rate at the date of execution of the subscription agreement.

Also on June 30 and September 1, 2016 Bombardier 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.

Dividends
Dividends declared were as follows:

	Dividends declared for fiscal years				Dividends declared after	
	December 31, 2016		December 31, 2015		**December 31, 2016**	
		Total		Total		Total
	Per share (Cdn$)	**(in millions of U.S.$)**	Per share (Cdn$)	(in millions of U.S.$)	Per share (Cdn$)	(in millions of U.S.$)
Class A common shares	**0.00**	**$ —**	0.00	$ —	0.00	$ —
Class B common shares	**0.00**	**—**	0.00	—	0.00	—
		—		—		—
Series 2 Preferred Shares	**0.68**	**5**	0.70	5	0.11	1
Series 3 Preferred Shares	**0.78**	**1**	0.78	2	0.20	—
Series 4 Preferred Shares	**1.56**	**11**	1.56	12	0.39	3
		17		19		4
		$ 17		$ 19		$ 4

29. SHARE-BASED PLANS

PSU, DSU and RSU plans
The Board of Directors of the Corporation approved a PSU and a RSU plan under which PSUs and RSUs may be granted to executives and other designated employees. The PSUs and the RSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (subordinate voting). The RSUs also give certain recipients the right to receive a cash payment equal to the value of the RSUs. The Board of Directors of the Corporation has also approved a DSU plan under which DSUs may be granted to senior officers. The DSU plan is similar to the PSU plan, except that their exercise can only occur upon retirement or termination of employment. During fiscal year 2016, a combined value of $50 million of DSUs, PSUs and RSUs were authorized for issuance ($43 million during fiscal year 2015).

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

			2016			2015
	PSU	**DSU**	**RSU**	PSU	DSU	RSU
Balance at beginning of year	**15,627,217**	**4,883,829**	**22,332,682**	26,045,936	7,666,464	—
Granted	**31,233,004**	**—**	**1,659,631**	248,757	—	22,765,354
Exercised	**(65,790)**	**(351,061)**	**—**	—	(340,432)	—
Forfeited	**(7,469,719)**	**(1,854,925)**	**(1,933,389)**	(10,667,476)	(2,442,203)	(432,672)
Balance at end of year	**39,324,712**	**2,677,843** (1)	**22,058,924**	15,627,217	4,883,829 (1)	22,332,682

(1) Of which 1,260,639 DSUs are vested as at December 31, 2016 (1,611,700 as at December 31, 2015).

PSUs and DSUs granted will vest if a financial performance threshold is met. The conversion ratio for vested PSUs and DSUs ranges from 50% to 150%. PSUs and DSUs generally vest three years following the grant date if the financial performance thresholds are met. For grants issued between January 1, 2014 and December 31, 2016, the vesting dates range from August 2017 to August 2019. RSUs granted will vest regardless of the performance. RSUs generally vest three years following the grant date. For grants issued in 2016, the vesting date will be in August 2018.

The weighted-average grant date fair value of PSUs and RSUs granted during fiscal year 2016 was $1.50 ($1.18 during fiscal year 2015). The fair value of each PSUs and RSUs granted was measured based on the closing price of a Class B Share (subordinate voting) of the Corporation on the Toronto Stock Exchange.

From time to time, the Corporation provides instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (subordinate voting) of the Corporation in the open market (see Note 28 – Share capital) in connection with the PSU and/or RSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSUs and RSUs become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of $11 million was recorded during fiscal year 2016 with respect to the PSU, DSU and RSU plans (a compensation expense of $7 million during fiscal year 2015).

Share option plans

Under share option plans, options are granted to key employees to purchase Class B Shares (subordinate voting). Of the 224,641,195 Class B Shares (subordinate voting) reserved for issuance, 84,334,328 were available for issuance under these share option plans, as at December 31, 2016.

Current share option plan - Effective June 1, 2009, the Corporation amended the share option plan for key employees for options granted after this date. The most significant terms and conditions of the amended plan are as follows:

- the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted;
- the options vest at the expiration of the third year following the grant date; and
- the options terminate no later than seven years after the grant date.

The summarized information on the current share option plan is as follows as at December 31, 2016:

	Issued and outstanding			Exercisable	
Exercise price range (Cdn$)	**Number of options**	**Weighted-average remaining life (years)**	**Weighted-average exercise price (Cdn$)**	**Number of options**	**Weighted-average exercise price (Cdn$)**
1 to 2	71,728,030	6.00	1.74	—	—
2 to 4	15,356,003	4.20	3.43	5,100,578	3.63
4 to 6	7,257,105	2.28	4.79	7,257,105	4.79
6 to 8	2,698,048	1.43	7.01	2,698,048	7.01
	97,039,186			15,055,731	

No options were exercised during fiscal year 2016 and 2015.

The number of options issued and outstanding under the current share option plan has varied as follows, for fiscal years:

	2016		2015	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**74,347,206**	**2.61**	27,811,724	4.39
Granted	**29,195,107**	**1.94**	49,704,570	1.69
Forfeited	**(4,486,127)**	**2.76**	(2,808,698)	3.54
Expired	**(2,017,000)**	**3.45**	(360,390)	5.17
Balance at end of year	**97,039,186**	**2.38**	74,347,206	2.61
Options exercisable at end of year	**15,055,731**	**4.80**	13,672,879	4.58

Share-based compensation expense for options
The weighted-average grant date fair value of stock options granted during fiscal year 2016 was $0.64 per option ($0.40 per option for fiscal year 2015). The fair value of each option granted was determined using a Black-Scholes option pricing model, which incorporates the share price at the grant date, and the following weighted-average assumptions, for fiscal years:

	2016	2015
Risk-free interest rate	**0.58%**	0.79%
Expected life	**5 years**	5 years
Expected volatility in market price of shares	**49%**	36.17%
Expected dividend yield	**0%**	0%

A compensation expense of $11 million was recorded during fiscal year 2016 with respect to share option plans ($7 million during fiscal year 2015).

Employee share purchase plan
Under the employee share purchase plan, employees of the Corporation are eligible to purchase Class B Shares (subordinate voting) of the Corporation up to a maximum of 20% of their base salary to a yearly maximum of $30,000 Cdn per employee. The Corporation contributed to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (subordinate voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to $5 million for fiscal year 2016 ($6 million for fiscal year 2015). Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

30. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows, for fiscal years:

		2016		2015
Trade and other receivables	$	**155**	$	(39)
Inventories		**1,161**		786
Other financial assets and liabilities, net		**(130)**		385
Other assets		**200**		196
Trade and other payables		**(699)**		(7)
Provisions		**269**		531
Advances and progress billings in excess of long-term contract inventories		**183**		(199)
Advances on aerospace programs		**(452)**		(1,411)
Retirement benefits liability		**(159)**		196
Other liabilities		**74**		160
	$	**602**	$	598

31. CREDIT FACILITIES

Letter of credit facilities
The letter of credit facilities and their maturities were as follows, as at:

		Amount committed		Letters of credit issued		Amount available	Maturity
December 31, 2016							
Transportation facility	**$**	**3,489** (1)	**$**	**3,311**	**$**	**178**	**2020** (2)
Corporation excluding Transportation facility		**400**		**136**		**264**	**2019** (3)
	$	**3,889**	**$**	**3,447**	**$**	**442**	
December 31, 2015							
Transportation facility	$	3,963 (1)	$	3,195	$	768	2019
Corporation excluding Transportation facility		600		221		379	2018
	$	4,563	$	3,416	$	1,147	
January 1, 2015							
Transportation facility	$	4,249 (1)	$	3,573	$	676	2018
Corporation excluding Transportation facility		600		261		339	2017
	$	4,849	$	3,834	$	1,015	

(1) €3,310 million as at December 31, 2016 (€3,640 million as at December 31, 2015 and €3,500 million as at January 1, 2015).

(2) The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment amount of the facility, plus a one year amortization period during which new letters of credit cannot be issued. The final maturity date of the facility is 2020.

(3) The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment of the facility. The facility can be extended annually on the anniversary date for an additional year subject to approval by a majority of the bank syndicate members.

In addition to the outstanding letters of credit shown in the above table, letters of credit of $1,869 million were outstanding under various bilateral agreements and letters of credit of $206 million under the PSG facility as at December 31, 2016 ($1,721 million and $173 million, respectively, as at December 31, 2015 and $1,731 million and $327 million, respectively, as at January 1, 2015).

The Corporation also uses 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 and $2.4 billion as at January 1, 2015).

Revolving credit facilities

The Corporation has a $400-million unsecured revolving credit facility (“revolving credit facility”) that matures in June 2019 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar cash drawing) plus a margin. This facility is available for cash drawings for the general working capital needs of the Corporation excluding Transportation. In addition, the Corporation has an unsecured revolving credit facility (“Transportation revolving credit facility”) amounting to €658 million ($693 million), available to Transportation for cash drawings. The facility matures in October 2019 and bears interest at EURIBOR plus a margin. These facilities were unused as of December 31, 2016.

Financial covenants

The Corporation is subject to various financial covenants under the letter of credit facilities, excluding the PSG facility, and the two unsecured revolving credit facilities, which must be met on a quarterly basis. The $400-million letter of credit and $400-million unsecured revolving credit facility, which are available for the Corporation excluding Transportation, include financial covenants requiring a minimum EBITDA to fixed charges ratio, as well as a maximum gross debt and minimum EBITDA thresholds, all calculated based on an adjusted consolidated basis i.e. excluding Transportation. The Transportation letter of credit and revolving credit facilities include financial covenants requiring minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on Transportation stand-alone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation’s global metrics as described in Note 32 – Capital management or to the specific terms used in the MD&A. In addition, the Corporation must maintain a minimum Transportation liquidity of €600 million ($632 million). The $400-million letter of credit and $400-million unsecured revolving facilities, which are available for the Corporation excluding Transportation, require minimum liquidity of $750 million at the end of each quarter of fiscal year 2016 (minimum liquidity of $750 million for fiscal year 2015 and $500 million for fiscal year 2014). Minimum liquidity required is not defined as comprising only cash and cash equivalents as presented in the consolidated statement of financial position. These conditions were all met as at December 31, 2016 and 2015 and January 1, 2015.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met.

32. CAPITAL MANAGEMENT

The Corporation analyzes its 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. The Corporation manages and monitors its global metrics such that it can achieve an investment-grade profile.

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

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

Global metrics – The following global metrics do not represent the ratios required for bank covenants.

		2016		2015
Adjusted EBIT[(1)]	**$**	**498**	$	777
Adjusted interest[(2)]	**$**	**618**	$	503
Adjusted EBIT to adjusted interest ratio		**0.8**		1.5
Adjusted debt[(3)]	**$**	**9,184**	$	9,289
Adjusted EBITDA[(4)]	**$**	**943**	$	1,278
Adjusted debt to adjusted EBITDA ratio		**9.7**		7.3

(1) Represents 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.

(2) Represents 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.

(3) Represents long-term debt adjusted for the fair value of derivatives (or settled derivatives) designated in related hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.

(4) Represents adjusted EBIT plus amortization and impairment charges of PP&E and intangible assets and amortization adjustment for operating leases.

In addition to the above global level metrics, the Corporation separately monitors its 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. The Corporation closely monitors the impact of the net retirement benefit liability on its future cash flows and has introduced significant risk mitigation initiatives in recent years in this respect.

In order to adjust its capital structure, the Corporation may issue or reduce long-term debt, make discretionary contributions to pension funds, repurchase or issue share capital, or vary the amount of dividends paid to shareholders.

See Note 31 – Credit facilities for a description of bank covenants.

33. FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

Credit risk	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Liquidity risk	Risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.
Market risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to foreign exchange risk and interest rate risk.

Credit risk

The Corporation is exposed to credit risk through its normal treasury activities on its derivative financial instruments and other investing activities. The Corporation is also exposed to credit risk through its trade receivables arising from its normal commercial activities. Credit exposures arising from lending activities relate primarily to aircraft loans and lease receivables provided to aerospace customers in connection with the sale of commercial aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from the treasury activities are managed by a central treasury function in accordance with the Corporate Foreign Exchange Risk Management Policy and Corporate Investment Management Policy (the "Policy"). The objective of the policy is to minimize the Corporation's exposure to credit risk from its treasury activities by ensuring that the Corporation transacts strictly with investment-grade financial institutions and money market funds based on pre-established consolidated counterparty risk limits per financial institution and fund.

Credit risks arising from the Corporation's normal commercial activities, lending activities and under indirect financing support are managed and controlled by the four reportable segments, Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation. The main credit exposure managed by the segments arises from customer credit risk. 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 the Corporation's experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

These customer credit risk assessments and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collateral to reduce the Corporation's exposure to losses. Specific governance is in place to ensure that financial risks arising from large transactions are analyzed and approved by the appropriate management level before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure. Various accounting and reporting systems are used to monitor trade receivables, lease receivables and other direct financings.

Maximum exposure to credit risk – The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in Note 14 – Financial instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows, as at:

	December 31, 2016		December 31, 2015		January 1, 2015	
Aircraft loans and lease receivables	**$**	**46**	$	59	$	243
Investments in financing structures	**$**	**181**	$	169	$	331
Derivative financial instruments	**$**	**326**	$	362	$	514
Investments in securities	**$**	**319**	$	304	$	295

Credit quality – The credit quality, using external and internal credit rating system, of financial assets that are neither past due nor impaired is usually investment grade, except for aerospace segments' receivables, aircraft loans and lease receivables and certain investments in financing structures. Aerospace segments' receivables are usually not externally or internally quoted, however the credit quality of customers are dynamically reviewed and is based on the Corporation's experience with the customers and payment behaviour. The Corporation usually holds underlying assets or security deposits as collateral or letters of credit for the receivables. The Corporation's customers for aircraft loans and lease receivables are mainly regional airlines with a credit rating below investment grade. The credit quality of the Corporation's aircraft loans and lease receivables portfolio is strongly correlated to the credit quality of the regional airline industry. The financed aircraft is used as collateral to reduce the Corporation's exposure to credit risk.

Refer to Note 38 – Commitment and Contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

Liquidity risk

The Corporation manages liquidity risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows, which is achieved through a detailed forecast of the Corporation's liquidity position, as well as long-term operating and strategic plans, to ensure adequacy and efficient use of cash resources. The Corporation uses scenario analyses to stress-test cash flow projections. Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, stress-test results, the maturity profile of indebtedness, access to capital markets, the level of customer advances, working capital requirements, the funding of product developments and other financial commitments. The Corporation also monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility. In addition, the Corporation engages 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.

Maturity analysis –The maturity analysis of financial assets and financial liabilities, excluding derivative financial instruments, was as follows, as at December 31, 2016:

	Carrying amount	Undiscounted cash flows (before giving effect to the related hedging instruments)						
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	Total
Cash and cash equivalents	$ 3,384	$ 3,384	$ —	$ —	$ —	$ —	$ —	$ 3,384
Trade and other receivables	$ 1,291	1,156	10	66	8	3	48	1,291
Other financial assets[(1)]	$ 911	118	168	82	556	179	70	1,173
Assets		4,658	178	148	564	182	118	5,848
Trade and other payables	$ 3,239	3,176	17	1	—	—	45	3,239
Other financial liabilities[(1)]	$ 949	107	218	275	566	238	—	1,404
Long-term debt								
Principal	$ 8,769	31	623	3,113	4,579	250	—	8,596
Interest		590	1,162	991	735	140	—	3,618
Liabilities		3,904	2,020	4,380	5,880	628	45	16,857
Net amount		$ 754	$ (1,842)	$ (4,232)	$ (5,316)	$ (446)	$ 73	$ (11,009)

(1) The carrying amount of other financial assets excludes the carrying amount of derivative financial instruments and the carrying amount of other financial liabilities excludes the carrying amount of derivative financial instruments and the current portion of long-term debt.

Other financial assets include long-term contract receivables maturing in March 2033. Under the respective agreements, the Corporation will receive incentive payments related to the reliability of manufactured trains. Due to future variations in the relevant index and reassessment of the achievement of the reliability targets, the amounts shown in the table above may vary. Also, termination of a related service contract in case of our non-performance would extinguish our right to future payments.

The Corporation, mainly in Transportation, negotiated extended payment terms of 240 days after delivery with certain of its suppliers. Trade payables with these extended terms totaled €272 million ($287 million) and bore interest at a weighted average rate of 1.75% as at December 31, 2016.

Other financial liabilities include government refundable advances. Under the respective agreements, the Corporation is required to pay amounts to governments at the time of the delivery of aircraft. Due to uncertainty about the number of aircraft to be delivered and the timing of delivery of aircraft, the amounts shown in the table above may vary.

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows, as at December 31, 2016:

	Nominal value (USD equivalent)	Undiscounted cash flows [1]					
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	Total
Derivative financial assets							
Forward foreign exchange contracts	$ 6,331	$ 193	$ 1	$ —	$ —	$ —	$ 194
Interest-rate derivatives	1,550	27	18	11	4	—	60
	$ 7,881	$ 220	$ 19	$ 11	$ 4	$ —	$ 254
Derivative financial liabilities							
Forward foreign exchange contracts	$ 12,386	$ (426)	$ (30)	$ —	$ —	$ —	$ (456)
Interest-rate derivatives	—	—	—	—	—	(1)	(1)
	$ 12,386	$ (426)	$ (30)	$ —	$ —	$ (1)	$ (457)
Net amount		$ (206)	$ (11)	$ 11	$ 4	$ (1)	$ (203)

[1] Amounts denominated in foreign currency are translated at the period end exchange rate.

Market risk

Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks in the ordinary course of business through its international operations, in particular to the Canadian dollar, Pound sterling, Swiss franc, Swedish krona, euro and Mexican peso. The Corporation employs various strategies, including the use of derivative financial instruments and by matching asset and liability positions, to mitigate these exposures.

The Corporation’s main exposures to foreign currencies are identified by the segments and covered by the central treasury function. Foreign currency exposures are mitigated in accordance with the Corporation’s Foreign Exchange Risk Management Policy (the “FX Policy”). The objective of the FX Policy is to mitigate the impact of foreign exchange movements on the Corporation’s consolidated financial statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed Board authorized pre-set limits. Potential loss is defined as the maximum expected loss that could occur if an unhedged foreign currency exposure was exposed to an adverse change of foreign exchange rates over a one-quarter period. The FX Policy also strictly prohibits any speculative foreign exchange transactions that would result in the creation of an exposure in excess of the maximum potential loss approved by the Board of Directors of the Corporation.

Under the FX Policy, it is the responsibility of the segments’ management to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, which has the responsibility to execute the hedge transactions in accordance with the FX Policy.

In order to properly manage their exposures, each segment maintains long-term cash flow forecasts in each currency. The aerospace segments have adopted a progressive hedging strategy while Transportation hedges all its identified foreign currency exposures to limit the effect of currency movements on their results. The segments also mitigate foreign currency risks by maximizing transactions in their functional currency for their operations such as material procurement, sale contracts and financing activities.

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 the long-term debt in foreign currency with long-term assets denominated in the same currency.

The Corporation mainly uses forward foreign exchange contracts to manage the Corporation's exposure from transactions in foreign currencies and to synthetically modify the currency of exposure of certain balance sheet items. The Corporation applies hedge accounting for a significant portion of anticipated transactions and firm commitments denominated in foreign currencies, designated as cash flow hedges. Notably, the Corporation enters into forward foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments.

The Corporation's foreign currency hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates on the hedged item. These programs are reviewed annually and amended as necessary to reflect current market conditions or practices.

Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in foreign currencies. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments recorded in its statement of financial position. The following impact on EBT for fiscal year 2016 is before giving effect to cash flow hedge relationships.

							Effect on EBT
	Variation	CAD/USD	GBP/USD	USD/EUR	GBP/EUR	EUR/CHF	Other
Gain (loss)	+10%	$ 44	$ 3	$ (2)	$ 53	$ (38)	$ (4)

The following impact on OCI for fiscal year 2016 is for derivatives designated in a cash flow hedge relationship. For these derivatives, any change in fair value is mostly offset by the re-measurement of the underlying exposure.

							Effect on OCI before income taxes
	Variation	CAD/USD	GBP/USD	USD/EUR	GBP/EUR	EUR/CHF	Other
Gain	+10%	$ 247	$ 47	$ 55	$ —	$ 7	$ 60

Interest rate risk

The Corporation is exposed to fluctuations in its future cash flows arising from changes in interest rates through its variable-rate financial assets and liabilities including long-term debt synthetically converted to variable interest rate (see Note 27 – Long-term debt). For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by a central treasury function as part of an overall risk management policy, including the use of financial instruments, such as interest-rate swap agreements. Derivative financial instruments used to synthetically convert interest-rate exposures consist mainly of interest-rate swap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, certain investments in financing structures, investments in securities, lease subsidies and certain derivative financial instruments.

The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity to ensure proper assets/liabilities management matching, consistent with the objective to reduce risks arising from interest rates movements. These programs are reviewed annually and amended as necessary to reflect current market conditions or practices.

Sensitivity analysis

The interest rate risk primarily relates to financial instruments carried at fair value. Assuming a 100-basis point increase in interest rates impacting the measurement of these financial instruments, excluding derivative financial instruments in a hedge relationship, as of December 31, 2016 and 2015, the impact on EBT would have been a negative adjustment of $22 million as at December 31, 2016 and 2015.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Methods and assumptions

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

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

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

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

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

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

The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of the conversion option embedded in the 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 the Transportation segment 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. Fair value of the shares on an as converted basis is calculated using an EBIT multiple, which is based on market data, to determine the enterprise value. The discount rate used is also determined using market data. The Corporation uses internal assumptions to determine the term of the instrument and the future performance of the Transportation segment.

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

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

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

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

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

Fair value hierarchy

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

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows, as at December 31, 2016:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	$ 62	$ —	$ —	$ 62
Derivative financial instruments[1]	340	—	340	—
Investments in securities	361 [2]	48	313	—
Investments in financing structures	165	—	—	165
	$ 928	$ 48	$ 653	$ 227
Financial liabilities				
Trade and other payables	$ (6)	$ —	$ —	$ (6)
Lease subsidies	(141)	—	—	(141)
Derivative financial instruments[1]	(627)	—	(457)	(170)
	$ (774)	$ —	$ (457)	$ (317)

[1] Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements and embedded derivatives.
[2] Excludes $13 million of AFS investments carried at cost.

Changes in the fair value of Level 3 financial instruments were as follows, for fiscal years 2016 and 2015:

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at January 1, 2015	$ 263	$ 165	$ (18)	$ (172)	$ —
Net gains (losses) and interest included in net income[(1)]	(54)	(12)	—	12	—
Issuances	10	—	(23)	—	—
Settlements	(140)	(2)	40	25	—
Balance as at December 31, 2015	79	151	(1)	(135)	—
Net gains (losses) and interest included in net income[(1)]	2	23	—	(28)	(61)
Issuances	—	—	(11)	—	(120)
Settlements	(19)	(9)	6	22	—
Effect of foreign currency exchange rate changes	—	—	—	—	11
Balance as at December 31, 2016	**$ 62**	**$ 165**	**$ (6)**	**$ (141)**	**$ (170)**

[(1)] Of which an amount of $2 million represents realized gains for fiscal year 2016, which is recorded in financing income ($11 million represents realized gains for fiscal year 2015, which is recorded in financing income).

Main assumptions developed internally for Level 3 hierarchy

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

These main assumptions are as follows as at December 31, 2016:

Main assumptions (weighted average)	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Internally assigned credit rating	Between BB to CCC (B)	Between BB- to CCC+ (B+)	Between BB- to CCC (B+)
Discount rate adjustments for marketability	Between 7.5% and 9.84% (9.30%)	Between 1.75% and 8.17% (6.44%)	n/a

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

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

Sensitivity to selected changes of assumptions for Level 3 hierarchy
These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at December 31, 2016:

Impact on EBT				Change of assumptions				
Gain (loss)		Change in fair value recognized in EBT for fiscal year 2016		Decrease in aircraft residual value curves by 5%		Downgrade the internally assigned credit rating of unrated customers by 1 notch		Increase the marketability adjustments by 100 bps
Aircraft loans and lease receivables	$	(5)	$	(1)	$	(2)	$	(3)
Investment in financing structures	$	10	$	(4)	$	(11)	$	(9)
Lease subsidies	$	(18)		n/a	$	2		n/a

n/a: Not applicable

Conversion option
Sensitivity analysis
A 5% decrease in the expected future performance of the Transportation segment would have resulted in a decrease in the fair value with a corresponding gain recognized in EBT for fiscal year 2016 of $18 million.

A 5% increase in the expected future performance of the Transportation segment would have resulted in an increase in the fair value with a corresponding loss recognized in EBT for fiscal year 2016 of $23 million.

Fair value hierarchy for items recorded at amortized cost
The following table presents financial assets and financial liabilities measured at amortized cost on a non-recurring basis categorized using the fair value hierarchy as follows:
- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs from observable markets other than quoted prices included in Level 1, including indirectly observable data (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

The fair value of financial assets and liabilities by level of hierarchy was as follows, as at December 31, 2016:

	Total	Level 1	Level 2	Level 3
Financial assets				
Trade and other receivables	**$ 1,291**	**$ —**	**$ 1,291**	**$ —**
Other financial assets				
Investments in financing structures	**43**	**—**	**—**	**43**
Other	**288**	**—**	**—**	**288**
	$ 1,622	**$ —**	**$ 1,291**	**$ 331**
Financial liabilities				
Trade and other payables	**$ (3,233)**	**$ —**	**$ (3,233)**	**$ —**
Long-term debt	**(8,624)**	**—**	**(8,624)**	**—**
Other financial liabilities				
Government refundable advances	**(430)**	**—**	**—**	**(430)**
Other	**(418)**	**—**	**—**	**(418)**
	$ (12,705)	**$ —**	**$ (11,857)**	**$ (848)**

35. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

In the normal course of business, the Corporation carries out a portion of its businesses through joint ventures and associates, mainly in Transportation.

The Corporation's aggregate pro rata shares of net income of joint ventures and associates, were as follows, for fiscal years:

		2016		2015
Joint ventures	**$**	**65**	$	30
Associates		**61**		119
Net income	**$**	**126**	$	149

The Corporation has pledged shares in associates, with a carrying value of $24 million as at December 31, 2016 ($18 million as at December 31, 2015 and January 1, 2015).

36. TRANSACTIONS WITH RELATED PARTIES

The Corporation's related parties are its joint ventures, associates and key management personnel.

Joint ventures and associates

The Corporation buys and sells products and services on arm's length terms with some of its joint ventures and associates in the ordinary course of business. The following table presents the portion of these transactions that is attributable to the interests of the other venturers, and transaction with associates, for fiscal years:

			2016				2015
		Joint ventures		**Associates**		Joint ventures		Associates
Sales of products and services, and other income	**$**	**47**	**$**	**23**	$	100	$	46
Purchase of products and services, and other expenses	**$**	**59**	**$**	**26**	$	129	$	—

The following table presents the Corporation's outstanding balances with joint ventures and associates, as at:

		December 31, 2016				December 31, 2015				January 1, 2015		
		Joint ventures		**Associates**		Joint ventures		Associates		Joint ventures		Associates
Receivables	**$**	**22**	**$**	**8**	$	31	$	8	$	39	$	5
Payables	**$**	**2**	**$**	**4**	$	3	$	2	$	6	$	6
Advances and progress billing in excess of long-term contract inventories	**$**	**7**	**$**	**—**	$	4	$	—	$	4	$	—

Compensation paid to key management personnel

The annual remuneration and related compensation costs of the executive and non-executive board members and key Corporate management, defined as the President and Chief Executive Officer of Bombardier Inc., the Presidents and Chief Operating Officers of aerospace segments and Transportation, and the Senior Vice Presidents of Bombardier Inc., were as follows, for fiscal years:

		2016		2015
Share-based benefits	**$**	**23**	$	19
Salaries, bonuses and other short-term benefits		**17**		12
Retirement benefits		**3**		4
Termination and other long-term benefits		**1**		11
	$	**44**	$	46

37. UNCONSOLIDATED STRUCTURED ENTITIES

The following table presents the assets and liabilities of unconsolidated structured entities in which the Corporation had a significant exposure, as at:

	December 31, 2016		December 31, 2015		January 1, 2015	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Financing structures related to the sale of commercial aircraft	**$ 5,625**	**$ 3,014**	$ 6,612	$ 4,102	$ 7,380	$ 4,796

The Corporation has provided credit and/or residual value guarantees to certain structured entities created solely to provide financing related to the sale of commercial aircraft.

Typically, these structured entities are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the structured entities long-term debt. The Corporation retains certain interests in the form of credit and residual value guarantees, subordinated debt and residual interests. Residual value guarantees typically cover a percentage of the first loss from a guaranteed value upon the sale of the underlying aircraft at an agreed upon date. The Corporation also provides administrative services to certain of these structured entities in return for a market fee.

The Corporation’s maximum potential exposure was $1.6 billion, of which $371 million was recorded as provisions and related liabilities as at December 31, 2016 ($1.7 billion and $354 million, respectively, as at December 31, 2015 and $1.8 billion and $295 million, respectively, as at January 1, 2015). The Corporation’s maximum exposure under these guarantees is included in Note 38 – Commitments and contingencies.

The Corporation concluded that it did not control these structured entities.

38. COMMITMENTS AND CONTINGENCIES

The Corporation enters into various sale support arrangements, including credit and residual value guarantees and financing rate commitments, mostly provided in connection with sales of commercial aircraft and related financing commitments. The Corporation is also subject to other off-balance sheet risks described in the following table. These off-balance sheet risks are in addition to the commitments and contingencies described elsewhere in these consolidated financial statements. Some of these off-balance sheet risks are also included in Note 37 – Unconsolidated special purposes entities. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

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

	December 31, 2016	December 31, 2015	January 1, 2015
Aircraft sales			
Residual value (a)	**$ 1,300**	$ 1,669	$ 1,749
Credit (a)	**1,233**	1,248	1,275
Mutually exclusive exposure[1]	**(562)**	(598)	(628)
Total credit and residual value exposure	**$ 1,971**	$ 2,319	$ 2,396
Trade-in commitments (b)	**$ 1,721**	$ 1,818	$ 2,696
Conditional repurchase obligations (c)	**$ 207**	$ 192	$ 204
Other[2]			
Credit (d)	**$ 48**	$ 48	$ 48
Performance guarantees (e)	**$ —**	$ —	$ 38

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

(2) The Corporation has also provided other guarantees (see section f) below).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to $562 million as at December 31, 2016 ($670 million as at December 31, 2015 and $456 million as at January 1, 2015) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on information obtained from external appraisals and reflect specific factors of the current aircraft market and a balanced market in the medium and long-term, and the anticipated proceeds from other assets covering such exposures. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $141 million as at December 31, 2016 ($135 million as at December 31, 2015 and $172 million as at January 1, 2015). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the sale of underlying aircraft and the extinguishment of certain lease subsidies obligations.

Aircraft sales

a) Credit and residual value guarantees - The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2026. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 72% of the total maximum credit risk as at December 31, 2016 (71% as at December 31, 2015 and January 1, 2015).

In addition, the Corporation may provide a guarantee for the residual value of aircraft at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. The arrangements generally include operating restrictions such as maximum usage and minimum maintenance requirements. The guarantee provides for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under such guarantees may be made only upon resale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees, at the earliest exercisable date, and the period in which they can be exercised, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Less than 1 year	**$ 57**	$ 90	$ 56
From 1 to 5 years	**845**	991	777
From 5 to 10 years	**398**	580	880
From 10 to 15 years	**—**	8	36
	$ 1,300	$ 1,669	$ 1,749

b) Trade-in commitments - In connection with the signing of firm orders for the sale of new aircraft, the Corporation enters into specified-price trade-in commitments with certain customers. These commitments give customers the right to trade-in their pre-owned aircraft as partial payment for the new aircraft purchased.

The Corporation's trade-in commitments were as follows, as at:

	December 31, 2016	December 31, 2015	January 1, 2015
Less than 1 year	**$ 231**	$ 271	$ 687
From 1 to 3 years	**600**	204	627
Thereafter	**890**	1,343	1,382
	$ 1,721	$ 1,818	$ 2,696

c) Conditional repurchase obligations - In connection with the sale of new aircraft, the Corporation enters into conditional repurchase obligations with certain customers. Under these obligations, the Corporation agrees to repurchase the initial aircraft at predetermined prices, during predetermined periods or at predetermined dates, conditional upon mutually acceptable agreement for the sale of a new aircraft. At the time the Corporation enters into an agreement for the sale of a subsequent aircraft and the customer exercises its right to partially pay for the subsequent aircraft by trading-in the initial aircraft to the Corporation, a conditional repurchase obligation is accounted for as a trade-in commitment.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows, as at:

		December 31, 2016		December 31, 2015		January 1, 2015
Less than 1 year	**$**	**158**	$	173	$	195
From 1 to 3 years		**49**		19		9
Thereafter		**—**		—		—
	$	**207**	$	192	$	204

Other guarantees

d) Credit and residual value guarantees - In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to $48 million as at December 31, 2016 ($48 million as at December 31, 2015 and January 1, 2015). This guarantee matures in 2025.

e) Performance guarantees - In certain projects carried out through consortia or other partnership vehicles in Transportation, partners may be jointly and severally liable to the customer for a default by the other partners. In such cases partners would normally provide counter indemnities to each other. These obligations and guarantees typically extend until final product acceptance by the customer and in some cases to the warranty period.

The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to $38 million as at January 1, 2015, assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's net exposure is not significant, assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

f) Other - In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

Operating leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. Future minimum lease payments, mostly related to buildings and equipment, under non-cancellable operating leases are due as follows, as at:

		December 31, 2016		December 31, 2015		January 1, 2015
Within 1 year	**$**	**143**	$	146	$	165
Between 1 to 5 years		**361**		346		438
More than 5 years		**475**		346		512
	$	**979**	$	838	$	1,115

Rent expense was $170 million for fiscal year 2016 ($181 million for fiscal year 2015).

Other commitments

The Corporation also has purchase obligations, under various agreements, made in the normal course of business. The purchase obligations are as follows, as at:

		December 31, 2016		December 31, 2015		January 1, 2015
Within 1 year	**$**	**4,120**	$	6,485	$	7,061
Between 1 to 5 years		**8,280**		3,925		4,141
More than 5 years		**46**		56		233
	$	**12,446**	$	10,466	$	11,435

The purchase obligations of the Corporation include capital commitments for the purchase of PP&E and intangible assets amounting to $373 million and $415 million, respectively, as at December 31, 2016 ($176 million and $489 million as at December 31, 2015 and $196 million and $432 million as at January 1, 2015).

Litigation

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

While the Corporation cannot predict the final outcome of all legal proceedings pending as at December 31, 2016, based on information currently available, management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

<u>Transportation</u>

Since the fourth quarter of 2016, one of the Corporation's subsidiaries is cooperating with police authorities in relation to an on-going investigation against unidentified suspects alleging unethical actions but without providing any particulars. The investigation is ongoing but at this time no charges have been laid against either the Corporation, its subsidiary, or any of its employees. The underlying contract in Transportation that has given rise to this matter is currently also being audited by a multilateral financial institution pursuant to a contractual right. The audit is still ongoing and no results have been communicated to the Corporation or its subsidiary. The Corporation's policy is to comply with all applicable laws and it is fully cooperating with the investigation and the audit. Due to the nature of these proceedings, it is not possible at this time to identify potential outcomes or consequences, if any, for the Corporation in connection therewith.

<u>Investigation in Brazil</u>

On March 20, 2014, Bombardier Transportation Brasil Ltda ("BT Brazil"), a wholly owned subsidiary of the Corporation, received notice that it was among the 18 companies and over 100 individuals named in administrative proceedings initiated by governmental authorities in Brazil, including the Administrative Council for Economic Protection ("CADE"), and the Sao Paulo Public Prosecutor's office, following previously disclosed investigations carried on by such governmental authorities with respect to allegations of cartel activity in the public procurement of railway equipment and the construction and maintenance of railway lines in Sao Paulo and other areas. Since the service of process in 2014 on BT Brazil, the competition authority has decided to detach the proceedings against 43 individuals whom it claims to have been difficult to serve process and has also issued additional technical notes dealing with various procedural objections raised by the defendant corporations and individuals. BT Brazil is currently contesting before the courts both the decision to detach the proceedings against 43 individuals and decisions by CADE restricting physical access to some of the forensic evidence.

BT Brazil as a result of the administrative proceedings initiated by CADE in 2014 became a party as defendant to legal proceedings brought by the Sao Paulo State prosecution service against it and other companies for alleged 'administrative improbity' in relation to refurbishment contracts awarded in 2009 by the Sao Paulo metro operator CMSP and for 'cartel' in relation to a five year-maintenance contract with the Sao Paulo urban transit operator CPTM signed in 2002. In September 2015, the prosecution service of Sao Paulo announced a second public civil action for 'cartel' in relation to the follow-on five year maintenance contract covering the period 2007 to 2012. In addition, BT Brazil was served notice and joined in December 2014 a civil suit as co-defendant first commenced by the Sao Paulo state government against Siemens AG in the fall of 2013 and with which the State government seeks to recover loss for alleged cartel activities.

Companies found to have engaged in unlawful cartel conduct are subject to administrative fines, state actions for repayment of overcharges and potentially disqualification for a certain period. The Corporation and BT Brazil continue to cooperate with investigations relating to the administrative proceedings and intend to defend themselves vigorously.

Triumph litigation

Triumph Aerostructures LLC ("Triumph"), a supplier to the Corporation on the *Global 7000* and *Global 8000* aircraft program, filed a lawsuit against the Corporation with the Québec Superior Court, District of Montréal on December 22, 2016 seeking approximately $340 million in compensation for alleged directed changes by the Corporation to the wing requirements that Triumph claims are outside the scope of the contract as well as for alleged delays and disruption in connection with the contract. The Corporation intends to vigorously defend itself against the claims asserted in the litigation, and, at the appropriate time, file its claims against Triumph to recover the costs incurred by the Corporation for the two year adjournment of the EIS of the *Global 7000* announced in July 2015 and for other program disruptions attributable to Triumph. Despite the litigation, Triumph remains bound under the contract to support the *Global 7000* and *8000* program.

Metrolinx

In July 2016, Bombardier Transportation Canada Inc. received a notice of default in respect of its contract to supply 182 Light vehicles to Metrolinx. The contract was entered into on June 14, 2010. The value of the contract is $770 million CDN ($573 million). The Corporation is actively opposing the notice of default utilizing the Dispute Resolution Process under the contract. On October 28, 2016, Metrolinx served Bombardier Transportation Canada Inc. with a Notice of Intention to Terminate the Contract on the basis of the notice of default. In order to prevent Metrolinx from serving a notice of termination until such time as the dispute resolution process is concluded including all adjudication by the Dispute Resolution Panel and any subsequent appeals, the Corporation filed an application in Ontario Superior Court on February 10, 2017 seeking an order maintaining the status quo and declaring that Metrolinx is not permitted to terminate the contract. The Corporation intends to fulfill its obligations under the Contract.