STEPPING INTO THE FUTURE

ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2012

BOMBARDIER

the evolution of mobility

WE ARE BOMBARDIER

We look far ahead to see and shape the future of mobility.
Our goal is to continuously find better ways to bridge distances and bring people together.
Across cities, countries and the globe. This is our passion.

As the world's only manufacturer of planes and trains, we've built an extensive and diverse portfolio of winning mobility solutions. Everywhere people travel by land and in the air, a Bombardier product is ready to transport them. From category-defining business jets and commercial aircraft designed for the challenges of today, to sleek high speed trains and public transit that's smarter than ever.

But it's not just our products and services that make us a global leader. The most important success factor is our employees, all 71,700 of them. Together we're focused on the same objective. Propelling mobility forward by answering the call to make it more efficient, sustainable and inviting than ever before.

We call it The Evolution of Mobility.

All amounts in this annual report are in U.S. dollars unless otherwise indicated.

CONTENTS

STEP BY STEP. MILE BY MILE. CITY BY CITY. COUNTRY BY COUNTRY.

WE'RE TAKING THE LEAD AND DELIVERING THE MOBILITY SOLUTIONS OF THE FUTURE.

2012 HIGHLIGHTS

JANUARY

- The year starts with an order for up to ten *CSeries* aircraft from Geneva-based PrivatAir. The full-service charter provider to major network airlines will fly an all-business-class *CS100* commercial jet.

- The Basel Transport Authority (BVB) signs a contract for up to 60 of our *FLEXITY* trams, the largest one in its history.

FEBRUARY

- Garuda Indonesia becomes the launch customer for our *CRJ1000 NextGen* aircraft in the Asia-Pacific region, ordering up to 24 regional jets.

MARCH

- In Poland, Eurolot S.A. chooses to renew its fleet and expand routes by ordering up to 20 *Q400 NextGen* aircraft.
- The *Bombardier Vision* Flight Deck, an industry first featuring synthetic vision imagery on a head-up display, enters into service on schedule.
- We reinforce our position as a world leader in traction solutions by winning one of the largest single bids for propulsion systems in China. With our Chinese joint venture, we'll supply our *MITRAC* propulsion and control equipment for new metro cars on Beijing's longest metro line.

APRIL

- We inaugurate our monorail manufacturing site in Hortolândia, Brazil, where we'll build the next-generation *INNOVIA* Monorail 300 system for São Paulo's metro extension.

MAY

- We sign a contract to establish an electric bus route in the city of Braunschweig, Germany, using *PRIMOVE*, our wireless, emission-free, e-mobility solution.
- In business aircraft, we redefine the light jet landscape with the *Learjet 70* and *Learjet 75* aircraft program launch at the European Business Aviation Convention & Exhibition (EBACE) in Geneva.

JUNE

- An order for up to 275 *Challenger* jets with NetJets, a world leader in private aviation, marks the biggest business aircraft order in our history at the time. In 2011, NetJets ordered up to 120 *Global* business jets.
- We select the Midparc Casablanca Free Zone to establish our aerospace manufacturing facility in Morocco. Production at a transitional facility started early 2013.
- Our Transportation group signs landmark agreements to provide 410 'Fleet of the Future' metro cars to San Francisco (BART) and 300 state-of-the-art metro cars to New York City.
- Construction begins on our new Bogie Technical Centre in Siegen, Germany, where engineers will advance our *FLEXX* bogie portfolio.

AUGUST

- Canada's WestJet Airlines confirms its order for up to 45 highly efficient *Q400 NextGen* aircraft.

SEPTEMBER

- At InnoTrans, the world's largest rail show, we present more than 20 innovations for integrated and sustainable smart transport solutions. This includes the launch of our breakthrough diesel-electric multi-engine technology for locomotives.
- We sign contracts with Talgo SA to develop, supply and maintain components for 36 very high speed trains in Saudi Arabia.

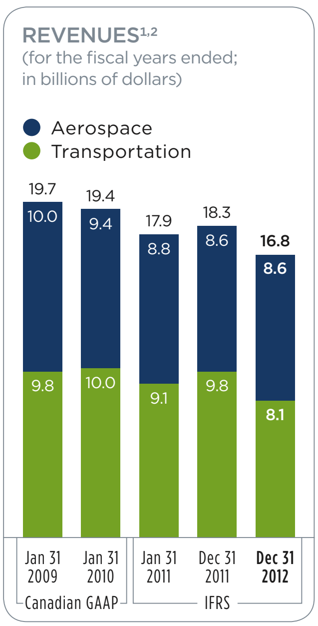
NOVEMBER

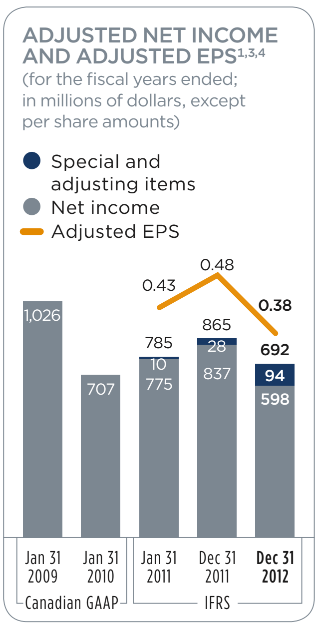
- We set a new record with our largest-ever business jet sale. VistaJet, the Swiss luxury charter provider, orders up to 142 *Global* business aircraft.
- We are selected to design and build an *INNOVIA* APM 300 automated people mover system for Dubai International Airport.

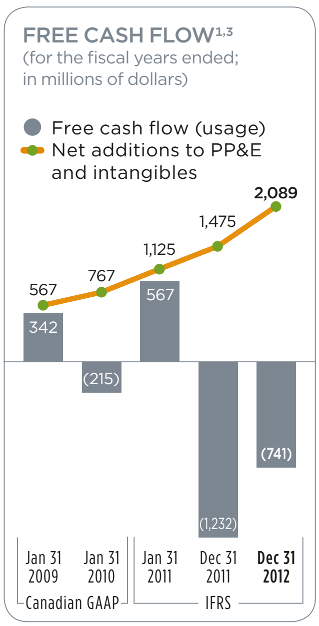
DECEMBER

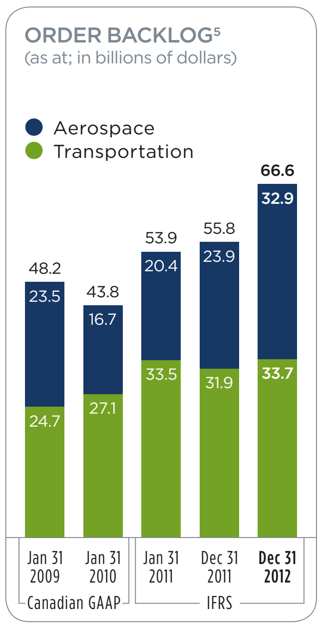
- Two airlines, one in the Americas and one in Northern Europe, order up to 50 *CSeries* aircraft. The total booked orders and commitments for *CSeries* commercial jets now stand at 382 aircraft from 14 customers.

- U.S.-based Delta Air Lines orders up to 70 *CRJ900 NextGen* regional jets for its Delta Connection carriers.
- In Canada, Metrolinx/GO Transit exercises options to extend two fleet operations and maintenance services contracts to 2023 for its commuter rail system serving Toronto and surrounding regions.
- We strengthen our long-standing relationship with Shanghai Shentong Metro Group by forging a strategic alliance to repair and maintain urban mass transit vehicles in China.









1 Our fiscal year ended December 31, 2011 comprises 11 months of Aerospace's results and 12 months of Transportation's results.
2 Some totals do not agree due to rounding.
3 Non-GAAP financial measure. Refer to the Non-GAAP financial measures and Consolidated results of operations sections of the MD&A for definitions of these metrics. Refer to the Consolidated results of operations section and Liquidity and capital resources in the MD&A for reconciliations to the most comparable IFRS measures.
4 Adjusted EPS and adjusted net income measures are not available for fiscal years ended January 31, 2010 and 2009.
5 The total order backlog as at December 31, 2012, December 31, 2011 and January 31, 2011, include Aerospace's backlog for long-term maintenance and spares support agreements.

MESSAGE TO SHAREHOLDERS

TAKING A BIG STEP AHEAD

IT'S AN EXCITING TIME AT BOMBARDIER. WE'RE STEPPING AHEAD WITH MAJOR BREAKTHROUGH PRODUCTS AND AN EXPANDING FOOTPRINT IN PIVOTAL GROWTH MARKETS. OUR VISION AND MULTI-YEAR INVESTMENTS ARE ABOUT TO GENERATE MULTI-YEAR GROWTH.

PIERRE BEAUDOIN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

DEAR SHAREHOLDERS

We're in the midst of a step change at Bombardier. Our new planes and trains are set to transform our company and advance sustainable mobility. At the same time, our in-service product portfolio continues to gain ground. That's because our focus is clear—meeting the growing mobility needs in and around the world's top 600 cities.

As is the case for so many other companies, a persistently sluggish global economy has slowed our growth. However, far from derailing us, we're using this period to our advantage: to get established in key countries and invest in platforms and services with strong growth potential.

We've proven our skill at identifying and quickly responding to mobility needs and trends; at taking surefooted steps into niches where we have a deep understanding of the risks and opportunities. Our market segments are unquestionably strong and the world's increasing urbanization alone ensures their long-term growth.

IMPROVING OUR AGILITY IN A SHAKY ECONOMY

Heightened economic uncertainty and macroeconomic risks are facts of life today. The American, European and even Asian economies are all performing below expectations. We're monitoring these trends closely. And we're actively adapting to this evolving economic reality.

In my meetings with employees, we're continually exploring ways to be smarter and more efficient. We constantly question assumptions and never shy away from the challenges. And we're taking decisive steps to adjust our cost base, de-risk our short-term outlook and enhance our agility.

A good example of this is the production site for our new narrowbody *CSeries* commercial jet. Initial plans called for us to build a stand-alone facility. By questioning our approach using Achieving Excellence System tools and processes, we decided to combine our *CRJ* and *CSeries* aircraft production sites and extend part of our existing Mirabel facility.

In Europe, our Transportation group is implementing a leaner structure and adjusting production capacity to stay a step ahead in this key market. In 2012, we also launched initiatives to reduce indirect costs across the entire company. Urging suppliers to develop cost-competitive supply chains in fast-growth markets is another element of our cost-containment effort.

We're also being prudent about where we invest additional capital. I consider a steady global expansion of our aircraft customer service and support centres to be a priority investment. So is rapidly growing our service offering in rail transportation to keep pace with industry trends such as outsourcing maintenance. Services provide an attractive return and are the most cycle-resistant segment of our business.

A LASER FOCUS ON THE EVOLUTION OF MOBILITY

What we manufacture is big, complex and technologically advanced. It's also a crucial enabler of urban prosperity. Designing and building new planes or trains takes several years. But their 20- to 30-year lifecycle ensures a sustained stream of revenue growth.

"WE'RE TRANSFORMING THE WAY MILLIONS OF PEOPLE GET AROUND EVERY DAY."

I still feel excited when years of incredible effort culminate in the rollout of a best-in-class jet, metro, monorail or high speed train. I experienced this excitement in September when I walked onto the *ZEFIRO* 380 very high speed train being certified in China. It happened again in October when I saw the first *CSeries* flight test vehicle taking shape in Mirabel. Both times I literally stepped into a very real and palpable future. In 2013, the *CSeries* jet is scheduled to fly for the first time and the *ZEFIRO* 380 train will be virtually ready to transport its first passengers.

These flagship products are tangible proof of how we're creating better ways to move the world. How we're transforming the way millions of people get around every day. From our larger, more efficient *CRJ* regional jets to our futuristic Île-de-France commuter trains, we continue to change the face of mobility.

High growth countries around the globe are investing in building mobility infrastructure. Mature economies are allocating funds to repair and upgrade these networks. Our portfolio of outstanding solutions is designed to meet these long-term needs and demands.

REAL PROGRESS IN RAIL

Economic cycles have limited impact on the rail industry—an industry where we are a global leader. Our technological capabilities and our order backlog are unmatched. So is our ability to provide seamless interconnected mobility for forward-thinking cities. With sites in North America, Europe, Asia-Pacific and South America, we're in an excellent position to win several of the major tenders on the horizon worldwide.

Our stylish low-floor trams continue to triumph in mature and growing markets alike. Following a new agreement with the Chinese Ministry of Railways (MOR), our high speed trains are a go in one of the world's largest economies. We sealed groundbreaking contracts in the Middle East and Brazil. We also secured major orders in traditional markets such as the U.S.

Our energy-efficient multi-engine locomotives and emission-free e-mobility solutions are two of our most recent innovations. But technology isn't our only trump card. We also leverage our solutions to develop local partnerships and gain traction in fast-growing markets. For example, we recently strengthened our position in China by forming a joint venture with Shanghai Shentong Metro Group. Together we'll deliver the country's most advanced repair and overhaul centre for metros.

DELIVERING ON GROWTH CATALYSTS IN AEROSPACE

Our long-term prospects and our position in the aerospace sector are strong. We're the clear leader in business aviation with the most comprehensive portfolio. Over the past two years, we secured the three biggest business aircraft orders in our history. In 2012, we also captured an estimated 65% of all business jet orders excluding very light jets and large corporate airliners. Investing in our successful *Learjet* and *Global* aircraft platforms will strengthen this leadership.

Today we also have the industry's broadest portfolio of commercial aircraft in the 20- to 149-seat market. The *CSeries*, our largest jet, will contribute to a period of strong commercial aircraft growth for many years to come. Our value-added services segment, which accounts for 20% of our 2012 revenues, also continues to gain altitude.

Strategic initiatives to globalize our sales footprint are already producing results for our regional aircraft. They're driving sales of our *CRJ NextGen* regional jets and *Q400 NextGen* turboprops worldwide. They're also preparing us to better capture the huge opportunity created by the *CSeries* aircraft.

During the next five years, seven new business and commercial aircraft, including two clean-sheet platforms, are expected to enter into service. Over time, these growth catalysts should generate $8 to $12 billion of additional annual revenues.

IN SYNC WITH THE GLOBAL REALITY

Where we decide to set up shop is strategic. Our geographic diversification and expanding presence in fast-growth countries reflect the world's shifting economic centre of gravity. This changing global reality is also evidenced by our numerous attractive opportunities in Brazil, Russia, India and China. For us, it's a matter of turning swiftly into an on-the-ground player and a value generator for the local economy. This enables us to fully and effectively compete in growth markets.

We're increasingly present in China, the world's second largest economy. Our monorail manufacturing site in Brazil deepens our roots in the country's fast-paced rail market. Our new manufacturing facility in Morocco will provide us with additional sub-assembly capabilities and proximity to Europe. The significant success of our metros in Asia puts us in the game across these growing markets.

Even our products reflect the world's changing economic realities. The *CSeries* family of mainliner jets is well-suited for the hot temperatures and high altitude conditions found in many rapid-growth economies. And cities like São Paulo in Brazil are choosing our high capacity *INNOVIA* Monorail 300 as a less expensive, faster-to-market option than metros to meet escalating passenger demand.

THINKING AND DELIVERING BIG

We launched a new promise last year—The Evolution of Mobility—and in 2012, I watched employees worldwide embrace it. This promise fits us like a glove. That's because our energetic culture tends to attract people who like big challenges and who like to win. Together we thrive on breaking new ground.

In 80 engineering and production sites around the globe, we're implementing a vision of superbly engineered mobility solutions. Every day at Bombardier, people from different cultures bring their talents to bear to deliver the best.

I want to thank our employees for never settling for 'good enough.' Their ingenuity and initiative were behind each and every one of our achievements in 2012.

Looking back over the past year, we have much to be proud of. Our first simultaneous worldwide employee engagement survey showed high scores in both engagement and enablement, dimensions crucial to employee effectiveness. In fact, we surpassed the manufacturing sector norms for engagement and enablement. We're definitely heading in the right direction.

Bombardier investors understand the long-term nature of our business. And I want to thank you for taking this journey with us. I also want you to know that the reward for your patience is in sight.

I would like to thank our Board of Directors for their rigorous governance and oversight. A special thanks is due to Jean-Pierre Rosso for his invaluable contribution over the past seven years. This includes chairing our Corporate Governance and Nomination Committee and serving as a member of the Audit Committee. Jean-Pierre will retire following our next annual shareholder meeting.

In 2012, we were pleased to welcome two new Board members: Sheila Fraser, former Auditor General of Canada for a decade, and Joanne Bissonnette, granddaughter of Bombardier's founder J. Armand Bombardier.

STEPPING INTO THE FUTURE CONFIDENTLY

As we move forward at Bombardier, our focus will remain on managing short-term risks and delivering long-term sustainable growth.

I see three main drivers of this growth. The first is our powerful lineup of products and services which account for our record backlog. This lineup will soon be fortified as several innovative product platforms roll out of our facilities. The second catalyst is our expanding footprint in the world's fastest growing markets. Strengthening customer satisfaction through flawless execution on every order is the third critical success factor.

Personally, I feel confident and energized by how we're moving ahead, step by step, mile by mile, city by city, country by country. The key is having a clear understanding of the mobility needs of tomorrow. This understanding lies at the heart of our evolution as a global mobility leader.

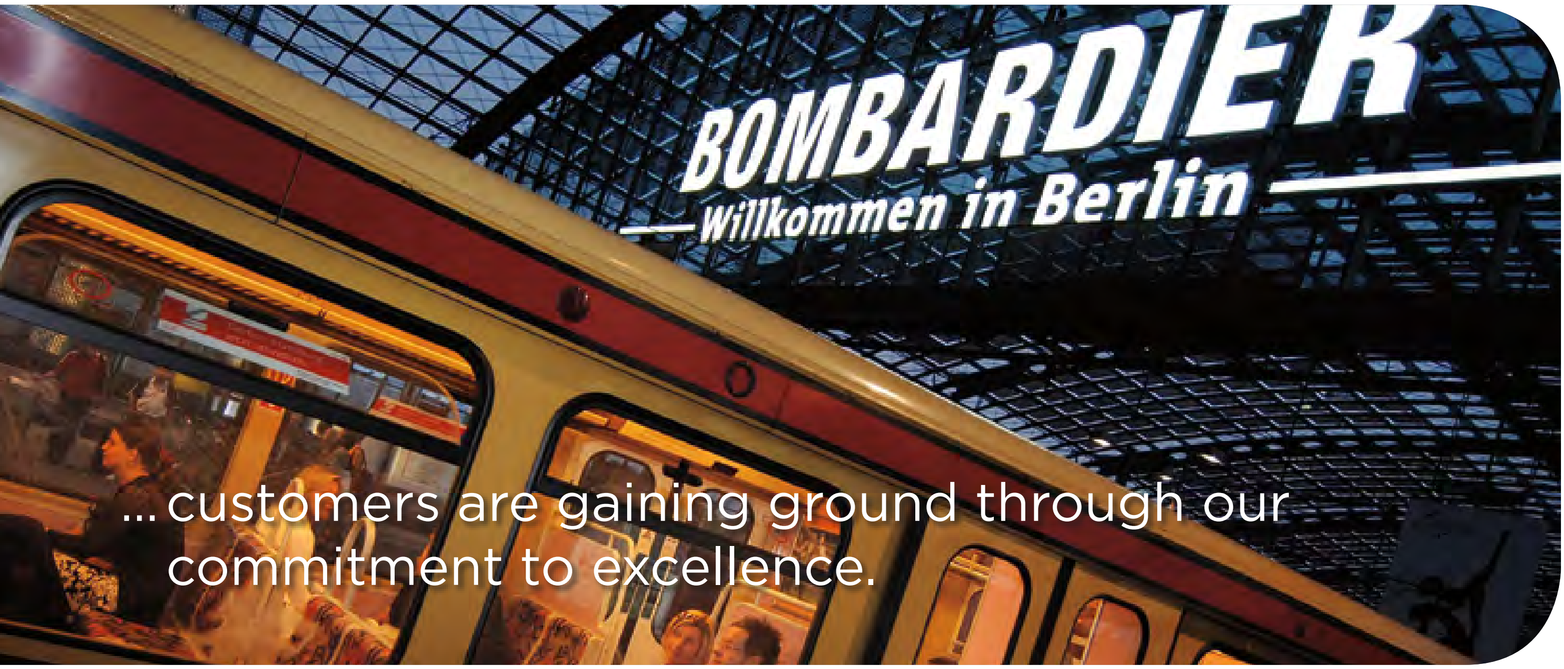
Pierre Beaudoin
President and Chief Executive Officer
Bombardier Inc.

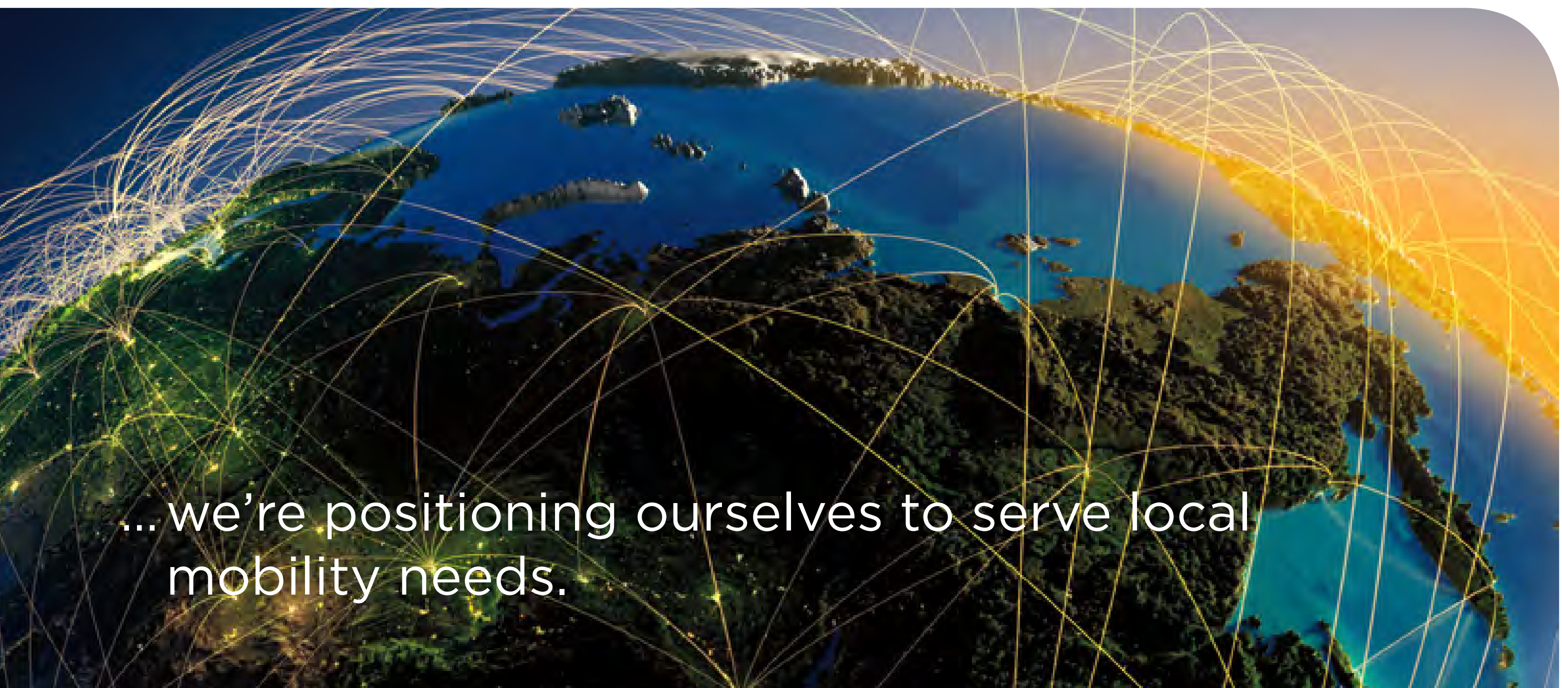
STEP BY STEP…

MILE BY MILE…

COUNTRY BY COUNTRY…


… we're building the world's leading mobility solutions and our future.


BOMBARDIER
Willkommen in Berlin
… customers are gaining ground through our commitment to excellence.


… we're positioning ourselves to serve local mobility needs.

AEROSPACE

READY FOR TAKE-OFF, READY FOR GROWTH

STEP BY STEP ...

we're strengthening our leadership by shaping what's next in business and commercial aviation.

2012
first delivery
Bombardier Vision Flight Deck for business jets

2013
first delivery
Learjet 70
Learjet 75
business jets

2014
first delivery
CS100
CS300
commercial aircraft
Learjet 85
business jet

2016
first delivery
Global 7000
business jet

2017
first delivery
Global 8000
business jet

COUNTRY BY COUNTRY ...

our footprint is expanding to address the realities of an evolving global market.

Increasing our network through the addition of nine service and maintenance facilities enhances our ability to serve and support our growing worldwide fleet.

Reinforcing our global supply chain includes setting up manufacturing facilities in markets such as Morocco and Mexico.

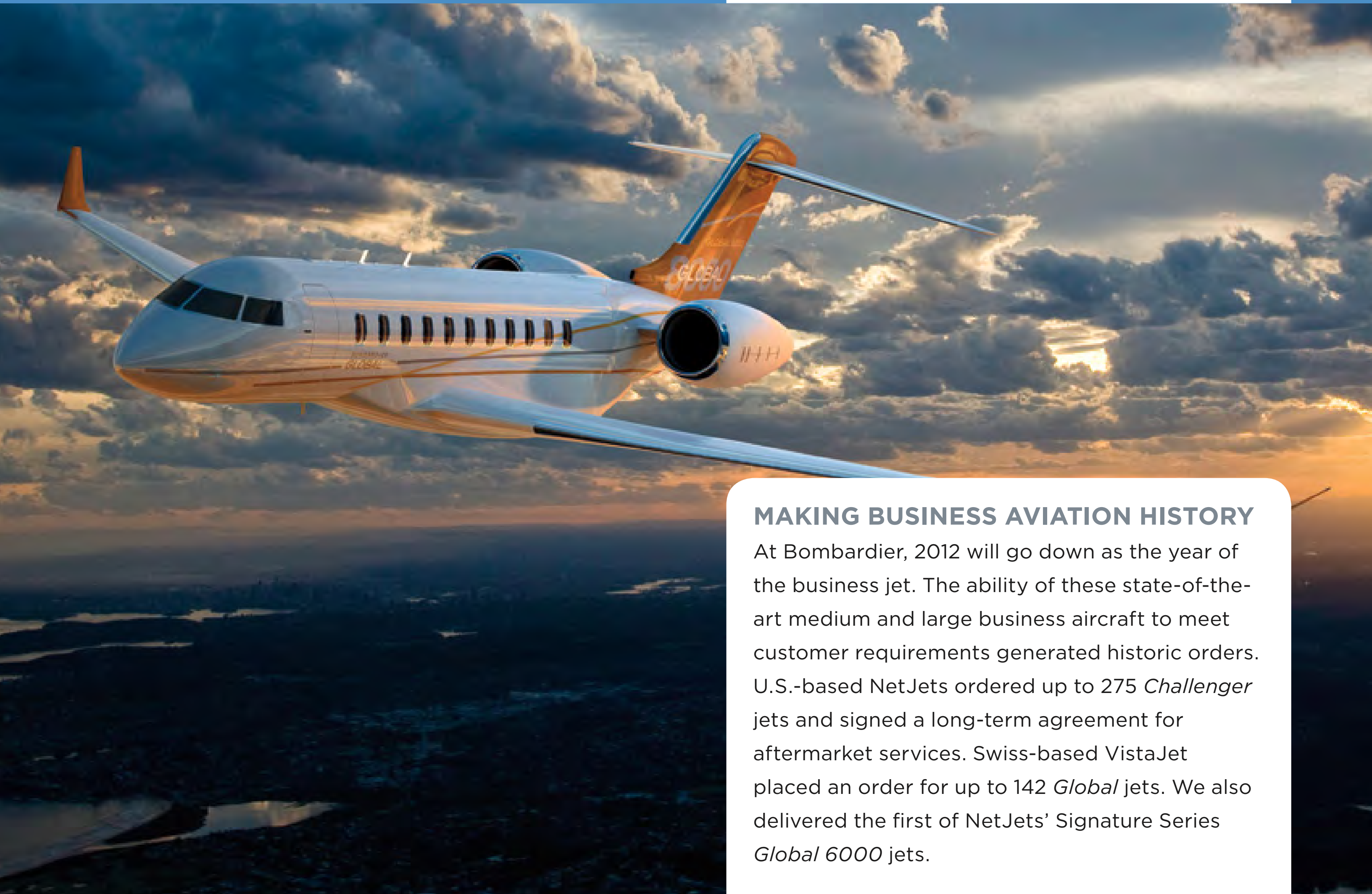
Growing our presence in Mexico allows us to leverage complementary expertise, strengthen our local roots and capture synergies.

MILE BY MILE ...

we're putting our customers first with an integrated product and service offer.

Q400 CONTINUES TO SOAR

In 2012, Alberta-based WestJet became the 40th operator worldwide to choose our versatile *Q400* turboprops, ordering up to 45 *Q400 NextGen* aircraft. Its new regional airline, WestJet Encore, will start flying the aircraft in 2013. Recognized for its operating economics, speed, comfort and environmental performance, the *Q400 NextGen* gives WestJet the flexibility to serve both short-haul turboprop and longer-haul jet replacement markets.



MAKING BUSINESS AVIATION HISTORY

At Bombardier, 2012 will go down as the year of the business jet. The ability of these state-of-the-art medium and large business aircraft to meet customer requirements generated historic orders. U.S.-based NetJets ordered up to 275 *Challenger* jets and signed a long-term agreement for aftermarket services. Swiss-based VistaJet placed an order for up to 142 *Global* jets. We also delivered the first of NetJets' Signature Series *Global 6000* jets.

A BIG STEP FOR AEROSPACE

The *CSeries* aircraft program is truly in a league of its own. This transcontinental airliner family features a next-generation engine, advanced carbon-fibre materials, a new flight deck and a lighter airframe. Optimized for the growing 100- to 149-seat market, it delivers the lowest operating costs in its class, a significant fuel burn advantage, exceptional operational flexibility, widebody comfort and an unmatched environmental scorecard.

CSERIES:
A CATEGORY-DEFINING AIRCRAFT PROGRAM, BUILT FOR TODAY AND TOMORROW, TAKING OFF IN 2013.

CSERIES | STEP BY STEP

JULY 2008

ENVISIONING THE FUTURE

We announce the development of our biggest aircraft to date: the *CSeries* family of mainliners. Leading German airline Lufthansa signs on as the *CSeries* launch customer, with a letter of intent for up to 60 technologically advanced five-abreast aircraft.
This foray into the 100- to 149-seat segment will dramatically expand our market opportunities. Upon entry-into-service, the *CSeries* jet will meet the needs of operators for the next quarter century.

AUGUST 2009

FIRST THINGS FIRST

The first *CSeries* fuselage (main body section) test barrel arrives at our Saint-Laurent, Québec, facility from Shenyang Aircraft Corporation in China. We'll use it to demonstrate the manufacturing and engineering structural concepts before beginning the aircraft's final design phase in 2010. The fuselage's advanced aluminum alloys provide weight and maintenance advantages for operators. Prior to August, we completed a series of wind tunnel tests for the *CS100* and *CS300* aircraft configurations.

SEPTEMBER 2009

BREAKING GROUND

Construction of the first *CSeries* aircraft building gets under way at our Mirabel facility north of Montréal in Canada. It will house the Complete Integrated Aircraft Systems Test Area (CIASTA). At CIASTA, a virtual *CSeries* test aircraft will allow us to fully assess system reliability and functionality before the first flight test aircraft flies. CIASTA will continue to support systems integration and maturity throughout the flight test program.

JULY 2010

CS100: PINNING DOWN THE DESIGN

We start releasing detailed design drawings to production for the first *CS100* ground and flight test aircraft. This means that we're beginning to lock in the design of the single-aisle, 100- to 125-seat aircraft. We also complete the ultimate load test on the *CSeries* aircraft composite demonstrator wing at our Belfast facility in Northern Ireland. In this test, we successfully replicate 150% of the most severe forces the wing is ever likely to experience in service.

MAY 2011

SPREADING OUR WINGS

Installation of the wing assembly jigs begins at our new 55,742-square-metre (600,000 ft^2) state-of-the-art wing manufacturing and assembly facility in Belfast. The jigs allow us to control assembly of the advanced composite wings with great precision. The *CSeries* wings program builds on our 40-year track record in composite technologies including an innovative Resin Transfer Infusion technology.

JUNE 2011

POWERING THE VISION

The *CSeries* aircraft's next-generation geared turbofan engine operates flawlessly during its first test flight program. It successfully logs 25 flights and 115 flight hours, twice the number of flight hours than planned. The Pratt & Whitney PurePower PW1500G engine's advanced gear system and all-new core will deliver double-digit improvements in fuel efficiency, environmental emissions and noise. A total of eight engines will be tested prior to engine certification.

APRIL 2012

GETTING IT RIGHT ON THE GROUND

The first set of systems tests and simulations begins on the systems integration rig known as 'Aircraft 0' at our facility in Mirabel. Progressive commissioning of systems on Aircraft 0 allows us to ensure aircraft testing and validation on the ground prior to first flight. Initial test data confirm that the *CSeries* development program is on track to reach key performance targets. Approximately 85% of the *CSeries* jet systems will be tested on Aircraft 0.

JUNE 2012

CS300: ANOTHER WINNER TAKES SHAPE

We check off another *CSeries* milestone by completing the initial design phase with suppliers. The larger of our two narrowbody, medium-range jet airliners accommodates layouts of 120 to 145 seats. Given the *CS300* aircraft's heavier weight, differences compared to the *CS100* include a reinforced centre wing box, mid-fuselage, wing and landing gear. The wing configuration and all other systems are the same on both jets. The *CS300* is scheduled to enter into service at the end of 2014.

AUGUST 2012

ALL SYSTEMS GO

All main systems for the *CSeries* are commissioned and installed on Aircraft 0, our on-the-ground integrated systems test and certification rig at Mirabel. This includes the avionics, electrical, flight control, fly-by-wire, hydraulic, landing gear and wiring systems. With Aircraft 0 now operating in near-real conditions, we're ready to start the ground test phase and conduct virtual flights. This phase will build system maturity and drive towards optimal reliability for the first flight.

SEPTEMBER 2012

TESTING, TESTING

Assembly of the *CSeries* test airframe is progressing well at our Saint-Laurent facility in Québec. Once the fuselage, wings and empennage (tail stabilizers) have been joined, the stress tests will begin. The free-floating, non-restrained, counterbalanced airframe will undergo tests to simulate loads in flight and during take-off and landing. The Complete Airframe Static Test (CAST) will demonstrate the airframe's static strength as well as compliance with certification requirements.

OCTOBER 2012

FIRST FLIGHT TEST VEHICLE

The cockpit and all fuselage sections for the first *CSeries* flight test vehicle (FTV1) arrive at Mirabel, the aircraft's production site. Assembly of the FTV1 is now under way. The *CSeries* mainliners will be manufactured at our Mirabel facility using a fully automated moving line and the latest lean manufacturing principles. The FTV1, Aircraft 0 and CAST are all key elements in the testing and development of *CSeries* aircraft.

DECEMBER 2012

ASSEMBLY PROGRESSING WELL

Newly arrived from our Belfast facility, the wings for the first *CSeries* FTV1 are being mated to the fuselage. Assembly of FTV1 is progressing well in preparation for first flight by the end of June 2013. The CAST, an aircraft used for ground testing only, is also now fully assembled. The next step is to finalize the instrumentation and loading system for the start of CAST airframe tests in early 2013.

TRANSPORTATION

STEPPING AHEAD IN SMART MOBILITY

STEP BY STEP ...

we're adding to our portfolio of category-leading and cost-optimized transit technology solutions.

The *FLEXITY* 2 tram combines proven features and innovation in a single vehicle setting the highest standard in comfort and sustainability.

PRIMOVE equipped electric vehicles use fast inductive opportunity charging, providing a competitive clean alternative to conventional vehicles.

The V300ZEFIRO very high speed train, ordered by Italian operator Trenitalia, is designed for cross-border operation thanks to its multi-voltage technology.

The *OMNEO* regional train is equipped with *ECO4* technologies, significantly reducing energy consumption and lifecycle costs for France's national railway company SNCF.

The *CITYFLO* 650 communication-based train control system is being installed on over 40% of the London Underground without interruption to service.

COUNTRY BY COUNTRY ...

we're expanding our local presence and partnerships to capture new opportunities.

Our new Hortolândia monorail production site signals that we're in Brazil to stay. Localizing our supply chain is key to growth in this dynamic rail market.

Several joint ventures in China, including a recent strategic alliance to repair and maintain mass transit vehicles, put us well ahead of our competitors.

Our strategic partnership with signalling equipment manufacturer Elteza, a subsidiary of Russian Railways (RZD), strengthens our position as a key player in the promising signalling market.

MILE BY MILE ...

we're setting the standard for interconnected mobility products and services.

MOVING LONDON DURING THE 2012 OLYMPICS

During the highly successful Olympic Games, our vehicles and maintenance crews, who worked around the clock, helped London's transport system break a few records of its own in passenger numbers. Months of planning and applying lean principles set the stage for flawless execution and up to 100% fleet availability. At our Olympics Operations Management Centre, our award-winning *ORBITA* diagnostic technology enabled us to proactively identify maintenance issues before they impacted service. An Olympian team effort and world-class performance by all!

HIGH SPEED STEPS FOR TRANSPORTATION

The *ZEFIRO* 380 is the flagship of our *ZEFIRO* high speed train platform. It embodies The Evolution of Mobility by setting the benchmark for clean speed and climate-friendly long-distance travel. Its leading-edge technologies and unmatched aerodynamics drive down energy consumption and operating costs. Delivering one of the world's fastest very high speed trains—up to 380 kilometres per hour—the *ZEFIRO* platform may just be the 'fastest way to save the planet.'

ZEFIRO 380: THE FUTURE OF RAIL TRAVEL, COMING TO TRACKS AT A VERY HIGH SPEED.

ZEFIRO 380 | STEP BY STEP

JULY 2005

COMMITTING TO VERY HIGH SPEED

As populations grow, cities expand and incomes rise worldwide, the need for smart, seamless public transport is escalating. High speed rail solutions are key to the future of sustainable mobility yet they remain largely unchanged from products of the last century. That's why we're building on our 20 years of experience in high speed rail. We're investing in the R&D and people needed to develop a groundbreaking very high speed platform called *ZEFIRO*.

FEBRUARY 2006

A UNIQUE TRAIN TAKES SHAPE

We join forces with Zagato, a world-renowned Italian automotive design company, to begin shaping the globe's most advanced very high speed rail vehicle. Engineers from our Hennigsdorf design centre in Germany are leading the one-year detailed design phase. The objective is to push the envelope with breakthroughs in aerodynamics, aeroacoustics, aesthetics, functionality, interior comfort and future adaptability.

FEBRUARY 2007

SEIZING THE OPPORTUNITY

We establish a dedicated very high speed *ZEFIRO* team to capture opportunities in the fast-growing high speed and very high speed rail segments. Several countries will launch major very high speed projects in the coming years including China, Italy, Germany, France and Portugal. The *ZEFIRO* team will focus on winning these projects and on maximizing synergies across the tenders.

SEPTEMBER 2009

CHINA CHOOSES ZEFIRO

We receive the very first order for our *ZEFIRO* platform. The Chinese Ministry of Railways (MOR) selects our Chinese joint venture, Bombardier Sifang (Qingdao) Transportation Ltd., to supply *ZEFIRO* 380 very high speed trains. The *ZEFIRO* 380 trainsets will form an integral part of the country's rapidly growing high speed rail network. China plans to build more than 6,000 kilometres of new high speed lines, creating one of the world's most advanced high speed rail systems.

SEPTEMBER 2010

CHEERS IN ITALY

Following our success in China, we sign our first *ZEFIRO* contract in Europe. The Italian railway operator Trenitalia orders 50 very high speed V300ZEFIRO trainsets consisting of 400 cars. Developed with a strategic partner and reaching speeds of up to 360 kilometres per hour, the V300ZEFIRO is the newest member of our *ZEFIRO* family. Its multi-voltage technology enables operation in up to eight European high speed rail networks including France, Germany and the Netherlands.

SEPTEMBER 2010

UNVEILING AT INNOTRANS

At InnoTrans 2010 in Germany, we exhibit the first full-scale mock-up of the *ZEFIRO* 380 cab-car. Complete with 3D interior displays, the mock-up gives visitors a sneak preview of a new sense of speed. The *ZEFIRO* 380 will be the world's fastest, highest capacity and most economical, eco-friendly very high speed train in commercial operation. Two years later at InnoTrans, we will showcase a full-scale mock-up of Italy's streamlined V300ZEFIRO.

JULY 2011

DO IT RIGHT THE FIRST TIME

Our *ZEFIRO* 380 project team achieves the rail industry's first implementation of an 'Iron Bird' testing concept. Borrowed from the aerospace sector, the Iron Bird framework is a dramatically new way of performing integrated tests on trains. The giant puzzle of hardware and software will allow us to put the Iron Bird *ZEFIRO* through a series of stress tests at our Hennigsdorf facility in Germany. We'll be able to identify issues prior to track testing in China, minimizing risks and saving time and money.

APRIL 2012

POWERING UP

We inaugurate the *MITRAC* Powerlab in Sweden. The world's only facility of its kind, the lab combines functional and electrical testing and certification. We're using it to test and commission the *MITRAC* propulsion systems for China's *ZEFIRO* 380 and Italy's V300ZEFIRO trains. We'll also perform additional tests to ensure the systems meet international standards for noise abatement, electromagnetic compatibility and energy efficiency. The lab is certified to strict ISO 17025 requirements.

JULY 2012

ADVANCED BOGIES, FASTER SPEEDS

We successfully complete seven weeks of roller rig tests on our advanced *FLEXX* Speed motor bogies. Bogies are the most safety critical component in a train. The *FLEXX* Speed bogie will enable high acceleration on winding routes for faster travel times on the *ZEFIRO* 380. In rig tests, the bogies reached a maximum speed of 483 kilometres per hour and covered 5,770 kilometres. Next steps include test runs on the Beijing loop and extensive mainline testing in China.

SEPTEMBER 2012

NEW ZEFIRO 250NG TRAIN FOR CHINA

We add a new member to the *ZEFIRO* family—the *ZEFIRO* 250NG high speed train. It incorporates numerous technological advances including an aluminum carbody to reduce weight and ensure passenger comfort at high speeds. China is the launch customer, ordering 60 *ZEFIRO* 250NG trains to meet future demand. The *ZEFIRO* family will play a crucial role in creating an interconnected transport system that eases congestion and boosts interregional economic growth in China.

OCTOBER 2012

AWARD-WINNING DESIGN

The *ZEFIRO* 380 earns the German Design Award 2013 for the top product design in transportation. This marks its third major design award. The world's most technologically advanced very high speed train previously won the German iF Product Design Award and the 2011 Good Design Award in transportation. The latter is the most prestigious global award for new product design. The train's distinctive appearance sets new standards for sustainable transportation, aesthetic quality and passenger comfort.

DECEMBER 2012

FULL SPEED AHEAD

ZEFIRO 380 high speed test runs pick up momentum on service tracks in China. Over the next year, "the world's most superb train" as some are calling the *ZEFIRO* 380, will run 600,000 test kilometres under the supervision of the Chinese Ministry of Railways (MOR). The goal is to achieve the perfect interaction of state-of-the-art propulsion, aerodynamic performance and technology, not to mention safety, before the *ZEFIRO* 380 pulls out of the station.

OUR BOARD OF DIRECTORS

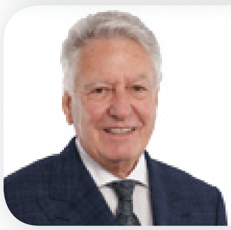
IN STEP WITH GOVERNANCE

LAURENT BEAUDOIN, C.C., FCPA, FCA
Chairman of the Board of Directors • Bombardier Inc. • Westmount, Canada • Director since 1975
Not independent
Mr. Laurent Beaudoin began his career with Bombardier in 1963. Over the years, he has received many honours including Canada's Outstanding CEO of the Year and Canada's International Executive of the Year. He is Chairman of BRP and of FIRST Robotics Québec, which he co-founded.

PIERRE BEAUDOIN
President and Chief Executive Officer • Bombardier Inc. • Westmount, Canada • Director since 2004
Not independent
Mr. Pierre Beaudoin joined Bombardier in 1985, rising through management positions of increasing responsibility before becoming President and COO of Bombardier Recreational Products, President of Bombardier Business Aircraft, and President and COO of Bombardier Aerospace. He is a member of the Boards of Directors of Power Corporation of Canada and of BRP.

ANDRÉ BÉRARD
Corporate Director • Montréal, Canada • Director since 2004 • Lead Director since 2007
Independent
Mr. André Bérard was Chairman of the Board of National Bank of Canada from 2002 to 2004. He previously served as the Bank's President and COO (1986 to 1989), President and CEO (1989), and Chairman of the Board and CEO (1990 to 2002). He also serves on other boards.

JOANNE BISSONNETTE
Corporate Director • Outremont, Canada • Director since 2012
Not independent
Mrs. Joanne Bissonnette is a Corporate Director for various private entities.



J.R. ANDRÉ BOMBARDIER
Vice Chairman of the Board of Directors • Bombardier Inc. • Montréal, Canada • Director since 1975
Not independent
Mr. J.R. André Bombardier joined Bombardier in 1969 as Vice President, Industrial Division. He held several positions before assuming the Vice Chairmanship of Bombardier Inc. in 1978. He is a member of the Board of Directors of BRP.

MARTHA FINN BROOKS
Corporate Director • Atlanta, United States • Director since 2009
Independent
Mrs. Martha Finn Brooks was until May 2009 President and COO of Novelis Inc., a global aluminum rolling company spun off by Alcan Inc. in 2005. Prior to the spinoff, she served as President and CEO of Alcan Rolled Products, Americas and Asia. She also serves on other boards.

L. DENIS DESAUTELS, O.C., FCPA, FCA
Corporate Director • Ottawa, Canada • Director since 2003
Independent
Auditor General of Canada from 1991 to 2001, Mr. L. Denis Desautels was previously a senior partner in the Montréal office of Ernst & Young, where he worked for 27 years. He was Chairman of the Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants (2010 to 2012). He also serves on other boards.

THIERRY DESMAREST
Honorary Chairman and member of the Board of Directors • Total S.A. • Paris, France • Director since 2009
Independent
Mr. Thierry Desmarest has been Honorary Chairman and a member of the Board of Total since May 2010, after having served as Chairman since 2007. He has held various senior management positions at Total since joining the company in 1981, ultimately becoming its Chairman and Chief Executive Officer. He also serves on the boards of other companies.

JEAN-LOUIS FONTAINE
Vice Chairman of the Board of Directors • Bombardier Inc. • Westmount, Canada • Director since 1975
Not independent
Mr. Jean-Louis Fontaine joined Bombardier in 1964 as Vice President, Production, Ski-Doo division. He subsequently held various senior management positions before becoming Vice Chairman of Bombardier Inc. in 1988. He also serves on the board of Héroux-Devtek Inc.

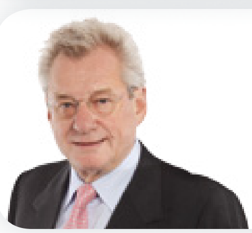
SHEILA FRASER, FCPA, FCA
Corporate Director • Ottawa, Canada • Director since 2012
Independent
Auditor General of Canada from 2001 to 2011 and Deputy Auditor General from 1999 to 2001, Ms. Sheila Fraser was previously a partner at Ernst & Young, where she worked for 18 years in the Québec City office. She serves as a public member of the International Federation of Accountants. She also serves on other boards.

DANIEL JOHNSON
Counsel • McCarthy Tétrault LLP • Montréal, Canada • Director since 1999
Independent
A former Premier of the Province of Québec, Mr. Daniel Johnson was a member of the National Assembly of Québec for more than 17 years and held numerous positions in the Québec government. He also serves on the boards of the Bank of Canada and other companies.

JEAN C. MONTY
Corporate Director • Montréal, Canada • Director since 1998
Independent
Former Chairman of the Board and Chief Executive Officer of Bell Canada Enterprises (BCE Inc.), Mr. Jean C. Monty retired following a 28-year career at BCE Inc., Bell Canada and Nortel Networks. In recognition of his achievements, he was named Canada's Outstanding CEO of the Year in 1997. He also serves on other boards.

CARLOS E. REPRESAS
Corporate Director • Mexico City, Mexico • Director since 2004
Independent
Mr. Carlos E. Represas was Chairman of Nestlé Group México from 1983 to 2010. In 2004, he retired from his executive responsibilities at Nestlé, where he had worked for 36 years in seven different countries. He serves on other boards and is a member of the Latin American Business Council (CEAL).

JEAN-PIERRE ROSSO
Chairman • World Economic Forum USA Inc. • New York City, United States • Director since 2006
Independent
Retired Chairman and former CEO of CNH Global N.V., Mr. Jean-Pierre Rosso also served as Chairman and CEO of Case Corporation. Prior to that, he was President of Honeywell's Home & Building Control Business and President of its European operations.



HEINRICH WEISS
Chairman and Chief Executive Officer • SMS Holding GmbH • Düsseldorf, Germany • Director since 2005
Independent
Dr. Heinrich Weiss is Chairman of the Foreign Trade Advisory Council to the Secretary of Economics and Technologies of Germany. He is a board member of the Asia Pacific Committee of German Business and sits on the board of the East-West Trade Committee. He also serves on other boards.

You will find detailed biographies of our Directors on our website at bombardier.com and in the 2013 Management Proxy Circular.

THE J. ARMAND BOMBARDIER FOUNDATION

ONE STEP CLOSER

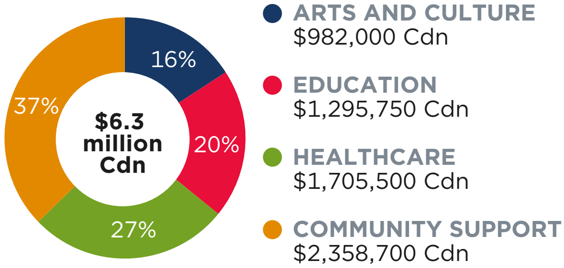
Philanthropy stems from a strong desire to change the world. At our Foundation, we know that we don't have all the answers. But we do believe that every organization we support takes us one step closer to a better world.

We invest in our partners' ability to develop creative, practical and long-term solutions to enhance peoples' dignity and capabilities. Our partnerships are focused on transforming society and on finding innovative ways to make a lasting difference.

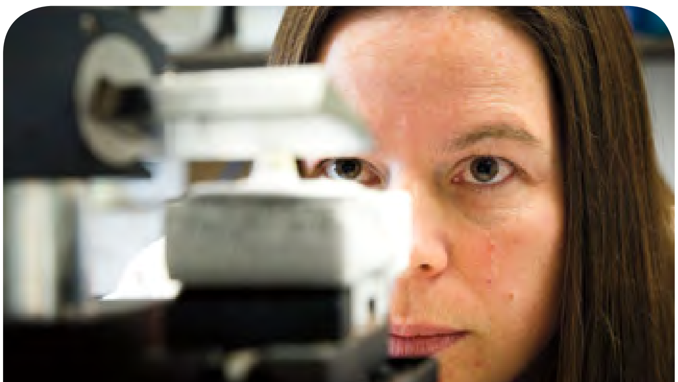
THE J. ARMAND BOMBARDIER FOUNDATION DONATIONS BY SECTOR

(year ended December 31, 2012)

In 2012, the J. Armand Bombardier Foundation donated more than $6.3 million Cdn. It also pledged more than $11.6 million Cdn over the next nine years. As part of its commitment to corporate social responsibility, Bombardier donated more than $7.2 million to the Foundation in 2012, and an additional $6.3 million to community organizations worldwide.



FIGHTING CANADA'S NEXT HEALTH CRISIS



Isabelle Aubert, Senior Scientist at Sunnybrook Research Institute, became intrigued by the brain's mysteries while working in a seniors' home as a girl. Watching her grandmother age deepened her curiosity about what happens in the brain that causes dementia.

As part of our collaborative philanthropy, we actively share knowledge, ideas and best practices to help non-profit organizations build their autonomy. Two researchers at Toronto's Sunnybrook Research Institute (SRI) are also focused on autonomy. They're leading the fight against dementia, Canada's next health epidemic.

SRI's Isabelle Aubert and Kullervo Hynynen, head of SRI's Centre for Research in Image-Guided Therapeutics, are dedicated to preventing and delaying the onset of dementia. They're discovering new treatments to slow its progression and enable patients to live independently and symptom-free longer.

The brain poses unique challenges that can inhibit the effectiveness of new drug therapies. Our grant equipped these researchers with advanced technology to help uncover ways to deliver innovative medications to brains that are developing dementia.

REDISTRIBUTING FOOD, BUILDING CULINARY AUTONOMY

Jean-François Archambault, General Manager and Founder of The Chef Table, brings his trademark passion for cooking to the fight against hunger and food bank dependency. He mobilizes caterers and chefs alike to recover and redistribute food to those in need.

Access to adequate food is essential for human dignity. An innovative Montréal-based organization is tackling the root of hunger in our cities: unequal food distribution. The Chef Table recovers unused food from hotels, restaurants and institutional donors for redistribution through food banks to low-income people. It also engages chefs in preparing meals for food banks and in delivering culinary workshops to reduce food-bank dependency among disadvantaged youth.

Our support enables The Chef Table to promote its sustainable food brokerage service and expand its reach. Today it provides meals to more than 300,000 individuals in the Canadian cities of Montréal, Québec, Calgary and Vancouver. In 2013, the service will be up and running in Mexico where food security is an issue for 49 million inhabitants.

TOWARDS A NEW GENERATION OF AIRCRAFT

Green aircraft of the future will have little in common with today's planes. Achieving this step change in aircraft design will require radically new tools and thinking. That's where the IDEA Industrial Research Chair comes in.

Sustainable mobility calls for planes that are greener, faster, quieter and more economical to operate. Innovative technologies are needed to drive the design of these next-generation aircraft. That's why we're co-funding the Industrial Research Chair in Integrated Design toward Efficient Aircraft (IDEA) at École Polytechnique of Montréal. Our support of this leading engineering school dates back to 1967.

The IDEA Chair explores the radical aircraft configuration changes required to overcome the current obstacles to further performance improvements. It develops and validates the next generation of integrated design tools and methodologies applicable to future green aircraft. Among other objectives, researchers seek to optimize synergies between aircraft aerodynamics and engines. Chair partners include Pratt & Whitney and the Natural Sciences and Engineering Research Council of Canada (NSERC).

BOMBARDIER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The data presented in this MD&A is structured by manufacturing segment: BA and BT, and then by market segment, which is reflective of our organizational structure. The results of operations for the fourth quarters are not necessarily indicative of the results of operations for the full fiscal year. The fourth quarter has historically been the strongest in terms of revenues and profitability. Comparative figures for periods before the Corporation's transition to IFRS (February 1, 2010) have not been restated in accordance with IFRS. When such previous Canadian GAAP financial measures are presented, a legend has also been added for the benefit of the readers.

As a result of our change of year end effective December 31, 2011, the fourth quarter ended December 31, 2011 comprises two months of BA's results and three months of BT's results and the fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

Non-GAAP and pro forma measures

This MD&A contains both IFRS and non-GAAP measures, with certain measures also presented on a pro forma basis to reflect the impact of our January 2013 debt issuance. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure (see the Non-GAAP financial measures section in Overview).

Materiality for disclosures

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

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

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

Term	Description	Term	Description
AFS	Available for sale	GDP	Gross domestic product
AOCI	Accumulated other comprehensive income	HFT	Held for trading
BA	Bombardier Aerospace	IAS	International Accounting Standard(s)
BT	Bombardier Transportation	IASB	International Accounting Standards Board
CCTD	Cumulative currency translation difference	IFRIC	International Financial Reporting Interpretation Committee
CGU	Cash generating unit		
CIS	Commonwealth of Independent States	IFRS	International Financial Reporting Standard(s)
DDHR	Derivative designated in a hedge relationship	L&R	Loans and receivables
DSU	Deferred share unit	MD&A	Management's discussion and analysis
EBIT	Earnings before financing expense, financing income and income taxes	NCI	Non-controlling interests
		OCI	Other comprehensive income
EBITDA	Earnings before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	PP&E	Property, plant and equipment
		PSU	Performance share unit
		R&D	Research and development
EBT	Earnings (loss) before income taxes	RVG	Residual value guarantee
EPS	Earnings per share attributable to equity holders of Bombardier Inc.	SG&A	Selling, general and administrative
		SPE	Special purpose entity
FVTP&L	Fair value through profit and loss	U.K.	United Kingdom
GAAP	Generally accepted accounting principles	U.S.	United States of America

OVERVIEW

OVERVIEW OF ACTIVITIES

We are the world's only manufacturer of both planes and trains, operating under two broad segments: aerospace through BA and rail transportation through BT. Looking far ahead while delivering today, we are evolving mobility worldwide by answering the call for more efficient, sustainable and enjoyable transportation everywhere. Our products, services, and most of all our employees, are what make us a global leader in transportation.

BA is a world leader in the design, manufacture and support of innovative aviation products for the business, commercial, specialized and amphibious aircraft markets.		**BT is a world leader in the design, manufacture and support of rail equipment and systems.**	
Revenues	**$8.6 billion**	Revenues	**$8.1 billion**
EBIT	**$405 million**	EBIT	**$290 million**
EBIT before special items[1]	**$382 million**	EBIT before special items[1]	**$453 million**
Free cash flow[1]	**($867) million**	Free cash flow[1]	**$386 million**
Order backlog	**$32.9 billion**	Order backlog	**$33.7 billion**
Number of employees	**35,500**	Number of employees	**36,000**

Every day around the globe, our 71,700[2] dedicated employees work diligently to earn our worldwide leadership in aerospace and rail transportation. As at the date of this report, we have 80 production and engineering sites in 26 countries, and a worldwide network of service centres.

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Consolidated results of operations sections for definitions.
[2] Includes 200 employees at our corporate office in Canada.

KEY PERFORMANCE MEASURES AND METRICS

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

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Order backlog, as measures of future revenues. • Book-to-bill ratios(1), as indicators of future revenues. • Revenues and delivery units, as measures of growth. • Market share or position, as measures of competitive positioning.
Profitability	• Diluted EPS and Adjusted EPS(2), as measures of global performance. • EBIT, EBIT margin, EBIT before special items(2) and EBIT margin before special items(2), as measures of segment performance.
Liquidity	• Free cash flow(2), as a measure of liquidity generation. • Available short-term capital resources(3), as a measure of liquidity adequacy.
Customer satisfaction	• Various customer satisfaction measures, as a measure of our commitment to customers and the reliability of our products.
Execution	• Achievement of product development milestones, as a measure of flawless execution. • Achievement of engagement and enablement targets, as a measure of employee engagement and motivation.
Capital structure	• Adjusted EBIT(2) to adjusted interest(2) ratio, as a measure of interest coverage. • Adjusted debt(2) to adjusted EBITDA(2) ratio, as a measure of financial leverage • Weighted-average long-term debt maturity, as a measure of the term structure.

In 2012, our employee incentive-based compensation was linked to the achievement of targeted results, based on EBIT, free cash flow before interest and income taxes, levels of inventories, customer satisfaction-related metrics, execution according to plan in our new product development programs and diluted EPS.

Five-year summary

	IFRS			Canadian GAAP	
For the fiscal years ended and as at	**December 31 2012**	December 31 2011 (4)	January 31 2011	January 31 2010	January 31 2009
Revenues	**$ 16,768**	$ 18,347	$ 17,892	$ 19,366	$ 19,721
Order backlog (in billions of dollars)(5)	**$ 66.6**	$ 55.8	$ 53.9	$ 43.8	$ 48.2
EBIT	**$ 695**	$ 1,202	$ 1,205	$ 1,098	$ 1,429
EBIT margin	**4.1%**	6.6%	6.7%	5.7%	7.2%
EBIT before special items(2)	**$ 835**	$ 1,202	$ 1,205	$ 1,098	$ 1,429
EBIT margin before special items(2)	**5.0%**	6.6%	6.7%	5.7%	7.2%
Effective income tax rate	**14.3%**	19.5%	22.3%	22.7%	20.5%
Net income	**$ 598**	$ 837	$ 775	$ 707	$ 1,026
Adjusted net income(2)	**$ 692**	$ 865	$ 785	n/a	n/a
Diluted EPS (in dollars)	**$ 0.32**	$ 0.47	$ 0.42	$ 0.39	$ 0.56
Adjusted EPS (in dollars)(2)	**$ 0.38**	$ 0.48	$ 0.43	n/a	n/a
Free cash flow (usage)(2)	**$ (741)**	$ (1,232)	$ 567	$ (215)	$ 342
Available short-term capital resources(6)	**$ 4,306**	$ 4,122	$ 4,695	$ 3,872	$ 3,470
Interest coverage ratio(6)	**3.3**	4.7	5.0	n/a	n/a
Financial leverage ratio(6)	**4.1**	3.2	3.1	n/a	n/a
Weighted-average long-term debt maturity (in years)(6)	**7.4**	8.0	8.9	6.5	7.5

(1) Refer to the respective Key performance measures and metrics sections in BA and BT for definitions of this metric.
(2) Non-GAAP financial measure. Refer to the Non-GAAP financial measures and Consolidated results of operations sections for definitions of these metrics. Refer to the Consolidated results of operations, Liquidity and capital resources and Non-GAAP financial measures sections for reconciliations to the most comparable IFRS measures.
(3) Defined as cash and cash equivalents plus the amount available under the revolving credit facilities.
(4) Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(5) The total order backlog as at December 31, 2012, December 31, 2011 and January 31, 2011 include BA's order backlog for long-term maintenance and spares support agreements.
(6) As at December 31, 2012 on a pro forma basis giving effect to our January 2013 debt issuance: available short-term capital resources of $6.3 billion, interest coverage ratio of 2.4, financial leverage ratio of 5.5 and weighted-average long-term debt maturity of 7.4 years.
n/a: Not applicable.

HIGHLIGHTS OF THE YEAR

Record level of order backlog and continued investment in our future

REVENUES	ADJUSTED NET INCOME[1]	ADJUSTED EPS[1]	FREE CASH FLOW[1]	ORDER BACKLOG
$16.8 billion	**$692 million**	**$0.38**	**($741) million**	**$66.6 billion**

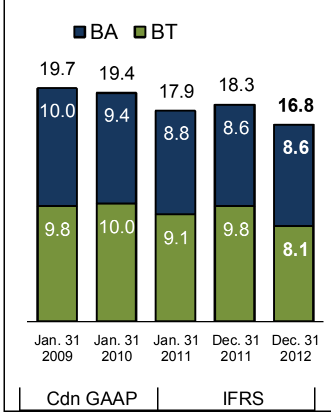
RESULTS

- Revenues of $16.8 billion, compared to $18.3 billion last fiscal year[2].
- EBIT before special items[1] of $835 million, or 5.0% of revenues, compared to $1.2 billion, or 6.6%, last fiscal year[2].
- Adjusted net income[1] of $692 million (adjusted EPS[1] of $0.38), compared to $865 million (adjusted EPS of $0.48) last fiscal year[2].
- Investment of $2.1 billion in PP&E and intangible assets, compared to $1.5 billion last fiscal year[2].
- Free cash flow usage[1] of $741 million, compared to a free cash flow usage of $1.2 billion last fiscal year[2].
- Available short-term capital resources of $4.3 billion as at December 31, 2012, including cash and cash equivalents of $2.9 billion, compared to $4.1 billion and $3.4 billion, respectively, as at December 31, 2011. Available short-term capital resources of $6.3 billion as at December 31, 2012 on a pro forma basis giving effect to our January 2013 debt issuance.
- Record level order backlog of $66.6 billion as at December 31, 2012, compared to $55.8 billion as at December 31, 2011.

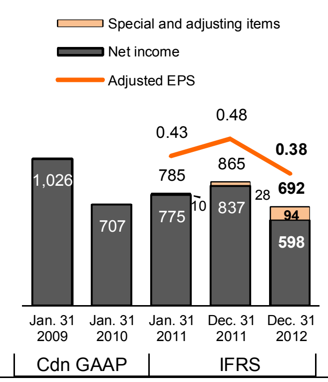
KEY EVENTS

- We increased our financial flexibility by:
  - issuing, subsequent to the end of the fiscal year, an aggregate of $2.0 billion of unsecured Senior Notes, at par, $750 million due in January 2016 and $1.25 billion due in January 2023;
  - issuing $500 million of 5.75% unsecured Senior Notes, at par, due in March 2022; and
  - entering into a new unsecured €500-million revolving credit facility ($660 million) available to BT for cash drawings.
- BA and BT signed several significant contracts, bringing the December 31, 2012 order backlog in both groups to record levels. Refer to BA and BT sections for details of these contracts and other key initiative.
- First flight of the CS100 aircraft is scheduled to occur by the end of June 2013, with entry-into-service expected approximately one year after first flight.

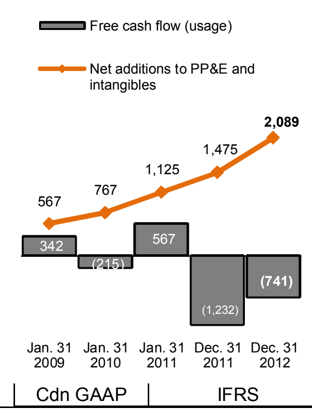
REVENUES[2][3]
(for the fiscal years ended;
in billions of dollars)



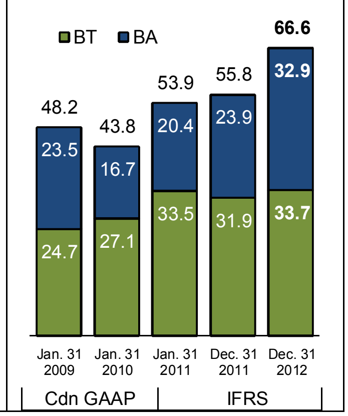
ADJUSTED NET INCOME AND ADJUSTED EPS[1][2][4]
(for the fiscal years ended;
in millions of dollars, except per share amounts)



FREE CASH FLOW[1][2]
(for the fiscal years ended;
in millions of dollars)



ORDER BACKLOG
(as at; in billions of dollars)



(1) Non-GAAP financial measure. Refer to the Non-GAAP financial measures and Consolidated results of operations sections for definitions of these metrics. Refer to the Consolidated results of operations section and Liquidity and capital resources for reconciliations to the most comparable IFRS measures.
(2) Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(3) Some totals do not agree due to rounding.
(4) Adjusted EPS and adjusted net income measures are not available for fiscal years ended January 31, 2010 and 2009.

Comparative figures presented in this MD&A for periods and dates prior to our February 1, 2010 transition date to IFRS, have not been restated upon our adoption of IFRS and are presented as prepared under previous Canadian GAAP. Consequently, this information is not entirely comparable.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

Summary of BA and BT guidance for 2013 and thereafter

	Profitability	Liquidity	Deliveries/ Growth and order intake
BA[1]	Maintain EBIT margin in fiscal year 2013 at approximately the same level as EBIT margin in fiscal year 2012. We expect to achieve an EBIT margin in fiscal year 2014 of approximately 6%, after an anticipated 2% dilutive impact on the EBIT margin from the entry-into-service of the *CSeries* aircraft.	Cash flows from operating activities of approximately $1.4 billion, while net additions to PP&E and intangible assets are expected to be approximately $2.0 billion in fiscal year 2013. The level of net additions to PP&E and intangible assets is expected to decrease in 2014 by approximately $500 million and in 2015 by approximately another $500 million.	Deliveries of approximately 190 business aircraft and 55 commercial aircraft in fiscal year 2013.
BT[1]	We have extended the target date, to achieve an EBIT margin of 8% by 2014.	Maintain free cash flow[2] generally in line with EBIT, although it may vary significantly from quarter to quarter.	Excluding currency impacts, revenues in 2013 are expected to be higher than in 2012, with percentage growth in the high single digits. Maintain a book-to-bill ratio around 1.0, in line with market evolution.

Review of corporate guidance for fiscal year 2012

	What we said	What we did[3]
Revenues	During the second quarter of fiscal year 2012, we announced that, excluding currency impacts, we anticipated revenues for the fiscal year ending December 31, 2012 to be in line with the previous year's revenues of $18 billion.	Revenues of $17.2 billion, excluding a negative currency impact of $433 million, for the fiscal year ended December 31, 2012.
Free cash flow[2]	During the third quarter of fiscal year 2012, we announced that the Corporation's consolidated free cash flow usage[2] was anticipated to be approximately $500 million for the fiscal year ending December 31, 2012.	Consolidated free cash flow usage[2] of $741 million.

[1] Also see the Forward-looking statements sections in BA and BT.
[2] See the Non-GAAP financial measures section for a definition of this metric.
[3] See the Analysis of Results sections in BA and BT for detailed analyses of these results.

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, guidance, targets, goals, priorities, our market and strategies, financial position, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business outlook, prospects and trends of an industry; expected growth in demand for products and services; product development, including projected design, characteristics, capacity or performance; expected or scheduled entry-into-service of products and services, orders, deliveries, testing, lead times, certifications and project execution in general; our competitive position; and the expected impact of the legislative and regulatory environment and legal proceedings on our business and operations. Forward-looking statements generally can be identified by the use of forward looking terminology such as “may”, “will”, “expect”, “intend”, “anticipate”, “plan”, “foresee”, “believe”, “continue”, “maintain” or “align”, the negative of these terms, variations of them or similar terminology. By their nature, forward-looking statements require us to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. While we consider our assumptions to be reasonable and appropriate based on information currently available, there is a risk that they may not be accurate. For additional information with respect to the assumptions underlying the forward looking statements made in this MD&A, refer to the respective Guidance and forward-looking statements sections in BA and in BT.

Certain factors that could cause actual results to differ materially from those anticipated in the forward looking statements include risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry and major rail operators), operational risks (such as risks related to developing new products and services; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; to the environment; dependence on certain customers and suppliers; human resources; fixed-price commitments and production and project execution), financing risks (such as risks related to liquidity and access to capital markets, exposure to credit risk, certain restrictive debt covenants, financing support provided for the benefit of certain customers and reliance on government support) and market risks (such as risks related to foreign currency fluctuations, changing interest rates, decreases in residual values and increases in commodity prices). For more details, see the Risks and uncertainties section in Other. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

FINANCIAL PRIORITIES

To deliver on our growth strategies, we must maintain a strong financial discipline

PROFITABILITY	LIQUIDITY	CAPITAL STRUCTURE
Increase the level and consistency of profitability	Increase the level and consistency of cash flows from operating activities and ensure sufficient liquidity to meet capital requirements	Optimize the capital structure to reduce costs and improve our ability to seize strategic opportunities.

Our future profitability is closely linked to improved execution and successful rollout of our products

The difficult economic environment continues to affect certain of BA's market segments. BA achieved an EBIT margin before special items of 4.4% in fiscal year 2012, compared to 5.8% last fiscal year. In fiscal year 2013, BA expects to maintain a similar EBIT margin to that of 2012, in the context of a slightly better economic environment. BA also expects to achieve an EBIT margin in fiscal year 2014 of approximately 6%, after an anticipated 2% dilutive impact on EBIT margin from the entry-into-service ("EIS") of the *CSeries* aircraft.

Execution issues encountered in the fiscal year ended December 31, 2011 in some rolling stock contracts continued to put pressure on BT's profitability in fiscal year 2012. BT achieved an EBIT margin before special items of 5.6% in fiscal year 2012, compared to 7.2% last fiscal year. BT remains focused on achieving an EBIT margin of 8%[(1)], now expected to be achieved by 2014, a year later than originally anticipated.

Increasing the level and consistency of our profitability remains a key financial priority for us. Our significant investment in mobility solutions over the recent years and the approaching rollout of flagship products are intended to generate multi-year sustained growth. In the short term, reaching our financial targets will require both groups to continue improving their processes to ensure flawless execution. BT is implementing specific measures to resolve the current execution issues faced in certain large rolling stock contracts, for example, enhanced governance focused on critical projects. Refer also to the Risk management section for details on risk-mitigation measures initiated by management related to project execution risk.

We are leveraging our project management capabilities and focusing on efficient execution through the implementation of lean initiatives. Meanwhile, we continue to implement cost reduction programs in both groups and other punctual measures to improve our competitiveness, including the closure of a BT plant in Aachen and reduction of personnel worldwide. We also capitalize on our worldwide presence in both established and emerging markets to achieve cost savings. This presence provides us with tremendous opportunities to develop local partners and suppliers. Also refer to the respective Guidance status sections in BA and in BT where each group has provided a future guidance and an update on their prior guidance.

(1) See the Guidance and forward-looking statements sections in BA and in BT.

Increased financial flexibility as a result of our $2.0 billion debt issuance in January 2013

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

During fiscal year 2012, we entered into a new €500-million unsecured revolving credit facility. The facility matures in March 2015 and is available to BT for cash drawings. We also extended the maturity date of the $750-million unsecured revolving credit facility by one year to June 2015 and the BT and BA letter of credit facilities' availability periods for an additional year, to May 2015 and to June 2015, respectively. Refer to Credit facilities section for further details on these facilities.

Subsequent to year end, we took advantage of strong demand and good pricing conditions in the debt capital market in the U.S. to significantly increase our financial flexibility by issuing an aggregate of $2.0 billion in unsecured Senior Notes (described hereafter).

Our ongoing liability management initiatives (see the most recent initiatives described hereafter) allowed us over time to extend our debt maturity profile, with no significant debt maturing before the year 2016. We manage our liabilities by taking into consideration debt repayments, contributions to retirement benefit plans and other material cash outlays expected to occur in the future. Refer to the Retirement benefits section for details of our expected contributions to retirement benefit plans in fiscal year 2013. Depending on the aircraft program, we may receive funding from government and contributions from key suppliers, which increase our financing flexibility as they act as risk-sharing partners for certain projects.

As at December 31, 2012, our available short-term capital resources were $4.3 billion, or $6.3 billion on a pro forma basis including the January 2013 debt issuance. Refer to the Liquidity and capital resources section for further details on these resources. We also maintain various other facilities such as factoring and sale and leaseback facilities which also contribute to securing additional sources of liquidity.

Our level of capital expenditures is expected to gradually return to more normal levels after having reached a high point in our development spending in 2012. EIS dates for our most significant aircraft programs range from 2014 to 2017. BA's net additions to PP&E and intangible assets are expected to be approximately $2.0 billion in 2013 and to decrease by approximately $500 million in 2014 and by another approximately $500 million in 2015 as our products reach EIS (see table hereafter).

	For calendar years	2013	2014	2015	2016	2017
	Pro forma debt[1] maturity (in millions of dollars)	-	$162	-	$1,786	-
Program	**Launch date**					
Learjet 85	October 2007		EIS[2]			
CS100	July 2008		EIS[3]			
CS300	July 2008		EIS[3]			
Global 7000	September 2010				EIS	
Global 8000	September 2010					EIS

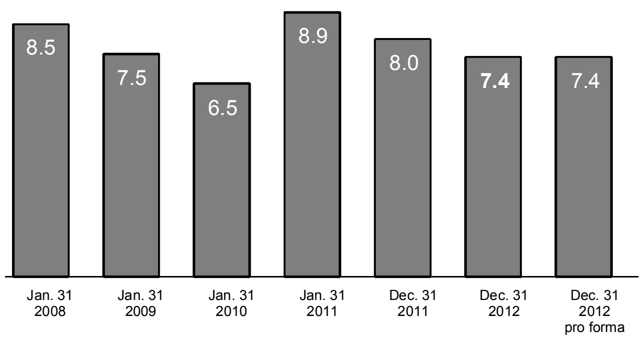
Investment in new products is expected to be funded through our cash flows from operating activities and our capital resources position. BA expects its free cash flow for fiscal year 2013 to be a usage of approximately $600 million[4]. Over the long term, BT expects its free cash flow to be generally in line with EBIT, although it may vary significantly from quarter to quarter[4].

(1) After giving effect to our January 2013 debt issue.
(2) The entry-into-service of the Learjet 85 aircraft program is now scheduled for summer 2014.
(3) See Analysis of results section in BA for more detail.
(4) See the Guidance and forward-looking statements sections in BA and in BT.

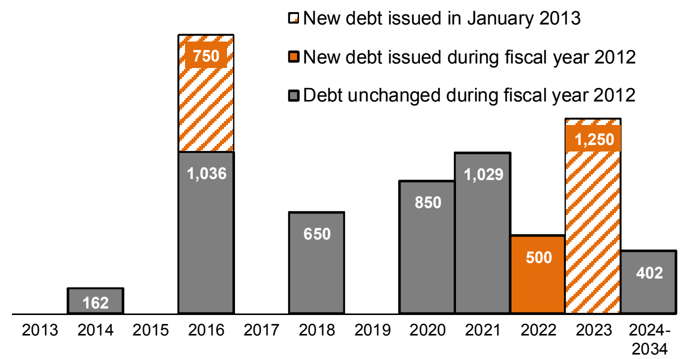
We are opportunistic when capital market conditions are advantageous

BA and BT require capital to develop industry-leading products and to seize strategic opportunities to maintain competiveness and execute growth strategies. We take advantage of favorable capital market conditions when they materialize to extend debt tenor, reduce cost of funds and increase diversity of capital resources.

WEIGHTED-AVERAGE LONG-TERM DEBT MATURITY
(as at; in years)



DEBT MATURITY PROFILE (NOTIONAL AMOUNT)
(for calendar years; in millions of dollars; on a pro forma basis)



During fiscal year 2012, we issued $500 million of 5.75% unsecured Senior Notes, at par, due in March 2022, of which $151 million was used to repay the 6.75% Notes that matured on May 1, 2012. As stated before, subsequent to the end of the fiscal year 2012, we issued, at par, an aggregate of $2.0 billion of new unsecured Senior Notes, comprised of $750 million of 4.25% Senior Notes due on January 15, 2016 and $1.25 billion of 6.125% Senior Notes due on January 15, 2023.

We are continuously monitoring our capital structure to ensure we have sufficient liquidity to fund our product development programs. Over the long term, it is our desire to improve our leverage metrics by de-leveraging the balance sheet with strategic long-term debt repayments, in line with active management of consolidated liquidity, weighted-average cost of capital and term structure.

Managing our net retirement benefit liability and the security of benefits is also a key part of our overall management of the capital structure. Over the years, we have taken several initiatives to mitigate risks that stem from both pension liabilities and assets and proactively sought opportunities to reduce our retirement benefit liabilities. Refer to the Retirement benefits section for details on the risk management initiatives related to our retirement plans.

We manage our creditworthiness using the global metrics as described in the Capital structure section. Our recent debt issuance is expected to have a temporary negative impact on our global metrics but we believe that the addition of liquidity in a relatively high investment period warrants the increased leverage. As a result of this increase in leverage, Standard & Poor's and Fitch lowered our credit rating from BB+ to BB, in line with Moody's Ba2.

Credit ratings

	Investment-grade rating	Bombardier Inc.'s rating	
		December 31, 2012	December 31, 2011
Fitch Ratings Ltd.	BBB-	**BB**	BB+
Moody's Investors Services	Baa3	**Ba2**	Ba2
Standard & Poor's Rating Services	BBB-	**BB**	BB+

We remain committed to improve our capital structure and to achieve an investment-grade status, thus improving our ability to seize strategic opportunities. We believe that we will be in a good position to improve our credit ratings as we progress towards our profitability targets and get beyond our peak capital expenditure period. An investment-grade rating would be beneficial as it would generally reduce the cost of financing, improve our access to capital markets and lower the amount and cost of the guarantees we provide under commercial contracts.

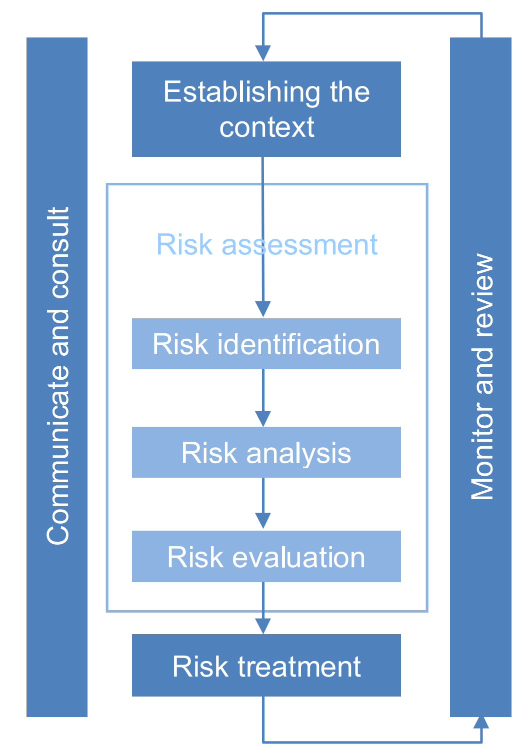
RISK MANAGEMENT

Active risk management has been one of our priorities for many years and is a key component of our corporate strategy framework.

Risk management is an integral part of how we plan and monitor our business strategies and results. To achieve our risk management objectives, we have embedded risk management activities in the operational responsibilities of management and made these activities an integral part of our overall governance, organizational and accountability structure.

In calendar year 2010, we introduced a Corporate Risk Management policy and a risk management framework based on the ISO 31000 standard. For each risk or category of risks, our risk management process includes activities performed in a continuous cycle. Each group is responsible for implementing the appropriate structures, processes and tools to allow proper identification of risks. Risk assessment, including risk identification, analysis and evaluation, ensures that each risk is analyzed to identify the consequence, velocity and likelihood of the risk occurring and the adequacy of existing controls. Once the risks have been identified and assessed, risk treatment identifies the actions to be implemented by management. The risk profile of the Corporation is dynamic and therefore subject to changes that must be monitored and reviewed on a continuous basis. For this reason, our risk management framework involves a continuous communication and consultation process.

Risk management framework



Source: ISO 31000 Standard.

Every year, our Corporate Audit Services and Risk Assessment (CASRA) team assess our major risks. Senior management reviews this risk assessment and develops action plans to address the identified risks. The Board of Directors is ultimately responsible for reviewing the overall risks faced by the Corporation. The Board exercises its duty through the Finance and Risk Management Committee, consisting of four independent Directors, which reviews our material financial risks and the measures that management takes to monitor, control and manage such risks, including the adequacy of policies, procedures and controls designed by management to assess and manage these risks.

Each group has implemented risk management processes that are embedded in our governance and activities to achieve the objectives of our Corporate Risk Management policy. To complement the annual CASRA review of our major risks, each group, in coordination with CASRA, has implemented a quarterly review process that results in standardized heat maps.

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

Our key risks and risk mitigation strategies

Our risk management practices address many risks (see the Risks and uncertainties section in Other for further details on these risks).

Key operational risks

Among the risks faced by the Corporation, we consider the following as the key current risks associated with the operations of BA and BT:

Key risks for BA		**Risk-mitigation measures initiated by management**
Product development initiatives	BA's success depends in part on its ability to deliver new aircraft programs into service according to planned entry-into-service dates and defined business case requirements.	We mitigate this risk through various means which include following a rigorous gated product development process, our Bombardier Engineering System. See Analysis of results section in BA for further details on risk-mitigation measures initiated by management.
Product demand	BA's success depends in part on its ability to secure sufficient orders to maintain critical mass, sustain aircraft platforms' competitiveness in their market segments and generate sufficient cash flows from operations to support existing products and programs under development.	We mitigate this risk through various means which include improving products, positioning our sale teams closer to our customers and deploying our Achieving Excellence System.
Key risks for BT		**Risk-mitigation measures initiated by management**
Product design and homologation and project execution	BT's performance depends in part on its ability to deliver complex projects often requiring the introduction of multiple new products or new technologies. The successful introduction of such new products and technologies in mature and fast-growing markets depends on BT's ability to design and/or homologate such technologies and products on time and within budgeted cost.	We mitigate these risks through various means which include 1) close design collaboration with our customers; 2) standardization of product development processes across BT divisions; 3) gate review processes to assure better consolidation and synchronization of project deliverables; and 4) continuous improvement through our Bombardier Operations System (BOS).
Product demand	BT's success depends in part on its ability to replenish its order backlog in its core markets and capture growth opportunities in fast-growing markets and new technologies.	We mitigate these risks by investing in mobility solutions and by building a strong presence in fast-growing markets.

Key financial and market related risks

Foreign currency fluctuations

Our main exposures to foreign currencies are managed in accordance with our Foreign Exchange Risk Management Policy, in order to mitigate the impact of foreign exchange movements. This policy requires each segment's management to identify all actual and potential foreign currency 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 policy requirements. In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching the long term debt in foreign currency with assets denominated in the same currency.

Foreign exchange management

Owner	Hedged exposures	Hedging policy[1]	Risk-mitigation strategies
BA	Forecasted cash outflows denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars and pounds sterling.	Hedge 85% of the identified exposures for the first three months, 75% for the next 15 months and up to 50% for the following six months.	Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars and pounds sterling.
BT	Forecasted cash inflows and outflows denominated in a currency other than the functional currency of the entity incurring the cash flows.	Hedge 100% of the identified exposures at the time of order intake.	Use of forward foreign exchange contracts, mainly to sell or purchase euros, U.S. dollars, Swiss francs, Canadian dollars, Swedish krona and other Western European currencies.
Corporate Office	Forecasted cash outflows other than interest, denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars.	Hedge 85% of the identified exposures for the first 18 months and up to 75% for the following six months.	Use of forward foreign exchange contracts mainly to sell U.S. dollars and buy Canadian dollars.
	Interest cash outflows in currencies other than the U. S. dollar, mainly the euro and the Canadian dollar.	Hedge 100% of the identified exposure unless the exposure is recognized as an economic hedge of an exposure arising from the translation of financial statements in foreign currencies to the U.S. dollar.	Use of cross currency interest-rate swaps and forward foreign exchange contracts mainly to sell U.S. dollars and buy euros and Canadian dollars.
	Balance sheet exposures, including long-term debt and net investments in foreign operations with non-U.S. dollar functional currencies.	Hedge 100% of the identified exposures affecting our results.	Asset/liability management techniques. Designation of long-term debt as hedges of our net investments in foreign operations with non-U.S. dollar functional currencies.

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

BA

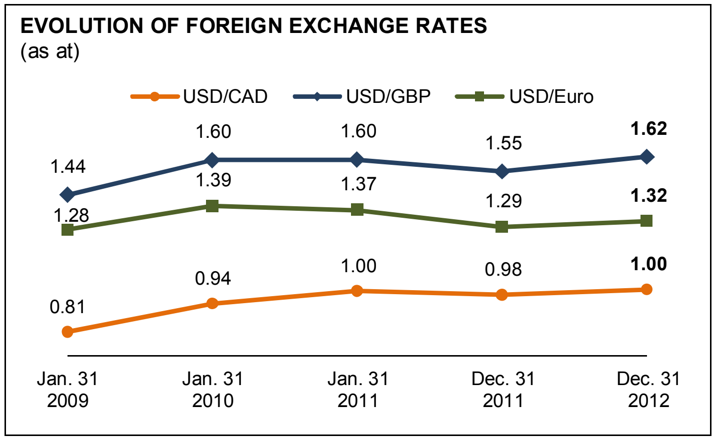
The hedged portion of BA's significant foreign currency denominated costs for the 12-month periods ending December 31, 2013 and 2014 was as follows as at December 31, 2012:

BA's significant expected costs denominated in foreign currencies

	Canadian dollars		Pounds sterling	
For the 12 month periods ending December 31	**2013**	**2014**	**2013**	**2014**
Expected costs denominated in foreign currency	$2,770	$3,114	£312	£321
Hedged portion of expected costs denominated in foreign currency	78%	34%	75%	30%
Weighted-average hedge rates – foreign currency/USD	0.9747	0.9737	1.5688	1.5707

Sensitivity analysis
A U.S. one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact BA's expected costs for the 12-month period ending December 31, 2013 by approximately $28 million before giving effect to forward foreign exchange contracts ($6 million impact after giving effect to such contracts).

A U.S. one-cent change in the value of the pound sterling compared to the U.S. dollar would impact BA's expected costs for the 12-month period ending December 31, 2013 by approximately $3 million before giving effect to forward foreign exchange contracts (impact of $1 million after giving effect to such contracts).



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

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

Sensitivity analysis
For our investments in foreign operations exposed to foreign currency movements, a 1% fluctuation of the relevant currencies as at December 31, 2012 would have impacted equity, before income taxes, by $15 million before giving effect to the related hedging items ($5 million after giving effect to the related hedging items).

Exposure to credit risk

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

Owner	Key risks	Risk mitigation measures initiated by management
Corporate Office	Through our normal treasury activities, we are exposed to credit risk on our derivative financial instruments and on our investing instruments.	Credit risks arising from our treasury activities are managed by a central treasury function in accordance with our Corporate Foreign Exchange Risk Management Policy and our Corporate Investment Management Policy. The objective of these policies is to minimize our exposure to credit risk from our treasury activities by ensuring that we transact strictly with investment-grade financial institutions and money market funds, based on pre-established consolidated counterparty risk limits per financial institution and fund. The Eurozone sovereign debt crisis in recent years has had a negative impact on many European banks. Our exposure to these banks, in the form of credit commitments, services provided and monies placed on deposit, has required us to monitor their relative abilities to withstand this sovereign debt crisis. We rank these banks, incorporating metrics such as bank and sovereign CDS, capital shortfalls and exposure to certain European sovereign states. We then compare our exposures to these banks and take corrective action, as necessary.

Owner	Key risks	Risk mitigation measures initiated by management
BA and BT	We are exposed to credit risk through our trade receivables arising from normal commercial activities and lending activities, related primarily to aircraft loans and lease receivables provided to BA customers in connection with the sale of commercial aircraft.	Credit risks arising from normal commercial activities and lending activities are managed and controlled by BA and BT. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and our experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customers' financial results and payment behaviour. These customer credit ratings and credit limits are critical inputs in determining the conditions under which credit or financing is extended to customers, including obtaining collateral to reduce our exposure to losses. Specific governance is in place to ensure that credit risks arising from large transactions are analyzed and approved by the appropriate level of management before financing or credit support is offered to the customer.

Exposure to liquidity risk

The management of exposure to liquidity risk requires a constant monitoring of expected cash inflows and outflows, which is achieved through maintenance of detailed forecasts of our cash flows and liquidity position, as well as long-term operating and strategic plans, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is continually monitored, taking into consideration historical volatility, the economic environment and seasonal needs, the maturity profile of indebtedness, access to capital markets, the level of customer advances, working capital requirements, the funding of product developments and our other financial commitments. We also monitor any financing opportunities to optimize our capital structure and maintain appropriate financial flexibility. Also refer to the Retirement benefits section for discussion of liquidity risks related to retirement benefits and our risk mitigation strategies.

Changing interest rates

Our future cash flows are exposed to fluctuations from changing interest rates, arising mainly from existing assets and liabilities at variable interest rates, including long-term debt synthetically converted to variable interest rates. From time to time, we may also be exposed to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer. 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 our central treasury function as part of our overall risk management policy, by matching assets and liability positions to align exposures, including the use of derivative financial instruments to synthetically convert interest-rate exposures, such as interest-rate swap agreements and cross currency interest-rate swap agreements.

We are also exposed to gains and losses arising from changes in interest rates, which include liquidity risk, through our financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, investments in securities, lease subsidies and certain derivative financial instruments.

In addition, we are economically exposed to gains and losses on some of our assets and liabilities as a result of changes in interest rates. The most significant on-balance sheet exposure arises from retirement benefits plans, for which there is a duration and nominal mismatch between the plans' assets and liabilities, as well as our credit and residual value guarantees and portfolio of aircraft loans and lease receivables. In recent years, risk reduction initiatives were implemented with regard to our pension plans. For more details on the risks and our risk reduction initiatives, refer to Retirement benefits section. Our exposure arising from credit and residual value guarantees is partially mitigated by offsetting positions from our portfolio of aircraft loans and lease receivables and other financial assets that are carried at fair value, such as our portfolio of investments.

Sensitivity analysis
Assuming a 100-basis point increase in interest rates impacting the measurement of assets and liabilities, with the exception of net retirement benefit liabilities, EBT would have been negatively impacted by $55 million for fiscal year ended December 31, 2012.

CONSOLIDATED RESULTS OF OPERATIONS

Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2012	2011 [1]	**2012**	2011 [1]
Revenues	**$ 4,755**	$ 4,316	**$ 16,768**	$ 18,347
Cost of sales	**4,129**	3,601	**14,269**	15,444
Gross margin	**626**	715	**2,499**	2,903
SG&A	**357**	339	**1,443**	1,439
R&D	**103**	75	**299**	271
Share of income of associates	**(18)**	(1)	**(45)**	(4)
Other expense (income)	**9**	9	**(33)**	(5)
EBIT before special items[2]	**175**	293	**835**	1,202
Special items	**163**	-	**140**	-
EBIT	**12**	293	**695**	1,202
Financing expense	**144**	156	**596**	681
Financing income	**(111)**	(123)	**(599)**	(519)
EBT	**(21)**	260	**698**	1,040
Income taxes (recovery)	**(35)**	46	**100**	203
Net income	**$ 14**	$ 214	**$ 598**	$ 837
Attributable to:				
Equity holders of Bombardier Inc.	**$ 12**	$ 213	**$ 588**	$ 837
Non-controlling interests	**$ 2**	$ 1	**$ 10**	$ -
EPS (in dollars)				
Basic and diluted	**$ -**	$ 0.12	**$ 0.32**	$ 0.47

Supplemental information

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2012	2011 [1]	**2012**	2011 [1]
EBIT	**$ 12**	$ 293	**$ 695**	$ 1,202
Amortization and impairment charges on PP&E	**118**	75	**380**	333
EBITDA[2]	**$ 130**	$ 368	**$ 1,075**	$ 1,535
On an adjusted basis[2]				
EBITDA before special items	**$ 284**	$ 368	**$ 1,206**	$ 1,535
Adjusted net income	**$ 188**	$ 227	**$ 692**	$ 865
Adjusted EPS	**$ 0.10**	$ 0.13	**$ 0.38**	$ 0.48

[1] Our fourth quarter and fiscal year ended December 31, 2011 comprises two and 11 months of BA's results and three and 12 months of BT's results.

[2] See details of these non-GAAP measures hereafter.

Revenues, EBIT margin and EBIT margin before special items

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2012	2011 [(1)]	**2012**	2011 [(1)]
Revenues				
BA	**$ 2,597**	$ 2,016	**$ 8,628**	$ 8,594
BT	**$ 2,158**	$ 2,300	**$ 8,140**	$ 9,753
Consolidated	**$ 4,755**	$ 4,316	**$ 16,768**	$ 18,347
EBIT margin				
BA	**3.4%**	6.3%	**4.7%**	5.8%
BT	**(3.6%)**	7.2%	**3.6%**	7.2%
Consolidated	**0.3%**	6.8%	**4.1%**	6.6%
EBIT margin before special items				
BA	**3.4%**	6.3%	**4.4%**	5.8%
BT	**4.0%**	7.2%	**5.6%**	7.2%
Consolidated	**3.7%**	6.8%	**5.0%**	6.6%

(1) Our fourth quarter and fiscal year ended December 31, 2011 comprises two and 11 months of BA's results and three and 12 months of BT's results.

EBIT before special items, adjusted net income and adjusted EPS

We believe that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our consolidated financial statements with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of the business.

EBIT before special items, EBITDA before special items, adjusted net income and adjusted EPS are non-GAAP measures which exclude items which do not reflect, in our opinion, our core performance. Accordingly, these non-GAAP measures provide more transparent disclosures to analyze earnings, enabling better comparability of results from one period to another and better comparability with peers.

- EBIT before special items and EBITDA before special items exclude the impact of restructuring charges, significant impairment charges and reversals thereof, as well as other unusual items. Excluded restructuring charges relate to formal and extensive restructuring and workforce reduction plans. We believe such special items are not relevant in assessing our future performance. Less significant events are not considered special items because they are part of our on-going normal operations.
- Adjusted net income is defined as net income excluding special items, the financing component of net retirement benefit cost (i.e. the accretion on retirement benefit obligations less expected return on pension plan assets), certain net gains and losses arising from changes in measurement of provisions and of financial instruments carried at FVTP&L and the related tax impacts of these items. The exclusion of certain gains and losses on provisions and financial instruments are those that arise mostly from changes in market yields, creating non-core volatility to earnings.
- Adjusted EPS is calculated based on adjusted net income attributable to equity holders of Bombardier Inc., using the treasury stock method, giving effect to the exercise of all dilutive elements.

The exclusion of the above-listed items does not imply that they are necessarily non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities in our industry may define the above measures differently than we do. In those cases, it may be difficult to use similarly named non-GAAP measures of other entities to compare the performance of those entities to our performance.

The following tables reconcile these non-GAAP measures to the most comparable IFRS financial measures, for the fourth quarters and fiscal years ended December 31, 2012 and 2011:

Reconciliation of non-GAAP measures to the most comparable IFRS measures

	For the fourth quarters ended December 31			
	2012		2011	
	(in millions of dollars)	**(per share)**	(in millions of dollars)	(per share)
EBIT	**$ 12**		$ 293	
Special items:				
Restructuring charges(1) (3)	**119**	**$ 0.07**	-	$ -
Loss related to flooding(1)	**19**	**0.01**	-	-
Foreign exchange hedging loss(1)	**25**	**0.01**	-	-
EBIT before special items	**175**		293	
Amortization	**109**		75	
EBITDA before special items	**$ 284**		$ 368	
Net income	**$ 14**		$ 214	
Adjustments to EBIT related to special items	**163**	**$ 0.09**	-	$ -
Adjustments to net financing expense (income) related to:				
Retirement benefits	**3**	**-**	(1)	-
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	**12**	**0.01**	5	-
Tax impact of special and other adjusting items	**(4)**	**-**	9	0.01
Adjusted net income	**$ 188**		$ 227	
EPS (in dollars)				
Diluted		**$ -**		$ 0.12
Impact of special and other adjusting items		**0.10**		0.01
Adjusted		**$ 0.10**		$ 0.13

	For the fiscal years ended December 31			
	2012		2011	
	(in millions of dollars)	**(per share)**	(in millions of dollars)	(per share)
EBIT	**$ 695**		$ 1,202	
Special items:				
Restructuring charges(1) (3)	**119**	**$ 0.07**	-	$ -
Gain on resolution of a litigation in connection with capital tax(2)	**(23)**	**(0.01)**	-	-
Loss related to flooding(1)	**19**	**0.01**	-	-
Foreign exchange hedging loss(1)	**25**	**0.01**	-	-
EBIT before special items	**835**		1,202	
Amortization	**371**		333	
EBITDA before special items	**$ 1,206**		$ 1,535	
Net income	**$ 598**		$ 837	
Adjustments to EBIT related to special items	**140**	**$ 0.08**	-	$ -
Adjustments to net financing expense (income) related to:				
Retirement benefits	**14**	**0.01**	-	-
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	**(42)**	**(0.02)**	17	0.01
Interest portion of a gain on resolution of a litigation in connection with capital tax	**(17)**	**(0.01)**	-	-
Tax impact of special and other adjusting items	**(1)**	**-**	11	-
Adjusted net income	**$ 692**		$ 865	
EPS (in dollars)				
Diluted		**$ 0.32**		$ 0.47
Impact of special and other adjusting items		**0.06**		0.01
Adjusted		**$ 0.38**		$ 0.48

(1) Relates to BT.
(2) Relates to BA.
(3) Restructuring charges for the fourth quarter and fiscal year ended December 31, 2012 include impairment charges on PP&E of $9 million.

Analysis of consolidated results

A detailed analysis of EBIT is provided in the Analysis of results sections in BA and BT.

Net financing expense

Net financing expense amounted to $33 million for the fourth quarter ended December 31, 2012 and net financing income amounted to $3 million for fiscal year 2012, compared to net financing expense of $33 million and $162 million for the corresponding periods last fiscal year.

The main variances in the fourth quarter are related to:

- lower financing expense related to changes in discount rates for provisions ($29 million); and
- lower interest expense on long-term debt, after effect of hedges, as a result of higher capitalization of borrowing costs ($12 million).

Partially offset by:

- higher net financing expense related to certain financial instruments classified as FVTP&L ($36 million).

The $165-million decrease for the fiscal year is mainly due to:

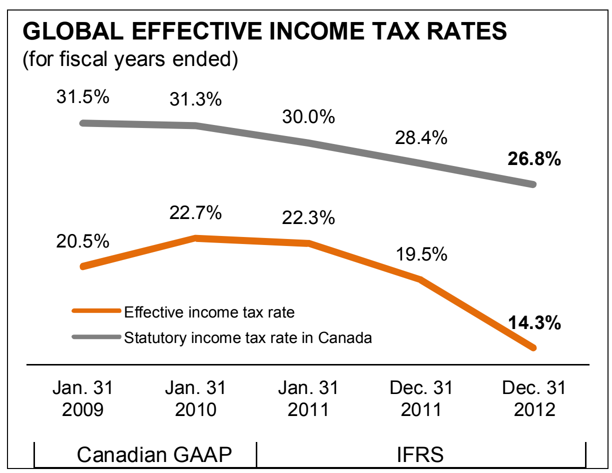
- lower interest expense on long-term debt, after effect of hedges, mainly as a result of higher capitalization of borrowing costs ($49 million);
- lower financing expense related to changes in discount rates for provisions ($31 million);
- higher net financing income related to certain financial instruments classified as FVTP&L ($28 million);
- higher interest income from investments in securities ($23 million);
- lower amortization of letter of credit facility costs ($21 million); and
- the interest portion of a gain of $40 million upon the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations ($17 million).

Income taxes

The effective income tax rate for the fiscal year ended December 31, 2012 was 14.3%, including an income tax recovery for the fourth quarter ended December 31, 2012, compared to the statutory income tax rate in Canada of 26.8%.

For the fourth quarter and fiscal year ended December 31, 2011, the effective income tax rates were 17.7% and 19.5%, respectively, compared to the statutory income tax rate in Canada of 28.4%.

The lower effective income tax rates, compared to the statutory income tax rates in Canada, are mainly due to the positive net impact of the recognition of previously unrecognized income tax benefits and permanent differences.



LIQUIDITY AND CAPITAL RESOURCES

Good cash flows from operating activities

Reconciliation of segmented free cash flow (usage) to cash flows from operating activities

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2012	2011 (1)	**2012**	2011 (1)
Segmented free cash flow				
BA	**$ 277**	$ 110	**$ (867)**	$ (453)
BT	**673**	564	**386**	(424)
Segmented free cash flow (usage)	**950**	674	**(481)**	(877)
Net income taxes and net interest paid(2)	**(100)**	(84)	**(260)**	(355)
Free cash flow (usage)	**850**	590	**(741)**	(1,232)
Add back: Net additions to PP&E and intangible assets	**631**	391	**2,089**	1,475
Cash flows from operating activities	**$ 1,481**	$ 981	**$ 1,348**	$ 243

(1) Our fourth quarter and fiscal year ended December 31, 2011 comprise two and 11 months of BA's results and three and 12 months of BT's results.
(2) Not allocated to segments.

Variation in cash and cash equivalents

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2012	2011 (1)	**2012**	2011 (1)
Balance at the beginning of period/year	**$ 2,146**	$ 2,708	**$ 3,372**	$ 4,195
Free cash flow (usage)	**850**	590	**(741)**	(1,232)
Proceeds from disposal of invested collateral	**-**	-	**-**	705
Dividends paid	**(52)**	(1)	**(249)**	(156)
Proceeds from issuance of long-term debt	**-**	19	**509**	122
Repayments of long-term debt	**(14)**	(2)	**(186)**	(15)
Proceeds from disposal of AFS investments in securities	**-**	-	**133**	-
Effect of exchange rate changes on cash and cash equivalents	**24**	(76)	**49**	(41)
Purchase of Class B shares held in trust under the PSU plan	**-**	-	**-**	(58)
Purchase of NCI	**-**	-	**-**	(61)
Other	**(58)**	134	**9**	(87)
Balance at the end of period/year	**$ 2,896**	$ 3,372	**$ 2,896**	$ 3,372

(1) Our fourth quarter and fiscal year ended December 31, 2011 comprise two and 11 months of BA's results and three and 12 months of BT's results.

Strong capital resources

The pro forma amounts are based on our December 31, 2012 capital resources position giving effect to our $2.0 billion January 2013 debt issuance as if it had been effective as at January 1, 2012.

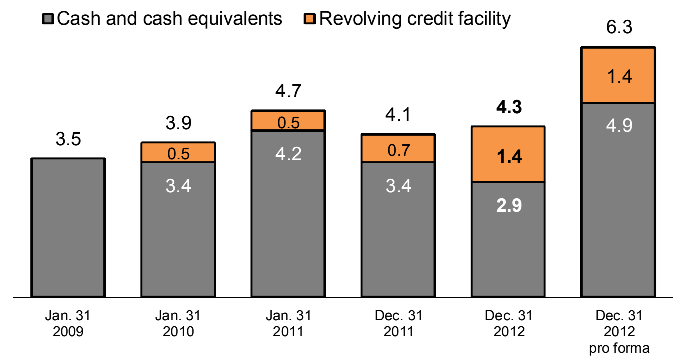
Available short-term capital resources

As at	**Cash and cash equivalents**	**Available revolving credit facility**	**Available short-term capital resources**
December 31, 2012 pro forma	***$ 4,869***	***$ 1,410***	***$ 6,279***
December 31, 2012	**$ 2,896**	**$ 1,410**	**$ 4,306**
December 31, 2011	$ 3,372	$ 750	**$** 4,122

Our available short-term capital resources include cash and cash equivalents and the amounts available under our two unsecured revolving credit facilities.

In March 2012, BT entered into an unsecured revolving credit facility of €500 million ($660 million), available for cash drawings for the general corporate purposes of BT. The new facility matures in March 2015 and bears interest at Euribor plus a margin. In April 2012, we extended the maturity date of our $750-million unsecured revolving credit facility, available for general corporate purposes, by one year to June 2015. Under these facilities, we must maintain the same financial covenants as for our BA and BT letter of credit facilities (see Other facilities hereafter for more details).

AVAILABLE SHORT-TERM CAPITAL RESOURCES
(as at; in billions of dollars)



We consider that our expected cash flows from operating activities, combined with our available short-term capital resources of $6.3 billion on a pro forma basis, will enable the development of new products to enhance our competitiveness and support our growth; will allow the payment of dividends, if and when declared by the Board of Directors; and will enable us to meet all other expected financial requirements in the near term.

Expected timing of future liquidity requirements

									December 31, 2012	
		Total		**Less than 1 year**		**1 to 3 years**		**3 to 5 years**		**Thereafter**
Long-term debt - pro forma[(1)]	$	6,925	$	45	$	225	$	1,883	$	4,772
Interest payments - pro forma		3,824		440		876		827		1,681
Operating lease obligations		647		130		155		94		268
Purchase obligations[(2)]		11,366		7,062		3,601		342		361
Trade and other payables		3,553		3,500		8		7		38
Other financial liabilities		1,299		283		160		148		708
Derivative financial liabilities		142		129		13		-		-
	$	27,756	$	11,589	$	5,038	$	3,301	$	7,828

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

The table above presents the expected timing of contractual liquidity requirements. In addition, $90 million and $22 million of BT's restructuring charges are expected to be paid in 2013 and 2014, respectively. Other payments contingent on future events, such as payments in connection with credit and residual value guarantees related to the sale of aircraft and product warranties have not been included in the above table because of the uncertainty on the amount and timing of payments arising from their contingent nature. In addition, our required pension contributions have not been reflected in this table, as such contributions depend on periodic actuarial valuations for funding purposes. In 2013, our contributions to pension plans are estimated at $551 million (see the Retirement benefits section hereafter for more details). The amounts presented in the table represent the undiscounted payments and do not give effect to the related hedging instruments, if applicable.

OTHER FACILITIES

Letter of credit facilities
Letter of credit facilities are only available for the issuance of letters of credit. As these facilities are unfunded commitments from banks, they typically provide a better pricing for the Corporation as compared to credit facilities that are available for cash drawings. Letters of credit are issued in support of our performance obligations and advance payments received from customers. As at December 31, 2012, we have $6.0 billion committed under the BA, BT and our performance security guarantee facilities ($5.9 billion as at December 31, 2011). Letters of credit issued under these facilities amounted to $4.1 billion as at December 31, 2012 ($4.4 billion as at December 31, 2011). In April 2012, we extended the availability periods of our BT and BA letter of credit facilities by one year each, to May 2015 and June 2015, respectively.

In addition to the outstanding letters of credit mentioned above, letters of credit of $985 million were outstanding under various bilateral agreements as at December 31, 2012 ($753 million as at December 31, 2011 and $708 million as at February 1, 2011).

We also use numerous bilateral bonding facilities with insurance companies to support BT's operations. An amount of $2.3 billion was outstanding under such facilities as at December 31, 2012 ($2.1 billion as at December 31, 2011 and $2.0 billion as at February 1, 2011).

See Note 30 – Credit facilities, to the consolidated financial statements, for additional information.

Financial covenants
Under the BA and BT letter of credit facilities and our two unsecured revolving credit facilities available for cash drawings, we must maintain various financial covenants, which must be met on a quarterly basis. The BA $600-million letter of credit facilities and our $750-million unsecured revolving facility include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio and a minimum liquidity level of $500 million at the end of each fiscal quarter, all calculated based on an adjusted consolidated basis (i.e. excluding BT). BT's €3.4-billion ($4.5-million) letter of credit facilities and €500-million ($660-million) unsecured revolving facility financial covenants require a minimum liquidity level of €600 million ($792 million) at the end of each quarter, as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a BT standalone basis. These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to specific terms used in the MD&A. The financial covenants under these credit facilities were all met as at December 31, 2012 and 2011.

Off-balance sheet factoring facilities
In the normal course of its business, BT has set up factoring facilities in Europe under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €886 million ($1,169 million) were outstanding under such facilities as at December 31, 2012 (€580 million ($751 million) as at December 31, 2011). Trade receivables of €316 million ($408 million) and €963 million ($1,239 million) were sold to these facilities during the fourth quarter and fiscal year ended December 31, 2012, respectively, (€183 million ($250 million) and €581 million ($812 million) during the fourth quarter and fiscal year ended December 31, 2011, respectively).

On balance sheet sale and leaseback facilities
In addition, BA enters into sale and leaseback facilities with third parties, under which we can sell certain pre-owned business aircraft and lease them back for a period not greater than 24 months. We have the right to buy the aircraft back during the term of the lease for predetermined amounts. As at December 31, 2012, we have two committed sale and leaseback facilities with third parties for an amount of $295 million under which a total of $168 million was outstanding as at December 31, 2012 ($220 million committed and $163 million outstanding as at December 31, 2011).

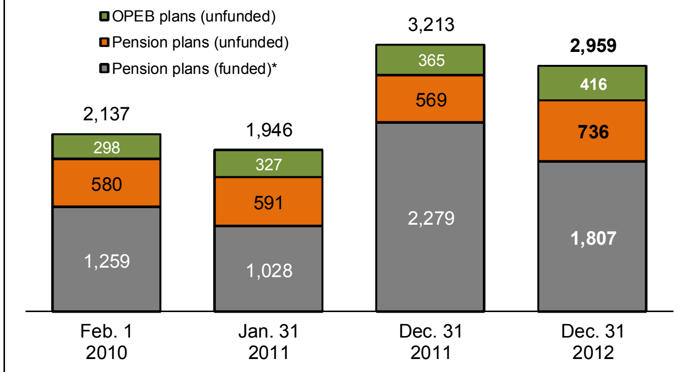
RETIREMENT BENEFITS

Retirement benefit deficit stabilized in 2012

Overview of our retirement benefit plans

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

NET RETIREMENT BENEFIT LIABILITY
(as at; in millions of dollars)



* Includes unrecognized past service credits, liability arising from minimum funding requirement and impact of asset ceiling test.

Pension plans are categorized as defined benefit ("DB") or defined contribution ("DC"), based on the risk sharing involved in the plan. 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.

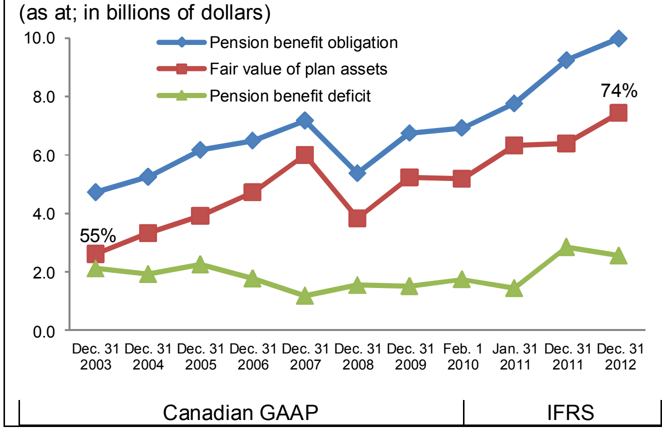
Risk management initiatives

We have taken several initiatives over the last ten years to gradually reduce key risks that stem from both pension liabilities and assets, notably:

- reduction of equity target allocation by approximately 20%;
- liquidation of investments in hedge funds and private placements;
- move to long-term bonds and long-term inflation-linked real return bonds;
- implementation of interest rate hedging overlay strategies;
- introduction of real return assets exposure (i.e. infrastructure and real estate);
- implementation of foreign currency exposure hedging strategies;
- introduction of indexation capping of future benefits (U.K. plans);
- offering defined contribution pension plans to new employees in several countries;
- offering of lump-sum payments to deferred pensioners under our U.S. pension plans; and
- implementation of a strategy aimed at purchasing annuities for pensioners under our U.S. pension plans and other very mature pension plans when market conditions are favourable.

In addition to the above initiatives, which helped attenuate the volatility of our pension plan deficit, over the years we have made contributions in excess of service costs to reduce this deficit. As a result of all of these initiatives, the ratio of fair value of plan assets over the present value of pension plan obligations increased from 55% in 2003 (under previous Canadian GAAP) to 74% in 2012 (under IFRS). This ratio increases to 80% as at December 31, 2012 when including only the present value of obligations of funded pension plans.

EVOLUTION OF PENSION PLAN ASSETS, OBLIGATIONS AND DEFICIT
(as at; in billions of dollars)



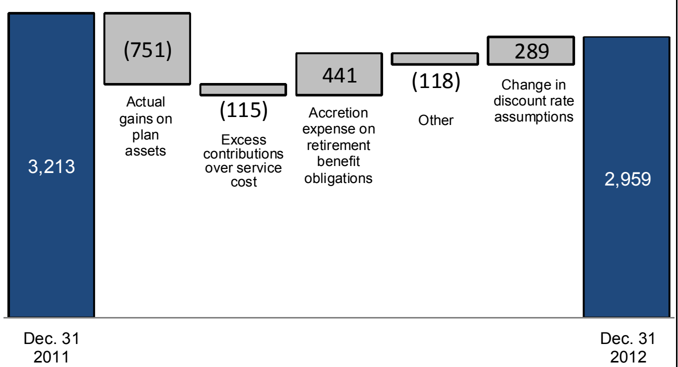
Net retirement benefit liability

The net retirement benefit liability has decreased to $3.0 billion. The $254-million decrease in the net retirement benefit liability is explained as follows:

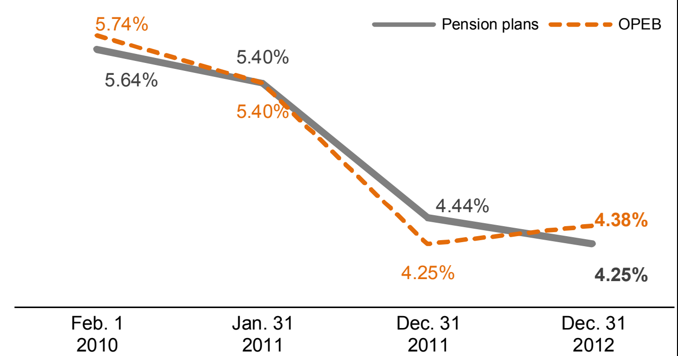
Variation in net retirement benefit liability	Pension	OPEB	Total
Balance as at December 31, 2011	$ 2,847	$ 366	$ 3,213
Actual gains on pension plan assets	(751)	-	(751)
Accretion expense on retirement benefit obligations	424	17	441
Employer contributions	(404)	(15)	(419)
Service costs	292	12	304
Changes in discount rates	300	(11)	289
Changes in rate of compensation increase	(142)	-	(142)
Changes in foreign exchange rates	70	10	80
Other net actuarial gains	(92)	36	(56)
Balance as at December 31, 2012[(1)]	**$ 2,544**	**$ 415**	**$ 2,959**

(1) Includes retirement benefit assets of $38 million as at December 31, 2012 ($13 million as at December 31, 2011).

DECREASE IN NET RETIREMENT BENEFIT LIABILITY
(for fiscal year ended December 31, 2012; in millions of dollars)



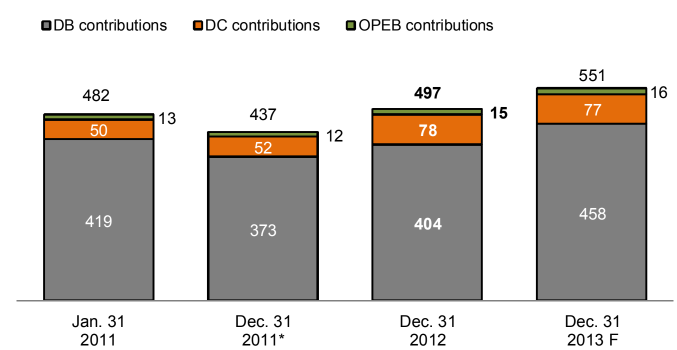
EVOLUTION OF WEIGHTED-AVERAGE DISCOUNT RATE
(used to determine the pension defined benefit obligation as at)



Plan assets and contributions

The value of plan assets is highly dependent on the pension funds' asset performance and on the level of contributions. The performance of the financial markets is a key driver in determining the funds' asset performance as assets in the plans are composed mostly of publicly traded equity and fixed income securities. During fiscal year 2012, we achieved a positive return of $751 million, which together with our excess contributions over service costs mostly explain the decrease in the net retirement benefit liability.

RETIREMENT BENEFIT CONTRIBUTIONS
(for fiscal years ended; in millions of dollars)



F: Forecast
*For the fiscal year ended December 31, 2011, contributions comprise 11 months for BA plans and 12 months for BT plans.

In the last three years, our average contributions to funded DB plans amounted to approximately $400 million per year. DB pension contributions are estimated at $458 million for 2013. The future level of contributions is expected to increase if bond yields remain at their historical lows or if the return on assets is below expectations.

In fiscal year 2012, we made DC pension contributions totalling $78 million. DC pension contributions are estimated at $77 million for 2013.

Retirement benefit cost

The retirement benefit cost for fiscal year 2013 for DB plans is estimated at $435 million, compared to $313 million for fiscal year 2012. The increase is mostly due to the adoption of the amended IAS 19, *Employee Benefits,* effective January 1, 2013, which requires the recognition of interest expense and income applying the rate used to discount the defined benefit obligation to the net defined benefit liability. Under the current IAS 19, an income component is calculated on the gross amount of the assets based on the expected return on plan assets.

Retirement benefit cost

	Fiscal year ended December 31, 2012	Fiscal year ending December 31 2013
	Actual (current IAS 19)	**Estimate (amended IAS 19)**
DB pension plans	$ 280	$ 404
OPEB plans	33	31
Total DB plans	313	435
DC pension plans	78	77
Total retirement benefit cost	$ 391	$ 512
Recorded as follows:		
EBIT expense or capitalized cost	$ 377	$ 397
Financing expense	$ 441	$ 115
Financing income	$ (427)	n/a

n/a: Not applicable

Refer to Accounting and reporting developments section in Other for details regarding the adoption of amended IAS 19, *Employee benefits*, and the restatements for fiscal year 2012.

Sensitivity analysis

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

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

Increase (decrease)	Retirement benefit cost for fiscal year ending December 31, 2013	Net retirement benefit liability as at December 31, 2012
Discount rate	$ (33)	$ (446)
Inflation rate	$ 8	$ 127
Rate of compensation increase	$ 11	$ 91

Details regarding assumptions used are provided in note 21 - Retirement benefits, to the consolidated financial statements.

CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation. We manage and monitor our global metrics so as to achieve an investment-grade profile over the medium to long-term.

Reconciliations of these measures to the most comparable IFRS financial measures are in the Non-GAAP financial measures section. The adjusted EBIT and adjusted EBITDA exclude special items, such as restructuring charges, significant impairment charges and reversals thereof, as well as other unusual items, which we believe should be excluded to assess the creditworthiness of the Corporation.

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

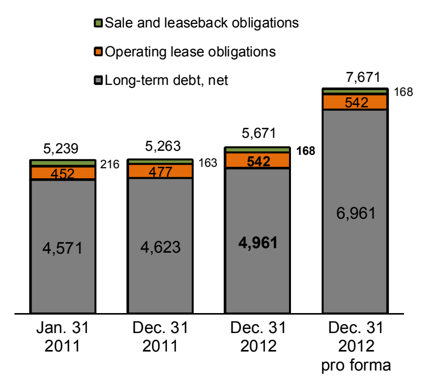
- adjusted EBIT to adjusted interest ratio greater than 5.0; and
- adjusted debt to adjusted EBITDA ratio lower than 2.5.

Global metrics[(1)(2)]

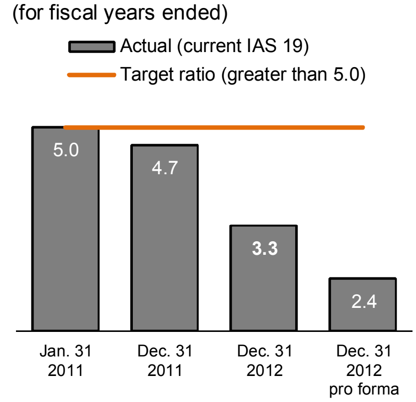
	December 31 2012 pro forma	**December 31 2012**	December 31 2011 [(3)]	**Explanation of major variances**
Interest coverage ratio				Deteriorated from fiscal year 2011 to 2012, due to lower profitability in both operating segments. Pro forma amounts show a further deterioration, due to higher pro forma interest paid.
Adjusted EBIT	***$ 960***	**$ 957**	$ 1,271	
Adjusted interest	***$ 397***	**$ 289**	$ 271	
Adjusted EBIT to adjusted interest ratio	***2.4***	**3.3**	4.7	
Financial leverage ratio				Deteriorated from December 31, 2011 to 2012, mainly due to the issuance of $500 million of long-term debt, partially offset by a repayment of $151 million, and lower profitability in both operating segments. Pro forma amounts show a further deterioration, due to higher long-term debt.
Adjusted debt	***$ 7,671***	**$ 5,671**	$ 5,263	
Adjusted EBITDA	***$ 1,391***	**$ 1,388**	$ 1,657	
Adjusted debt to adjusted EBITDA ratio	***5.5***	**4.1**	3.2	

(1) Refer to the Non-GAAP financial measures section hereafter for definitions and reconciliations to the most comparable IFRS measures.
(2) The pro forma amounts give effect to our $2.0 billion January 2013 debt issuance as if it had been effective as at January 1, 2012.
(3) Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

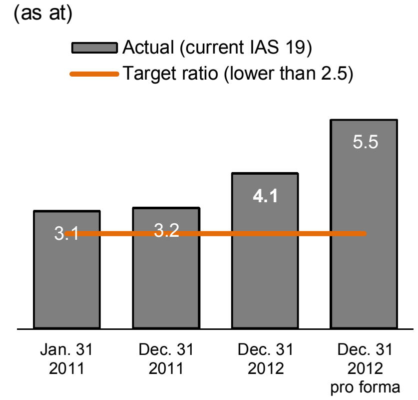
ADJUSTED DEBT
(as at; in millions of dollars)



ADJUSTED EBIT TO ADJUSTED INTEREST RATIO
(for fiscal years ended)



ADJUSTED DEBT TO ADJUSTED EBITDA RATIO
(as at)



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

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to $3.0 billion as at December 31, 2012 ($3.2 billion as at December 31, 2011). The measurement of this liability is dependent on numerous key long-term assumptions such as those regarding future compensation increases, inflation rates, mortality rates and current discount rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long term nature of the obligation. We closely monitor the impact of the net retirement benefit liability on our future cash flows and have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with our retirement benefit plans. (See the Retirement benefits section for further details.)

NON-GAAP FINANCIAL MEASURES

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

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

We believe that a significant number of users of our MD&A analyze our results based on these performance measures. These non-GAAP measures are mainly derived from the consolidated financial statements, but do not have standardized meanings prescribed by IFRS; therefore, others using these terms may calculate them differently.

We also provide certain measures on a pro forma basis, as if our January 2013 $2.0 billion debt issuance had been effective as at January 1, 2012.

Reconciliations to the most comparable IFRS financial measures are provided in the tables hereafter except for the following reconciliations:

- EBITDA to EBIT – see the respective Results of operations tables in BA and in BT;
- EBIT before special items and EBITDA before special items to EBIT – see Consolidated results of operations section;
- adjusted net income to net income and adjusted EPS to diluted EPS – see Consolidated results of operations section; and
- free cash flow (usage) to cash flows from operating activities – see the Reconciliation of segmented free cash flow (usage) to cash flow from operating activities table in Liquidity and capital resources section.

Reconciliation of adjusted debt to long-term debt

			As at
	December 31, 2012 pro forma	**December 31 2012**	December 31 2011
Long-term debt	***$ 7,405***	**$ 5,405**	$ 4,941
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	***(444)***	**(444)**	(318)
Long-term debt, net	***6,961***	**4,961**	4,623
Sale and leaseback obligations	***168***	**168**	163
Operating lease obligations[1]	***542***	**542**	477
Adjusted debt	***$ 7,671***	**$ 5,671**	$ 5,263

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

Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

			Fiscal years
	2012 pro forma	**2012**	2011 [1]
EBIT	***$ 695***	**$ 695**	$ 1,202
Special items[2]	***140***	**140**	-
Interest received	***100***	**97**	40
Interest adjustment for operating leases[3]	***25***	**25**	29
Adjusted EBIT	***960***	**957**	1,271
Amortization adjustment for operating leases[4]	***60***	**60**	53
Amortization	***371***	**371**	333
Adjusted EBITDA	***$ 1,391***	**$ 1,388**	$ 1,657

(1) Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Refer to the Consolidated results of operations section for details on these special items. For the fiscal year ended December 31, 2012, special items include impairment charges on PP&E of $9 million.
(3) Represents the interest cost of a debt equivalent to the amount included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related period, given our credit rating.
(4) Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

Reconciliation of adjusted interest to interest paid

			Fiscal years
	2012 pro forma	**2012**	2011 [1]
Interest paid	***$ 367***	**$ 259**	$ 238
Accretion expense on sale and leaseback obligations	***5***	**5**	4
Interest adjustment for operating leases[2]	***25***	**25**	29
Adjusted interest	***$ 397***	**$ 289**	$ 271

(1) Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Represents the interest cost on a debt equivalent to the amount included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related period, given our credit rating.

CONSOLIDATED FINANCIAL POSITION

	December 31 2012	December 31 2011	Increase (decrease) Foreign exchange impact	Increase (decrease) Variance excluding foreign exchange	Explanation of major variances other than foreign exchange impact
Cash and cash equivalents	**$ 2,896**	$ 3,372	$ 49	$ (525)	See the Variation in cash and cash equivalents table and Free cash flow in BA and BT for details
Trade and other receivables	**1,525**	1,408	22	95	$ 111 Higher level in BT (16) Lower level in BA
Gross inventories	**12,079**	11,992	132	(45)	$ (544) Due to deliveries in several BT contracts ahead of ramp-up in contracts in the start-up phase 499 Mostly due to aerospace program work-in-process, mainly for business aircraft, partially offset by a decrease in pre-owned business aircraft
Advances and progress billings related to long-term contracts	**(6,365)**	(6,479)	106	(220)	Lower advances and progress billings related to existing contracts, partly compensated by advances on new orders
Advances on aerospace programs	**(4,653)**	(4,054)	-	599	Mainly due to higher orders intake than deliveries for business and commercial aircraft
PP&E	**2,028**	1,864	20	144	$ 338 Net additions (194) Amortization and impairment
Aerospace program tooling	**4,770**	3,168	-	1,602	$ 1,728 Additions, see BA Analysis of results section (126) Amortization
Goodwill	**2,325**	2,253	72	-	No variance
Deferred income tax asset	**1,452**	1,506	-	(54)	Mainly due to the utilization of deferred tax assets in several countries partly offset by net reversal of write-downs
Other financial assets	**1,759**	1,831	4	(76)	$ (180) Decrease in investments in securities (45) Decrease in loans and lease receivables 184 Increase in derivative financial instruments
Other assets	**1,306**	1,064	9	233	$ 95 Increase in sales tax and other taxes 66 Increase in prepaid expenses
Trade and other payables	**(3,553)**	(3,210)	41	302	$ 284 Higher level in BA 64 Higher level in BT (46) Lower amount of dividends payable
Provisions	**(1,586)**	(1,672)	18	(104)	Mainly resulting from a net decrease in provisions for product warranties (for BT contracts nearing the end of their warranty periods) and for credit and residual guarantees, partially offset by BT's provision for restructuring charges
Non-current portion of long-term debt	**(5,360)**	(4,748)	44	568	$ 509 Issuance of long-term debt, mainly $500 million of unsecured Senior Notes due in March 2022
Retirement benefit liability	**(2,997)**	(3,226)	22	(251)	See the Variation in net retirement benefit liability table for details
Other financial liabilities	**(1,056)**	(1,234)	3	(181)	$ (205) Decrease in derivative financial instruments (148) Decrease in current portion of long-term debt 81 Increase in government refundable advances 40 Increase in vendor non-recurring costs
Other liabilities	**(3,193)**	(3,164)	39	(10)	$ (125) Decrease in accruals for long-term contract costs 70 Increase in deferred revenues
Equity	**(1,377)**	(671)	not applicable	706	598 Net income (206) Dividends 306 OCI - mainly due to net actuarial gains related to retirement benefit plans and net gain on derivative financial instruments designated as cash flow hedges 8 Other

AEROSPACE

The data presented in this section of the MD&A contains both IFRS and non-GAAP measures and is structured by market segment (business aircraft, commercial aircraft and services), which is reflective of our organizational structure.

We believe that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our MD&A with enhanced understanding of BA's results and related trends and increases transparency and clarity into the core results of the business. EBIT before special items and EBITDA before special items are non-GAAP measures which exclude items which do not reflect, in our opinion, our core performance. Accordingly, these non-GAAP measures provide more transparent disclosures to analyze earnings, enabling better comparability of results from one period to another and better comparability with peers.

Supplemental information regarding BA's products and strategy, as well as the aerospace industry and market, can be found in BA's Profile, strategy and market presentation available in the Profile section on Bombardier's website at ir.bombardier.com.

KEY PERFORMANCE MEASURES AND METRICS

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

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Order backlog, as a measure of future revenues. • Book-to-bill ratio[1], as an indicator of future revenues. The ratio represents the net orders received over aircraft deliveries, measured in units in a given period. • Revenues and delivery units, as measures of growth. • Market share (in terms of revenues and units delivered), as measures of competitive positioning.
Profitability	• EBIT, EBIT margin, EBIT before special items[2][3] and EBIT margin before special items[2][3], as measures of performance.
Liquidity	• Free cash flow[2], as a measure of liquidity generation.
Customer satisfaction	• On-time aircraft deliveries, as a measure of meeting our commitment to customers. • Fleet dispatch reliability, as a measure of our products' reliability.
Execution	• Achievement of product development milestones, as a measure of flawless execution. • Achievement of engagement and enablement targets, as a measure of employee engagement and motivation. • The deployment of the Achieving Excellence System (AES), as a measure of our continuous improvement to integrate world-class best practices in all our activities.

Our employee incentive-based compensation plan for non-unionized employees across all BA sites rewards the collective efforts of our employees in achieving our objectives using performance indicator targets. A total of 16,600 employees worldwide now participate in the program. In 2012, as part of this program, incentive-based compensation was linked to the achievement of targeted results, based on EBIT, free cash flow, on-time aircraft deliveries, fleet dispatch reliability and executing according to plan in our new product development programs.

AES is BA's integrated management system. It fosters both employee and customer engagement in order for us to meet our business objectives. The system is divided into five levels from Bronze to Diamond. Having successfully achieved the Bronze and Silver certifications, all teams are now fully engaged in the implementation of the Gold level. While a few teams will attain Gold level certification in 2013, we expect Gold level certification to be completed by the end of 2015. The results of the 2012 employee survey ranked BA among the best performing companies in terms of engagement.

Five-year summary

		IFRS		Canadian GAAP	
For the fiscal years ended and as at	**December 31 2012**	December 31 2011 [4]	January 31 2011	January 31 2010	January 31 2009
Revenues	**$ 8,628**	$ 8,594	$ 8,809	$ 9,357	$ 9,965
Aircraft deliveries (in units)					
Business aircraft	**179**	163	155	176	235
Commercial aircraft	**50**	78	97	121	110
Amphibious aircraft	**4**	4	4	5	4
	233	245	256	302	349
Net orders (in units)	**481**	249	201	11	367
Book-to-bill ratio[1]	**2.1**	1.0	0.8	-	1.1
Order backlog (in billions of dollars)[5]	**$ 32.9**	$ 23.9	$ 20.4	$ 16.7	$ 23.5
EBIT	**$ 405**	$ 502	$ 554	$ 473	$ 896
EBIT margin	**4.7%**	5.8%	6.3%	5.1%	9.0%
EBIT before special items[2][3]	**$ 382**	$ 502	$ 554	$ 473	$ 896
EBIT margin before special items[2][3]	**4.4%**	5.8%	6.3%	5.1%	9.0%
Free cash flow (usage)[2]	**$ (867)**	$ (453)	$ 5	$ (267)	$ 128
Total number of employees[6]	**35,500**	33,600	30,300	28,900	32,500

(1) Defined as net orders received over aircraft deliveries, in units.
(2) Non-GAAP financial measure. Refer to the Non-GAAP financial measures and Consolidated results of operations sections in Overview for definitions of these metrics. Refer to the Consolidated results of operations section in Overview and Analysis of results section for reconciliations to the most comparable IFRS measures.
(3) The special item for the fiscal year ended December 31, 2012 relates to a $23 million gain recorded in EBIT following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations.
(4) The fiscal year ended December 31, 2011 comprises 11 months of results.
(5) The total order backlog as at December 31, 2012, December 31, 2011 and January 31, 2011 include the order backlog for long-term maintenance and spares support agreements.
(6) Including contractual and inactive employees.

HIGHLIGHTS OF THE YEAR

Positioned for future growth through our product development and record order backlog

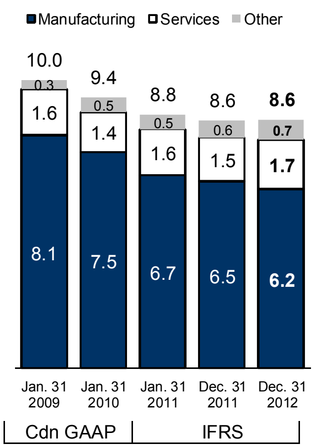
REVENUES	EBIT MARGIN BEFORE SPECIAL ITEMS[1]	FREE CASH FLOW[1]	NET ADDITIONS TO PP&E & INTANGIBLE ASSETS	ORDER BACKLOG
$8.6 billion	**4.4%**	**($867) million**	**$2.0 billion**	**$32.9 billion**

RESULTS

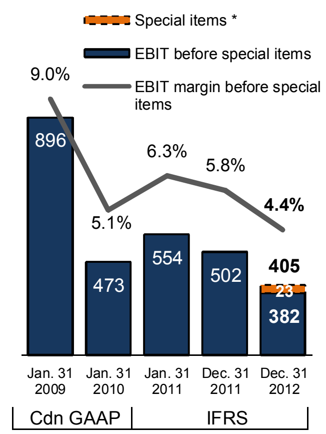
Our fiscal year ended December 31, 2012 comprises 12 months of results, compared to 11 months of results in our fiscal year ended December 31, 2011, as a result of our change of year end effective December 31, 2011.

- Revenues of $8.6 billion, the same level as last fiscal year.
- EBIT before special items[1] of $382 million, or 4.4% of revenues, compared to $502 million, or 5.8%, last fiscal year.
- EBITDA before special items[1] of $624 million, or 7.2% of revenues, compared to $697 million, or 8.1%, last fiscal year.
- Free cash flow usage[1] of $867 million, compared to free cash flow usage of $453 million last fiscal year.
- Net additions to PP&E and intangible assets of $2.0 billion, compared to $1.3 billion last fiscal year.
- 233 aircraft deliveries, compared to 245 last fiscal year.
- 481 net orders (book-to-bill ratio[2] of 2.1), compared to 249 net orders last fiscal year.
- A record order backlog of $32.9 billion as at December 31, 2012, compared to $23.9 billion as at December 31, 2011.

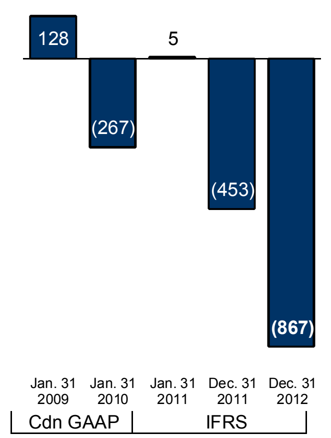
REVENUES[3]
(for the fiscal years ended;
in billions of dollars)



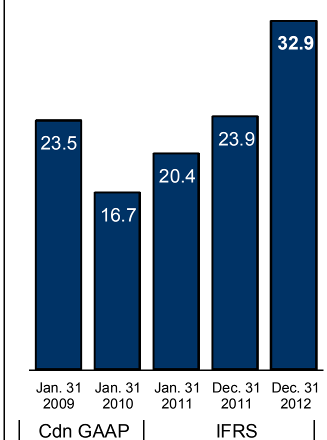
EBIT and EBIT BEFORE SPECIAL ITEMS[1][3]
(for the fiscal years ended;
in millions of dollars)



FREE CASH FLOW (USAGE)[1][3]
(for the fiscal years ended;
in millions of dollars)



ORDER BACKLOG[4]
(as at; in billions of dollars)



(1) Non-GAAP financial measure. Refer to the Non-GAAP financial measures and Consolidated results of operations sections in Overview for definitions of these metrics. Refer to the Consolidated results of operations section in Overview and Analysis of results section for reconciliations to the most comparable IFRS measures.
(2) Defined as net orders received over aircraft deliveries, in units.
(3) The fiscal year ended December 31, 2011 comprises 11 months of results.
(4) The total order backlog as at December 31, 2012, December 31, 2011 and January 31, 2011 include the order backlog for long-term maintenance and spares support agreements.
* The special item for the fiscal year ended December 31, 2012 relates to a gain following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations.

KEY EVENTS

Business aircraft

- In March 2012, following certification from the European Aviation Safety Agency ("EASA") and the U.S. Federal Aviation Administration ("FAA"), the *Global 5000* and the *Global 6000* aircraft with the *Bombardier Vision* Flight Deck entered into service on schedule.
- In May 2012, we launched the *Learjet 70* and *Learjet 75* aircraft programs. These new jets represent the evolution of the *Learjet 40 XR* and *Learjet 45 XR* aircraft, and feature a new interior, new cabin management system, the *Bombardier Vision* Flight Deck and an improved engine. Entry-into-service for the *Learjet 75* aircraft is scheduled for the summer of 2013 and for the second half of 2013 for the *Learjet 70* aircraft.
- In June 2012, NetJets Inc. placed a firm order for 100 *Challenger* aircraft. Based on the list prices, the value of the firm order is $2.6 billion. NetJets Inc. also entered into a long-term service agreement for up to 15 years. Assuming certain aircraft usage projections, the service agreement is valued at $0.8 billion.
- In November 2012, VistaJet placed a firm order for 56 *Global* aircraft. Based on list prices, the value of the firm order is $3.1 billion. This is the largest business aircraft firm order in our history.

Commercial aircraft

- In August 2012, Westjet Airlines Ltd. placed a firm order for 20 *Q400 NextGen* aircraft. Based on list price, the firm order is valued at $683 million.
- In December 2012, Delta Air Lines, Inc. placed a firm order for 40 *CRJ900 NextGen* aircraft. Based on list price, the value of the firm order is $1.9 billion.
- In December 2012, airBaltic placed a firm order for 10 *CS300* aircraft. Based on list price, the value of the firm order is $764 million.
- As at December 31, 2012, we have signed firm orders and other agreements(1) for a total of 382 *CSeries* aircraft, with 14 customers in 11 countries. The firm order backlog for the *CSeries* aircraft comprises 148 aircraft, with 10 customers in eight countries.
- The first flight of the *CS100* aircraft is scheduled to occur by the end of June 2013. We expect that entry-into-service of the *CS100* aircraft will occur approximately one year after first flight. The timeline for the *CS300* aircraft, which represents a significant portion of the *CSeries* programs' orders and commitments, remains unchanged with entry-into-service scheduled for the end of 2014.

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

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	What we said	What we did	What's next[1]
Profitability	EBIT margin for the year ended December 31, 2012 was expected to be approximately 5%.	EBIT margin of 4.7% for the fiscal year ended December 31, 2012.	Maintain EBIT margin in fiscal year 2013 at approximately the same level as EBIT margin in fiscal year 2012. We expect to achieve an EBIT margin in fiscal year 2014 of approximately 6%, after an anticipated 2% dilutive impact on EBIT margin from the entry-into-service of the *CSeries* aircraft.
Liquidity	For the year ended December 31, 2012, cash flows from operating activities were expected to substantially fund our net additions to PP&E and intangible assets of approximately $2.0 billion. During the third quarter of 2012, we revised this guidance and announced that we expect a free cash flow usage of approximately $800 million for the fiscal year ended December 31, 2012.	Free cash flow usage of $867 million, as cash flows from operating activities were less than our net additions to PP&E and intangible assets of $2.0 billion.	Cash flows from operating activities of approximately $1.4 billion, while our net additions to PP&E and intangible assets are expected to be approximately $2.0 billion in fiscal year 2013. Our level of net additions to PP&E and intangible assets is expected to decrease in 2014 by approximately $500 million and in 2015 by approximately another $500 million.
Deliveries	We expected to deliver approximately 180 business aircraft and 55 commercial aircraft in the year ended December 31, 2012.	We delivered 179 business aircraft and 50 commercial aircraft.	Deliveries of approximately 190 business aircraft and 55 commercial aircraft in fiscal year 2013.

[1] See Forward-looking statements below.

Forward looking statements:

Forward-looking statements[2] in this section of the MD&A are based on:

- current firm order backlog and estimated future order intake;[3]
- an increase in deliveries of aircraft and improved pricing in fiscal years 2013 and 2014 compared to fiscal year 2012;
- continued deployment and execution of strategic initiatives related to quality improvement and cost reductions;
- our ability to meet scheduled entry-into-service dates and planned costs for new aircraft programs;
- our ability to recruit and retain highly skilled resources to deploy our product development strategy;
- the ability of our supply base to support planned production rates; and
- stability of foreign exchange rates.

(2) Also see the Guidance and forward-looking statements section in Overview.

(3) Demand forecast is based on the analysis of main market indicators, including real GDP growth, industry confidence, wealth creation and profitability within our customer base, aircraft utilization, pre-owned business jet inventory levels, pilot scope clauses, environmental regulations, globalization of trade, replacement demand, new aircraft programs and fast-growing markets and their accessibility. For more details, refer to the market indicators in the Industry and economic environment section.

INDUSTRY AND ECONOMIC ENVIRONMENT

Challenges remain in the short-term

The state of the world economy, and those of individual countries, are key factors in the demand for air travel. As such, the health of the aerospace industry is a function of general economic conditions, with a lag typically between economic recovery and the time it takes to reflect on the original equipment manufacturers' deliveries and revenues. Real GDP growth is the widely accepted measure of economic activity.

According to a report by IHS Global Insight dated February 15, 2013, worldwide real GDP increased by 2.3% in 2012, compared to an increase of 2.8% in 2011. IHS Global Insight predicts that the world economy is expected to grow by 2.2% in 2013.

The GDP in the U.S., the largest market for our business and commercial aircraft units, is expected to grow at 1.9% in 2013, compared to 2.2% GDP growth in 2012. Europe, our second largest market in terms of sales, is experiencing a number of economic challenges as GDP is expected to grow by only 0.3% in 2013, while it showed no growth in 2012.

Regions with high growth potential for business and commercial aviation such as China, India and the CIS are expected to grow in 2013 by 8.2%, 6.0% and 3.5%, respectively, as compared to GDP growth in 2012 of 7.8%, 5.1% and 3.5%, respectively.

We are closely monitoring the economic uncertainty and market volatility in the U.S. and Europe and the possible impact these may have on our business.

Business aircraft

For the first three quarters of 2012, the level of industry orders in the market categories in which we compete was comparable to that of the same period last year. However, a significant number of orders received in the fourth quarter of 2012 resulted in an order increase of approximately 24% for calendar year 2012 compared to 2011. The composition of these orders indicates that demand is stronger for larger aircraft than it is for smaller aircraft. During 2012, in the market categories in which we compete, the industry experienced a decrease of 1.1% in deliveries but a 1.2% increase in billings when compared to 2011.

Given the market conditions, some aircraft manufacturers opted to halt aircraft programs, while other manufacturers, like us, have a number of new business jets in development, with the view that the new models will not only benefit from improved market conditions expected in the future, but also contribute to the recovery by stimulating demand.

Our orders in 2012 increased by 80% compared to 2011 and were higher in all categories. Excluding the significant multi-aircraft orders received from NetJets Inc. and VistaJet in 2012 and 2011, our order intake increased by 43%. Our deliveries in 2012 increased by 10% when compared to 2011 across all market categories, partially due to last fiscal year comprising only 11 months. In 2012, for the fourth consecutive year and the ninth consecutive year, respectively, we were the market share leader in terms of deliveries and in terms of revenues in the overall market in which we compete.

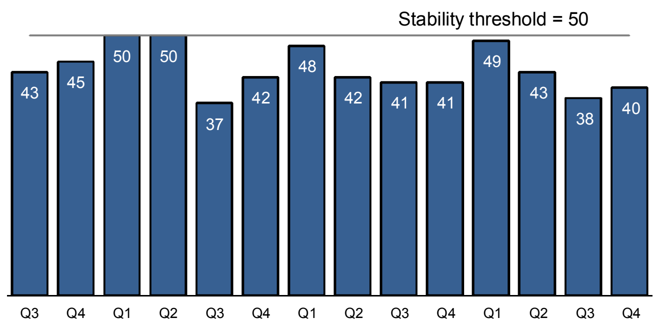
We use the following indicators to monitor the health of the business aviation market.

Business aircraft market indicators

Indicator	Current situation	Status
Industry confidence	The UBS Business Jet Market Index, which measures the industry confidence, had increased in the first quarter of 2012 to just under the threshold of market stability, but decreased to end 2012 at 40, a level comparable to that at the end of 2011.	→
Corporate profits	According to the Bureau of Economic Analysis, U.S. corporate profits increased year-over-year by 7.5% to $1,968 billion for the first nine months of 2012. Corporate profits are at an all-time high which should translate into future demand for aircraft from corporate flight departments.	↑
Pre-owned business jet inventory levels	In the light category, the level of pre-owned business aircraft inventory has been trending downward over the last two years and is now essentially at the upper end of what we consider to be the normal range for the market. In the medium category, the level of pre-owned business aircraft inventory has remained stable over the last two years and is within what we consider to be the normal range for the market. In the large category, the level of pre-owned business aircraft inventory has moved upward in the current year but remains below what we consider to be the normal range for the market.	→
Aircraft utilization rates	Business jet utilization in the U.S. remained stable throughout the year. Business jet utilization in Europe was relatively stable earlier in 2012 compared to the same period of the previous year, but then declined by approximately 4.5% year-over-year in the last six months of 2012.	→ ↓
Aircraft shipments and billings	Based on the General Aviation Manufacturers Association ("GAMA") airplane shipment report dated February 12, 2013 and other public sources, in the business aircraft market categories in which we compete, business aircraft deliveries decreased by 1.1% and total billings increased by 1.2% in 2012 as compared to 2011.	↑

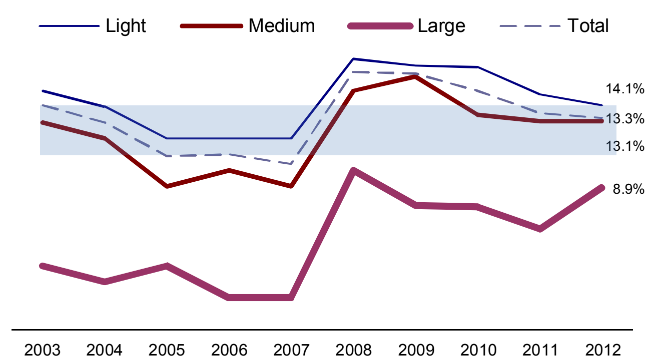
↑ → ↓ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

UBS BUSINESS JET MARKET INDEX[1]
(for calendar quarters; average on a 100-point scale)



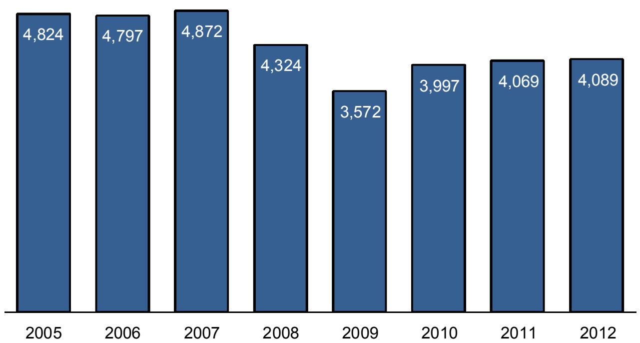
Source: UBS
(1) The UBS Business Jet Market Index is a measure of market confidence from industry professionals, gathered through bimonthly surveys of brokers, dealers, manufacturers, fractional providers, financiers and others.

PRE-OWNED BUSINESS JET INVENTORY
(for calendar years; as a percentage of total business jet fleet, excluding very light jets)



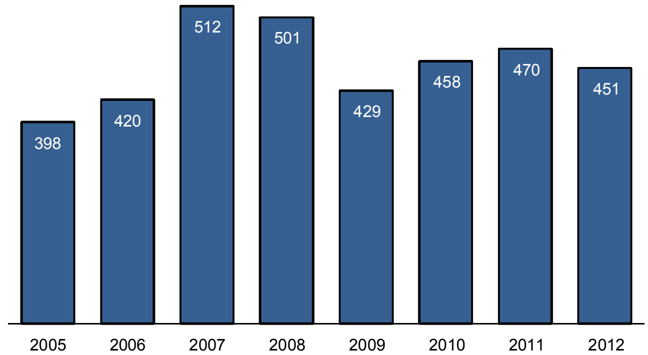
Source: JETNET and Ascend Online
Shaded area indicates what we consider to be a normal range of pre-owned business jet inventory available for sale, between 11% and 14%.

U.S. BUSINESS JET UTILIZATION
(for calendar years; in thousands of departures and arrivals for all business jets)



Source: Federal Aviation Administration (FAA) website

EUROPEAN BUSINESS JET UTILIZATION
(for calendar years; in thousands of departures and arrivals for all business jets)



Source: Eurocontrol

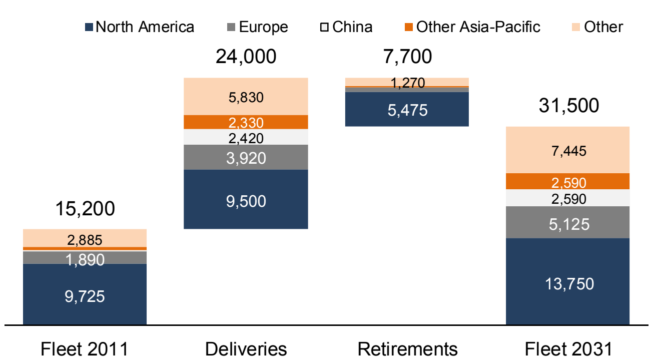
Short-term outlook

Current indicators in the business aviation market remain mixed. However, with a worldwide real GDP growth of 2.2% in 2013 as predicted by IHS Global Insight, we expect that worldwide business aircraft orders and deliveries for the industry will grow modestly in 2013. We expect to deliver approximately 190 business aircraft in fiscal year 2013 compared to 179 deliveries in 2012.

Long-term outlook

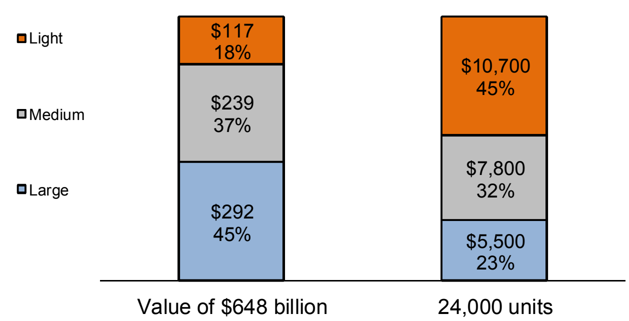
Although potential economic uncertainties may have an impact in the short term, we believe that the long-term market drivers of growth for the business jet industry, such as GDP growth, globalization of trade, fleet replacement, new aircraft programs to stimulate demand and growth in fast-growing markets, remain solid. The continued wealth creation in fast-growing markets coupled with aviation infrastructure development is expected to accelerate the use of business aircraft dramatically from levels seen today. As stated in our Business Aircraft Market Forecast, published in June 2012 and available on Bombardier's website at ir.bombardier.com, we estimate 24,000 aircraft deliveries in the light to large categories for the 20-year period from 2012 to 2031, valued at $648 billion in constant 2011 U.S. dollars. The worldwide business aircraft fleet is expected to more than double from 15,200 aircraft at the end of 2011 to 31,500 aircraft in 2031. We predict that North America will receive the greatest number of new business jet deliveries in the 20-year period with 9,500 aircraft, followed by Europe with 3,920 aircraft. Notably, China is expected to become the third largest market for business jet deliveries, with 2,420 deliveries between 2012 and 2031. We also expect other key growth markets in fast-growing economies to receive a significant share of business jet deliveries during the next 20 years.

BUSINESS AIRCRAFT FLEET EVOLUTION BY GEOGRAPHIC REGION
(for calendar years 2012 to 2031; in units)



Source: Bombardier Business Aircraft Market Forecast 2012-2031

BUSINESS AIRCRAFT MARKET FORECAST BY CATEGORY
(for calendar years 2012 to 2031; in billions of constant 2011 U.S. dollars and in units)



Source: Bombardier Business Aircraft Market Forecast 2012-2031

Commercial aircraft

Although near term prospects for commercial aircraft orders are generally good, the current volatile economic environment worldwide continues to impact our industry negatively. In particular, some countries in Europe are going through a period of economic uncertainty that makes demand for commercial aircraft uncertain.

In the U.S., the largest market for our aircraft, we have seen a slowdown in the number of large orders for regional jets and turboprops after the financial crisis and throughout the first half of 2012. However, we have been encouraged by the orders received in recent months which indicates that there is pent up demand for newer and more technologically advanced commercial aircraft. Several U.S. major network carriers entered into contract negotiations with their respective pilot unions in 2012 and many have reached agreements to modify scope clauses, thus permitting a higher number of larger regional aircraft to be flown by regional airlines' pilots affiliated with mainline airlines. To benefit from these agreements, airlines will likely order larger and more efficient regional aircraft, both regional jets and turboprop aircraft, to replace older and smaller regional jet aircraft.

Over the last 12 months, more than 50% of the industry's demand in the 20- to 149-seat category originated from markets outside of North America and Europe. Asia, Latin America, Africa and the Middle East are expected to continue to post enviable economic growth and we expect a significant share of the growth in demand to originate from these regions.

In June and in December 2012, respectively, the Interstate Aviation Committee, commonly known by its Russian acronym "MAK", awarded aircraft type certification to the *Q400 NextGen* aircraft and to the *CRJ700/900/1000* regional jets for operation in Russia and the CIS.

We delivered 36% fewer commercial aircraft in 2012 compared to 2011 mainly due to lower production rates to reflect current demand. However, our net orders increased by 156% compared to 2011 due to significant orders received from WestJet Airlines Ltd. for turboprops and from Delta Air Lines Inc. for regional aircraft in the latter part of 2012, as well as several orders from customers in fast-growing markets.

We use the following indicators to monitor the health of the commercial airline industry.

Commercial aircraft market indicators

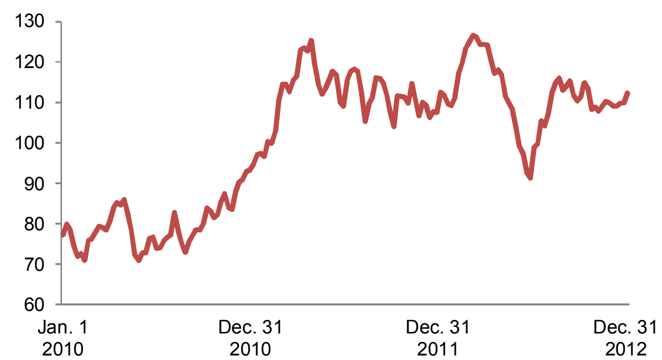
Indicator	Current situation	Status
Passenger traffic levels	The demand for new aircraft is primarily driven by the demand for air travel. Per IATA's December 2012 Air Transport Market Analysis report, scheduled domestic and international passenger traffic, measured by revenue passenger kilometres ("RPK"), was 4.0% and 6.0% higher, respectively, for the year-to-date period ended December 2012 as compared to the same period last year. As world passenger traffic increased, airlines achieved both domestic and international passenger load factors of 77.9% in December 2012 (77.7% and 76.2%, respectively, in December 2011). Yields, defined as average passenger revenue per revenue passenger kilometre, remained stable in 2012 as compared to 2011.	↑
	However, passenger traffic decreased in 2012 compared to 2011 for regional airlines in our two largest markets North America and Europe. Regional passenger traffic for the four major U.S. carriers (Delta Air Lines, American Airlines, United Airlines and US Airways) and their affiliates, which represent a major portion of the regional airline traffic in the U.S., declined by 0.5% in 2012 compared to 2011. The recession plaguing some European countries is having a negative impact on regional airline passenger traffic in Europe. Based on data compiled by the European Regions Airline Association (ERA), we estimated that traffic declined by 4.6% over the first nine months of 2012 as compared to the same period last year.	↓
Fuel prices	Planning is difficult for airlines when prices for one of the largest components of their operating costs remain volatile. In its January 2013 Short-term Energy Outlook, the U.S. Energy Information Administration (EIA) forecasted slightly lower prices for Brent crude oil in 2013 and 2014, at $105 per barrel and $99 per barrel, respectively, versus $112 per barrel in 2012. In the short-term, this should lower the pressure on airline profitability. However, the high volatility in crude oil prices should result in demand for more fuel-efficient aircraft.	→

Commercial aircraft market indicators (continued)

Indicator	Current situation	Status
Airline profitability	Airline financial performance continued to improve throughout 2012 after a sharp drop in the first quarter. U.S. airlines continued to improve their profitability. Although facing a troubled economy, European airlines are forecasted to break even in net profit. Asia-Pacific has been the largest contributor to industry profitability for four consecutive years. In its December 2012 Financial Forecast, IATA estimated that airlines' net profit should amount to $6.7 billion in 2012, a third consecutive year of positive net profits for the industry.	↑
Environ-mental regulations	Stringent environmental regulations speed up the retirement of old generation aircraft as carriers seek lower per-passenger fuel burns and emissions. On the other hand, fees and charges associated with these regulations hamper airline operating economics, adversely impacting airlines re-fleeting decisions. In late 2012, the European Commission deferred certain regulations related to emission allowances for flights into and out of Europe until late 2013, thus deferring any adverse impact.	↑ →
Aircraft shipments	Based on delivery data available from OAG Fleet iNet and other public sources, there were 269 deliveries for the industry of aircraft in the 20- to 149-seat category in 2012, a reduction of 23% compared to 2011. Lower deliveries are the result of weaker order intake in the years following the economic downturn. Despite increasing demand from fast-growing countries, the industry received a smaller number of large orders from U.S. major network carriers over recent years.	↓
Replace-ment demand	We estimate that most commercial aircraft have life cycles ranging between 15 to 30 years. Based on data obtained from OAG Fleet iNet, at the end of 2012, an estimated 45% of the world active fleet in the 20- to 149-seat aircraft category was over 15 years old. Mature markets such as North America and Western Europe will continue to replenish their existing aircraft fleet with new aircraft.	↑

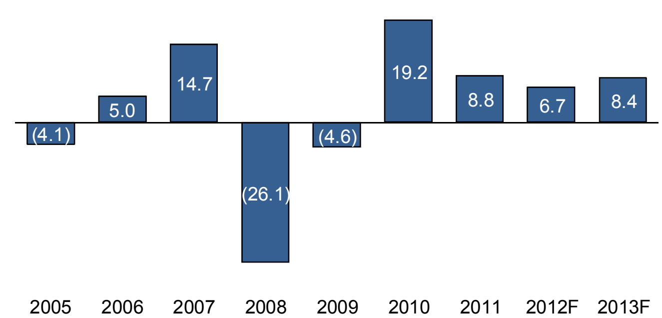
↑ → ↓ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

FUEL PRICES
(Brent crude oil prices; in dollars per barrel)



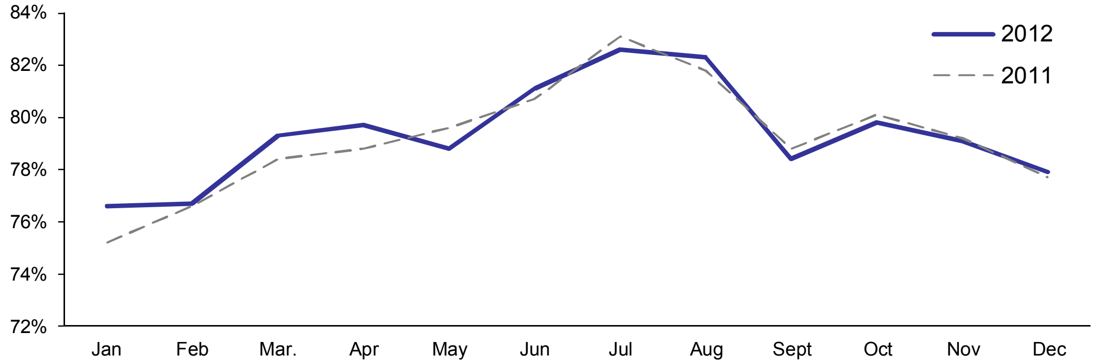
Source: U.S. EIA

GLOBAL AIRLINES' NET PROFIT (LOSS)
(for calendar years; in billions of dollars)

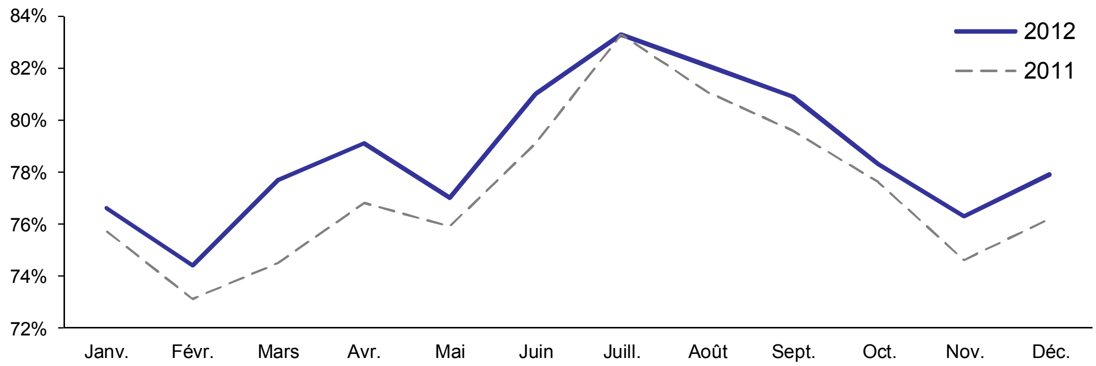


Source: IATA Financial Forecast, December 2012
F: Forecast

DOMESTIC PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres; for 2011 and 2012)



INTERNATIONAL PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres; for 2011 and 2012)



Source: IATA statistics for international and domestic air travel.

Passenger load factor is defined as the percentage of available seat kilometres used (revenue passenger kilometres divided by available seat kilometres).

Revenue passenger kilometres is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported over one kilometre.

Available seat kilometres are measured as the number of seats multiplied by the kilometres flown, whether a passenger occupied the seat or not.

Short-term outlook

We expect the world economy to improve over the next 24 months and order intake should follow. In its December 2012 Financial Forecast, IATA projected airline profits to grow from $6.7 billion in 2012 to $8.4 billion in 2013. IATA estimates that a world GDP growth rate of 2% is needed for airlines to break-even. Over the last three years, airlines have remained profitable due to improved efficiency and restructuring. This forecast assumes the Eurozone situation does not deteriorate significantly, fiscal and monetary policy continues to support economic growth in the U.S., and the Chinese economy stabilizes. We also expect total deliveries in the 20- to 149-seat aircraft category to increase starting in 2014.

All elements are in place for a recovery of the North American 20- to 149-seat aircraft category in the short to medium term. We believe that the market for 20- to 149-seat aircraft will return to growth as airlines continue to focus on fleet optimization, efficiency and on the environment.

In Europe, the sovereign debt problem is still creating volatility and most countries will continue to face economic conditions close to recession in 2013, including high unemployment and low growth. In this context we do not expect much growth in demand for regional aircraft in Europe in 2013. European airlines are likely to continue to focus on consolidation and restructuring of operations. Most of the fleet growth which will occur is expected to come from low fare carriers.

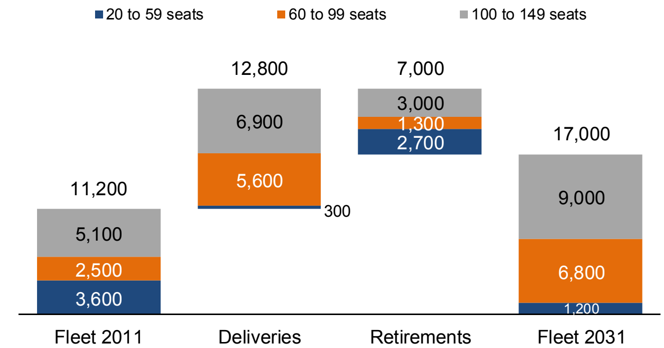
In fast-growing markets, we have seen a significant increase in demand from Asia-Pacific and Latin America over recent years. As the Chinese economy picks up from the slowdown in 2012, many of its major trade partners should also follow suit. The strong correlation between passenger traffic and economic growth in fast-growing markets should translate into continued aircraft demand in the near future. This demand will be met by a combination of pre-owned and new aircraft.

We expect to deliver approximately 55 commercial aircraft in fiscal year 2013 compared to 50 deliveries in 2012.

Long-term outlook

According to our Commercial Aircraft Market Forecast, published in June 2012 and available on Bombardier's website at ir.bombardier.com, we estimate 12,800 new aircraft deliveries for 20- to 149-seat commercial aircraft for the 20-year period from 2012 to 2031, with 300 deliveries in the 20- to 59-seat category, 5,600 deliveries in the 60- to 99-seat category and 6,900 deliveries in the 100- to 149-seat category. The total forecast deliveries are valued at over $630 billion in constant 2011 U.S. dollars.

WORLDWIDE FLEET FORECAST FOR 20- TO 149-SEAT COMMERCIAL AIRCRAFT
(for calendar years 2012 to 2031; in units)



Source: Bombardier Commercial Aircraft Market Forecast 2012-2031

Global demand for air travel and new aircraft continues to shift towards fast-growing markets, although not as rapidly as anticipated in previous forecasts. North America is expected to lead the way in aircraft deliveries over the forecast period, taking in an expected 4,730 new aircraft, followed by China with 2,220 new aircraft. The forecast demand for Europe is expected to be 1,590 aircraft.

In the long-term, EIA predicts in its Annual Energy Outlook 2013 Early Release report that the oil price will increase, driven by expanding energy demand. We believe that high fuel costs will accelerate the retirement of old, less efficient aircraft types increasing demand for new fuel-efficient aircraft.

The 60- to 99-seat category's growth will be driven largely by the evolving relationship between mainline and regional carriers. The outsourcing of regional aircraft operations to carriers with appropriate, low-cost structures, namely regional airlines, continues to be the main thrust of network optimization efforts. Furthermore, the attractive economics and operational flexibility of regional aircraft can be used to right-size aircraft capacity according to traffic demand.

Our strategy to occupy the 100-to 149-seat market category with the *CSeries* aircraft that will deliver superior operating economics, through advances in technology, as well as operational flexibility and attention to passenger comfort, will help to stimulate new aircraft demand and accelerate the retirement of older aircraft.

Customer services

Our world-wide customer services network includes regional support offices ("RSO"), authorized service facilities ("ASF"), line maintenance facilities ("LMF"), service centres, parts hubs, parts depots as well as training centres.

The parts services organization supports the parts requirements of our customers for the life of the aircraft. Our competitive strength includes the availability of spare parts for our aircraft and our original equipment manufacturer ("OEM") certification along with OEM technical advice. We also offer a number of spare parts programs for customers including the *SmartParts* program, which allows customers to purchase spare parts on a cost-per-flight-hour basis. The demand for comprehensive spare parts/services programs ("one-stop shopping") is expected to continue to grow. Training is also an essential part of our customer services portfolio. We offer a full suite of pilot and maintenance training solutions for our aircraft customers.

New customer support locations in 2012	
RSO	
Farnborough, UK	Business aircraft
Fort Lauderdale, Florida	Business aircraft
Hartford, Connecticut	Business aircraft
Tucson, Arizona	Business aircraft
Moscow, Russia	Commercial aircraft
ASF / LMF	
Doha, Qatar	Business aircraft
Lagos, Nigeria	Business aircraft
New Delhi, India	Business aircraft
Peterborough, Canada	Business aircraft
Shanghai, China	Business aircraft
St Louis, Missouri	Business aircraft
Tianjin, China	Business aircraft
Johannesburg, South Africa	Commercial aircraft
Kazan, Russia	Commercial aircraft

The demand for customer services is driven by the size of the fleet of Bombardier aircraft, by the number of hours flown by such a fleet and by the number of aircraft exiting the warranty period. The continued growth of the installed fleet will contribute to growth in demand for customer services. While traditional markets such as North America and Europe will dominate in terms of market size, the fleet growth in fast-growing markets is accelerating and creating new opportunities for customer services.

The customer services market represents a large growth opportunity for Bombardier. In order to capture a larger share of this market and to further improve customer satisfaction, we continue to develop innovative and comprehensive service solutions and to invest in building our international service and support capabilities. We continue to actively seek out strategic locations for expansion in order to move closer to customers, improve response time and build stronger relationships around the globe. Historically, the U.S. represented the largest share of deliveries for both business and commercial aircraft. Wealth creation and economic development in fast-growing markets is driving a shift in the proportion of business and commercial aircraft delivered outside of the U.S. This trend in demand impacts the geographical layout of our support network. In the fast-growing markets, our strategy is to increase our local customer support presence and leverage our partnerships to deploy our full span of services.

In 2012, we continued to make important progress across the globe opening new customer support locations to better serve our customers. Also, in 2013, we intend to open a full-scale company-owned and operated service centre in Singapore for business aircraft.

We deployed dedicated Mobile Response Parties to seven regions in the U.S., to perform maintenance at operators' locations.

Also, in collaboration with a supplier, we announced the opening of a new Bombardier-dedicated training centre in Amsterdam, scheduled to open in 2014. The Bombardier-dedicated facility will begin by offering training on *Global 5000* and *Global 6000* aircraft equipped with the *Bombardier Vision* Flight Deck, and then expand progressively based on demand.

Our Dubai parts depot has grown and moved to a new facility to allow for greater inventory capacity, which was successfully completed in September 2012. We also upgraded our Frankfurt parts facility to full hub capability, which allows for reduced turnaround times and increased parts availability for customers in Europe, the Middle East and Africa.

We have inaugurated our new sales and marketing offices in Shanghai and in Dallas, to serve our growing activities.

Customer services network around the world				
	Americas	**Europe, Russia and CIS**	**Asia-Pacific**	**Africa and Middle East**
Service centres	8	1	-	-
RSO	4	3	6	1
AFS / LMF	22	17	13	8
Parts depots / hubs	2	2	5	1
Training centers	2	-	-	-
Authorized training providers	7	3	1	1

ANALYSIS OF RESULTS

The difficult economic environment continues to impact our results

Results of operations

	Three months ended	Two months ended	**12 months ended**	11 months ended
	December 31 2012	December 31 2011	**December 31 2012**	December 31 2011
Revenues				
Manufacturing				
Business aircraft	**$ 1,448**	$ 1,198	**$ 4,590**	$ 4,262
Commercial aircraft	**375**	241	**1,115**	1,721
Other	**133**	104	**521**	507
Total manufacturing	**1,956**	1,543	**6,226**	6,490
Services[1]	**458**	282	**1,718**	1,522
Other[2]	**183**	191	**684**	582
Total revenues	**2,597**	2,016	**8,628**	8,594
Cost of sales	**2,254**	1,717	**7,418**	7,355
Gross margin	**343**	299	**1,210**	1,239
SG&A	**187**	132	**699**	621
R&D	**52**	27	**155**	122
Other expense (income)[3]	**15**	13	**(26)**	(6)
EBIT before special items	**89**	127	**382**	502
Special items[4]	**-**	-	**(23)**	-
EBIT	**89**	127	**405**	502
Amortization[5]	**75**	39	**242**	195
EBITDA	**$ 164**	$ 166	**$ 647**	$ 697
EBITDA before special items	**$ 164**	$ 166	**$ 624**	$ 697
(as a percentage of total revenues)				
Gross margin	**13.2%**	14.8%	**14.0%**	14.4%
EBIT before special items	**3.4%**	6.3%	**4.4%**	5.8%
EBIT	**3.4%**	6.3%	**4.7%**	5.8%
EBITDA before special items	**6.3%**	8.2%	**7.2%**	8.1%
EBITDA	**6.3%**	8.2%	**7.5%**	8.1%

(1) Includes revenues from parts services, *Flexjet* fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.
(2) Mainly includes sales of pre-owned aircraft.
(3) Includes i) net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding the losses (gains) arising from changes in interest rates; ii) severance and other involuntary termination costs (including changes in estimates); and iii) gains on disposals of PP&E.
(4) The special item for the fiscal year ended December 31, 2012 relates to a gain following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations.
(5) Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset.

Revenues by geographic region[1]

	12 months ended December 31, 2012		11 months ended December 31, 2011	
North America	**$ 4,811**	**56%**	$ 4,281	50%
Europe	**1,723**	**20%**	1,907	22%
Asia-Pacific	**1,126**	**13%**	1,282	15%
Rest of world[2]	**968**	**11%**	1,124	13%
	$ 8,628	**100%**	$ 8,594	100%

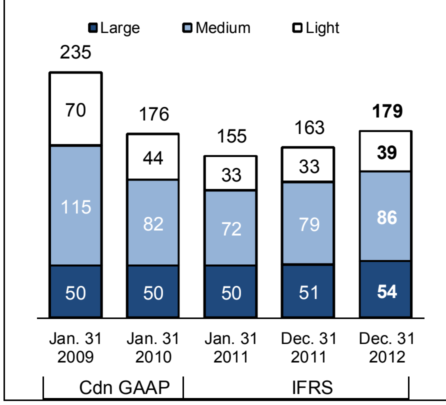
(1) Revenues are attributed to countries based on the location of the customer.
(2) The region Rest of world includes South America, Central America, Africa, the Middle East and the CIS.

Total aircraft deliveries

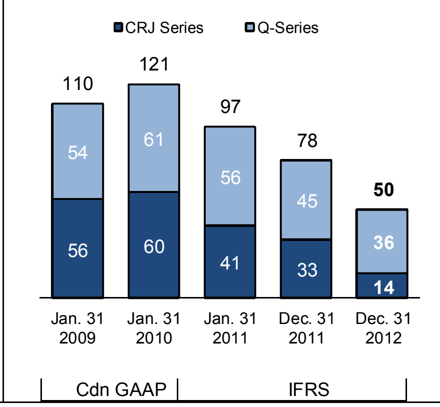
(in units)	**Three months ended December 31 2012**	Two months ended December 31 2011	**12 months ended December 31 2012**	11 months ended December 31 2011
Business aircraft				
Excluding those of the Flexjet fractional ownership program	**59**	47	**176**	161
Flexjet fractional ownership program[(1)]	**1**	1	**3**	2
	60	48	**179**	163
Commercial aircraft	**16**	11	**50**	78
Amphibious aircraft	**1**	1	**4**	4
	77	60	**233**	245

(1) An aircraft delivery is included in the above table when the equivalent of 100% of the fractional shares of an aircraft model has been sold to external customers through Flexjet, or when a whole aircraft has been sold to external customers through the *Flexjet* One program.

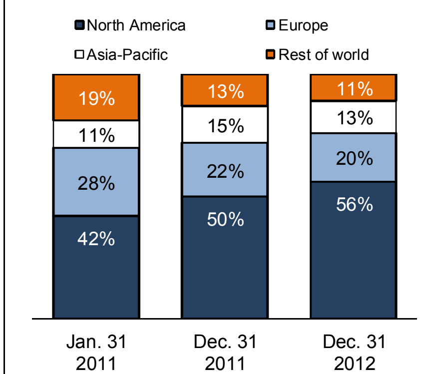
BUSINESS AIRCRAFT DELIVERIES[(1)]
(for the fiscal years ended; in units)



COMMERCIAL AIRCRAFT DELIVERIES[(1)]
(for the fiscal years ended; in units)



REVENUES TREND BY GEOGRAPHIC REGION[(2)] (for the fiscal years ended)



(1) The fiscal year ended December 31, 2011 comprises 11 months of results.
(2) Revenues are attributed to countries based on the location of the customer.

Manufacturing revenues

The $413-million increase for the fourth quarter is mainly due to:

- higher deliveries of business aircraft, mainly as a result of the quarter ended December 31, 2011 comprising only two months, partly offset by lower selling prices mainly in the light category ($250 million); and
- higher deliveries of commercial aircraft, mainly as a result of the quarter ended December 31, 2011 comprising only two months ($134 million).

The $264-million decrease for the fiscal year is mainly due to:

- lower deliveries of commercial aircraft, mainly due to lower production rates to reflect current demand ($606 million).

Partially offset by:

- higher deliveries of business aircraft, mainly as a result of the year ended December 31, 2011 comprising only 11 months ($328 million).

Services revenues

The $176-million and $196-million increases for the fourth quarter and the fiscal year are due to higher volume mainly as a result of the quarter and fiscal year ended December 31, 2011 comprising only two and 11 months, respectively.

Other revenues
The $102-million increase for the fiscal year is mainly due to higher deliveries and a favourable sales mix of pre-owned business aircraft.

EBIT margin
The 2.9 percentage-point decrease in EBIT margin for the fourth quarter ended December 31, 2012 is mainly due to:

- higher cost of sales per unit, mainly due to price escalation of materials;
- lower absorption of higher SG&A expenses;
- lower net selling prices for business aircraft, mainly in the light category;
- costs incurred in Canadian dollars translated at higher exchange rates, after giving effect to hedges; and
- higher R&D expenses due to higher amortization of aerospace program tooling.

Partially offset by:

- higher margins from services activities; and
- a favourable mix of business aircraft deliveries.

The EBIT margin for the fiscal year ended December 31, 2012 decreased by 1.1 percentage-points. The EBIT margin before special items (see explanation of special items below) for the fiscal year ended December 31, 2012 decreased by 1.4 percentage-points mainly as a result of:

- higher cost of sales per unit, mainly due to price escalation of materials for business aircraft and to lower absorption of fixed overhead costs due to lower volume for commercial aircraft;
- costs incurred in Canadian dollars translated at higher exchange rates, after giving effect to hedges;
- lower absorption of higher SG&A expenses; and
- higher R&D expenses due to higher amortization of aerospace program tooling.

Partially offset by:

- higher margins from services activities;
- the mix between business and commercial deliveries;
- higher net selling prices for business and commercial aircraft;
- a net positive variance on provisions for credit and residual value guarantees recorded in other expense (income); and
- a favourable mix of business aircraft deliveries.

For the fiscal year ended December 31, 2012, a special item positively impacted the EBIT margin by 0.3 percentage points, related to a $23 million gain following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations.

Strong liquidity generated by our operations partially financed our significant investment in product development

Free cash flow (usage)

	Three months ended	Two months ended	**12 months ended**	11 months ended
	December 31 2012	December 31 2011	**December 31 2012**	December 31 2011
EBIT	**$ 89**	$ 127	**$ 405**	$ 502
Amortization	**75**	39	**242**	195
EBITDA	**164**	166	**647**	697
Other non-cash items:				
(Gains) losses on disposals of PP&E	**1**	-	**(2)**	-
Share-based expense	**2**	3	**3**	19
Net change in non-cash balances related to operations	**685**	273	**456**	151
Cash flows from operating activities	**852**	442	**1,104**	867
Net additions to PP&E and intangible assets	**(575)**	(332)	**(1,971)**	(1,320)
Free cash flow (usage)	**$ 277**	$ 110	**$ (867)**	$ (453)

The $167-million increase for the fourth quarter is mainly due to:

- a positive period-over-period variation in net change in non-cash balances related to operations ($412 million) (see explanation below).

Partially offset by:

- higher net additions to PP&E and intangible assets ($243 million).

The $414-million decrease for the fiscal year is mainly due to:

- higher net additions to PP&E and intangible assets ($651 million), due to our significant investments in product development; and
- lower EBITDA ($50 million).

Partially offset by:

- a positive period-over-period variation in net change in non-cash balances related to operations ($305 million) (see explanation below).

Net change in non-cash balances related to operations

For the fourth quarter ended December 31, 2012, the $685-million cash inflow is mainly due to:

- an increase in advances on aerospace programs mainly resulting from higher order intake than deliveries for business and commercial aircraft; and
- a decrease in work-in-process and finished goods inventories mainly in the light category in business aircraft and in pre-owned business aircraft.

For the fourth quarter ended December 31, 2011, the $273-million cash inflow was mainly due to:

- a decrease in work-in-process inventories, mainly due to significant deliveries of business aircraft.

Partially offset by:

- a decrease in advances on aerospace programs due to higher deliveries than orders received for business aircraft.

For the fiscal year ended December 31, 2012, the $456-million cash inflow is mainly due to:

- an increase in advances on aerospace programs mainly resulting from higher order intake than deliveries for business and commercial aircraft;
- an increase in trade and other payables; and
- a decrease in pre-owned business aircraft inventories.

Partially offset by:

- an increase in work-in-process inventories mainly for business aircraft.

For the fiscal year ended December 31, 2011, the $151-million cash inflow was mainly due to:

- an increase in trade and other payables.

Partially offset by:

- a decrease in advances on aerospace programs due to higher deliveries than orders received for regional jets and turboprops, partially offset by higher orders received than deliveries of business aircraft.

We have reached a high point of our development spending

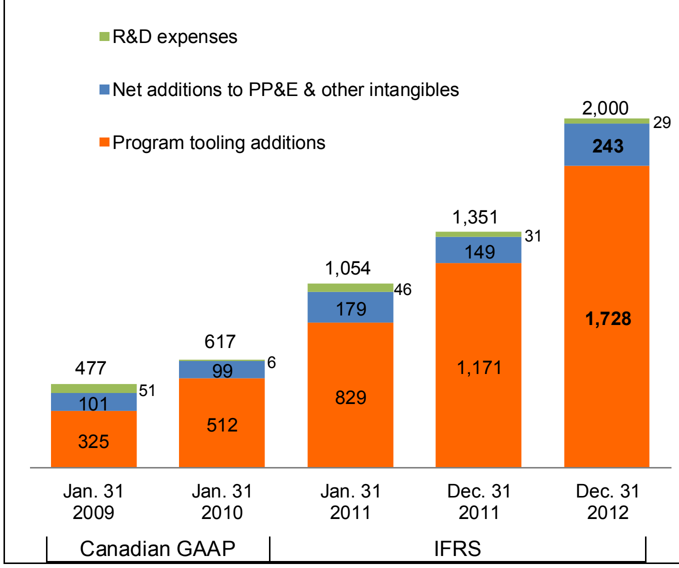
Investment in product development

	Three months ended	Two months ended	**12 months ended**	11 months ended
	December 31 2012	December 31 2011	**December 31 2012**	December 31 2011
Program tooling[1]	**$ 512**	$ 303	**$ 1,728**	$ 1,171
R&D expense[2]	**9**	6	**29**	31
	$ 521	$ 309	**$ 1,757**	$ 1,202
As a percentage of manufacturing revenues	**26.6%**	20.0%	**28.2%**	18.5%

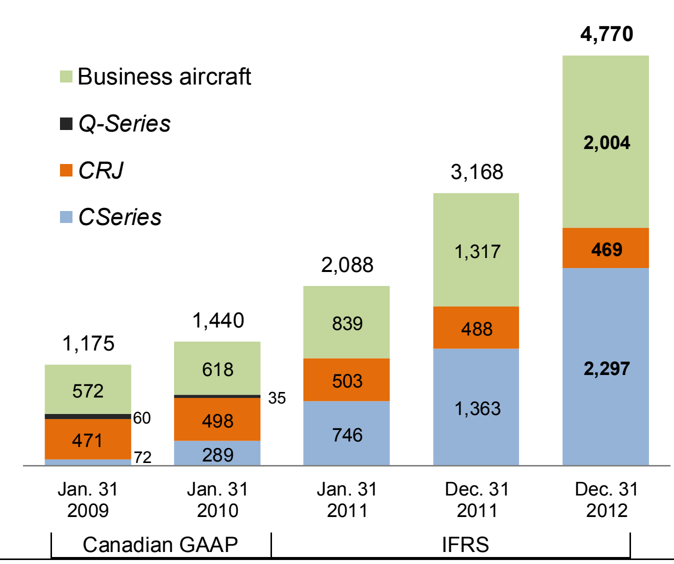
(1) Capitalized in aerospace program tooling.
(2) Excluding amortization of aerospace program tooling of $43 million and $126 million, respectively, for the fourth quarter and fiscal year ended December 31, 2012 ($21 million and $ 91 million, respectively, for the fourth quarter and fiscal year ended December 31, 2011), as the related investments are already included in aerospace program tooling.

Our program tooling additions essentially relate to the development of the *CSeries* family of aircraft, the *Learjet 85* aircraft, as well as the *Global 7000* and *Global 8000* aircraft programs.

EXPENDITURES ON PRODUCT DEVELOPMENT INITIATIVES
(for the fiscal years ended)



AEROSPACE PROGRAM TOOLING
(as at)



Fostering the proper control environment to achieve our objectives

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

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

We also follow a thorough review process which starts before an aircraft is launched, by assessing all new programs through the Aircraft Portfolio Strategy Board (APSB). With representation from all key functions involved, APSB ensures that we are internally aligned and capable of delivering on our commitments at all levels of the organization. Among others, this review confirms the availability of human and financial resources, the maturity and manufacturing readiness of new technologies and the overall strength of the business case, by imposing increasingly strict business guidelines as a program approaches launch. This process is performed in parallel with the pre-launch Bombardier Engineering System stages (conceptual definition and launch preparation), and ultimately culminates with the approval of Bombardier's Board of Directors, at which time we usually begin capitalization of product development expenditures as program tooling.

Other key controls are also followed throughout the development process, to ensure that we execute as planned in our product development. We continuously apply what we have learned from one program to other programs, by sharing ideas and learning in our various functional committees as well as through regular peer reviews, bringing together expertise across all platforms to drive alignment and common approaches, establish best practices and leverage the knowledge and experience of our best people.

In order to foster the proper innovative environment in our product development and manufacturing processes, we continue to invest in developing state-of-the-art facilities.

The *CS100* aircraft program is in the product definition release phase, and the *CS300* aircraft program is in the detailed design phase. The first flight of the *CS100* aircraft is scheduled to occur by the end of June 2013 and we expect that EIS of the *CS100* aircraft will occur approximately one year after first flight. The *CS300* aircraft program's planned EIS in 2014 remains unchanged.	
Testing	Following the commissioning of all the test rigs, we are conducting virtual flights with "CIASTA/Aircraft 0", our on-the-ground integrated systems test and certification rig. The avionics, electrical, flight control, fly-by-wire, hydraulic, landing gear and wiring systems are now all commissioned, and systems integration and communication have been successfully demonstrated. To date tests have shown results as expected.
	The assembly of the test airframe known as the Complete Airframe Static Test (CAST) article, an aircraft destined for ground testing only to demonstrate the static strength of the airframe and show compliance with certification requirements, is complete at our Experimental Test Facility in Saint-Laurent, Québec.
	The major components such as the wings, cockpit and all fuselage sections for the first flight test vehicle (FTV1) have been mated on site at Mirabel, Québec (the production site of the program), the engines have been mounted on the airframe and the final assembly of the FTV1 is in progress. Other flight test vehicles are in various stages of fabrication and assembly.
	The components and systems continue to be tested worldwide and the data received to date confirms that the aircraft development programs are on track to reach key performance targets. The *CSeries* aircraft family is expected to offer a 15% cash operating cost advantage and a 20% fuel burn advantage compared to any other aircraft currently in production in this category. The clean-sheet design ensures that the aircraft will achieve greatly reduced noise and emissions, as well as superior operational flexibility, exceptional airfield performance and a range of 2,950 nautical miles (5,463 km).[1]
Suppliers	In February 2013, Pratt and Whitney's PW1500 geared-turbofan engine, the engine that will power the *CSeries* aircraft, was awarded certification by Transport Canada.
	All suppliers have begun the manufacturing of components and all major supplier safety-of-flight test rigs have been commissioned.
Facilities	The existing facility in Mirabel, Québec, is being transformed and optimized. The site expansion started with the Complete Integrated Aircraft System Test Area's (CIASTA) building and has since continued with the refurbishment of existing production bays for the assembly of the *CSeries* flight test vehicles and pre-flight test activities. A technologically advanced building, the CIASTA was constructed based on LEED (Leadership in Energy and Environmental Design) criteria and obtained its LEED designation in 2013.
Strategic cooperation	Further to the framework agreement signed in March 2011, we signed a definitive agreement with Commercial Aircraft Corporation of China Ltd. (COMAC) in March 2012 covering program commonalities between COMAC's C919 aircraft and our *CSeries* aircraft. In addition, in November 2012, we signed a Letter of Intent with COMAC signaling the beginning of Phase II of our strategic collaboration. The second phase of our cooperation will explore further possibilities for C919 and *CSeries* aircraft commonalities, marketing and sales cooperation, expanded joint customer service capabilities, collaboration on product testing and certification, as well as opportunities for collaboration on future COMAC and Bombardier product lines.

[1] Key performance targets, under certain operating conditions, when compared to aircraft currently in production, for flights of 500 nautical miles. See *CSeries* family of aircraft program disclaimer at the end of this MD&A.

The *Learjet 85* aircraft program is in the product definition release phase and is progressing towards EIS, which is now scheduled for the summer of 2014.	
Production & testing	The build of FTV1 is significantly advanced. The complete pressure fuselage, including the nose, aft fuselage and empennage, have been successfully joined. The wing has been attached to the fuselage and the landing gear has been installed. Electrical power-on to major harnesses was successfully achieved in December 2012. However, while we have successfully dealt with several new technology challenges, the program's timeline has been impacted and EIS is now scheduled for summer 2014. Other flight test vehicles are in various stages of fabrication and assembly. The Complete Aircraft Structural Test (CAST) article will shortly be at the National Institute for Aerospace Research (NIAR) in readiness for structural safety-of-flight testing. As part of the Wichita State University, NIAR is an aviation research center in the U.S. which specializes in testing of composite materials.
	As part of the Bombardier composite structural technology readiness program, we are validating and certifying the manufacturing process for our composite technology with the U.S. Federal Aviation Administration (FAA).
	Initial bird strike testing on the aircraft nose section has been successfully achieved.
Suppliers	All suppliers have begun the manufacturing of components and all supplier safety-of-flight test rigs have been commissioned. Testing has started for safety of flight purposes. These test rigs are initially used to ensure that system safety critical tests are conducted for components prior to shipment of flightworthy parts to the final assembly line in Wichita.
	FTV1's engines are now on site at the final assembly line in Wichita.
Facilities	The final assembly line in Wichita is operational. A ground-breaking ceremony on April 30, 2012, marked the official start of the next phase of the *Learjet* Wichita site expansion plan. The site expansion includes building a new hangar, paint facilities and a new delivery centre to support the *Learjet 85* aircraft program.

The *Learjet 70* and *Learjet 75* aircraft programs are in the product definition release phase and are progressing towards EIS in the summer of 2013 for the *Learjet 75* aircraft and in the second half of 2013 for the *Learjet 70* aircraft.	
Production and testing	In August 2012, we powered the first *Learjet 75* aircraft's electrical systems, including the *Bombardier Vision* Flight Deck, on the Wichita production line. With full power on, the production line has begun functional testing of the *Bombardier Vision* Flight Deck and other systems.
	Flight testing for the new *Bombardier Vision* Flight Deck, upgraded engine and new contoured winglet is in progress. Three flight test vehicles have logged more than 85% of the flight test program and the remaining flight test vehicles are under assembly.
	The assembly of the first production aircraft has begun in Wichita.
Suppliers	Critical Design Review, the milestone that marks the review of the final design against certain technical requirements as well as cost, weight, and performance targets, has been conducted for all major suppliers, leading to design freeze. Suppliers are in the final stages of qualification testing for their components and are delivering parts to the production line.
Facilities	The aircraft program will use the same manufacturing and assembly processes as the *Learjet 40 XR* and *Learjet 45 XR* aircraft.

The *Global 7000* and *Global 8000* aircraft programs are in the joint definition phase and are progressing towards planned EIS in 2016 and 2017, respectively.	
Suppliers	Our product development team and our suppliers' representatives are co-located at our Aerospace Product Development Centre in Montréal and are focused on advancing the technical design of the aircraft. We have essentially completed the selection of suppliers on the programs.

The *Bombardier Vision* Flight Deck has entered into service.	
Certification	Following certification from the European Aviation Safety Agency (EASA) and the U.S. Federal Aviation Administration (FAA), the *Bombardier Vision* Flight Deck entered into service in March 2012 on *Global 5000* and *Global 6000* aircraft.

Overall deliveries in line with our guidance

Business aircraft deliveries

(in units)	**Three months ended December 31 2012**	Two months ended December 31 2011	**12 months ended December 31 2012**	11 months ended December 31 2011
Light				
Learjet 40 XR/Learjet 45 XR	**11**	8	**24**	15
Learjet 60 XR	**8**	5	**15**	18
Medium				
Challenger 300	**13**	8	**48**	34
Challenger 605	**7**	11	**34**	39
Challenger 800 Series	**2**	3	**4**	6
Large				
Global 5000/Global Express XRS/Global 6000	**19**	13	**54**	51
	60	48	**179**	163

Deliveries of business aircraft in the fourth quarter increased by 25% as compared to the corresponding period last year, mainly due to the quarter ended December 31, 2011 comprising only two months. Deliveries in the fiscal year increased by 10% as compared to last year, as a result of the fiscal year ended December 31, 2011 comprising only 11 months.

Commercial aircraft deliveries

(in units)	**Three months ended December 31 2012**	Two months ended December 31 2011	**12 months ended December 31 2012**	11 months ended December 31 2011
Regional jets				
CRJ700 NextGen	**-**	-	**1**	10
CRJ900 NextGen	**2**	2	**5**	12
CRJ1000 NextGen	**5**	3	**8**	11
Turboprops				
Q400 NextGen	**9**	6	**36**	45
	16	11	**50**	78

Deliveries of commercial aircraft in the fourth quarter increased by 45%, mainly due to the quarter ended December 31, 2011 comprising only two months. During the fiscal year, deliveries decreased by 36%, mainly due to lower production rates to reflect current demand.

Impressive order intake despite a difficult economic environment

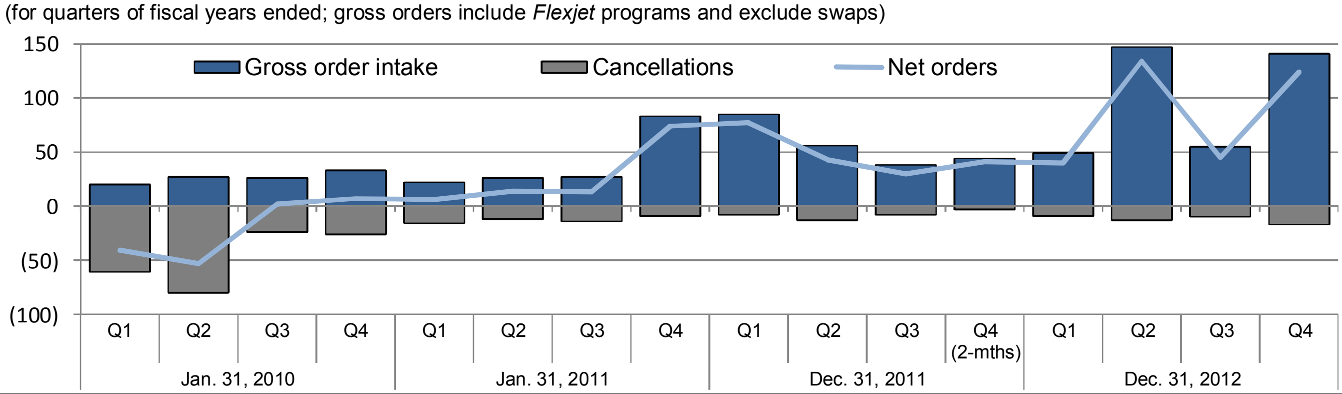
Total aircraft net orders

	December 31, 2012			December 31, 2011		
	Gross orders	**Cancellations**	**Net orders**	Gross orders	Cancellations	Net orders
Fourth quarters ended			**Three months ended**			Two months ended
Business aircraft (including those of the Flexjet fractional ownership program)	**141**	**(17)**	**124**	44	(3)	41
Commercial aircraft	**60**	**-**	**60**	2	-	2
	201	**(17)**	**184**	46	(3)	43
Fiscal years ended			**12 months ended**			11 months ended
Business aircraft (including those of the Flexjet fractional ownership program)	**392**	**(49)**	**343**	223	(32)	191
Commercial aircraft	**138**	**-**	**138**	54	-	54
Amphibious aircraft	**-**	**-**	**-**	4	-	4
	530	**(49)**	**481**	281	(32)	249

Business aircraft

The increase in the net order intake for business aircraft, for the fiscal year ended December 31, 2012 as compared to last fiscal year, is mainly due to significant orders obtained from NetJets Inc. for 100 *Challenger* aircraft and from VistaJet for 56 *Global* aircraft, compared to significant orders obtained from NetJets Inc. for 50 *Global* aircraft and from VistaJet for 10 *Global* aircraft during last fiscal year. Excluding the significant multi-aircraft orders received from NetJets Inc. and VistaJet in 2012 and 2011, our order intake increased by 43%.

BUSINESS AIRCRAFT GROSS/NET ORDERS
(for quarters of fiscal years ended; gross orders include *Flexjet* programs and exclude swaps)



The following significant orders were received during the fiscal year ended December 31, 2012:

Customer	**Firm order**	**Options[(1)]**	**Value of firm orders based on list prices**
VistaJet	25 *Global 5000* 25 *Global 6000* 6 *Global 8000*	40 *Global 5000* 40 *Global 6000* 6 *Global 8000*	$3.1 billion
NetJets Inc.	75 *Challenger 300* Series 25 *Challenger 605* Series	125 *Challenger 300* Series 50 *Challenger 605* Series	$2.6 billion
Five undisclosed customers	22 *Global 6000* 10 *Global 8000*	-	$2.0 billion
AVWest (Australia)	5 *Global 6000*	-	$293 million

(1) Not included in the order backlog.

Commercial aircraft

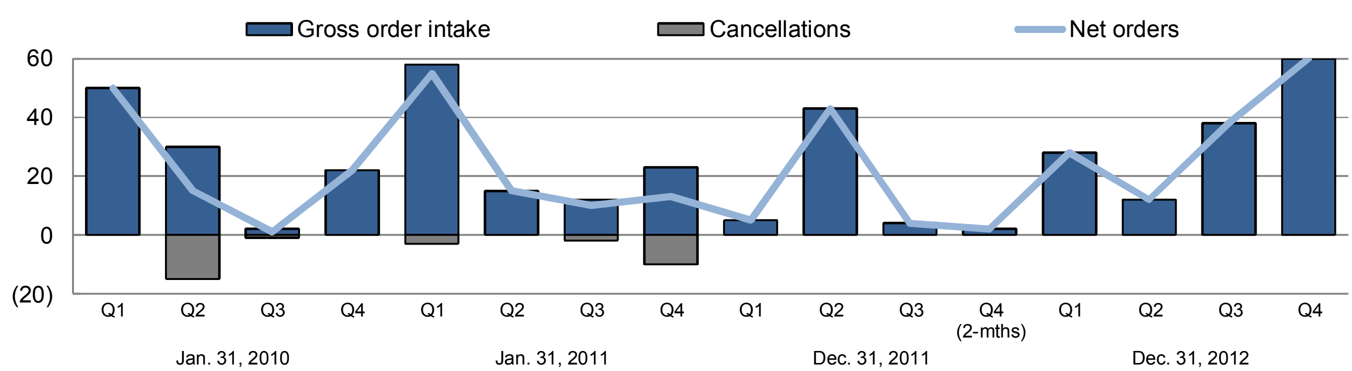
Commercial aircraft net orders

(in units)	**Three months ended December 31 2012**	Two months ended December 31 2011	**12 months ended December 31 2012**	11 months ended December 31 2011
Regional jets				
CRJ700 NextGen	**7**	-	**7**	-
CRJ900 NextGen	**40**	1	**48**	4
CRJ1000 NextGen	**-**	-	**18**	-
Commercial jets				
CS100	**-**	-	**5**	28
CS300	**10**	-	**10**	15
Turboprops				
Q400 NextGen	**3**	1	**50**	7
	60	2	**138**	54

During the year ended December 31, 2012, we have progressively improved our local presence in fast-growing markets, resulting in several new orders in these markets.

The significant level of orders in commercial aircraft for the fourth quarter ended December 31, 2012 is mainly due to orders received from Delta Air Lines Inc. and an undisclosed customer from China for regional jets, and from airBaltic for the *CSeries* aircraft. The unusually low level of orders for the fourth quarter ended December 31, 2011 is due to the negative impact on order intake of the economic uncertainties in the U.S. and Europe. The increase in commercial aircraft net orders for the fiscal year ended December 31, 2012 is mainly due to several significant orders received for regional jets and turboprops during the second half of the year.

COMMERCIAL AIRCRAFT GROSS/NET ORDERS
(for quarters of fiscal years ended; gross orders exclude swaps)



The following significant orders were received during the fiscal year ended December 31, 2012:

Customer	**Firm order**	**Options**[1]	**Value of firm order based on list prices**
Delta Air Lines Inc. (USA)	40 *CRJ900 NextGen*	30 *CRJ900 NextGen*	$1.9 billion
airBaltic (Latvia)	10 *CS300*	-	$764 million
WestJet Airlines Ltd. (Canada)	20 *Q400 NextGen*	25 *Q400 NextGen*	$683 million
Nordic Aviation Capital A/S (Denmark)	12 *CRJ1000 NextGen*	-	$595 million
Eurolot S.A. (Poland)	14 *Q400 NextGen*	6 *Q400 NextGen*	$436 million
Undisclosed customer (China)	7 *CRJ700 NextGen*	-	$330 million
PrivatAir (Switzerland)	5 *CS100*	5 *CS100*	$309 million
PT. Garuda Indonesia (Persero) Tbk.	6 *CRJ1000 NextGen*	18 *CRJ1000 NextGen*	$297 million
China Express Airlines	6 *CRJ900 NextGen*	5 *CRJ900 NextGen*	$264 million
Chorus Aviation Inc. (Canada), the parent company of Jazz Aviation LP (Jazz)	6 *Q400 NextGen*	-	$189 million
Ethiopian Airlines	5 *Q400 NextGen*	-	$160 million

(1) Not included in the order backlog.

During the fiscal year ended December 31, 2012, we received the following conditional orders and letters of intent, which are not included in the order backlog as at December 31, 2012:

- In July 2012, we received a conditional order from an undisclosed customer for five *CS100* and 10 *CS300* aircraft. Based on list prices, the conditional order is valued at $1.0 billion.
- In December 2012, an airline based in the Americas, which has requested to remain undisclosed, has signed a letter of intent to acquire 12 *CS100* aircraft, with options on an additional 18. Based on list price, a firm-order contract would be valued at approximately $870 million and could increase to $2.1 billion should the 18 options be converted to firm orders.

Subsequent to the end of the year, Ilyushin Finance Co. of Russia, a Moscow-based leasing company, signed a purchase agreement to acquire 32 *CS300* aircraft, with options for an additional 10. This agreement is subject to approval by the company's shareholder and follows a letter of intent signed in 2011. Based on the list price, the order for 32 aircraft is valued at approximately $2.6 billion.

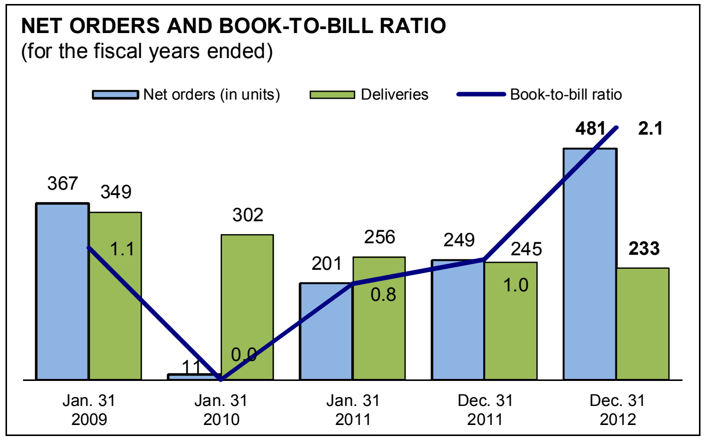
Robust book-to-bill ratio and record order backlog

Book-to-bill ratio[(1)]

	Three months ended	Two months ended	**12 months ended**	11 months ended
	December 31 2012	December 31 2011	**December 31 2012**	December 31 2011
Business aircraft	**2.1**	0.9	**1.9**	1.2
Commercial aircraft	**3.8**	0.2	**2.8**	0.7
Total	**2.4**	0.7	**2.1**	1.0

(1) Defined as net orders received over aircraft deliveries, in units.

For the fiscal year ended December 31, 2012, the high book-to-bill ratio for business aircraft is due to the significant order received from NetJets Inc. for 100 aircraft of the *Challenger* family during the three-month period ended June 30, 2012 and the significant order received from VistaJet for 56 aircraft of the *Global* family during the three-month period ended December 31, 2012.



The book-to-bill ratio for commercial aircraft for the fourth quarter ended December 31, 2012 reflects higher order intake than deliveries for regional jets and the *CSeries* aircraft, mainly due to significant orders received from Delta Air Lines Inc. for 40 *CRJ900 NextGen* aircraft and from airBaltic for 10 *CS300* aircraft. The book-to-bill ratio for commercial aircraft for the fiscal year ended December 31, 2012 mainly reflect higher order intake than deliveries for regional jets.

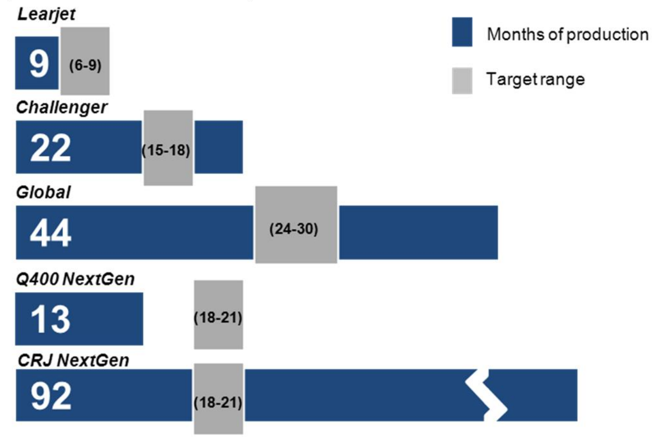
Total order backlog

		As at
(in billions of dollars)	**December 31, 2012**	December 31, 2011
Aircraft programs	**$ 29.5**	$ 21.4
Long-term maintenance and spares support agreements	**2.8**	1.9
Military Aviation Training	**0.6**	0.6
	$ 32.9	$ 23.9

The order backlog as at December 31, 2012 increased by 38% compared to December 31, 2011, mainly due to higher order intake than deliveries for the *Challenger* and *Global* families of aircraft, as well as for regional jets. We continue to monitor our order backlog and the production horizon for our programs, and to align our production rates to reflect market demand.

Effective December 31, 2012, we have begun presenting long-term maintenance and spares support agreements contracts in our total order backlog. The order backlog for long-term maintenance and spares support agreements with customers as at December 31, 2012, includes a long-term service agreement signed with NetJets Inc. in 2012 related to the firm order for 100 aircraft of the *Challenger* family. Generally, revenues from such agreements will be recognized over the next five to 15 years.

ORDER BACKLOG IN MONTHS OF PRODUCTION [(1)]
(as at December 31, 2012)



(1) The number of months in production is calculated by dividing the order backlog in units as at December 31, 2012 for each family of aircraft (excluding orders for the *Learjet 85, Global 7000* and *Global 8000* aircraft and orders received by Flexjet) by the number of aircraft delivered in the previous 12 months, converted into an equivalent number of months. Our order backlog in months of production provides insight on the depth of our order backlog based on the last 12-month production rates. This metric is not forward looking, and does not take into account potential changes in production rates or the ability of our customers to take delivery of the aircraft and the timing of such delivery.

Commercial aircraft order backlog and options

				As at
	December 31, 2012		December 31, 2011	
	Firm orders	**Options**	Firm orders	Options
Regional jets				
CRJ700 NextGen	**15**	**2**	9	2
CRJ900 NextGen	**53**	**42**	10	24
CRJ1000 NextGen	**39**	**22**	29	4
Commercial jets				
CS100	**66** [(1)]	**52**	61 [(2)]	47
CS300	**82** [(1)]	**72**	72 [(2)]	72
Turboprops				
Q400 NextGen	**38**	**101**	24	118
	293	**291**	205	267

(1) The total of 148 orders includes 83 firm orders with conversion rights to the other *CSeries* aircraft model.
(2) The total of 133 orders includes 79 firm orders with conversion rights to the other *CSeries* aircraft model.

The total *CSeries* order backlog comprises 148 aircraft, with 10 customers in eight countries.

Global footprint

We further pursued our industrial footprint expansion in Morocco with the purchase of land for a permanent production site and the rental of a transitional facility, which began production of its first components in February 2013. To access a growing pool of engineering talent, we have also opened a new Engineering Support Office in Bangalore, India, which will support our in-production and in-development aircraft programs.

Workforce

Total number of employees

		As at
	December 31, 2012	December 31, 2011
Permanent[1]	**31,400**	30,600
Contractual	**4,100**	3,000
	35,500	33,600
Percentage of permanent employees covered by collective agreements	**47%**	47%

(1) Including inactive employees.

The increase in the number of employees is mainly due to new hires related to the *CSeries* and the *Global 7000* and *Global 8000* aircraft programs. Our long-term human resources strategy is to maintain a mix of permanent and contractual employees to allow increased flexibility in periods of fluctuation while ensuring the stability of our permanent workforce.

Major collective agreements

Location	**Union**	**Approximate number of permanent employees covered as at December 31, 2012**	**Expiration of current collective agreement**
Belfast	Unite the Union and the General Machinists & Boilermakers	4,200	January 24, 2013
Montréal	International Association of Machinists and Aerospace Workers (IAMAW) – Local 712	4,600	November 28, 2014
Toronto	Canadian Auto Workers (CAW)	2,200	June 22, 2015
Montréal *Global* aircraft completion centre	National Automobile, Aerospace, Transport and Other Workers of Canada (CAW) – Local 62	1,500	December 5, 2013
Querétaro	Confederación de Trabajadores de México	1,200	April 30, 2013
Wichita	International Association of Machinists and Aerospace Workers (IAMAW) – Local 639	800	October 9, 2017

The agreement with Unite the Union and the General Machinists & Boilermakers, covering approximately 4,200 employees in Belfast, expired on January 24, 2013. We are currently in discussions with the union.

TRANSPORTATION

The data presented in this section of the MD&A contains both IFRS and non-GAAP measures and is structured by market segment (rolling stock, services, system and signalling), which is reflective of our organizational structure, and by geographic region (Europe, North America, Asia-Pacific and Rest of world).

We believe that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our MD&A with enhanced understanding of BT's results and related trends and increases transparency and clarity into the core results of the business. EBIT before special items and EBITDA before special items are non-GAAP measures which exclude items which do not reflect, in our opinion, our core performance. Accordingly, these non-GAAP measures provide more transparent disclosures to analyze earnings, enabling better comparability of results from one period to another and better comparability with peers.

Despite the change of financial year end from January 31 to December 31, effective December 31, 2011, the financial data for previous years presented in this section of the MD&A is comparable, as BT was previously consolidated into Bombardier Inc. with a one month lag, i.e. all financial data presented for previous fiscal years was prepared on a calendar year basis.

Supplemental information regarding BT's products and strategy, as well as the rail industry and market, can be found in BT's Profile, strategy and market presentation available in the Profile section on Bombardier's website at ir.bombardier.com.

KEY PERFORMANCE MEASURES AND METRICS

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

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Order backlog, as a measure of future revenues. • Book-to-bill ratio[(1)], as an indicator of future revenues. The ratio represents new orders over revenues, measured in dollars in a given period. • Revenues and geographic diversification of revenues, as measures of growth and sustainability of our competitive position. • Market position, as a measure of competitive positioning.
Profitability	• EBIT, EBIT margin, EBIT before special items[(2)(3)] and EBIT margin before special items[(2)(3)], as measures of performance.
Liquidity	• Free cash flow[(2)], as a measure of liquidity generation.
Customer satisfaction	• Various customer satisfaction metrics, focusing on the four main dimensions: sales and prices, customer orientation, project execution and product offering.

In 2012, our employee incentive-based compensation was linked to the achievement of targeted results, based on EBIT, free cash flow and levels of inventories.

Five-year summary

			IFRS	Canadian GAAP	
For the fiscal years ended and as at	**December 31 2012**	December 31 2011	January 31 2011	January 31 2010	January 31 2009
Revenues					
Rolling stock	**$ 5,384**	$ 6,855	$ 6,385	$ 7,264	$ 6,663
Services	**1,478**	1,409	1,308	1,408	1,529
System and signalling	**1,278**	1,489	1,390	1,337	1,564
	$ 8,140	$ 9,753	$ 9,083	$ 10,009	$ 9,756
Order intake (in billions of dollars)	**$ 9.4**	$ 9.7	$ 14.3	$ 9.6	$ 9.8
Book-to-bill ratio[(1)]	**1.2**	1.0	1.6	1.0	1.0
Order backlog (in billions of dollars)	**$ 33.7**	$ 31.9	$ 33.5	$ 27.1	$ 24.7
EBIT	**$ 290**	$ 700	$ 651	$ 625	$ 533
EBIT margin	**3.6%**	7.2%	7.2%	6.2%	5.5%
EBIT before special items[(2)(3)]	**$ 453**	$ 700	$ 651	$ 625	$ 533
EBIT margin before special items[(2)(3)]	**5.6%**	7.2%	7.2%	6.2%	5.5%
Free cash flow (usage)[(2)]	**$ 386**	$ (424)	$ 741	$ 293	$ 480
Number of employees[(4)]	**36,000**	36,200	34,900	34,950	35,450

(1) Defined as new orders over revenues.
(2) Non-GAAP financial measure. Refer to the Non-GAAP financial measures and Consolidated results of operations sections in Overview for definitions of these metrics. Refer to the Consolidated results of operations section in Overview and Analysis of results section for reconciliations to the most comparable IFRS measures.
(3) The special items for the fiscal year ended December 31, 2012 include restructuring charges of $119 million related to the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by 1,200 employees; a foreign exchange hedging loss of $25 million; and a loss of $19 million related to flooding in New Jersey, U.S.
(4) Including contractual and inactive employees.

HIGHLIGHTS OF THE YEAR

Positive outlook following a challenging year

REVENUES	EBIT MARGIN BEFORE SPECIAL ITEMS[1]	FREE CASH FLOW[1]	ORDER INTAKE	ORDER BACKLOG
$8.1 billion	**5.6%**	**$386 million**	**$9.4 billion**	**$33.7 billion**

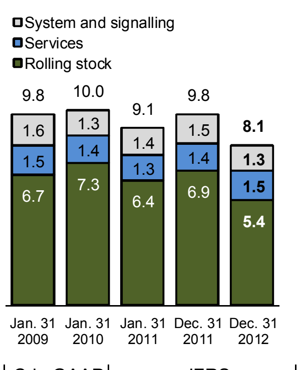
RESULTS

- Revenues of $8.1 billion, compared to $9.8 billion last fiscal year.
- EBIT before special items[1] of $453 million, or 5.6% of revenues, compared to $700 million, or 7.2%, last fiscal year.
- EBITDA before special items[1] of $582 million, or 7.1% of revenues, compared to $838 million, or 8.6%, last fiscal year.
- Free cash flow[1] of $386 million, compared to a free cash flow usage of $424 million last fiscal year.
- $9.4 billion in new orders (book-to-bill ratio[2] of 1.2), compared to $9.7 billion last fiscal year (book-to-bill ratio[2] of 1.0).
- Order backlog of $33.7 billion as at December 31, 2012, the highest order backlog in our history, compared to $31.9 billion as at December 31, 2011.

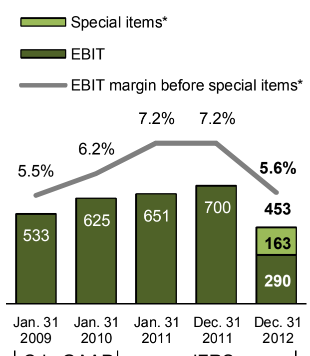
KEY EVENTS

- In October 2012, we announced measures to improve our competitiveness and cost structure. These measures include the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by approximately 1,200 employees, including Aachen. In the fourth quarter of 2012, we recorded a restructuring charge of $119 million related to these planned measures.
- Throughout the year, we signed several significant contracts across the world and across all our product segments, especially in North America, including projects with Metrolinx/GO Transit in Toronto, Canada, valued at $937 million, San Francisco Bay Area Rapid Transit District (BART) valued at $897 million, and Metropolitan Transportation Authority (MTA) of New York City valued at $599 million.
- In China, we achieved several milestones to broaden our product portfolio and strengthen our market position. We reached a key milestone in our *ZEFIRO* 380 project with successful testing. We also signed a variation order for this very high speed train project, now including the development and delivery of 60 new-generation aluminum high speed trains. The original contract value of $4 billion remained unchanged. In the metro segment, we established a new joint venture with Shanghai Shentong to conduct service activities. In addition, we signed a licence agreement for light rail vehicles with CSR Puzhen. The agreement covers the preparation and delivery of documentation of the licensed product as well as training and assistance for CSR Puzhen's employees to enable them to successfully manufacture and sell the licensed product. The vehicles will be equipped with our innovative *FLEXX* Urban 3000 bogies and *MITRAC* 500 propulsion and control system. In January 2013, CSR Puzhen won the first order for 18 low-floor trams under this agreement.

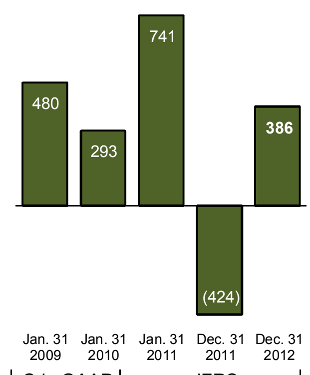
REVENUES[3]
(for the fiscal years ended; in billions of dollars)



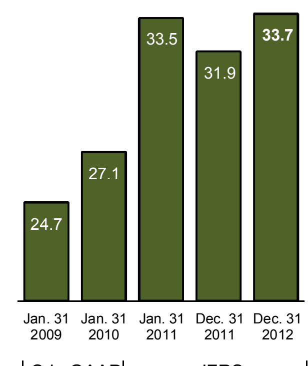
EBIT BEFORE SPECIAL ITEMS[1]
(for the fiscal years ended; in millions of dollars)



FREE CASH FLOW (USAGE)
(for the fiscal years ended; in millions of dollars)



ORDER BACKLOG
(as at; in billions of dollars)



(1) Non-GAAP financial measure. Refer to the Non-GAAP financial measures and Consolidated results of operations sections in Overview for definitions of these metrics. Refer to the Consolidated results of operations section in Overview and Analysis of results section for reconciliations to the most comparable IFRS measures.
(2) Defined as new orders over revenues.
(3) Some totals do not agree due to rounding.
* The special items for the fiscal year ended December 31, 2012 include restructuring charges of $119 million related to the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by 1,200 employees; a foreign exchange hedging loss of $25 million; and a loss of $19 million related to flooding in New Jersey, U.S.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	What we said	What we did	What's next[1]
Profitability	Continue to improve EBIT margin towards our target of 8% by calendar year 2013.	EBIT before special items[2] of 5.6%, below last fiscal year mostly due to reduced margins in some rolling stock contracts.	We have extended our target date, to achieve an EBIT margin of 8% by 2014.
Liquidity	Maintain free cash flow generally in line with EBIT, although it may vary significantly from quarter to quarter.	Free cash flow[2] of $386 million, compared to EBIT before special items[2] of $453 million.	Maintain free cash flow generally in line with EBIT, although it may vary significantly from quarter to quarter.
Growth and order intake	Maintain a book-to-bill ratio around 1.0, in line with market evolution.	Book-to-bill ratio of 1.2.	Excluding currency impacts, revenues in 2013 are expected to be higher than in 2012, with percentage growth in the high single digits. Maintain a book-to-bill ratio around 1.0, in line with market evolution.

We have built the foundation for sustainable profitability

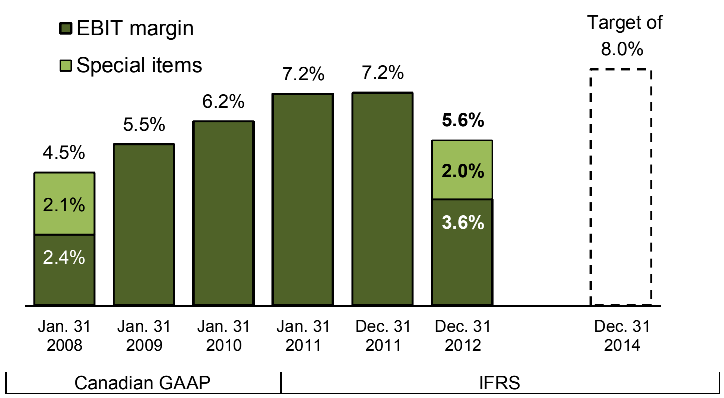
Our strong level of order activity across all segments and geographies is an expression of our customers' continued confidence in our innovative products and services.

We ended the year with a record backlog of $33.7 billion. However, we experienced a decline in EBIT margin before special items in 2012 mostly due to a lower overall gross margin in rolling stock as a result of execution issues in a few of our large European contracts. Additional measures have been put in place to address these execution issues, for example an enhanced governance ensuring special focus on the critical projects.

In order to increase our long-term competitiveness and to improve our cost structure, we have announced several measures to realign our capacity, including the planned closure of a plant in Aachen, Germany, and the reduction of direct and indirect personnel by approximately 1,200 employees worldwide, including Aachen. The financial impact of these measures negatively affected our EBIT margin by $119 million or 1.5 percentage points and is excluded from our EBIT margin before special items.

EVOLUTION OF EBIT MARGIN

(EBIT margin before special items for the last six fiscal years and target EBIT margin by fiscal year ending December 31, 2014)



Levers

- Focus on flawless execution.
- Leverage our project management capability.
- Continue to reduce costs (SG&A).
- Capitalize on our worldwide presence (mature and fast-growing markets).

The special item for the fiscal year ended January 31, 2008 relates to the write-off of the carrying value of the investment in Metronet of $162 million.

The special items for the fiscal year ended December 31, 2012 include restructuring charges of $119 million; a foreign exchange hedging loss of $25 million; and a flooding related loss of $19 million.

BT's restructuring plan is an investment aimed at securing our long-term competitiveness and improving our cost structure and level of profitability. Our commitment to customer support and our focus on flawless execution continue and we expect to reach our target of 8% EBIT margin by 2014.[1] Our project management capability continues to be a key component of achieving our EBIT margin target. Under the Bombardier Operations System (BOS), we have made good progress in our lean operations approach, which supports our ongoing objectives of improved execution and cost reduction. Our continued emphasis on reducing our general administration expenses and increasing efficiency also contributes to achieving cost reductions and improving profitability.

[1] See Forward-looking statements below.
[2] Non-GAAP financial measure. Refer to the non-GAAP financial measures and Consolidated results of operations sections in Overview for definitions of these metrics.

Forward-looking statements

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

- our current order backlog;
- the realization of upcoming tenders and our ability to capture them;
- normal contract execution and continued deployment and execution of leading initiatives, especially those linked to cost reductions, including procurement and operational improvement initiatives;
- recent industry trends based on main market drivers analysis;
- a sustained level of public sector spending; and
- the ability of our supply base to support the execution of our projects.

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

INDUSTRY AND ECONOMIC ENVIRONMENT

In turbulent global economic times, the rail market remains resilient with a steady growth rate

General market outlook

We are closely monitoring the general economic uncertainty, but at this point we do not see any trend towards a shift of planned tenders and believe that investment in railway transportation will remain a top priority for governments worldwide. In our accessible market[(1)], we expect a steadily growing level of activity, as fundamental growth drivers for rail remain positive, such as the continued trend towards urbanization and a rising need for mobility. The increasing demand for rail solutions is evidenced by concrete investment plans to be realized over the next few years:

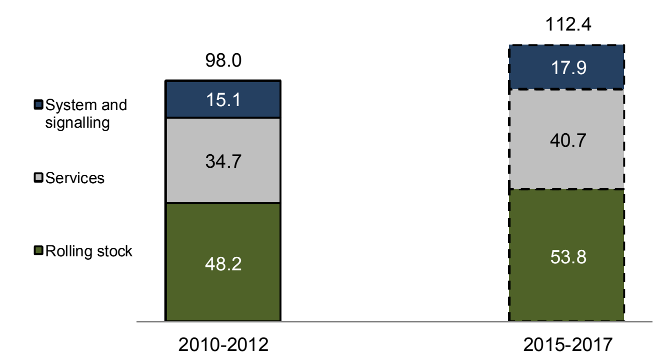
- a significant portion of the European market will be made up of outstanding options to be exercised, a direct consequence of the large framework contracts awarded over the past years; and
- several new large contracts are on the horizon both in mature and fast-growing markets.

This positive assessment is also confirmed by the Association of the European Rail Industry (UNIFE) in the World Rail Market Study "Forecast 2012 to 2017", published in September 2012. The key message of the study is that the outlook for the global rail market remains positive over the next six years with an expected annual growth rate of 2.8%[(2)].This forecast expects the rail industry to remain resilient with solid growth rates despite the economic turbulences of the past few years, illustrating that rail is less subject to short-term volatility than other industries.

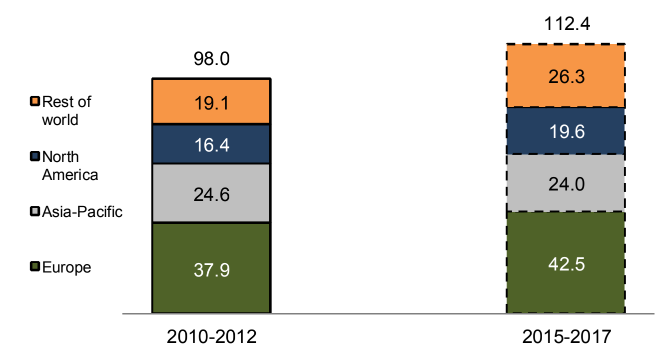
As large rail projects are often delayed by several months, single year market volumes can be subject to a high degree of volatility. UNIFE therefore focuses on three year average annual market volumes in order to facilitate comparisons between different periods. In 2015 to 2017, our market is anticipated to continue to experience strong demand both from traditionally core markets (such as Europe and North America) as well as from emerging rail markets. According to UNIFE's forecast, Europe will remain the largest market but demand will also continue to reach high levels in North America and Asia-Pacific. However, the biggest growth driver in the market will be rail investment in fast-growing markets outside our core regions, grouped under the term "Rest of world".

The overall volume of orders in our market is expected to reach an annual average of over $112 billion in 2015 to 2017. From a segment view, rolling stock is and remains the largest market segment, followed by services and the system and signalling segments.

OUR ACCESSIBLE MARKET BY SEGMENT
(three-year average orders; in billions of dollars)



OUR ACCESSIBLE MARKET BY REGION
(three-year average orders; in billions of dollars)



(1) References to "our market" or "our accessible market" throughout this section of the MD&A use the same definition of these terms. The accessible market excludes the share of markets in which contracts are awarded to local players without open-bid competition. The breakdown of the market by category excludes the infrastructure, freight wagons and shunter segments.

(2) Source: data from the UNIFE World Rail Market Study "Forecast 2012 to 2017" published by UNIFE in September 2012. UNIFE data is updated every two years based on a survey conducted in the 50 largest rail markets worldwide. UNIFE figures are published in euro and are presented for our accessible markets only. An exchange rate of 1€ = $1.3347, the average cumulative exchange rate over the 2010-12 period, was used to convert all figures.

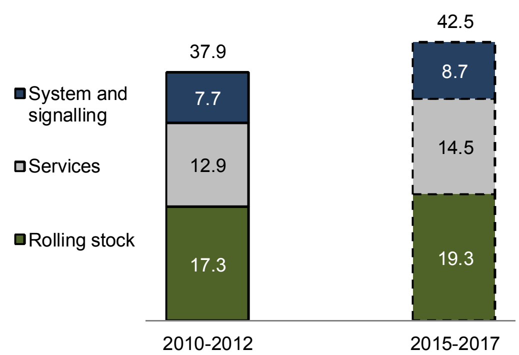
Market outlook per region

Europe

The European market is not only the largest rail market; it is also one of the most competitive and challenging. Customer demands for high-tech and innovative products are as important as meeting the highest reliability, safety and performance standards. Our past successes have proven that we understand customer needs better than our competitors and are able to deliver both highly innovative technology and reduced lifecycle costs.

We continue to be well positioned for future order intake in Europe. In our core markets of Western and Northern Europe we expect several options, which are attached to the significant framework contracts we won over the past years, to be exercised in the next few years. In addition, we see continued investment in these markets with various new orders on the horizon, e.g. in France and Germany, where after a wave of large orders of regional and intercity trains, a new wave of investments in commuter trains is expected. Also, the U.K. will continue to see strong investments, e.g. in projects for London Underground and Crossrail.

OUR ACCESSIBLE EUROPEAN MARKET BY SEGMENT
(three-year average orders; in billions of dollars)



Source: UNIFE World Rail Market Study "Forecast 2012 to 2017"

In Eastern Europe, investments in network signalling and fleet modernization are planned in order to renew aging fleets and infrastructure, driving growth in the services as well as system and signalling segments.

In Southern Europe, public investment in general may be limited due to the ongoing financial difficulties in some countries. However, as our historical market share has been small in the region, we anticipate only a limited impact on our business.

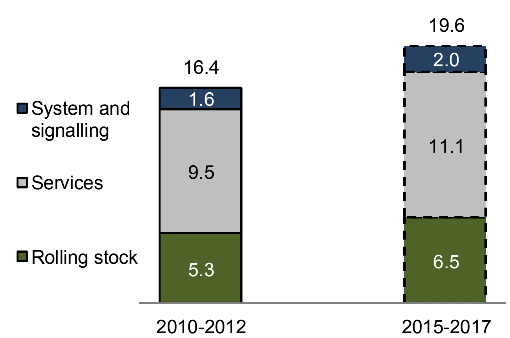
North America

In North America, the overall market has been resilient to the crisis, with major cities such as New York, San Francisco, Montreal and Toronto continuing investments in greener transportation. This positive development of the rail market is forecasted to continue with additional investments planned across all segments.

In the rolling stock segment, new metro projects are planned and the development of high speed rail is on the horizon.

The services market in North America is extensive and forecasted to grow further. One reason for this development is the wide accessibility of the services segment, as typical service activities such as operations and maintenance or refurbishments are regularly outsourced by operators. Another reason is the strong growth of the region's installed rolling stock base over the past years, which is forecasted to lead to an increased need for maintenance activities.

OUR ACCESSIBLE NORTH AMERICAN MARKET BY SEGMENT
(three-year average orders; in billions of dollars)



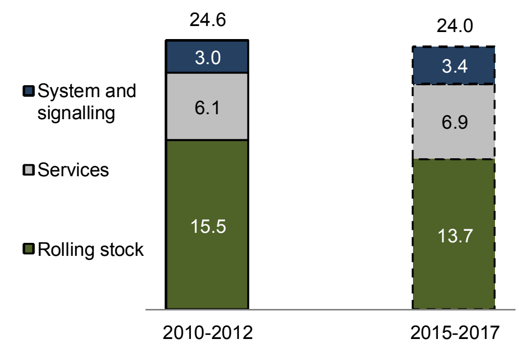
Source: UNIFE World Rail Market Study "Forecast 2012 to 2017"

In addition, the deployment of new signalling standards in the U.S. will trigger a wave of investment in this segment in the next decade.

Asia-Pacific

The slight decrease forecasted by UNIFE from 2010-12 to 2015-17 is driven by a reduction of the Japanese market, which is not a market in which we compete.

OUR ACCESSIBLE ASIAN-PACIFIC MARKET BY SEGMENT
(three-year average orders; in billions of dollars)



Source: UNIFE World Rail Market Study "Forecast 2012 to 2017"

After two years with lower activity, the Chinese market is again showing positive signals: a new wave of high speed rail projects is planned while we also see a continued need for investment in other rolling stock products such as locomotives and mass transit, the latter including services solutions. In addition, activities in the light rail vehicle segment are starting, opening up a new and promising market segment. As a result of our joint ventures, we are the best-positioned foreign manufacturer in China in all segments.

In India, mass transit investment continues with orders expected to be placed in several mega-cities, such as Delhi and Mumbai, in the next few years. Additional opportunities exist for mainline projects which we are closely monitoring.

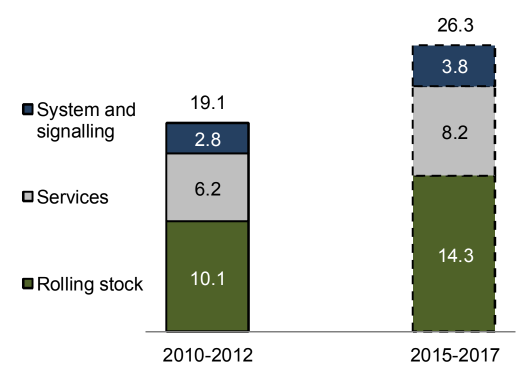
Outside these two countries, growth is expected to come from Australia and Southeast Asia, mainly in the mass transit and freight segments. We expect rail investments to continue to increase in these markets, driven by the strong need for mobility on the back of rapid urbanization and continued economic growth.

Overall, the demand in the Asia-Pacific market continues to show great momentum, confirming the region's strong commitment to investment in rail.

Rest of world

The region Rest of world includes the CIS, South America, Central America, Africa and the Middle East. This region is not homogenous, but it includes a group of fast-growing economies planning large investments in rail. In the past few years these markets demonstrated momentum for new advanced rail projects outside our traditional core markets. The region is forecasted to have the highest growth rates worldwide and is expected to be the second largest rail market after Europe in 2015-2017. The main growth drivers are Russia, Brazil and the Middle East.

OUR ACCESSIBLE REST OF WORLD MARKET BY SEGMENT
(three-year average orders; in billions of dollars)



Source: UNIFE World Rail Market Study "Forecast 2012 to 2017"

In Russia, investments are planned across all segments as the country is expected to renew its aging fleet and upgrade its infrastructure. We have a strong position in signalling and are also actively pursuing other opportunities for locomotives, metros and light rail vehicles. In addition, we have strong partnerships with local partners. The average annual orders in Russia in 2010-2012 reached $7.9 billion, and are expected to be at $11.0 billion in 2015-2017.

In Brazil, investments are underway in all segments, triggered by the 2014 FIFA World Cup and the 2016 Olympic Summer Games. We have a long-standing presence in services and signalling and recently set up a new production site in Hortolândia to execute our Sao Paulo monorail project. The average annual orders in Brazil in 2010-2012 were $2.7 billion, and are expected to reach $4.2 billion in 2015-2017.

In the Middle East, major investments are planned in new transit systems. We won several large orders in the recent past, confirming our good position in the region, such as the *INNOVIA* APM 300 automated people mover system for the Dubai International Airport in the United Arab Emirates and a project in Saudi Arabia to develop, supply and maintain components for 36 very high speed trains. The opening of a Project Management academy in Saudi Arabia further strengthened our local presence in this high-growth region for rail. The average annual orders in the Middle East in 2010-2012 were $2.4 billion, and are expected to reach $2.8 billion in 2015-2017.

ANALYSIS OF RESULTS

Record level of order backlog

Our order intake of $9.4 billion (book-to-bill ratio of 1.2) has resulted in a record level of order backlog of $33.7 billion, which represents an average of 4.1 years of revenues, based on revenues for fiscal year 2012. At the same time, our EBIT margin before special items is below last fiscal year, at 5.6% due to reduced margins in a few rolling stock contracts. Our EBIT margin at 3.6% was impacted by a restructuring charge for planned measures to improve our competitiveness and cost structure. Our free cash flow of $386 million for the fiscal year 2012 is a significant improvement compared to free cash flow usage of $424 million last fiscal year.

Results of operations[(1)]

	Three months ended December 31		12 months ended December 31	
	2012	2011	**2012**	2011
Revenues				
Rolling stock[(2)]	**$ 1,399**	$ 1,532	**$ 5,384**	$ 6,855
Services[(3)]	**435**	366	**1,478**	1,409
System and signalling [(4)]	**324**	402	**1,278**	1,489
Total revenues	**2,158**	2,300	**8,140**	9,753
Cost of sales	**1,875**	1,884	**6,851**	8,089
Gross margin	**283**	416	**1,289**	1,664
SG&A	**170**	207	**744**	818
R&D	**51**	48	**144**	149
Share of income of associates	**(18)**	(1)	**(45)**	(4)
Other expense (income)[(5)]	**(6)**	(4)	**(7)**	1
EBIT before special items	**86**	166	**453**	700
Special items[(6)]	**163**	-	**163**	-
EBIT	**(77)**	166	**290**	700
Amortization and impairment charges on PP&E[(7)]	**43**	36	**138**	138
EBITDA	**$ (34)**	$ 202	**$ 428**	$ 838
(as a percentage of total revenues)				
Gross margin	**13.1%**	18.1%	**15.8%**	17.1%
EBIT before special items	**4.0%**	7.2%	**5.6%**	7.2%
EBIT	**(3.6%)**	7.2%	**3.6%**	7.2%
EBITDA before special items	**5.6%**	8.8%	**7.1%**	8.6%
EBITDA	**(1.6%)**	8.8%	**5.3%**	8.6%

(1) The results of operations of entities using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other Western European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. The impact of lower exchange rates of foreign currencies compared to the U.S. dollar negatively affects revenues and positively affects expenses, while higher exchange rates have the opposite impacts (defined as “negative currency impact” and “positive currency impact”). See the Foreign exchange rates section in Other for the average exchange rates used to translate revenues and expenses.

(2) Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls and bogies.

(3) Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.

(4) Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance services, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.

(5) Includes i) severance and other involuntary termination costs (including changes in estimates); and ii) gains on disposals of PP&E; except when such items are reported as special items.

(6) The special items for the fourth quarter and fiscal year ended December 31, 2012 include a restructuring charge of $119 million related to the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by 1,200 employees (including Aachen); a foreign exchange hedging loss of $25 million; and a loss of $19 million related to flooding in New Jersey, U.S.

(7) Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset. For the fourth quarter and fiscal year ended 2012, impairment charges on PP&E of $9 million are included in the restructuring charges of $119 million reported as special items.

Revenues by geographic region

	Three months ended December 31				12 months ended December 31			
	2012		2011		**2012**		2011	
Europe[(1)]	**$ 1,326**	**61%**	$ 1,467	64%	**$ 5,141**	**63%**	$ 6,275	64%
North America	**359**	**17%**	373	16%	**1,454**	**18%**	1,396	14%
Asia-Pacific	**326**	**15%**	257	11%	**1,004**	**12%**	1,444	15%
Rest of world[(2)]	**147**	**7%**	203	9%	**541**	**7%**	638	7%
	$ 2,158	**100%**	$ 2,300	100%	**$ 8,140**	**100%**	$ 9,753	100%

(1) The decreases in Europe reflect negative currency impacts of $42 million and $403 million, respectively, for the fourth quarter and fiscal year ended December 31, 2012.

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

Revenues for the fourth quarter ended December 31, 2012 have been affected by the completion of some contracts in Europe and region Rest of world while major orders received in these regions in past quarters are still in the start-up phase. Revenues in Asia-Pacific have stabilized at normal levels following the agreement with the Chinese MOR on a variation order in the third quarter and a ramp-up in production on new contracts. Overall, excluding a negative currency impact of $46 million, revenues decreased by $96 million, or 4%, compared to the same period last fiscal year.

Revenues for the fiscal year ended December 31, 2012 have been affected by the completion of some contracts, mostly in Europe and Asia-Pacific, while major orders received in these regions in the last quarters are still in the start-up phase. Overall, excluding a negative currency impact of $433 million, revenues decreased by $1.2 billion, or 12%, compared to the same period last fiscal year.

Rolling stock revenues

The $133-million decrease for the fourth quarter reflects a negative currency impact ($34 million). Excluding this currency impact, revenues decreased by $99 million. This decrease is explained by:

- lower activities in region Rest of world, North America and Europe ($135 million), as some locomotive, commuter and regional train and intercity train contracts are nearing completion, partly compensated by increased production in some light rail vehicle and metro contracts.

Partially offset by:

- higher activities in Asia-Pacific ($36 million), mainly due to the ramp-up in production of high speed trains.

The $1.5-billion decrease for the fiscal year reflects a negative currency impact ($284 million). Excluding this currency impact, revenues decreased by $1.2 billion. This decrease is due to:

- lower activities in Europe, Asia-Pacific and region Rest of world ($1.3 billion), as some commuter and regional train, locomotive, metro, propulsion and intercity train contracts are nearing completion, partly compensated by increased production in some light rail vehicle and high speed train contracts.

Partially offset by:

- higher activities in North America ($76 million) mainly due to the ramp-up in production of commuter and regional train and metro contracts, partly offset by a locomotive contract nearing completion.

Services revenues

The $69-million increase for the fourth quarter reflects a negative currency impact ($7 million). Excluding this currency impact, revenues increased by $76 million mainly due to higher activities in North America and Asia-Pacific ($79 million).

The $69-million increase for the fiscal year reflects a negative currency impact ($70 million). Excluding this currency impact, revenues increased by $139 million. This increase mainly arose from higher activities in Asia-Pacific and North America ($152 million), partially offset by lower activities in Europe ($28 million).

System and signalling revenues
The $78-million decrease for the fourth quarter reflects a negative currency impact ($5 million). Excluding this currency impact, revenues decreased by $73 million. This decrease is mainly due to:

- lower activities in Europe and North America ($95 million), mostly due to completion of some contracts while orders received in these regions in past quarters are still in the start-up phase.

Partially offset by:

- higher activities in region Rest of world ($29 million), mostly due to the ramp-up in production of contracts received in past quarters.

The $211-million decrease for the fiscal year reflects a negative currency impact ($79 million). Excluding this currency impact, revenues decreased by $132 million. This decrease is mainly due to:

- lower activities in North America and Asia-Pacific ($129 million), mostly due to completion of some contracts while orders received in these regions in past quarters are still in the start-up phase.

Partially offset by:

- higher activities in Europe ($12 million), mostly due to the ramp-up in production of contracts received in past quarters.

EBIT margin
The EBIT margin for the fourth quarter decreased by 10.8 percentage points. The EBIT margin before special items (see explanations of special items below) decreased by 3.2 percentage points mainly as a result of:

- a lower overall gross margin in rolling stock, due to execution issues in a few contracts.

Partially offset by:

- a higher gross margin in services due to overall better contract performance;
- lower SG&A expenses in combination with higher absorption; and
- higher share of income of associates.

The EBIT margin for the fiscal year decreased by 3.6 percentage points. The EBIT margin before special items (see explanations of special items below) decreased by 1.6 percentage points mainly as a result of:

- a lower overall gross margin in rolling stock, due to execution issues in a few contracts; and
- lower absorption of SG&A and R&D expenses.

Partially offset by:

- a higher gross margin in services and system and signalling due to overall better contract performance;
- higher share of income of associates; and
- a favourable product mix.

For the fourth quarter and fiscal year ended December 31, 2012, the EBIT margins were also negatively impacted by the following special items:

- a restructuring charge of $119 million related to measures to improve our competitiveness and cost structure, mainly the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by approximately 1,200 employees, including Aachen, negatively impacting EBIT margin by 5.5% and 1.5%, respectively;
- a $25 million foreign exchange hedging loss, negatively impacting EBIT margin by 1.2% and 0.3%, respectively; and
- a $19 million loss related to flooding in New Jersey, U.S., negatively impacting EBIT margin by 0.9% and 0.2%, respectively.

Overall positive free cash flow for the year

Free cash flow (usage)

	Three months ended December 31		12 months ended December 31	
	2012	2011	**2012**	2011
EBIT	**$ (77)**	$ 166	**$ 290**	$ 700
Special items[(1)]	**163**	-	**163**	-
Amortization	**34**	36	**129**	138
EBITDA before special items	**120**	202	**582**	838
Other non-cash items:				
Gains on disposal of PP&E	**(1)**	(2)	**(4)**	(3)
Share-based expense	**2**	3	**4**	19
Net change in non-cash balances related to operations	**608**	420	**(78)**	(1,123)
Cash flows from operating activities	**729**	623	**504**	(269)
Net additions to PP&E and intangible assets	**(56)**	(59)	**(118)**	(155)
Free cash flow (usage)	**$ 673**	$ 564	**$ 386**	$ (424)

(1) For the fourth quarter and fiscal year ended December 31, 2012, special items include impairment charges on PP&E of $9 million.

The $109-million improvement for the fourth quarter is mainly due to:

- a positive period-over-period variation in net change in non-cash balances related to operations ($188 million) (see explanation below).

Partially offset by:

- lower EBITDA before special items ($82 million).

The $810-million improvement for the fiscal year is mainly due to:

- a positive period over period variation in net change in non-cash balances related to operations ($1.0 billion) (see explanations below); and
- lower net additions to PP&E and intangible assets ($37 million).

Partially offset by:

- lower EBITDA before special items ($256 million).

Net change in non-cash balances related to operations

For the fourth quarter of the fiscal year ended December 31, 2012, the $608-million cash inflow is mainly due to deliveries in several contracts as well as the impact of orders recently received which led to:

- a reduction in inventories, ahead of the ramp-up of contracts in the start-up phase; and
- an increase in advances and progress billings for new orders and existing contracts, ahead of the impact from deliveries.

Partially offset by:

- an increase in trade and other receivables.

For the fourth quarter of the fiscal year ended December 31, 2011, the $420-million cash inflow was mainly due to a reduction in inventories following deliveries in several contracts, mainly in some rolling stock contracts where we experienced delays in previous quarters.

For the fiscal year ended December 31, 2012, the $78-million cash outflow is mainly due to:

- lower provisions mostly as a result of a decrease in product warranty provisions for contracts nearing the end of their warranty periods; and
- the impact of settlements of derivative financial instruments used in roll-forward cash flow hedge relationships.

The net cash outflow from the above-mentioned items is partly compensated by deliveries in several contracts which led to:

- a reduction in inventories, ahead of the ramp-up of contracts in the start-up phase.

Partially offset by:

- a reduction in advances and progress billings related to existing contracts, partly compensated by advances on new orders and existing contracts; and
- an increase in trade and other receivables.

For the fiscal year ended December 31, 2011, the $1.1-billion cash outflow was mainly due to:

- an increase in inventories due to the ramp-up of several contracts ahead of deliveries and delays experienced in deliveries for some rolling stock contracts; and
- the impact of settlements of derivatives used in roll-forward cash flow hedge relationships.

Partially offset by:

- an increase in advances and progress billings related to new orders and existing contracts.

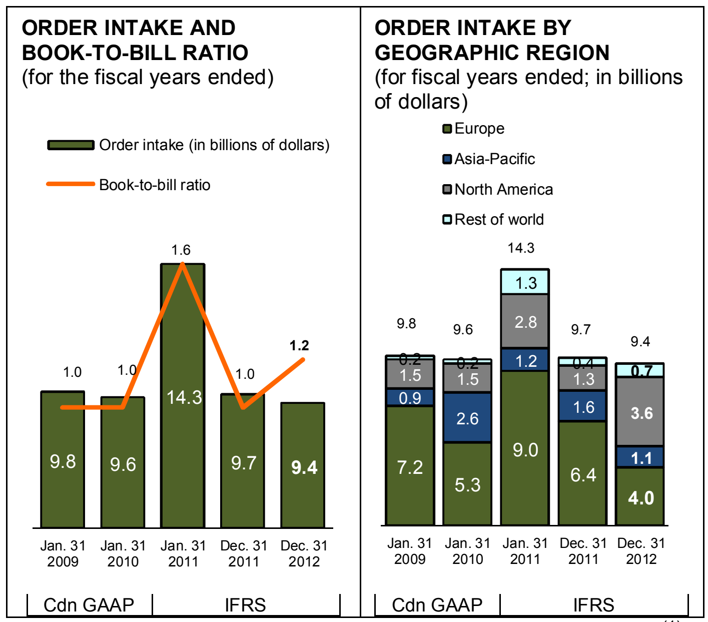
We continue to secure orders around the world

Order intake and book-to-bill ratio

	Three months ended December 31		12 months ended December 31	
Order intake (in billions of dollars)	**2012**	2011	**2012**	2011
Rolling stock	**$ 0.7**	$ 2.1	**$ 5.1**	$ 6.4
Services	**1.5**	0.5	**2.5**	1.1
System and signalling	**0.8**	0.4	**1.8**	2.2
	$ 3.0	$ 3.0	**$ 9.4**	$ 9.7
Book-to-bill ratio	**1.4**	1.3	**1.2**	1.0

The order intake for the fourth quarter ended December 31, 2012 reflects a positive currency impact of $3 million, while the order intake for the fiscal year ended December 31, 2012 reflects a negative currency impact of $354 million.

Our level of order intake for the fourth quarter ended December 31, 2012 includes orders from Metrolinx/GO Transit, Canada, for 10 years of operation and maintenance services ($937 million); from Abellio Rail NRW GmbH, Germany, for 35 *TALENT* 2 EMUs ($226 million); from Public Transport Victoria, Australia, for 40 VLocity DMUs ($216 million); from Virgin Trains, U.K., for an extension of fleet maintenance services ($170 million); and from Al Jaber L.E.G.T. Engineering and Contracting (ALEC) L.C.C., United Arab Emirates, for an *INNOVIA* 300 Automated People Mover (APM) system ($107 million).



BT is leading the worldwide rail industry with a cumulative order intake of $33.4 billion over the past three years.(1)

(1) In terms of order intake, three years rolling, for companies disclosing order intake.

We received the following significant orders during the fiscal year ended December 31, 2012:

Customer	Country	Product or service	Number of cars	Market segment	Value
Metrolinx/GO Transit	Canada	10-year operations and maintenance services of commuter rail system	n/a	Services	$ 937
San Francisco Bay Area Rapid Transit District (BART)	U.S.	Metro cars	410[1]	Rolling stock	$ 897[1]
Metropolitan Transportation Authority (MTA) of New York City	U.S.	Metro cars	300	Rolling stock	$ 599
Régie Autonome des Transports Parisiens (RATP) & Syndicat des Transports d'Île-de-France (STIF)	France	Double-deck commuter trains	210[2]	Rolling stock	$ 417[2]
Port Authority of New York and New Jersey (PANYNJ)	U.S.	10-year operations and maintenance and capital asset upgrade program for *INNOVIA* Monorail system	n/a	System and signalling	$ 243
City of Basel's Transport Authority (BVB)	Switzerland	*FLEXITY* trams	60	Rolling stock	$ 241
Abellio Rail NRW GmbH	Germany	*TALENT* 2 EMUs	135	Rolling stock	$ 226
Public Transport Victoria (PTV)	Australia	VLocity Diesel Multiple Units	40	Rolling stock	$ 216
Deutsche Bahn AG	Germany	*TWINDEXX* double-deck trains	64	Rolling stock	$ 208
Talgo S.A.	Saudi Arabia	12-year maintenance services for the Bombardier-built systems and components	n/a	Services	$ 201
		MITRAC 3000 propulsion and control package, and *FLEXX* Power 350 high speed bogies for 36 very high speed trains	n/a	Rolling stock	$ 166
Virgin Trains	U.K.	Extension of fleet maintenance services until March 2016	n/a	Services	$ 170
Berliner Verkehrsbetriebe (BVG)	Germany	*FLEXITY* trams	39	Rolling stock	$ 168
De Lijn (VVM)	Belgium	*FLEXITY* trams	48	Rolling stock	$ 165
Israel Railways (ISR)	Israel	Double-deck coaches	72	Rolling stock	$ 158
Al Jaber L.E.G.T. Engineering and Contracting (ALEC) L.C.C. (Dubai International Airport)	United Arab Emirates	*INNOVIA* APM 300 system	n/a	System and signalling	$ 107

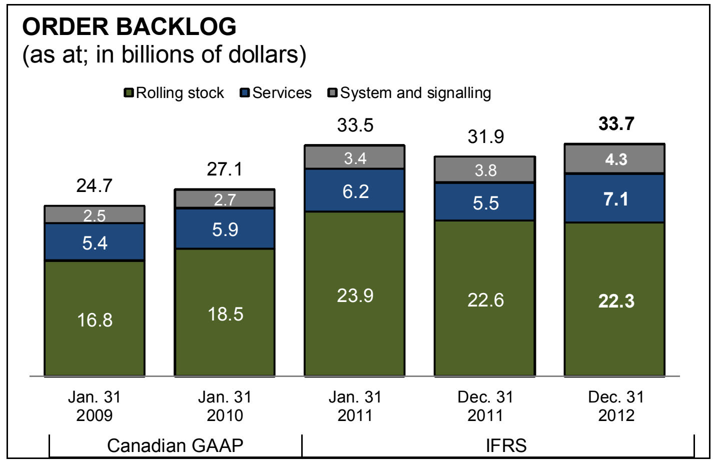
(1) Consists of base contract and first option exercised in June 2012.
(2) Contract performed through a consortium. Only the value of our share is stated.
n/a: Not applicable

Order backlog

		As at
(in billions of dollars)	**December 31, 2012**	December 31, 2011
Rolling stock[(1)]	**$ 22.3**	$ 22.6
Services	**7.1**	5.5
System and signalling	**4.3**	3.8
	$ 33.7	$ 31.9

[(1)] Of which $13.4 billion, or 60% of rolling stock order backlog, had a percentage of completion from 0% to 25% as at December 31, 2012 ($15.3 billion, or 68%, as at December 31, 2011).

The 6% increase in order backlog is due to order intake being higher than revenues recorded ($1.3 billion), and the strengthening of some foreign currencies versus the U.S. dollar as at December 31, 2012 compared to December 31, 2011, mainly the euro and British pound ($0.5 billion).



Stable overall workforce with divers regional picture

Total number of employees

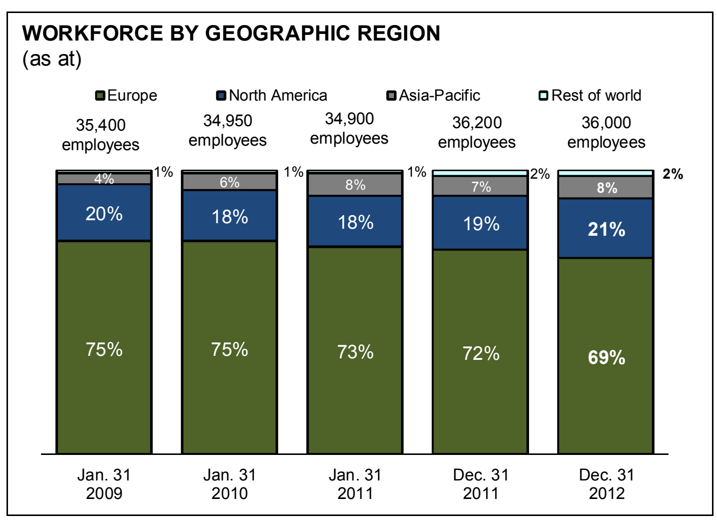
		As at
	December 31, 2012	December 31, 2011
Permanent[(1)]	**32,350**	31,300
Contractual	**3,650**	4,900
	36,000	36,200
Percentage of permanent employees covered by collective agreements[(2)]	**60%**	60%

[(1)] Including inactive employees.
[(2)] Of our 169 collective agreements, 23% will expire in 2013, representing 23% of our workforce as at December 31, 2012.

Since December 31, 2011 our number of employees has remained relatively stable with some shifts between regions.

While the number of employees in region Rest of world remained basically unchanged, our headcount in North America and Asia-Pacific has increased mainly as a result of major orders received in these regions in the current and previous fiscal years.

At the same time, we continue to optimize our footprint and align capacity where needed to improve our competitiveness and cost structure. The completion of some contracts ahead of receipt of new orders led to reductions in workforce in Europe.



In November 2012, we announced a planned reduction of worldwide direct and indirect personnel by approximately 1,200 employees. Our headcount as at December 31, 2012 reflects a reduction of 150 employees, and the remaining reduction of approximately 1,050 employees is planned to take place during the course of 2013.

OTHER

OFF-BALANCE SHEET ARRANGEMENTS

Credit and residual value guarantees

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

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing under the relevant financing arrangements. The remaining terms of these financing arrangements range from 1 to 13 years. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value at an agreed-upon date. In most cases, these guarantees are provided as part of a customer financing arrangement (these arrangements have remaining terms ranging from 1 to 13 years). The value of the underlying asset may be adversely affected by a number of factors. To mitigate our exposure, the financing arrangements generally require the aircraft used as collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically a specified maximum amount of the first losses incurred by the guaranteed party. A claim under the guarantee may typically be made only at the end of the financing arrangement, upon the sale of the underlying asset to a third party.

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

For more details, refer to note 37 – Commitments and contingencies, to the consolidated financial statements.

Financing commitments

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

As at December 31, 2012, we had no commitments to arrange financing for customers in relation to the future sale of aircraft.

Financing structures related to the sale of commercial aircraft

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

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

For more details, refer to note 36 – Unconsolidated special purpose entities, to the consolidated financial statements.

Financial arrangements

In the normal course of its business, BT has set up factoring facilities in Europe, under which it can sell, without credit recourse, qualifying trade receivables. See Other facilities section in Overview for additional information.

RISKS AND UNCERTAINTIES

We operate in industry segments which present a variety of risk factors and uncertainties. The risks and uncertainties described below are risks that could materially affect our business activities, financial condition, cash flows and results of operations; but these are not necessarily the only risks we face. Additional risks and uncertainties, presently unknown to us or that we currently believe to be immaterial, may also adversely affect our business. To the extent possible, we perform risk assessment and apply mitigation practices to reduce the nature and extent of our exposure to these risks to a level acceptable to us.

General economic risk	Potential loss due to unfavourable economic conditions, such as a macroeconomic downturn in key markets, could result in potential buyers postponing the purchase of our products or services, lower order intake, order cancellations or deferral of deliveries, lower availability of customer financing, an increase in our involvement in customer financing, downward pressure on selling prices, increased inventory levels, decreased level of customer advances, slower collection of receivables, reduction in production activities, discontinued production of certain products, termination of employees and adverse impacts on our suppliers.
Business environment risk	Business environment risk is the risk of potential loss due to external risk factors. More specifically, external risk factors may include the financial condition of the airline industry, business aircraft customers and major rail operators; government policies related to import and export restrictions and business acquisition; changing priorities and possible spending cuts by government agencies; government support for export sales; world trade policies; increased competition from other businesses, including new entrants in market segments in which we compete; as well as scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates. In addition, acts of terrorism, natural disasters, global health risks, political instability or the outbreak of war or continued hostilities in certain regions of the world could result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of our products.
Operational risk	Operational risk is the risk of potential loss due to risks related to the nature of our operations. Sources of operational risk include development of new products and services; development of new business; actions of business partners; product performance warranty and casualty claim losses; regulatory and legal conditions; environmental, health and safety issues; as well as dependence on customers, suppliers, partners and human resources. In addition, large and complex projects are common in our businesses, structured as fixed-price contracts, and thus exposed to production and project execution risks. We are also subject to risks related to problems with supply chain management, reliance on information systems, reliance on intellectual property rights as well as the successful integration of new business acquisitions.
Financing risk	Financing risk is the risk of potential loss related to liquidity of our financial assets, including counterparty credit risk; access to capital markets; restrictive debt covenants; financing support provided for the benefit of certain customers; and government support.
Market risk	Market risk is the risk of potential loss due to adverse movements in market factors, including foreign currency fluctuations, changing interest rates, decreases in residual values of assets and increases in commodity prices.

Business environment risk

Financial condition of the airline industry and business aircraft customers

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

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

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

Financial condition of the rail industry

The challenging worldwide economic and financial environment may have a negative impact on some rail operators. As governments respond to economic crises with austerity measures or by increasing their level of indebtedness to fund economic stimulus plans, it may become more difficult for publicly owned rail operators to obtain government funding. Funding shortages may result in selected projects being reduced in size, postponed or even cancelled. Such actions by rail operators or governments would negatively impact BT’s order intake and revenues and put pressure on our cost structure and on prices and could reduce our competitiveness. In addition, payment terms, including the level and timing of advance payments from our customers, may deteriorate and negatively impact our cash flows.

Political instability

Political unrest in certain regions of the world in which we operate may be prolonged and unpredictable. A prolongation of political instability could lead to delays or cancellation of orders, deliveries or projects in which we have invested significant resources.

Force majeure event or natural disaster

The risk of force majeure or natural disaster (including seismic and severe weather related events such as ice storms, hurricanes, flooding, tornadoes or other calamity) is unpredictable and may have significant adverse results, such as personal injury or fatality; damage to or destruction of on-going projects, facilities or equipment; environmental damage; delays or cancellations of orders and deliveries; delays in the receipt of materials from our suppliers; delays in projects; and possible legal liability.

Operational risk

Developing new products and services

Changes as a result of global trends such as climate change, oil scarcity, the rising cost of energy, urbanization, population growth and demographic changes influence customer demands in our main markets of operation. To meet our customers’ needs, we must continuously develop and design new products, improve existing products and services and invest in and develop new technologies. Introducing new products or technologies requires a significant commitment to R&D capital investment, including maintaining a significant level of highly skilled employees. Furthermore, our investments in new products or technologies may or may not be successful.

Our results may be impacted if we invest in products that are not accepted in the marketplace, if customer demand or preferences change, if new products are not approved by regulatory authorities or are not brought to market in a timely manner or if our products become obsolete. We may incur cost overruns in developing our new products and there is the risk that our products will not meet performance specifications to which we have committed. Despite measures used to protect our proprietary information such as confidentiality agreements and licenses, we may not always be able to enforce our rights to our intellectual property or preclude misuse of our technology.

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

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

Customer acceptance of BT's highly complex and customized products may be delayed for various reasons, including customer requirements not being met or a divergence in interpretation of customer requirements, which may result in delayed deliveries, a build-up of inventories and a consequential financial impact. BT's results may also be negatively impacted if we fail to design or obtain accreditation for new technologies and platforms on budget and in a timely manner. Further, our long-term growth, competitiveness and continued profitability are dependent on our ability to continue to develop our product mix and to align our footprint and presence with worldwide market opportunities.

Fixed-price commitments and production and project execution

We have historically offered, and will continue to offer, virtually all of our products on fixed-price contracts, rather than contracts under which payment is determined solely on a time-and-material basis. Generally, we may not terminate contracts unilaterally.

We are exposed to risks associated with fixed-price contracts, including unexpected technological problems, difficulties with our partners and subcontractors, logistical difficulties and other execution issues, that could lead to cost overruns, late delivery penalties or delays in receiving milestone payments. We may also incur late delivery penalties if we are unable to increase production rates sufficiently quickly to meet our commitments. In addition, due to the nature of the bidding process, long-term contract revenues are based, in part, on cost estimates which in turn are subject to a number of assumptions, such as forecasted costs of materials, inflation rates, foreign exchange rates, labour productivity, employment levels and salaries, and are influenced by the nature and complexity of the work to be performed. Long-term contract revenues and costs may also vary from initial forecasts due to the impact of change orders and delayed deliveries.

Business partners

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

Product performance warranty and casualty claim losses

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

In addition, due to the nature of our business, we may be subject to liability claims arising from accidents, incidents or disasters involving our products or products for which we have provided services, including claims for serious personal injuries or death. These accidents may include misfortunes caused by climatic factors or human error. We cannot be certain that our insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that we will be able to obtain insurance coverage at acceptable levels and costs in the future.

Regulatory and legal risks

We are subject to numerous risks relating to current and future regulations, as well as legal proceedings to which we are currently a party or that could arise in the future. We become party to lawsuits in the ordinary course of our business, including those involving allegations of late deliveries of goods or services, product liability, product defects, quality problems and intellectual property infringement. We may incur material losses relating to litigation beyond the limits or outside the coverage of our insurance and our provisions for litigation-related losses may not be sufficient to cover the ultimate loss or expenditure.

Environmental, health and safety risks

Our products, as well as our manufacturing and service activities, are subject to environmental laws and regulations in each of the jurisdictions in which we operate, governing among other things: product performance or content; energy use and greenhouse gas emission; air, water and noise pollution; the use, storage, transportation, labelling and disposal or release of hazardous substances; human health risks arising from the exposure to hazardous or toxic materials; and the remediation of soil and groundwater contamination on or under our properties (whether or not caused by us), or on or under other properties and caused by our current or past operations.

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

Dependence on customers

For some of our products, we depend on a limited number of customers and we believe that we will continue to depend on a limited number of customers. Consequently, the loss of such a customer could result in fewer sales and/or a lower market share. Since the majority of BT's customers are public-sector companies or operate under public contracts, BT's order intake is also dependent on public-sector budgets and spending policies.

Business development

BA and BT's businesses are dependent on obtaining new customers and new orders, thus continuously replenishing our order backlog. BA and BT's results may be negatively impacted if we are unable to effectively execute our strategies to gain access to new markets, capture growth and successfully establish local roots in new or emerging markets.

Dependence on suppliers

Our manufacturing operations are dependent on a limited number of suppliers for the delivery of raw materials (mainly aluminum, advanced aluminum alloy and titanium) and major systems (such as engines, wings, nacelles, landing gear, avionics, flight controls and fuselages) at BA, and raw materials (mainly steel and aluminum), services (mainly engineering, civil and electrical subcontracts) and major systems (such as brakes, doors, heating, ventilation and air conditioning) at BT. A failure by one or more suppliers to meet performance specifications, quality standards or delivery schedules could adversely affect our ability to meet our commitments to customers.

Some of our suppliers participate in the development of products such as aircraft or rolling stock platforms. The advancement of many of our new product development programs also relies on the performance of these key suppliers and, therefore, supplier delays which we are not able to mitigate could result in delays in a program as a whole. They subsequently deliver major components to us and own some of the intellectual property on key components they developed. Our contracts with these suppliers are therefore on a long-term basis. The replacement of suppliers could be costly and take a significant amount of time.

Human resources (including collective agreements)

Human resource risk includes the risk that we may incur delays to recruit or be unable to retain and motivate highly skilled employees, including those involved in the R&D and manufacturing activities that are essential to our success. In addition, we are party to several collective agreements that are due to expire at various times in the future. Our inability to renew these collective agreements on mutually agreeable terms, as they become subject to renegotiation from time to time, could result in work stoppages or other labour disturbances, such as strikes, walk-outs or lock-outs, and/or increased costs of labour, which could affect our ability to timely deliver our products and services.

Financial risk

Liquidity and access to capital markets

We require sufficient capital resources and continued access to capital markets to support our operating activities and the development of new products. To satisfy our financing needs, we rely on cash and cash equivalents, cash flow generated from operations, capital market resources such as debt and equity issuance and other financing arrangements such as revolving credit facilities. A decline in credit ratings, a significant reduction in the surety or financing market global capacity, widening credit spreads, significant changes in market interest rates or general economic conditions or an adverse perception in bank and capital markets of our financial condition or prospects could all significantly increase our cost of financing or impede our ability to access financial markets. Credit ratings may be impacted by many external factors beyond our control and, accordingly, no assurance can be given that our credit ratings may not be reduced in the future. Also, new regulatory requirements on bank capital adequacy and market liquidity risk may impact the availability of financing whereby access to credit may become more difficult and borrowing costs are likely to increase.

Our right to convert into cash certain deposits or investments, held in financing structures to guarantee our obligations, may be subject to restrictions. Additionally, in some countries, cash generated from operations may be subject to restrictions on the right to convert and/or repatriate money and may not be available for immediate use.

Retirement benefit plan risk

We are required to make contributions to a number of pension plans, most of which are presently in a deficit position. Our funding requirements are dependent on regulatory requirements and on the valuations of our plans' assets and liabilities, which are subject to a number of factors, including expected returns on plan assets, long-term interest rates, as well as applicable actuarial practices and various other assumptions. If we are required to make additional contributions as a result of changes to regulations or other factors, this may reduce the funds available for operating purposes and may weaken our liquidity position and financial condition.

We have no assurance that our retirement benefit plan assets will earn the expected rates of return. The ability of our retirement benefit plan assets to earn the expected rates of return depends in large part on the performance of capital markets. Market conditions also affect the discount rates used to calculate our retirement benefit obligations and could also impact our retirement benefit costs, cash funding requirements and liquidity position.

Credit risk

We are exposed to credit risk on our derivative financial instruments and other investing activities carried out through our normal treasury activities, as well as through our trade receivables arising from normal commercial activities and through financing activities provided to BA customers in connection with the sale of aircraft primarily in the form of aircraft loans and lease receivables. If our customers or other counterparties are unable to make payment of amounts owed to us, or delay payments, we may be subject to reduced liquidity and may incur impairment losses on these assets. Furthermore, if our customers experience deteriorating credit quality, we may need to: i) provide additional direct or indirect financing support to maintain sales, increasing our credit risk, or ii) reduce our customers' credit limits, which could negatively affect our revenues.

We also have exposure to banks in the form of credit commitments. In the event the banks with which we transact are unable to withstand regulatory or liquidity pressures, credit facilities, including letter of credit facilities, may become unavailable or we may not be able to extend such facilities upon their maturity.

Restrictive debt covenants

The indentures governing certain of our indebtedness, revolving credit facilities and letter of credit facilities contain covenants that, among other things, restrict our ability to:

- incur additional debt and provide guarantees;
- repay subordinated debt;
- create or permit certain liens;
- use the proceeds from the sale of assets and capital stock of subsidiaries;
- pay dividends and make certain other disbursements;
- allow our subsidiaries to pay dividends or make other payments;
- engage in certain transactions with affiliates; and
- enter into certain consolidations, mergers or transfers of all or certain assets.

These restrictions could impair our ability to finance our future operations or capital needs, or engage in other business activities that may be in our interest.

We are subject to various financial covenants under our BA and BT letter of credit facilities and our unsecured revolving credit facilities, which must be met on a quarterly basis. The BA $600-million letter of credit facilities and the $750-million unsecured revolving facility include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio and a minimum liquidity level of $500 million, all calculated based on an adjusted consolidated basis (i.e. excluding BT). BT's €3.4-billion letter of credit facilities and €500-million unsecured revolving facility financial covenants require a minimum liquidity level of €600 million as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a BT standalone basis. These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to specific terms used in the MD&A.

Our ability to comply with these covenants may be affected by events beyond our control. A breach of any of these agreements or our inability to comply with these covenants could result in a default under these facilities, which would permit our banks to request the immediate cash collateralization of all outstanding letters of credit, and our bond holders and other lenders to declare amounts owed to them to be immediately payable.
If repayment of our indebtedness is accelerated, we may not be able to repay or borrow sufficient funds to refinance it.

Financing support provided for the benefit of certain customers

From time to time, we provide aircraft financing support to customers. We may provide, directly or indirectly, credit and residual value guarantees or guarantee a maximum credit spread, to support financing for certain customers such as airlines or to support financing by certain special purpose entities created solely i) to purchase our commercial aircraft and to lease those aircraft to airline companies or ii) to purchase financial assets such as loans and lease receivables related to the sale of our commercial aircraft. Under these arrangements, we are obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make the loan or lease payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at an agreed-upon date. A substantial portion of these guarantees has been extended to support original debtors or lessees with less than investment grade credit ratings.

Government support

From time to time, we receive various types of financial government support. Some of these financial support programs require that we repay amounts to the government at the time of delivery of products. The level of government support reflects government policy and depends on fiscal spending levels and other political and economic factors. We cannot predict if future government-sponsored support will be available. The loss of or any substantial reduction in the availability of government support could negatively impact our liquidity assumptions related to the development of aircraft or rail products and services. In addition, any future government support received by our competitors could have a negative impact on our competitiveness, sales and market share.

Market risk

Foreign exchange risk

Our financial results are reported in U.S. dollars and a significant portion of our sales and operating costs are realized in currencies other than U.S. dollars, most often euros, Canadian dollars, pounds sterling, Swiss francs and Swedish krona. Our results of operations are therefore affected by movements of these currencies against the U.S. dollar. Significant fluctuations in relative currency values against the U.S. dollar could therefore have a significant impact on our future profitability. Additionally, the timing of settlements of our foreign currency derivatives could significantly impact our liquidity.

Interest rate risk

Changes in interest rates may result in fluctuations in our future cash flows related to variable-rate financial assets and liabilities, including long-term fixed-rate debt synthetically converted to variable interest rates. Changes in interest rates may also affect our future cash flows related to commitments to provide financing support to facilitate our customers' access to capital. For these items, cash flows could be impacted by changes in benchmark rates such as Libor, Euribor or Bankers' Acceptance. In addition, we are exposed to gains and losses arising from changes in interest rates, including marketability risk, through our financial instruments carried at fair value, such as certain aircraft loans and lease receivables, investments in securities and certain derivatives.

Residual value risk

We are exposed to residual value risks through RVGs provided in support of commercial aircraft sales. We may provide RVGs either directly to an airline, a lessor or to a financing party that participates in a long-term financing associated with the sale of commercial aircraft. RVGs are offered as a strip of the value of an aircraft with a ceiling and a floor. If the underlying aircraft is sold at the end of the financing period (or during this period in limited circumstances), the resale value is compared to the RVG strip. We are required to make payments under these RVGs when the resale value of the aircraft falls below the ceiling of the strip covered by the guarantee, but our payment is capped at the floor of the strip if the resale value of the aircraft is below the floor of the strip.

Commodity price risk

We are exposed to commodity price risk relating principally to fluctuations in the cost of materials used in the supply chain, such as aluminum, advanced aluminum alloy, titanium and steel, which could adversely affect our business and results of operations.

ACCOUNTING AND REPORTING DEVELOPMENTS

Future changes in accounting policies

Financial instruments
In October 2010, the IASB released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial instruments: recognition and measurement*. This first part only covers classification and measurement of financial assets and financial liabilities. The other two parts, impairment of financial assets and hedge accounting, are still under development. The IASB is also currently considering making limited modifications to the first part of IFRS 9, *Financial instruments*.

The first part of IFRS 9 uses a single 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 fair value, must be presented in OCI rather than in the statement of income. IFRS 9 will be effective for our fiscal year beginning on January 1, 2015, with earlier application permitted. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

Consolidation
In May 2011, the IASB released IFRS 10, *Consolidated financial statements*, which replaces SIC-12, *Consolidation – special purpose entities*, and the parts of IAS 27, *Consolidated and separate financial statements* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor to assess whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 is effective January 1, 2013. The adoption of this standard has no impact on our consolidated financial statements.

Joint arrangements
In May 2011, the IASB released IFRS 11, *Joint arrangements*, which supersedes IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities - non-monetary contributions by venturers*. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. IFRS 11 classifies joint arrangements into two types: joint ventures and joint operations. Joint ventures are arrangements whereby the parties have rights to the net assets, while joint operations are arrangements whereby the parties have rights to the assets and obligations for the liabilities. The standard eliminates choices in the reporting of joint arrangements by requiring the use of the equity method to account for interests in joint ventures, and by requiring joint operators to recognize assets and liabilities in relation to their interests in the arrangements. IFRS 11 is effective January 1, 2013.

We have completed our assessment of the impact of the adoption of this standard, and a large part of our investments in joint arrangements qualify as joint ventures, currently accounted for under the proportionate consolidation method, and will be accounted for under IFRS 11 using the equity method of accounting. Under the equity method of accounting, our share of net assets, net income and OCI of joint ventures will be presented as one-line items on the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income, respectively. In addition, the consolidated statement of cash flows under the equity method of accounting will include the cash flows between us and our joint ventures, and not our proportionate share of the joint ventures' cash flows.

The impact of adopting IFRS 11, *Joint arrangements* on our consolidated financial statements is detailed hereafter.

Disclosure of interests in other entities
In May 2011, the IASB released IFRS 12, *Disclosure of interests in other entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is effective January 1, 2013. We are collecting the information for disclosures in our annual consolidated financial statements for fiscal year 2013.

Fair value measurement
In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 is effective January 1, 2013. We are currently assessing the impact of the adoption of this standard.

Financial statement presentation
In June 2011, the IASB amended IAS 1, *Presentation of financial statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group items within OCI that may be reclassified to the statement of income. The amendments also reaffirmed existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are effective January 1, 2013. The presentation of our consolidated financial statement is not impacted by these amendments as the items within OCI that may be reclassified to the statement of income are already disclosed together.

Employee benefits
In June 2011, the IASB amended IAS 19, *Employee benefits*. Amongst other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Under the current IAS 19, *Employee benefits* the interest income is presented separately from interest expense and calculated based on the expected return on the plan assets. Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendments to IAS 19 are effective January 1, 2013.

Impact of adopting the above mentioned standards effective January 1, 2013
The following tables summarize the retroactive restatements to our consolidated financial statements resulting from the adoption of the amended IAS 19, *Employee benefits* and IFRS 11, *Joint arrangements.*

The impacts on the consolidated statements of income are as follows for fiscal year:

				2012
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Revenues	$ 16,768	$ (354)	$ -	$ 16,414
Cost of sales	14,269	(230)	14	14,053
Gross margin	2,499	(124)	(14)	2,361
SG&A	1,443	(8)	7	1,442
R&D	299	-	-	299
Share of income of joint ventures and associates	(45)	(108)	-	(153)
Other income	(33)	-	-	(33)
Special items	140	-	-	140
EBIT	695	(8)	(21)	666
Financing expense	596	-	(301)	295
Financing income	(599)	12	427	(160)
EBT	698	(20)	(147)	531
Income taxes	100	(20)	(16)	64
Net income	$ 598	$ -	$ (131)	$ 467
EPS (in dollars)				
Basic and diluted	$ 0.32			$ 0.25

The joint arrangement restatements relates to the above mentioned requirement to account for our investments in joint ventures using the equity method of accounting under IFRS 11 instead of using the proportionate consolidation method.

The employee benefits restatements essentially relate to the above mentioned requirement to calculate the interest expense and income component on a net basis using the post-employment benefit obligation discount rate.

The impacts on the consolidated statements of financial position are as follows as at:

				December 31, 2012
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Assets				
Cash and cash equivalents	$ 2,896	$ (339)	$ -	$ 2,557
Other current assets	10,380	(406)	-	9,974
Investments in joint ventures and associates	66	245	-	311
Other non-current assets	12,448	(134)	-	12,314
	$ 25,790	$ (634)	$ -	$ 25,156
Liabilities				
Current liabilities	$ 12,374	$ (636)	$ -	$ 11,738
Retirement benefits	2,997	-	2	2,999
Other non-current liabilities	9,042	-	-	9,042
	24,413	(636)	2	23,779
Equity	1,377	2	(2)	1,377
	$ 25,790	$ (634)	$ -	$ 25,156

				December 31, 2011
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Assets				
Cash and cash equivalents	$ 3,372	$ (480)	$ -	$ 2,892
Other current assets	9,891	(163)	-	9,728
Investments in joint ventures and associates	37	238	-	275
Other non-current assets	10,564	(129)	-	10,435
	$ 23,864	$ (534)	$ -	$ 23,330
Liabilities				
Current liabilities	$ 11,955	$ (538)	$ -	$ 11,417
Retirement benefits	3,226	-	5	3,231
Other non-current liabilities	8,012	-	-	8,012
	23,193	(538)	5	22,660
Equity	671	4	(5)	670
	$ 23,864	$ (534)	$ -	$ 23,330

The impacts on the consolidated equity position are as follows as at:

	December 31, 2012	December 31, 2011
Equity as presented:	$ 1,377	$ 671
Restatements to prior periods:	(1)	(31)
Net income		
Employee benefits	(131)	(57)
OCI		
Employee benefits	132	87
Equity as restated	$ 1,377	$ 670

The employee benefit restatement on our consolidated statements of financial position is not significant because the cumulative impact of the higher net interest expense under the revised standard is mostly offset by the reversal of accumulated actuarial losses on plan assets previously recognized in AOCI.

The impacts on the consolidated statements of cash flows are as follows for fiscal year:

				2012
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Cash flow from operating activities	$ 1,348	$ 90	$ -	$ 1,438
Cash flow from investing activities	(1,950)	51	-	(1,899)
Cash flow from financing activities	77	4	-	81
Effect of exchange rate	49	(4)	-	45
Net increase (decrease) in cash and cash equivalents	(476)	141	-	(335)
Cash and cash equivalents at beginning of year	3,372	(480)	-	2,892
Cash and cash equivalents at end of year	$ 2,896	$ (339)	$ -	$ 2,557

The impacts on the consolidated equity position are as follows for the three quarters ended:

	March 31, 2012	June 30, 2012	September 30, 2012
Equity as presented:	$ 1,182	$ 736	$ 1,236
Restatements to prior periods:	(1)	2	2
Net income			
Employee benefits	(31)	(31)	(34)
OCI			
Employee benefits	34	31	32
Equity as restated	$ 1,184	$ 738	$ 1,236

The impacts of the new standards for joint arrangements and employee benefits on the consolidated statements of income are as follows for the quarters ended:

	March 31, 2012		June 30, 2012		September 30, 2012	
	As reported	As restated	As reported	As restated	As reported	As restated
Revenues	$ 3,505	$ 3,571	$ 4,170	$ 4,097	$ 4,338	$ 4,121
Cost of sales	2,907	2,906	3,523	3,483	3,710	3,612
Gross margin	598	665	647	614	628	509
SG&A	364	364	371	369	351	351
R&D	65	65	62	62	69	69
Share of income of joint ventures and associates	(1)	57	(25)	(50)	(1)	(99)
Other income (expense)	(45)	(46)	19	19	(39)	(38)
EBIT	215	225	220	214	248	226
Financing expense	152	77	155	80	145	70
Financing income	(152)	(43)	(166)	(56)	(170)	(61)
EBT	215	191	231	190	273	217
Income taxes	25	32	49	39	61	39
Net income	$ 190	$ 159	$ 182	$ 151	$ 212	$ 178
EPS (in dollars)						
Basic and diluted	$ 0.10	$ 0.09	$ 0.10	$ 0.08	$ 0.12	$ 0.10

The impacts of the new standards for joint arrangements and employee benefits on the consolidated statements of cash flows are as follows for the quarters ended:

	March 31, 2012		June 30, 2012		September 30, 2012	
	As reported	As restated	As reported	As restated	As reported	As restated
Cash flow from operating activities	$ (327)	$ (312)	$ (135)	$ (107)	$ 329	$ 375
Cash flow from investing activities	(353)	(351)	(381)	(352)	(581)	(577)
Cash flow from financing activities	440	440	(142)	(142)	(101)	(101)
Effect of exchange rate	51	50	(46)	(41)	20	15
Net decrease in cash and cash equivalents	(189)	(173)	(704)	(642)	(333)	(288)
Cash and cash equivalents at beginning of period	3,372	2,892	3,183	2,719	2,479	2,077
Cash and cash equivalents at end of period	$ 3,183	$ 2,719	$ 2,479	$ 2,077	$ 2,146	$ 1,789

FINANCIAL INSTRUMENTS

An important portion of our consolidated balance sheets is composed of financial instruments. Our financial assets include cash and cash equivalents, trade and other receivables, derivative financial instruments with a positive fair value, aircraft loans and lease receivables, investment in securities, investments in financing structures, restricted cash and servicing fee assets. Our financial liabilities include trade and other payables, long-term debt, derivative financial instruments with a negative fair value, government refundable advances, lease subsidies, sale and leaseback obligations, and vendor non-recurring cost liabilities. Derivative financial instruments are mainly used to manage our exposure to foreign exchange and interest rate risks. They consist mostly of forward foreign exchange contracts, interest rate swap agreements and cross-currency interest rate swap agreements. The classification of our financial instruments as well as the revenues, expenses, gains and losses associated with these instruments is provided in Note 2 – Summary of significant accounting policies and in Note 13 – Financial instruments, to the consolidated financial statements.

The use of financial instruments exposes us primarily to credit, liquidity and market risks, including foreign exchange and interest rate risks. A description on how we manage these risks is included in Overview and in Note 32 – Financial risk management, to the consolidated financial statements.

Fair value of financial instruments

All financial instruments are required to be recognized at their fair value on initial recognition, plus certain transaction costs for financial instruments not at FVTP&L. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as FVTP&L or AFS are carried at fair value, while all others are carried at amortized cost.

Fair value amounts disclosed in the consolidated financial statements represent our 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 most advantageous active market for that instrument to which we have immediate access. However, there is no active market for many of our financial instruments. In the absence of an active market, we determine fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. In determining these assumptions, we use primarily external, readily observable market inputs such as interest rates, credit ratings, credit spreads, default probability, 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 not available. These calculations represent our best estimates based on a range of methodologies and assumptions. Since they are based on estimates, these fair values may not be realized in an actual sale or immediate settlement of the instruments.

A detailed description of the methods and assumptions used to measure the fair value of our financial instruments and their fair value hierarchy are discussed in Note 33 – Fair value of financial instruments, to the consolidated financial statements.

Sensitivity analysis
Our main exposures to changes in fair value of financial instruments are related to changes in foreign exchange and interest rates. Note 32 – Financial risk management, to the consolidated financial statements, presents sensitivity analyses assuming variations in foreign exchange and interest rates.

RELATED PARTY TRANSACTIONS

Our related parties, as defined by IFRS, are our joint ventures, associates and key management personnel. A description of our transactions with these related parties is included in note 35 – Transactions with related parties, to the consolidated financial statements.

CRITICAL JUDGMENTS AND ACCOUNTING ESTIMATES

Our significant accounting policies and use of estimates and judgment are described in note 2 – Summary of significant accounting policies and Note 4 – Use of estimates and judgment, to the consolidated financial statements. The preparation of financial statements, in conformity with IFRS, requires the use of estimates and judgment. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if:

- the estimate requires us to make assumptions about matters that are highly uncertain at the time the estimate is made; and
- we could have reasonably used different estimates in the current period, or changes in the estimate are reasonably likely to occur from period to period that would have a material impact on our financial condition, our changes in financial condition or our results of operations.

Our best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. We use historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used, and such differences could be material.

Our budget and strategic plans cover a three-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. We prepare a budget and strategic plan on an annual basis, using a process whereby a detailed one-year budget and two-year strategic plan are prepared by each business unit and then consolidated at the segment and Corporation levels. Cash flows and profitability included in the budget and strategic plan are based on the existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and in-force collective agreements. The budget and strategic plan are subject to approval at various levels, including senior management and the Board of Directors. We use the budget and strategic plan as well as additional projections or assumptions to derive the expected results for periods thereafter. We then track performance as compared to the budget and strategic plan at various levels within the Corporation. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's most critical estimates and judgments. The sensitivity analyses included in this section 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

BT conducts most of its business under long-term contracts and BA has some long-term maintenance service contracts with customers. Revenues and margins from long-term contracts relating to the designing, engineering or manufacturing of specially designed products (including rail vehicles and component overhaul) 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. 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, claims, penalties and contract terms that provide for the adjustment of prices. We apply judgment to determine if realization of additional revenues from contract change orders and claims is probable and such amounts, if probable, 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 and labour usage and costs, foreign exchange rates (including the effect of hedges) and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers. We apply judgment to determine the probability that we will incur additional costs from delay or other penalties and such costs, if probable, are also included in estimated costs at completion.

Recognized revenues and margins are subject to revisions as contracts progress towards completion. We conduct quarterly reviews of estimated costs and revenues to completion on a contract-by-contract basis. In addition, a detailed annual review is performed on a contract-by-contract basis as part of our 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 production contracts accounted for using the percentage-of-completion method would have decreased BT's gross margin for fiscal year 2012 by approximately $75 million.

Aerospace program tooling

BA capitalizes development costs as aerospace program tooling when certain criteria for deferral are met. Aerospace program tooling is amortized over the expected number of aircraft to be produced, beginning on the delivery date of the first aircraft of a program and an impairment test is performed at least annually for aircraft programs under development and, for all programs, when there is an indication that the asset may be impaired. An impairment charge is recorded when the recoverable amount of a group of assets generating independent cash inflows (a CGU) is less than the carrying value of those assets. If key estimates change significantly, aerospace program tooling may be overstated, if the rate of amortization was insufficient or if the capitalized costs are not recoverable.

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 under each program. Such estimates are reviewed in detail as part of the budget and strategic plan process. We exercise judgment to identify independent cash inflows and allocate aerospace program tooling to CGUs by family of aircraft. The recoverable amount of a group of assets is based on the higher of fair value less costs to sell and value in use, generally determined using a discounted cash flow model. Other key estimates used to determine the recoverable amount include the discount rate and the expected future cash flows over the remaining life of the programs as determined in the budget and strategic plan for each family of aircraft.

The recoverable amount was established during the fourth quarter of fiscal year 2012 based on fair value less costs to sell using a discounted cash flow model. In our discounted cash flow model, the estimated future cash flows for the first three years are based on the budget and strategic plan.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

An increase of 100-basis points in the discount rate used to perform the impairment test would not have resulted in an impairment charge in fiscal year 2012.

A 10% decrease in the expected future net cash inflow for all programs, evenly distributed over future periods, would not have resulted in an impairment charge in fiscal year 2012.

Goodwill

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT operating segment. An impairment assessment is performed at least annually, and whenever circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that goodwill might be impaired. We selected the fourth quarter to perform our annual impairment assessment of goodwill. The recoverable amount of the BT operating segment is based on the higher of fair value less costs to sell and value in use.

During the fourth quarter of fiscal year 2012, we completed an impairment test and no impairment was identified. The recoverable amount was calculated based on fair value less costs to sell using a discounted cash flow model. The estimated future cash flows are based on the budget and strategic plan for the first three years and a constant growth rate of 1% is applied to derive estimated cash flows beyond the initial three-year period. For purpose of this test, we used a 15-year period to project future cash flows. The post-tax discount rate is also a key estimate in the discounted cash flow model and is based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount in fiscal year 2012 was 6.8%. A 100-basis point change in the post-tax discount rate would not have resulted in an impairment charge in fiscal year 2012.

Valuation of deferred income tax assets

To determine the extent to which deferred income tax assets can be recognized, we estimate the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget and strategic plan by tax jurisdiction on an undiscounted basis and are reviewed on a quarterly basis. Judgment is used 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 tax strategies.

Credit and residual value guarantees

Credit and residual value guarantees are generally provided to participants in financing structures created in connection with the sale of commercial aircraft. A corresponding provision is recorded, measured at the amounts expected to be paid under the guarantees, using an internal valuation model based on stochastic simulations.

The amounts expected to be paid under the guarantees 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 estimated future value of the underlying aircraft. Aircraft residual value curves, adjusted to reflect the specific factors of the current aircraft market, are used to estimate this 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 mid 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, as well as on the likelihood that residual value guarantees will be called upon at the expiry of the financing arrangements. The estimates are reviewed on a quarterly basis.

Our main exposures to changes in value of credit and residual value guarantees are related to the residual value curves of the underlying aircraft and interest rates.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

Assuming a decrease of 1% in the residual value curves of all aircraft as at December 31, 2012, EBIT for fiscal year 2012 would have been negatively impacted by $12 million.

Assuming a decrease of 100 basis points in interest rates as at December 31, 2012, EBT for fiscal year 2012 would have been negatively impacted by $13 million. Assuming an increase of 100 basis points in interest rates as at December 31, 2012, EBT for fiscal year 2012 would have been positively impacted by $19 million.

Retirement 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, expected long-term rate of return on plan assets, 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. Discount rates are reviewed on a quarterly basis. As most other assumptions and estimates are long-term in nature, we assess events and circumstances that could require a change in other assumptions or estimates on a quarterly basis.

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 obligations.

As the Canadian high quality corporate bond market, as defined under IFRS, includes relatively few medium and long maturity bonds, we established the discount rates for our Canadian pension and other post-employment plans by constructing a yield curve for the medium and long term range of the curve from the limited observation points for AA rated corporate bonds. Therefore, as at December 31, 2012, the discount rates were based on observed market rates for AA corporate bonds with maturities less than six years and on rates from the extrapolated yield curve for years thereafter, calculated by adding an average spread to provincial bond yields at three maturity ranges. The extrapolated curve as at December 31, 2011 was constructed by estimating credit spreads for AA rated bonds at each maturity point of the curve by reference to yields on A and AAA rated corporate bonds.

Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long term investment returns and target asset allocations. A lower expected rate of return increases the cost of pension and other retirement benefits.

Expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases, in the context of the current economic conditions.

A sensitivity analysis to changes in critical actuarial assumptions is presented in the Retirement Benefits section in Overview. Details regarding assumptions used are provided in note 21 – Retirement benefits, to the consolidated financial statements.

CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' National Instrument 52-109, we have filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Disclosure controls and procedures

The CEO and the CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Corporation has been made known to them; and
- information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective.

Internal controls over financial reporting

The CEO and the CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our internal controls over financial reporting. Based on this evaluation, the CEO and the CFO concluded that the internal controls over financial reporting are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework.

Changes in internal controls over financial reporting

No changes were made to our internal controls over financial reporting that occurred during the quarter and fiscal year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FOREIGN EXCHANGE RATES

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

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

	December 31, 2012	December 31, 2011	Increase
Euro	**1.3194**	1.2939	2%
Canadian dollar	**1.0043**	0.9791	3%
Pound sterling	**1.6167**	1.5490	4%

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows for the fourth quarters ended:

	December 31, 2012	December 31, 2011	Increase (decrease)
Euro	**1.2980**	1.3394	(3%)
Canadian dollar	**1.0096**	0.9765	3%
Pound sterling	**1.6069**	1.5728	2%

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows for fiscal years:

	2012	2011	Decrease
Euro	**1.2860**	1.3978	(8%)
Canadian dollar	**1.0008**	1.0124	(1%)
Pound sterling	**1.5854**	1.6068	(1%)

INVESTOR INFORMATION

Authorized, issued and outstanding share data as at February 19, 2012

	Authorized	Issued and outstanding
Class A Shares (Multiple Voting)(1)	1,892,000,000	314,537,162
Class B Shares (Subordinate Voting)(2)	1,892,000,000	1,415,882,354 (3)
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

(1) Ten votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).
(2) Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions.
(3) Net of 24,542,027 Class B Shares (Subordinate Voting) purchased and held in trust in connection with the PSU plan.

Normal course issuer bid

As authorized by the Board of Directors, the Corporation may repurchase for cancellation, in connection with, inter alia, the DSU plan, from June 21, 2012 to June 20, 2013, up to 6,000,000 Class B Shares (subordinate voting) ("Class B Shares") and up to 1,310,334 Class A Shares (multiple voting) ("Class A Shares") (from June 17, 2011 to June 16, 2012, up to 2,006,000 Class B Shares and 438,263 Class A Shares).

During the fiscal year ended December 31, 2012, no Class B Shares were repurchased and cancelled (2,006,000 Class B Shares were repurchased and cancelled for a total amount of $14 million during the fiscal year ended December 31, 2011).

Shareholders may obtain a free copy of the documents filed with the Toronto Stock Exchange concerning this normal course issuer bid by writing to our Corporate Secretary.

Share option, PSU and DSU data as at December 31, 2012

Options issued and outstanding under the share option plans	28,490,089
PSUs and DSUs issued and outstanding under the PSU and DSU plans	30,853,287
Class B Shares held in trust to satisfy PSU obligations	24,542,027

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

First Quarterly Report, for the period ending March 31, 2013	May 9, 2013
Second Quarterly Report, for the period ending June 30, 2013	August 1, 2013
Third Quarterly Report, for the period ending September 30, 2013	October 31, 2013
Financial Report, for the fiscal year ending December 31, 2013	February 13, 2014

Information

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SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from, and should be read in conjunction with the consolidated financial statements for fiscal years ended January 31, 2011, December 31, 2011 and December 31, 2012.

The table below provides selected financial information for the last three fiscal years.

(In millions of U.S. dollars, except per share amounts)			
For fiscal years ended	**December 31 2012**	December 31 2011 [1]	January 31 2011
Revenues	**$ 16,768**	$ 18,347	$ 17,892
Net income attributable to equity holders of Bombardier Inc.	**$ 588**	$ 837	$ 762
EPS (in dollars)			
Basic	**$ 0.32**	$ 0.47	$ 0.43
Diluted	**$ 0.32**	$ 0.47	$ 0.42
Cash dividends declared per share (in Canadian dollars)			
Class A Shares (Multiple Voting)	**$ 0.10**	$ 0.10	$ 0.10
Class B Shares (Subordinate Voting)	**$ 0.10**	$ 0.10	$ 0.10
Series 2 Preferred Shares	**$ 0.75**	$ 0.69	$ 0.66
Series 3 Preferred Shares	**$ 1.05**	$ 1.32	$ 1.32
Series 4 Preferred Shares	**$ 1.56**	$ 1.56	$ 1.56

(In millions of U.S. dollars)			
As at	**December 31 2012**	December 31 2011	February 1 2011
Total assets	**$ 25,790**	$ 23,864	$ 24,092
Non-current financial liabilities	**$ 5,961**	$ 5,250	$ 5,177

[1] Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

The quarterly data table is shown hereafter.

February 20, 2013

Additional information relating to Bombardier, including the Corporation's annual report and annual information form, will be available on SEDAR at www.sedar.com or on Bombardier's website at ir.bombardier.com.

The *CSeries* family of aircraft, *Learjet 85* aircraft and *Global 7000* and *Global 8000* aircraft programs are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specification and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind.

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Un exemplaire en français est disponible sur demande adressée auprès du service des Affaires publiques ou sur notre site Internet à l'adresse ri.bombardier.com.

BOMBARDIER INC.
QUARTERLY DATA (UNAUDITED)
(the quarterly data has been prepared in accordance with IAS 34, Interim financial reporting, except market price ranges)
(In millions of U.S. dollars, except per share amounts)

For the fiscal years ended	**December 31, 2012**					December 31, 2011				
	Total	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**	Total [1]	Fourth quarter [2]	Third quarter	Second quarter	First quarter
Revenues										
BA	**$ 8,628**	**$ 2,597**	**$ 2,267**	**$ 2,265**	**$ 1,499**	$ 8,594	$ 2,016	$ 2,305	$ 2,085	$ 2,188
BT	**8,140**	**2,158**	**2,071**	**1,905**	**2,006**	9,753	2,300	2,318	2,662	2,473
	$ 16,768	**$ 4,755**	**$ 4,338**	**$ 4,170**	**$ 3,505**	$ 18,347	$ 4,316	$ 4,623	$ 4,747	$ 4,661
EBIT										
BA	**$ 405**	**$ 89**	**$ 123**	**$ 102**	**$ 91**	$ 502	$ 127	$ 129	$ 105	$ 141
BT	**290**	**(77)**	**125**	**118**	**124**	700	166	172	191	171
	695	**12**	**248**	**220**	**215**	1,202	293	301	296	312
Financing expense[3]	**596**	**144**	**145**	**155**	**152**	681	156	192	179	177
Financing income[3]	**(599)**	**(111)**	**(170)**	**(166)**	**(152)**	(519)	(123)	(134)	(144)	(141)
EBT	**698**	**(21)**	**273**	**231**	**215**	1,040	260	243	261	276
Income taxes	**100**	**(35)**	**61**	**49**	**25**	203	46	51	50	56
Net income	**$ 598**	**$ 14**	**$ 212**	**$ 182**	**$ 190**	$ 837	$ 214	$ 192	$ 211	$ 220
Attributable to:										
Equity holders of Bombardier Inc.	**$ 588**	**$ 12**	**$ 209**	**$ 182**	**$ 185**	$ 837	$ 213	$ 194	$ 210	$ 220
NCI	**10**	**2**	**3**	**-**	**5**	-	1	(2)	1	-
	$ 598	**$ 14**	**$ 212**	**$ 182**	**$ 190**	$ 837	$ 214	$ 192	$ 211	$ 220
EPS (in dollars)										
Basic and diluted	**$ 0.32**	**$ -**	**$ 0.12**	**$ 0.10**	**$ 0.10**	$ 0.47	$ 0.12	$ 0.11	$ 0.12	$ 0.12
Market price range of Class B Shares (in Canadian dollars)										
High	**$ 4.93**	**$ 3.84**	**$ 4.25**	**$ 4.31**	**$ 4.93**	$ 7.29	$ 4.40	$ 5.84	$ 7.25	$ 7.29
Low	**$ 2.97**	**$ 2.97**	**$ 3.37**	**$ 3.53**	**$ 3.86**	$ 3.30	$ 3.30	$ 3.42	$ 5.54	$ 5.65

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) The fourth quarter ended December 31, 2011 comprises two months of BA's results and three months of BT's results.
(3) The amounts presented on a yearly basis do not correspond to the sum of the four quarters as certain reclassifications to quarterly figures to or from financing income and financing expense are required on a cumulative basis.

Supplemental non-GAAP measures by quarter, restated to reflect the adoption of new standards for joint ventures and employee benefits, can be found on Bombardier's website at ir.bombardier.com.

BOMBARDIER INC.
HISTORICAL FINANCIAL SUMMARY
(In millions of U.S. dollars, except per share amounts, number of common shares and shareholders of record)

	IFRS			Canadian GAAP	
For the fiscal years ended	**December 31 2012**	December 31 2011 [1]	January 31 2011	January 31 2010	January 31 2009
Revenues					
BA	**$ 8,628**	$ 8,594	$ 8,809	$ 9,357	$ 9,965
BT	**8,140**	9,753	9,083	10,009	9,756
	$ 16,768	$ 18,347	$ 17,892	$ 19,366	$ 19,721
EBIT before special items					
BA	**$ 382**	$ 502	$ 554	$ 473	$ 896
BT	**453**	700	651	625	533
	835	1,202	1,205	1,098	1,429
Special items					
BA	**(23)**	-	-	-	-
BT	**163**	-	-	-	-
	140	-	-	-	-
EBIT					
BA	**405**	502	554	473	896
BT	**290**	700	651	625	533
	695	1,202	1,205	1,098	1,429
Financing expense	**596**	681	684	279	408
Financing income	**(599)**	(519)	(476)	(96)	(270)
EBT	**698**	1,040	997	915	1,291
Income taxes	**100**	203	222	208	265
Net income	**$ 598**	$ 837	$ 775	$ 707	$ 1,026
Attributable to:					
Equity holders of Bombardier Inc.	**$ 588**	$ 837	$ 762	$ 698	$ 1,008
NCI	**$ 10**	$ -	$ 13	$ 9	$ 18
Adjusted net income	**$ 692**	$ 865	$ 785	n/a	n/a
EPS (in dollars)					
Basic	**$ 0.32**	$ 0.47	$ 0.43	$ 0.39	$ 0.57
Diluted	**$ 0.32**	$ 0.47	$ 0.42	$ 0.39	$ 0.56
Adjusted	**$ 0.38**	$ 0.48	$ 0.43	n/a	n/a
General information					
Export revenues from Canada	**$ 5,702**	$ 5,602	$ 6,112	$ 6,435	$ 7,002
Net additions to PP&E and intangible assets	**$ 2,089**	$ 1,475	$ 1,125	$ 767	$ 567
Amortization	**$ 371**	$ 333	$ 371	$ 498	$ 555
Impairment charges on PP&E	**$ 9**	$ -	$ 8	$ -	$ -
Dividend per common share (in Canadian dollars)					
Class A	**$ 0.10**	$ 0.10	$ 0.10	$ 0.10	$ 0.08
Class B	**$ 0.10**	$ 0.10	$ 0.10	$ 0.10	$ 0.08
Dividend per preferred share (in Canadian dollars)					
Series 2	**$ 0.75**	$ 0.69	$ 0.66	$ 0.59	$ 1.15
Series 3	**$ 1.05**	$ 1.32	$ 1.32	$ 1.32	$ 1.32
Series 4	**$ 1.56**	$ 1.56	$ 1.56	$ 1.56	$ 1.56
Market price ranges (in Canadian dollars)					
Class A					
High	**$ 5.00**	$ 7.29	$ 6.24	$ 5.63	$ 9.00
Low	**$ 3.08**	$ 3.41	$ 4.28	$ 2.29	$ 3.25
Close	**$ 3.83**	$ 4.06	$ 5.72	$ 5.04	$ 3.85
Class B					
High	**$ 4.93**	$ 7.29	$ 6.24	$ 5.64	$ 8.97
Low	**$ 2.97**	$ 3.30	$ 4.25	$ 2.22	$ 3.17
Close	**$ 3.76**	$ 4.06	$ 5.70	$ 5.04	$ 3.80
As at					
Number of common shares (in millions)	**1,730**	1,724	1,726	1,730	1,730
Book value per common share (in dollars)	**$ 0.57**	$ 0.17	$ 0.64	$ 1.94	$ 1.27
Shareholders of record	**13,544**	13,427	13,591	13,666	13,540

[1] The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

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

				IFRS
	December 31 2012	December 31 2011	January 31 2011	February 1 2010
Assets				
Cash and cash equivalents	**$ 2,896**	$ 3,372	$ 4,195	$ 3,372
Trade and other receivables	**1,525**	1,408	1,377	1,141
Inventories	**7,729**	7,398	7,307	7,630
Other financial assets	**443**	526	705	537
Other assets	**683**	559	648	519
Current assets	**13,276**	13,263	14,232	13,199
Invested collateral	**-**	-	676	682
PP&E	**2,028**	1,864	1,878	1,674
Aerospace program tooling	**4,770**	3,168	2,088	1,385
Goodwill	**2,325**	2,253	2,358	2,247
Deferred income taxes	**1,452**	1,506	1,294	1,373
Other financial assets	**1,316**	1,305	1,104	1,003
Other assets	**623**	505	462	557
Non-current assets	**12,514**	10,601	9,860	8,921
	$ 25,790	$ 23,864	$ 24,092	$ 22,120
Liabilities				
Trade and other payables	**$ 3,553**	$ 3,210	$ 3,073	$ 3,045
Provisions	**1,062**	1,078	1,198	1,140
Advances and progress billings in excess of long-term contract inventories	**2,015**	1,885	2,370	1,850
Advances on aerospace programs	**3,053**	2,788	2,989	3,055
Other financial liabilities	**455**	732	860	537
Other liabilities	**2,236**	2,262	2,214	2,036
Current liabilities	**12,374**	11,955	12,704	11,663
Provisions	**524**	594	614	675
Advances on aerospace programs	**1,600**	1,266	1,193	1,373
Non-current portion of long-term debt	**5,360**	4,748	4,645	4,134
Retirement benefits	**2,997**	3,226	1,975	2,181
Other financial liabilities	**601**	502	532	558
Other liabilities	**957**	902	908	576
Non-current liabilities	**12,039**	11,238	9,867	9,497
	24,413	23,193	22,571	21,160
Equity				
Attributable to equity holders of Bombardier Inc.	**1,331**	639	1,454	902
Attributable to NCI	**46**	32	67	58
	1,377	671	1,521	960
	$ 25,790	$ 23,864	$ 24,092	$ 22,120

BOMBARDIER INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended
December 31, 2012 and 2011

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and MD&A of Bombardier Inc. and all other information in the annual 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 2012. 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. 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 2012. 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 external auditors, to review the consolidated financial statements, external 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 external 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 external auditors, in accordance with Canadian generally accepted auditing standards and International Standards on auditing on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

Pierre Beaudoin,
President and Chief Executive Officer

Pierre Alary, FCPA, FCA
Senior Vice President and Chief Financial Officer

February 20, 2013

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, 2012, 2011 and February 1, 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for fiscal years ended December 31, 2012 and 2011, 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 and International Standards on auditing. 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, 2012, 2011 and February 1, 2011, and its financial performance and its cash flows for fiscal years ended December 31, 2012 and 2011 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 20, 2013

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

CONSOLIDATED FINANCIAL STATEMENTS

For fiscal years 2012 and 2011
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

See MD&A for the abbreviations used in the consolidated financial statements.

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

	Notes	**2012**	2011 [(1)]
Revenues	5	**$ 16,768**	$ 18,347
Cost of sales	5, 16	**14,269**	15,444
Gross margin		**2,499**	2,903
SG&A	5	**1,443**	1,439
R&D	5, 6	**299**	271
Share of income of associates	5	**(45)**	(4)
Other income	5, 7	**(33)**	(5)
Special items	5, 8	**140**	-
EBIT		**695**	1,202
Financing expense	9	**596**	681
Financing income	9	**(599)**	(519)
EBT		**698**	1,040
Income taxes	11	**100**	203
Net income		**$ 598**	$ 837
Attributable to:			
Equity holders of Bombardier Inc.		**$ 588**	$ 837
NCI		**10**	-
		$ 598	$ 837
EPS (in dollars)	12		
Basic and diluted		**$ 0.32**	$ 0.47

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results. See note 1 – Basis of preparation for more details.

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)

		2012		2011 [1]
Net income	**$**	**598**	$	837
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges				
Foreign exchange re-evaluation		**(5)**		16
Net gain (loss) on derivative financial instruments designated as cash flow hedges		**163**		(128)
Reclassification to income or to the related non-financial asset[2][3]		**25**		(40)
Income taxes		**(64)**		54
		119		(98)
AFS financial assets				
Net unrealized gain		**6**		26
Reclassification to income		**(29)**		(5)
Income taxes		**6**		(4)
		(17)		17
CCTD				
Net investments in foreign operations		**75**		(90)
Net gain (loss) on related hedging items		**(18)**		50
		57		(40)
Items that are never reclassified to net income				
Retirement benefits				
Net actuarial gains (losses)		**172**		(1,489)
Income taxes		**(25)**		234
		147		(1,255)
Total OCI		**306**		(1,376)
Total comprehensive income (loss)	**$**	**904**	$	(539)
Attributable to:				
Equity holders of Bombardier Inc.	**$**	**891**	$	(535)
NCI		**13**		(4)
	$	**904**	$	(539)

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Includes $22 million of gain reclassified to the related non-financial asset for fiscal year 2012 ($104 million of gain for fiscal year 2011).
(3) $2 million of net deferred loss is expected to be reclassified from OCI to the carrying amount of the related non-financial asset or to income during fiscal year 2013.

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 2012**	December 31 2011	February 1 2011
Assets				
Cash and cash equivalents	14	**$ 2,896**	$ 3,372	$ 4,195
Trade and other receivables	15	**1,525**	1,408	1,377
Inventories	16	**7,729**	7,398	7,307
Other financial assets	17	**443**	526	705
Other assets	18	**683**	559	648
Current assets		**13,276**	13,263	14,232
Invested collateral	30	**-**	-	676
PP&E	19	**2,028**	1,864	1,878
Aerospace program tooling	20	**4,770**	3,168	2,088
Goodwill	20	**2,325**	2,253	2,358
Deferred income taxes	11	**1,452**	1,506	1,294
Other financial assets	17	**1,316**	1,305	1,104
Other assets	18	**623**	505	462
Non-current assets		**12,514**	10,601	9,860
		$ 25,790	$ 23,864	$ 24,092
Liabilities				
Trade and other payables	22	**$ 3,553**	$ 3,210	$ 3,073
Provisions	23	**1,062**	1,078	1,198
Advances and progress billings in excess of long-term contract inventories	16	**2,015**	1,885	2,370
Advances on aerospace programs		**3,053**	2,788	2,989
Other financial liabilities	25	**455**	732	860
Other liabilities	26	**2,236**	2,262	2,214
Current liabilities		**12,374**	11,955	12,704
Provisions	23	**524**	594	614
Advances on aerospace programs		**1,600**	1,266	1,193
Non-current portion of long-term debt	24	**5,360**	4,748	4,645
Retirement benefits	21	**2,997**	3,226	1,975
Other financial liabilities	25	**601**	502	532
Other liabilities	26	**957**	902	908
Non-current liabilities		**12,039**	11,238	9,867
		24,413	23,193	22,571
Equity				
Attributable to equity holders of Bombardier Inc.		**1,331**	639	1,454
Attributable to NCI		**46**	32	67
		1,377	671	1,521
		$ 25,790	$ 23,864	$ 24,092
Commitments and contingencies	37			

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

On behalf of the Board of Directors,

Laurent Beaudoin, C.C., FCPA, FCA
Director

L. Denis Desautels, O.C., 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		Deficit			Accumulated OCI					
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total Equity
As at February 1, 2011	$ 347	$ 1,324	$ 1,702	$ (1,978)	$ 131	$ 10	$ (218)	$ 136	$ 1,454	$ 67	$ 1,521
Total comprehensive income											
Net income	-	-	837	-	-	-	-	-	837	-	837
OCI	-	-	-	(1,255)	-	17	(98)	(36)	(1,372)	(4)	(1,376)
	-	-	837	(1,255)	-	17	(98)	(36)	(535)	(4)	(539)
Options exercised	-	9	-	-	(1)	-	-	-	8	-	8
Repurchase of share capital	-	(2)	(12)	-	-	-	-	-	(14)	-	(14)
Dividends											
Common shares	-	-	(179)	-	-	-	-	-	(179)	-	(179)
Preferred shares	-	-	(25)	-	-	-	-	-	(25)	-	(25)
Shares distributed - PSU plans	-	50	-	-	(50)	-	-	-	-	-	-
Shares purchased - PSU plans	-	(58)	-	-	-	-	-	-	(58)	-	(58)
Share-based expense	-	-	-	-	38	-	-	-	38	-	38
Purchase of NCI	-	-	(50)	-	-	-	-	-	(50)	(31)	(81)
As at December 31, 2011	$ 347	$ 1,323	$ 2,273	$ (3,233)	$ 118	$ 27	$ (316)	$ 100	$ 639	$ 32	$ 671
Total comprehensive income											
Net income	-	-	588	-	-	-	-	-	588	10	598
OCI	-	-	-	147	-	(17)	119	54	303	3	306
	-	-	588	147	-	(17)	119	54	891	13	904
Options exercised	-	5	-	-	(2)	-	-	-	3	-	3
Dividends											
Common shares	-	-	(177)	-	-	-	-	-	(177)	-	(177)
Preferred shares	-	-	(29)	-	-	-	-	-	(29)	-	(29)
Capital distribution	-	-	-	-	-	-	-	-	-	(2)	(2)
Shares distributed - PSU plans	-	14	-	-	(14)	-	-	-	-	-	-
Share-based expense	-	-	-	-	7	-	-	-	7	-	7
Purchase of NCI	-	-	(3)	-	-	-	-	-	(3)	3	-
As at December 31, 2012	**$ 347**	**$ 1,342**	**$ 2,652**	**$ (3,086)**	**$ 109**	**$ 10**	**$ (197)**	**$ 154**	**$ 1,331**	**$ 46**	**$ 1,377**

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		2012		2011 [1]
Operating activities					
Net income		**$**	**598**	$	837
Non-cash items					
Amortization			**371**		333
Impairment charges on PP&E	8		**9**		-
Deferred income taxes	11		**(27)**		66
Gain on disposals of PP&E and intangible assets	7		**(6)**		(3)
Share-based expense	28		**7**		38
Net change in non-cash balances	29		**396**		(1,028)
Cash flows from operating activities			**1,348**		243
Investing activities					
Additions to PP&E and intangible assets			**(2,140)**		(1,500)
Proceeds from disposals of PP&E and intangible assets			**51**		25
Proceeds from disposal of invested collateral			**-**		705
Proceeds from disposal of AFS investments in securities			**133**		-
Other			**6**		(28)
Cash flows from investing activities			**(1,950)**		(798)
Financing activities					
Proceeds from issuance of long-term debt			**509**		122
Repayments of long-term debt			**(186)**		(15)
Dividends paid[2]			**(249)**		(156)
Purchase of Class B shares held in trust under the PSU plan			**-**		(58)
Repurchase of Class B shares	27		**-**		(14)
Purchase of NCI			**-**		(61)
Other			**3**		(45)
Cash flows from financing activities			**77**		(227)
Effect of exchange rate on cash and cash equivalents			**49**		(41)
Net decrease in cash and cash equivalents			**(476)**		(823)
Cash and cash equivalents at beginning of year			**3,372**		4,195
Cash and cash equivalents at end of year		**$**	**2,896**	$	3,372
Supplemental information[3][4]					
Cash paid for:					
Interest		**$**	**259**	$	238
Income taxes		**$**	**101**	$	115
Cash received for:					
Interest		**$**	**97**	$	40
Income taxes		**$**	**19**	$	20

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) $25 million of dividends paid relate to preferred shares for fiscal year 2012 ($20 million for fiscal year 2011).
(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, invested collateral, investments in securities, loans and lease receivable after the effect of hedges, if any, a gain on the sale of AFS investments in securities and the interest portion of a gain related to the resolution of a litigation in connection with part 1.3 of the Canadian Income Tax Act, the Tax on Large Corporations.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2012 and 2011
(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"). The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services. The Corporation carries out its operations in two distinct segments, the aerospace segment (BA) and the transportation segment (BT). The main activities of the Corporation are described in Note 5 – Segment disclosure.

Effective December 31, 2011, the Corporation changed its financial year-end from January 31 to December 31. Before the change of year-end, the Corporation was consolidating the operations of BT on a calendar year basis, i.e. with one-month lag with the remainder of its operations. As a result, the comparative period ended December 31, 2011 is comprised of 11 months of results of BA and 12 months of results of BT.

The amounts presented in the financial statements for fiscal year 2011 are not entirely comparable as a result of this change of financial year-end.

The Corporation's consolidated financial statements for fiscal years 2012 and 2011 were authorized for issuance by the Board of Directors on February 20, 2013.

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 SPEs when, based on the evaluation of the substance of the relationship with the Corporation, it concludes that it controls the SPE. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of the entity so that the Corporation obtains benefits from its activities, whether it holds shares or not.

The Corporation's principal subsidiaries, whose revenues represent more than 10% of total revenues of their respective segment, are as follows:

Subsidiary	Location
Bombardier Transportation GmbH	Germany
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Bombardier Aerospace Corporation	U.S.
Learjet Inc.	U.S.

Revenues of these subsidiaries combined with those of Bombardier Inc. totalled 65% of consolidated revenues for fiscal year 2012 (67% for fiscal year 2011).

Joint ventures – Joint ventures are those entities over which the Corporation exercises joint control, established by contractual agreement and requiring unanimous consent of the parties sharing control for strategic financial and operating decision making. The Corporation recognizes its interest in joint ventures using the proportionate method of consolidation.

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.

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, mainly the U.S. dollar in BA, and the euro, Pound sterling, various other European currencies and the U.S. dollar in BT.

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 exchange rates in effect at year-end. Revenues and expenses, as well as cash flows, are translated using the average exchange rates for the year. 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 2012	December 31 2011	February 1 2011	**2012**	2011
Euro	**1.3194**	1.2939	1.3715	**1.2860**	1.3978
Canadian dollar	**1.0043**	0.9791	0.9978	**1.0008**	1.0124
Pound sterling	**1.6167**	1.5490	1.6040	**1.5854**	1.6068

Revenue recognition

Long-term contracts – Revenues from long-term contracts related to designing, engineering or manufacturing specifically designed products (including rail vehicles and component overhaul) 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 include revenues from change orders and claims when it is probable that they will result in additional revenues and the amount can be reliably estimated. 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 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.

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.

Sales of aircraft fractional shares are considered together with the related service agreement for purpose of revenue recognition. Accordingly, revenues from such sale are recognized over the period during which the related services are rendered to the customer, generally five years. At the time of sale, the proceeds from the sale are recorded in other liabilities, under Flexjet fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to other assets, under Flexjet fractional ownership deferred costs, and is charged to cost of sales over the same period.

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.

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.

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, invested collateral, trade and other receivables, aircraft loans and lease receivables, investments in securities, investments in financing structures, servicing fees, restricted cash and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables, long-term debt, 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 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 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, interest rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap 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 financing rate commitments, call options on long-term debt and foreign exchange instruments. Upon initial recognition, the fair value of financing rate commitments linked to the sale of products is recognized as deferred charge in other assets. The deferred charge is recorded as an adjustment of the sale price of the related products. 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 the invested collateral, certain aircraft loans and lease receivables, certain investment in financing structures, servicing fees, 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 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 aircraft loans and lease receivables 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, 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 cross-currency interest-rate swap agreements and 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 accounts 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 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. 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 benefits – Retirement benefit plans are classified as either defined benefit plans or defined contribution plans. Contributions to defined contribution plans are recognized in net income when they are due. Defined benefit plans are accounted for as follows:

- 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 long-term rate of return on plan assets, salary escalation, retirement ages, life expectancy and health care costs.
- The defined benefit obligation is determined based on expected future benefit payments discounted using market interest rates at the end of the reporting year.
- 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. 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 sum of any unrecognized past service costs and 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.
- The actuarial 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 on a straight line basis over the average vesting period. Past service costs (credits) relating to benefits already vested are expensed immediately.

The expected return on pension plan assets and accretion on retirement benefit obligations are included in financing income and financing expense respectively. 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 is allocated among functional costs, based on the function of the employee accruing the benefits.

In the case of funded benefit plans, the fair value of plan assets is offset against the benefit obligation. The net amount, determined on a plan-by-plan basis after adjusting for the effects of unrecognized past service costs (credits) and any asset ceiling, is included in retirement benefit liability or retirement benefit asset. In the case of unfunded benefit plans, the benefit obligation, after adjusting for the effects of unrecognized past service costs (credits), is included in retirement benefit liability.

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 and past service costs 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. 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.

Acquired intangible assets include the cost of development activities carried out by vendors for which the Corporation controls the underlying output of 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, patent and trademarks	Straight-line	3 to 20 years
Other	Straight-line and unit of production	3 to 5 years and expected number of units to be produced

(1) As at December 31, 2012, 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 8 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-lived 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. 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, such as the discounted cash flow models.
- The value in use is calculated using estimated net cash flows, with detailed projections generally over a three-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. 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 and PP&E 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 plans main features.

Onerous contracts – If it is more likely than not that the unavoidable costs of meeting the obligations under a contract, other than a long-term contract, 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. Costs incurred to set up an efficient manufacturing process in the early phase of an aircraft program are not considered unavoidable costs related to a specific contract. 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. Termination benefits are included in provisions.

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.

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 and DSUs, 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 and DSUs that are expected to vest. For share option plans, the value of the compensation is measured using a Black-Scholes option pricing model, modified to incorporate target prices related to the performance share option plan for options granted before June 1, 2009. The effect of any change in the number of options, PSUs and DSUs 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.

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 October 2010, the IASB released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial instruments: recognition and measurement*. This first part only covers classification and measurement of financial assets and financial liabilities. The other two parts, impairment of financial assets and hedge accounting, are still under development. The IASB is also currently considering making limited modifications to the first part of IFRS 9, *Financial instruments*.

The first part of IFRS 9 uses a single 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 fair value, must be presented in OCI rather than in the statement of income. IFRS 9 will be effective for the Corporation's fiscal years beginning on January 1, 2015, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

Consolidation
In May 2011, the IASB released IFRS 10, *Consolidated financial statements*, which replaces SIC-12, *Consolidation – special purpose entities*, and the parts of IAS 27, *Consolidated and separate financial statements* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor to assess whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 is effective January 1, 2013 for the Corporation. The adoption of this standard has no impact on the consolidated financial statements of the Corporation.

Joint arrangements
In May 2011, the IASB released IFRS 11, *Joint arrangements*, which supersedes IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities - non-monetary contributions by venturers*. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. IFRS 11 classifies joint arrangements into two types: joint ventures and joint operations. Joint ventures are arrangements whereby the parties have rights to the net assets, while joint operations are arrangements whereby the parties have rights to the assets and obligations for the liabilities. The standard eliminates choices in the reporting of joint arrangements by requiring the use of the equity method to account for interests in joint ventures, and by requiring joint operators to recognize assets and liabilities in relation to their interests in the arrangements. IFRS 11 is effective January 1, 2013 for the Corporation.

The Corporation has completed its assessment of the impact of the adoption of this standard, and a large part of its investments in joint arrangements qualify as joint ventures, currently accounted for under the proportionate consolidation method, and will be accounted for under IFRS 11 using the equity method of accounting. Under the equity method of accounting, the Corporation's share of net assets, net income and OCI of joint ventures will be presented as one-line items on the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income, respectively. In addition, the consolidated statement of cash flows under the equity method of accounting will include the cash flows between the Corporation and its joint ventures, and not the Corporation's proportionate share of the joint ventures' cash flows.

The impact of adopting IFRS 11, *Joint arrangements* on the Corporation's consolidated financial statements is detailed hereafter.

Disclosure of interests in other entities
In May 2011, the IASB released IFRS 12, *Disclosure of interests in other entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is effective January 1, 2013 for the Corporation. The Corporation is collecting the information for disclosures in its annual consolidated financial statements for fiscal year 2013.

Fair value measurement
In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 is effective January 1, 2013 for the Corporation. The Corporation is currently assessing the impact of the adoption of this standard.

Financial statement presentation
In June 2011, the IASB amended IAS 1, *Presentation of financial statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group items within OCI that may be reclassified to the statement of income. The amendments also reaffirmed existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are effective January 1, 2013 for the Corporation. The presentation of the Corporation consolidated financial statement is not impacted by these amendments as the items within OCI that may be reclassified to the statement of income are already disclosed together.

Employee benefits
In June 2011, the IASB amended IAS 19, *Employee benefits*. Amongst other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Under the current IAS 19, *Employee benefits* the interest income is presented separately from interest expense and calculated based on the expected return on the plan assets. Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendments to IAS 19 are effective January 1, 2013 for the Corporation.

Impact of adopting the above mentioned standards effective January 1, 2013
The following tables summarize the Corporation retroactive restatements to its consolidated financial statements resulting from the adoption of the amended IAS 19, *Employee benefits* and IFRS 11, *Joint arrangements.*

The impacts on the consolidated statements of income are as follows for fiscal year:

				2012
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Revenues	$ 16,768	$ (354)	$ -	$ 16,414
Cost of sales	14,269	(230)	14	14,053
Gross margin	2,499	(124)	(14)	2,361
SG&A	1,443	(8)	7	1,442
R&D	299	-	-	299
Share of income of joint ventures and associates	(45)	(108)	-	(153)
Other income	(33)	-	-	(33)
Special items	140	-	-	140
EBIT	695	(8)	(21)	666
Financing expense	596	-	(301)	295
Financing income	(599)	12	427	(160)
EBT	698	(20)	(147)	531
Income taxes	100	(20)	(16)	64
Net income	$ 598	$ -	$ (131)	$ 467
EPS (in dollars)				
Basic and diluted	$ 0.32			$ 0.25

The joint arrangement restatements relate to the above mentioned requirement to account for investments in joint ventures using the equity method of accounting under IFRS 11 instead of using the proportionate consolidation method.

The employee benefits restatements essentially relate to the above mentioned requirement to calculate the interest expense and income component on a net basis using the post-employment benefit obligation discount rate.

The impacts on the consolidated statements of financial position are as follows as at:

								December 31, 2012
			Restatements					
		As presented		Joint arrangements		Employee benefits		As restated
Assets								
Cash and cash equivalents	$	2,896	$	(339)	$	-	$	2,557
Other current assets		10,380		(406)		-		9,974
Investments in joint ventures and associates		66		245				311
Other non-current assets		12,448		(134)		-		12,314
	$	25,790	$	(634)	$	-	$	25,156
Liabilities								
Current liabilities	$	12,374	$	(636)	$	-	$	11,738
Retirement benefits		2,997		-		2		2,999
Other non-current liabilities		9,042		-		-		9,042
		24,413		(636)		2		23,779
Equity		1,377		2		(2)		1,377
	$	25,790	$	(634)	$	-	$	25,156

								December 31, 2011
			Restatements					
		As presented		Joint arrangements		Employee benefits		As restated
Assets								
Cash and cash equivalents	$	3,372	$	(480)	$	-	$	2,892
Other current assets		9,891		(163)		-		9,728
Investments in joint ventures and associates		37		238		-		275
Other non-current assets		10,564		(129)		-		10,435
	$	23,864	$	(534)	$	-	$	23,330
Liabilities								
Current liabilities	$	11,955	$	(538)	$	-	$	11,417
Retirement benefits		3,226		-		5		3,231
Other non-current liabilities		8,012		-		-		8,012
		23,193		(538)		5		22,660
Equity		671		4		(5)		670
	$	23,864	$	(534)	$	-	$	23,330

The impacts on the consolidated equity position are as follows as at:

		December 31, 2012		December 31, 2011
Equity as presented:	$	1,377	$	671
Restatements to prior periods:		(1)		(31)
Net income				
Employee benefits		(131)		(57)
OCI				
Employee benefits		132		87
Equity as restated	$	1,377	$	670

The employee benefit restatement on the Corporation's consolidated statements of financial position is not significant because the cumulative impact of the higher net interest expense under the revised standard is mostly offset by the reversal of accumulated actuarial losses on plan assets previously recognized in AOCI.

The impacts on the consolidated statements of cash flows are as follows for fiscal year:

				2012
		Restatements		
	As presented	Joint arrangements	Employee benefits	As restated
Cash flow from operating activities	$ 1,348	$ 90	$ -	$ 1,438
Cash flow from investing activities	(1,950)	51	-	(1,899)
Cash flow from financing activities	77	4	-	81
Effect of exchange rate	49	(4)	-	45
Net increase (decrease) in cash and cash equivalents	(476)	141	-	(335)
Cash and cash equivalents at beginning of year	3,372	(480)	-	2,892
Cash and cash equivalents at end of year	$ 2,896	$ (339)	$ -	$ 2,557

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 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 concerning 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 could differ from the estimates used, and such differences could be material.

Management's budget and strategic plan cover a three-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 on an annual basis, using a process whereby a detailed one-year budget and two-year strategic plan are prepared by each business unit and then consolidated at the segment and Corporation levels. Cash flows and profitability included in the budget and strategic plan are based on the 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 – BT conducts most of its business under long-term contracts and BA has some long-term maintenance service contracts with customers. Revenues and margins 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, claims, penalties and contract terms that provide for the adjustment of prices. Management applies judgment to determine if realization of additional revenues from contract change orders and claims is probable and such amounts, if probable, are included in estimated revenues at completion.

Estimated contract costs at completion incorporate forecasts for material and labour usage 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 delay or other penalties and such costs, if probable, are also 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. 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 production contracts accounted for using the percentage-of-completion method would have decreased BT's gross margin for fiscal year 2012 by approximately $75 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 under each program. Such estimates are reviewed in detail as part of the budget and strategic plan process. Management exercises judgment to identify independent cash inflows and allocate aerospace program tooling to CGUs by family of aircraft. The recoverable amount of a group of assets is based on the higher of fair value less costs to sell and value in use, generally determined using a discounted cash flow model. Other key estimates used to determine the recoverable amount include the discount rate and the expected future cash flows over the remaining life of the programs as determined in the budget and strategic plan for each family of aircraft.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

An increase of 100-basis points in the discount rate used to perform the impairment test would not have resulted in an impairment charge in fiscal year 2012.

A 10% decrease in the expected future net cash inflow for all programs, evenly distributed over future periods, would not have resulted in an impairment charge in fiscal year 2012.

Goodwill – The recoverable amount of the BT operating segment, the group of CGUs to which goodwill is allocated, is based on the higher of fair value less costs to sell and value in use. During the fourth quarter of fiscal year 2012, the Corporation completed an impairment test and no impairment was identified. The recoverable amount was calculated based on fair value less costs to sell using a discounted cash flow model.

The estimated future cash flows are based on the budget and strategic plan for the first three years and a constant growth rate of 1% is applied to derive estimated cash flows beyond the initial three-year period. For purpose of this test, management used a 15-year period to project future cash flows.

The post-tax discount rate is also a key estimate in the discounted cash flow model and is based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount in fiscal year 2012 was 6.8%. A 100-basis points change in the post-tax discount rate would not have resulted in an impairment charge in fiscal year 2012.

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 tax strategies.

Credit and residual value guarantees – The Corporation uses an internal valuation model based on stochastic simulations to estimate the amounts expected to be paid under credit and residual value guarantees. The value is calculated using estimates of fair values of aircraft, current market assumptions for interest rates, published credit ratings when available, default probabilities from rating agencies and the likelihood that the residual value guarantee will be called upon at the expiry of the financing arrangement. The fair value of aircraft is estimated using aircraft residual value curves adjusted to reflect the specific factors of the current aircraft market. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit ratings. The estimates are reviewed on a quarterly basis. The Corporation's main exposures to changes in value of credit and residual value guarantees are related to the residual value curves of the underlying aircraft and interest rates.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

Assuming a decrease of 1% in the residual value curves of all aircraft as at December 31, 2012, EBIT for fiscal year 2012 would have been negatively impacted by $12 million.

Assuming a decrease of 100-basis points in interest rates as at December 31, 2012, EBT would have been negatively impacted by $13 million for fiscal year 2012. Assuming an increase of 100-basis points in interest rates as at December 31, 2012, EBT for fiscal year 2012 would have been positively impacted by $19 million.

Retirement 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, expected long-term rate of return on plan assets, 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. Discount rates are reviewed on a quarterly basis. As most other assumptions and estimates are long-term in nature, management assesses events and circumstances that could require a change in other assumptions or estimates on a quarterly basis.

Discount rates represent the market rates for high quality corporate fixed income investments consistent with the currency and the estimated term of the retirement benefit obligations. As the Canadian high quality corporate bond market, as defined under IFRS, includes relatively few medium and long maturity bonds, we established the discount rates for our Canadian pension and other post-employment plans by constructing a yield curve for the medium and long term range of the curve from the limited observation points for AA rated corporate bonds. Therefore, as at December 31, 2012, the discount rates were based on observed market rates for AA corporate bonds with maturities less than six years and on rates from the extrapolated yield curve for years thereafter, calculated by adding an average spread to provincial bond yields at three maturity ranges. The extrapolated curve as at December 31, 2011 was constructed by estimating credit spreads for AA rated bonds at each maturity point of the curve by reference to yields on A and AAA rated corporate bonds.

Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long-term investment returns and target asset allocations. Expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases, in the context of the current economic conditions. See note 21 – Retirement benefits for further details regarding assumptions used and sensitivity to changes in critical actuarial assumptions.

5. SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT. Each reportable segment offers different products and services and requires different technology and marketing strategies.

BA	BT
BA is a world leader in the design, manufacture and support of innovative aviation products. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets, as well as specialized and amphibious aircraft. BA also offers aftermarket services as well as Flexjet fractional ownership and flight entitlement programs.	BT is a world leader in the design, manufacture and support of rail equipment and systems, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

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

Management assesses segment performance based on EBIT and EBIT before special items. Corporate charges are allocated to segments mostly based on each segment's revenues. The segmented results of operations and other information are as follows for fiscal years:

			2012			2011 [(1)]
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$ 8,628**	**$ 8,140**	**$ 16,768**	$ 8,594	$ 9,753	$ 18,347
Cost of sales	**7,418**	**6,851**	**14,269**	7,355	8,089	15,444
Gross margin	**1,210**	**1,289**	**2,499**	1,239	1,664	2,903
SG&A	**699**	**744**	**1,443**	621	818	1,439
R&D	**155**	**144**	**299**	122	149	271
Share of income of associates	**-**	**(45)**	**(45)**	-	(4)	(4)
Other income	**(26)**	**(7)**	**(33)**	(6)	1	(5)
EBIT before special items	**382**	**453**	**835**	502	700	1,202
Special items[(2)]	**(23)**	**163**	**140**	-	-	-
EBIT	**$ 405**	**$ 290**	**695**	$ 502	$ 700	1,202
Financing expense			**596**			681
Financing income			**(599)**			(519)
EBT			**698**			1,040
Income taxes			**100**			203
Net income			**$ 598**			$ 837
Other information						
Net additions to PP&E and intangible assets[(3)]	**$ 1,971**	**$ 118**	**$ 2,089**	$ 1,320	$ 155	$ 1,475
Amortization	**$ 242**	**$ 129**	**$ 371**	$ 195	$ 138	$ 333
Impairment charges on PP&E	**$ -**	**$ 9**	**$ 9**	$ -	$ -	$ -

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) See note 8 - Special items for more details.
(3) As per the consolidated statements of cash flows

Management measures capital employed using net segmented assets. The reconciliation of total assets and total liabilities to segmented assets and liabilities is as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Assets			
Total assets	**$ 25,790**	$ 23,864	$ 24,092
Assets not allocated to segments:			
Cash and cash equivalents	**2,896**	3,372	4,195
Invested collateral	**-**	-	676
Deferred income taxes	**1,452**	1,506	1,294
Segmented assets	**21,442**	18,986	17,927
Liabilities			
Total liabilities	**24,413**	23,193	22,571
Liabilities not allocated to segments:			
Interest payable[(1)]	**66**	59	89
Income taxes payable[(2)]	**116**	104	93
Long-term debt[(3)]	**5,405**	4,941	4,662
Deferred income taxes[(2)]	**46**	67	53
Segmented liabilities	**$ 18,780**	$ 18,022	$ 17,674
Net segmented assets			
BA	**$ 2,730**	$ 1,010	$ 1,171
BT	**$ (68)**	$ (46)	$ (918)

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

The Corporation's revenues by market segments are as follows for fiscal years:

	2012	2011 [(1)]
BA		
Manufacturing		
Business aircraft	**$ 4,590**	$ 4,262
Commercial aircraft	**1,115**	1,721
Other	**521**	507
Total manufacturing	**6,226**	6,490
Services[(2)]	**1,718**	1,522
Other[(3)]	**684**	582
	8,628	8,594
BT		
Rolling stock[(4)]	**5,384**	6,855
Services[(5)]	**1,478**	1,409
System and signalling [(6)]	**1,278**	1,489
	8,140	9,753
	$ 16,768	$ 18,347

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Includes revenues from parts services, *Flexjet* fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.
(3) Includes mainly sales of pre-owned aircraft.
(4) Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls, and bogies.
(5) Comprised of revenues from fleet maintenance, refurbishment and overhaul, and material solutions.
(6) Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance systems, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.

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	February 1
	2012	2011 [(3)]	**2012**	2011	2011
North America					
United States	**$ 5,011**	$ 4,330	**$ 1,517**	$ 1,150	$ 689
Canada	**1,130**	1,289	**3,565**	2,595	2,087
Mexico	**124**	58	**106**	39	35
	6,265	5,677	**5,188**	3,784	2,811
Europe					
Germany	**1,716**	1,835	**1,214**	1,211	1,296
United Kingdom	**1,472**	1,813	**1,501**	1,136	976
France	**897**	1,289	**52**	54	84
Other	**2,779**	3,245	**1,184**	1,141	1,196
	6,864	8,182	**3,951**	3,542	3,552
Asia-Pacific					
China	**761**	1,150	**104**	96	73
India	**345**	425	**34**	40	54
Other	**1,024**	1,151	**24**	17	13
	2,130	2,726	**162**	153	140
Other					
Russia	**270**	218	**1**	1	-
Other	**1,239**	1,544	**33**	32	64
	1,509	1,762	**34**	33	64
	$ 16,768	$ 18,347	**$ 9,335**	$ 7,512	$ 6,567

(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.
(3) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

6. RESEARCH AND DEVELOPMENT

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

	2012	2011 [(1)]
R&D expenditures	**$ 1,901**	$ 1,351
Less: development expenditures capitalized to aerospace program tooling	**(1,728)**	(1,171)
	173	180
Add: amortization of aerospace program tooling	**126**	91
	$ 299	$ 271

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

7. OTHER INCOME

Other income was as follows for fiscal years:

		2012		2011 [1]
Changes in estimates and fair value[2]	**$**	**(23)**	$	(10)
Gain on disposals of PP&E and intangible assets		**(6)**		(3)
Severance and other involuntary termination costs (including changes in estimates)[3]		**-**		7
Other		**(4)**		1
	$	**(33)**	$	(5)

[1] The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
[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.
[3] Excludes those presented in special items.

8. SPECIAL ITEMS

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

Special items were as follows for fiscal years:

		2012		2011 [1]
BT restructuring charges[2]	**$**	**119**	$	-
Gain on resolution of a litigation[3]		**(40)**		-
Loss related to flooding in New Jersey, U.S.		**19**		-
Foreign exchange hedging loss[4]		**25**		-
	$	**123**	$	-
Of which is presented in:				
Special items in EBIT	**$**	**140**	$	-
Financing income - interest related to the resolution of a litigation		**(17)**		-
	$	**123**	$	-

[1] The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
[2] Includes $9 million of impairment charges on PP&E.
[3] Represents a gain of $40 million upon the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations, of which $17 million represents the interest portion of the gain.
[4] Relates to a change of currency for a large contract.

During the fourth quarter, BT announced measures to improve its competitiveness and cost structure. These measures include the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by approximately 1,200 employees, including Aachen. A restructuring charge of $119 million related to these planned measures was recorded during fiscal year 2012.

9. FINANCING EXPENSE AND FINANCING INCOME

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

	2012	2011 [1]
Financing expense		
Accretion on retirement benefit obligations	**$ 441**	$ 418
Accretion on other financial liabilities	**28**	24
Amortization of letter of credit facility costs	**20**	41
Changes in discount rates for provisions	**5**	36
Accretion on provisions	**2**	18
Other	**27**	22
	523	559
Interest on long-term debt - after effect of hedges	**73**	122
	$ 596 [2]	$ 681 [2]
Financing income		
Expected return on pension plan assets	**$ (427)**	$ (418)
Net gain on certain financial instruments[3]	**(47)**	(19)
Interest related to the resolution of a litigation[4]	**(17)**	-
Other	**(9)**	(1)
	(500)	(438)
Interest on loans and lease receivables - after effect of hedges	**(37)**	(33)
Income from investment in securities[5]	**(35)**	(12)
Interest on cash and cash equivalents	**(27)**	(33)
Interest on invested collateral	**-**	(3)
	$ (599) [6]	$ (519) [6]

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Of which $116 million represents the interest expense calculated using the effective interest rate method for financial liabilities classified as other than HFT for fiscal year 2012 ($157 million for fiscal year 2011).
(3) Net gains on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.
(4) Represents the interest portion of a gain of $40 million upon the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations. The remaining $23 million of the gain was recorded in special items.
(5) Includes a gain of $22 million on a sale of a zero coupon bond investment classified as AFS, prior to its maturity.
(6) Of which $13 million represents the interest income calculated using the effective interest rate method for financial assets classified as L&R for fiscal year 2012 ($13 million for fiscal year 2011).

Borrowing costs capitalized to PP&E and intangible assets totalled $178 million for fiscal year 2012, using an average capitalization rate of 5.65% ($88 million and 5.35% for fiscal year 2011). 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. EMPLOYEE BENEFIT COSTS

Employee benefit costs [1] were as follows for fiscal years:

	Notes	2012	2011 [2]
Wages, salaries and other employee benefits		**$ 5,527**	$ 5,185
Retirement benefits[3]	21	**391**	250
Share-based expense	28	**7**	38
Restructuring, severance and other involuntary termination costs	7, 8	**110**	7
		$ 6,035	$ 5,480

(1) Employee benefit costs include costs capitalized as part of the cost of inventories and other self-constructed assets.
(2) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(3) Includes defined benefit and defined contribution plans.

11. INCOME TAXES

Analysis of income tax expense

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

		2012		2011 [(1)]
Current income taxes	**$**	**127**	$	137
Deferred income taxes		**(27)**		66
	$	**100**	$	203

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

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

		2012		2011 [(1)]
EBT	**$**	**698**	$	1,040
Canadian statutory tax rate		**26.8%**		28.4%
Income tax expense at statutory rate		**187**		295
Increase (decrease) resulting from:				
Recognition of previously unrecognized tax losses or temporary differences		**(261)**		(204)
Non-recognition of tax benefits related to tax losses and temporary differences		**131**		98
Effect of substantively enacted income tax rate changes and tax status changes in certain entities		**15**		11
Permanent differences		**(36)**		(3)
Write-down of deferred income tax assets		**76**		-
Income tax rates differential of foreign subsidiaries and other investees		**(21)**		(1)
Other		**9**		7
Income tax expense	**$**	**100**	$	203
Effective tax rate		**14.3%**		19.5%

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

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. The decrease in this rate is mainly due to the reduction of the Federal tax rate applicable to the Corporation for fiscal year 2012 from 16.5% to 15.0%.

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

		2012		2011 [(1)]
Origination and reversal of temporary differences	**$**	**12**	$	161
Recognition of previously unrecognized tax losses or temporary differences		**(261)**		(204)
Change in unrecognized tax benefits related to tax losses and temporary differences		**131**		98
Effect of substantively enacted income tax rate changes and tax status changes in certain entities		**15**		11
Write-down of deferred income tax assets		**76**		-
	$	**(27)**	$	66

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

Deferred income taxes

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

	December 31, 2012		December 31, 2011		February 1, 2011	
	Asset	**Liability**	Asset	Liability	Asset	Liability
Operating tax losses carried forward	**$ 1,788**	**$ -**	$ 1,502	$ -	$ 1,261	$ -
Retirement benefits	**713**	**-**	894	-	523	-
Advance and progress billings in excess of long-term contract inventories and advances on aerospace programs	**900**	**-**	847	-	412	-
Inventories	**288**	**(46)**	401	(67)	445	(53)
Provisions	**411**	**-**	463	-	461	-
Other financial assets and other assets	**(174)**	**-**	(353)	-	(170)	-
PP&E	**(35)**	**-**	(11)	-	31	-
Other financial liabilities and other liabilities	**77**	**-**	148	-	186	-
Intangible assets	**(591)**	**-**	(372)	-	(145)	-
Other	**169**	**-**	128	-	142	-
	3,546	**(46)**	3,647	(67)	3,146	(53)
Unrecognized deferred tax assets	**(2,094)**	**-**	(2,141)	-	(1,852)	-
	$ 1,452	**$ (46)**	$ 1,506	$ (67)	$ 1,294	$ (53)

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

	2012	2011 [1]
Balance at beginning of year, net	**$ 1,439**	$ 1,241
In net income	**27**	(66)
In OCI		
Retirement benefits	**(25)**	234
Cash flow hedges	**(64)**	54
AFS financial assets	**6**	(4)
Other[2]	**23**	(20)
Balance at end of year, net	**$ 1,406**	$ 1,439

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Other 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 $7,646 million as at December 31, 2012, of which $2,087 million relates to retirement benefits that will reverse through OCI ($7,825 million as at December 31, 2011 of which $2,208 million relates to retirement benefits that will reverse through OCI and $6,698 million as at February 1, 2011 of which $1,518 million relates to retirement benefits that will reverse through OCI). Of these amounts, approximately $7,184 million as at December 31, 2012 have no expiration date ($7,792 million as at December 31, 2011 and $6,670 million as at February 1, 2011) and approximately $1,566 million relate to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income ($964 million as at December 31, 2011 and $1,167 million as at February 1, 2011).

In addition, the Corporation has $360 million of unused investment tax credits, most of which can be carried forward for 20 years and $50 million of net capital losses carried forward for which deferred tax assets have not been recognized ($206 million and $48 million as at December 31, 2011). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

Net deferred tax assets of $823 million were recognized as at December 31, 2012 ($544 million as at December 31, 2011) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income and projections for future taxable income, 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 and joint ventures when they are considered to be indefinitely reinvested, 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 $269 million as at December 31, 2012 ($225 million as at December 31, 2011).

12. EARNINGS PER SHARE

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

		2012		2011 [1]
Net income attributable to equity holders of Bombardier Inc.	**$**	**588**	$	837
Preferred share dividends, including taxes		**(29)**		(25)
Net income attributable to common equity holders of Bombardier Inc.	**$**	**559**	$	812
Weighted-average number of common shares outstanding		**1,730,767,249**		1,724,886,650
Net effect of stock options, PSUs and DSUs		**7,082,124**		18,988,650
Weighted-average diluted number of common shares		**1,737,849,373**		1,743,875,300
EPS (in dollars)				
Basic and diluted	**$**	**0.32**	$	0.47

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

The effect of the exercise of stock options, PSUs and DSUs was included in the calculation of diluted EPS in the above table, except for 30,353,637 stock options, PSUs and DSUs for fiscal year 2012 (23,359,926 stock options, PSUs and DSUs for fiscal year 2011) 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.

13. FINANCIAL INSTRUMENTS

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

		2012		2011 [1]
Financial instruments measured at amortized cost				
L&R - impairment charges	**$**	**(9)**	$	(16)
Financial instruments measured at fair value				
AFS - gains from derecognition	**$**	**29**	$	5
FVTP&L - changes in fair value				
Designated as FVTP&L				
Financial assets[2]	**$**	**23**	$	28
Financial liabilities	**$**	**20**	$	7
Required to be classified as HFT				
Derivatives not designated in hedging relationships	**$**	**(15)**	$	(21)
Other[3]	**$**	**65**	$	(15)

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Excluding the interest income portion related to the invested collateral of nil for fiscal year 2012 ($3 million for fiscal year 2011).
(3) Excluding the interest income portion related to cash and cash equivalents of $27 million for the fiscal year 2012 ($33 million for fiscal year 2011).

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, 2012							
Financial assets							
Cash and cash equivalents	$ 2,896	$ -	$ -	$ -	$ -	$ 2,896	$ 2,896
Trade and other receivables	-	-	-	1,525	-	1,525	1,525
Other financial assets	92	669	217	138	643	1,759	1,759
	$ 2,988	$ 669	$ 217	$ 1,663	$ 643	$ 6,180	$ 6,180
Financial liabilities							
Trade and other payables	$ -	$ 1	n/a	$ 3,552	$ -	$ 3,553	$ 3,553
Long-term debt(2)	-	-	n/a	5,405	-	5,405	5,272
Other financial liabilities	15	158	n/a	712	126	1,011	1,146
	$ 15	$ 159	n/a	$ 9,669	$ 126	$ 9,969	$ 9,971
December 31, 2011							
Financial assets							
Cash and cash equivalents	$ 3,372	$ -	$ -	$ -	$ -	$ 3,372	$ 3,372
Trade and other receivables	-	-	-	1,408	-	1,408	1,408
Other financial assets	44	698	399	186	504	1,831	1,830
	$ 3,416	$ 698	$ 399	$ 1,594	$ 504	$ 6,611	$ 6,610
Financial liabilities							
Trade and other payables	$ -	$ -	n/a	$ 3,210	$ -	$ 3,210	$ 3,210
Long-term debt(2)	-	-	n/a	4,941	-	4,941	4,649
Other financial liabilities	21	140	n/a	557	323	1,041	1,118
	$ 21	$ 140	n/a	$ 8,708	$ 323	$ 9,192	$ 8,977
February 1, 2011							
Financial assets							
Cash and cash equivalents	$ 4,195	$ -	$ -	$ -	$ -	$ 4,195	$ 4,195
Trade and other receivables	-	-	-	1,377	-	1,377	1,377
Invested collateral	-	676	-	-	-	676	676
Other financial assets	65	643	388	221	492	1,809	1,807
	$ 4,260	$ 1,319	$ 388	$ 1,598	$ 492	$ 8,057	$ 8,055
Financial liabilities							
Trade and other payables	$ -	$ -	n/a	$ 3,073	$ -	$ 3,073	$ 3,073
Long-term debt(2)	-	-	n/a	4,662	-	4,662	4,747
Other financial liabilities	64	161	n/a	537	613	1,375	1,431
	$ 64	$ 161	n/a	$ 8,272	$ 613	$ 9,110	$ 9,251

(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

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, 2012		December 31, 2011		February 1, 2011	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges						
Cross-currency interest-rate swaps	**$ 17**	**$ 6**	$ 12	$ 39	$ 22	$ 68
Interest-rate swaps	**394**	**-**	297	-	80	-
	411	**6**	309	39	102	68
Derivative financial instruments designated as cash flow hedges (1)						
Forward foreign exchange contracts	**232**	**120**	195	284	390	509
Derivative financial instruments designated as hedges of net investment						
Cross-currency interest-rate swaps	**-**	**-**	-	-	-	36
Derivative financial instruments classified as HFT (2)						
Forward foreign exchange contracts	**13**	**12**	19	14	9	48
Interest-rate cap	**-**	**-**	-	-	-	-
Interest-rate swaps	**-**	**2**	-	4	-	6
Embedded derivative financial instruments						
Foreign exchange	**3**	**1**	4	3	16	8
Call options on long-term debt	**76**	**-**	21	-	40	-
Financing rate commitments	**-**	**-**	-	-	-	2
	92	**15**	44	21	65	64
Total derivative financial instruments	**$ 735**	**$ 141**	$ 548	$ 344	$ 557	$ 677
Non-derivative financial instruments designated as hedges of net investment						
Long-term debt	**$ -**	**$ 1,042**	$ -	$ 1,029	$ -	$ 715

(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 19 months as of December 31, 2012.

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

The net gains on hedging instruments designated in fair value hedge relationships and net losses on the related hedged items attributable to the hedged risk recognized in financing expense, amounted to $101 million and $95 million respectively for fiscal year 2012 ($311 million and $304 million respectively for fiscal year 2011).

The methods and assumptions used to measure the fair value of financial instruments are described in Note 33 – Fair value of financial instruments.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Cash	**$ 1,255**	$ 1,091	$ 1,529
Cash equivalents			
Term deposits	**656**	750	832
Money market funds	**985**	1,531	1,834
Cash and cash equivalents	**$ 2,896**	$ 3,372	$ 4,195

See note 30 – Credit facilities for details on covenants related to cash and cash equivalents.

15. TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows as at:

			Past due but not impaired [3]		
	Total	**Not past due as at**	**less than 90 days**	**more than 90 days**	**Impaired [4]**
December 31, 2012[1][2]					
Trade receivables, gross	**$ 1,443**	**$ 855**	**$ 295**	**$ 254**	**$ 39**
Allowance for doubtful accounts	**(34)**	**-**	**-**	**-**	**(34)**
	1,409	**$ 855**	**$ 295**	**$ 254**	**$ 5**
Other	**116**				
Total	**$ 1,525**				
December 31, 2011[1][2]					
Trade receivables, gross	$ 1,341	$ 928	$ 205	$ 162	$ 46
Allowance for doubtful accounts	(42)	-	-	-	(42)
	1,299	$ 928	$ 205	$ 162	$ 4
Other	109				
Total	$ 1,408				
February 1, 2011[1]					
Trade receivables, gross	$ 1,293	$ 846	$ 183	$ 211	$ 53
Allowance for doubtful accounts	(52)	-	-	-	(52)
	1,241	$ 846	$ 183	$ 211	$ 1
Other	136				
Total	$ 1,377				

(1) Of which $389 million and $551 million are denominated in euro and other foreign currencies, respectively, as at December 31, 2012 ($415 million and $349 million, respectively, as at December 31, 2011 and $472 million and $393 million, respectively, as at February 1, 2011).
(2) Of which $240 million represents customer retentions relating to long-term contracts as at December 31, 2012 based on normal terms and conditions ($172 million as at December 31, 2011).
(3) Of which $480 million of trade receivables relates to BT long-term contracts as at December 31, 2012, of which $244 million were more than 90 days past due ($272 million as at December 31, 2011 of which $137 million were more than 90 days past due and $330 million as at February 1, 2011, of which $196 million were more than 90 days past due). BT 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 $34 million of trade receivables are individually impaired as at December 31, 2012 ($39 million as at December 31, 2011 and $45 million as at February 1, 2011).

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 32 – Financial risk management

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

		2012		2011
Balance at beginning of year	**$**	**(42)**	$	(52)
Provision for doubtful accounts		**(9)**		(11)
Amounts written-off		**15**		5
Recoveries		**2**		-
Effect of foreign currency exchange rate changes		**-**		16
Balance at end of year	**$**	**(34)**	$	(42)

Off-balance sheet factoring facilities

In the normal course of its business, BT has factoring facilities in Europe to which it can sell, without recourse, qualifying trade receivables. Trade receivables of €886 million ($1,169 million) were outstanding under such facilities as at December 31, 2012 (€580 million ($751 million) as at December 31, 2011 and €248 million ($340 million) as at February 1, 2011). Trade receivables of €963 million ($1,238 million) were sold to these facilities during fiscal year 2012 (€581 million ($812 million) during fiscal year 2011).

16. INVENTORIES

Inventories were as follows as at:

		December 31, 2012		December 31, 2011		February 1, 2011
Aerospace programs	**$**	**4,345**	$	3,845	$	4,146
Long-term contracts						
Production contracts						
Cost incurred and recorded margins		**5,893**		6,286		5,213
Less: advances and progress billings		**(4,334)**		(4,549)		(3,736)
		1,559		1,737		1,477
Service contracts						
Cost incurred and recorded margins		**412**		380		512
Less: advances and progress billings		**(16)**		(45)		(73)
		396		335		439
Finished products(1)		**1,429**		1,481		1,245
	$	**7,729**	$	7,398	$	7,307

(1) Finished products include 3 new aircraft not associated with a firm aircraft order and 74 pre-owned aircraft, totalling $551 million as at December 31, 2012 (5 new aircraft and 95 pre-owned aircraft, totalling $691 million as at December 31, 2011 and 8 new aircraft and 68 pre-owned aircraft, totalling $532 million as at February 1, 2011).

Finished products as at December 31, 2012 include $147 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities ($162 million as at December 31, 2011 and $209 million as at February 1, 2011). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled $13,062 million for fiscal year 2012 ($14,381 million for fiscal year 2011). These amounts include $104 million of write-downs for fiscal year 2012 ($66 million for fiscal year 2011) and $11 million of reversal of write-down for fiscal year 2012 (nil for fiscal year 2011).

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 BT, 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 $6,365 million as at December 31, 2012 ($6,479 million as at December 31, 2011 and $6,179 million as at February 1, 2011). Revenues include revenues from BT long-term contracts, which amounted to $6,190 million for fiscal year 2012 ($7,537 million for fiscal year 2011).

17. OTHER FINANCIAL ASSETS

Other financial assets were as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Derivative financial instruments[1]	**$ 735**	$ 548	$ 557
Aircraft loans and lease receivables[2] [3]	**427**	472	432
Investments in securities[2] [4]	**243**	423	415
Investments in financing structures[2]	**240**	243	242
Servicing fees	**57**	57	49
Restricted cash	**31**	51	58
Other	**26**	37	56
	$ 1,759	$ 1,831	$ 1,809
Of which current	**$ 443**	$ 526	$ 705
Of which non-current	**1,316**	1,305	1,104
	$ 1,759	$ 1,831	$ 1,809

(1) See Note 13 – Financial instruments.
(2) Carried at fair value, except for $11 million of aircraft loans and lease receivables, $26 million of investments in securities and $44 million of investment in financing structure carried at amortized cost as at December 31, 2012 ($32 million, $24 million and $42 million, respectively, as at December 31, 2011 and $25 million, $27 million and $55 million, respectively, as at February 1, 2011).
(3) Financing with four airlines represents 60% of the total aircraft loans and lease receivables as at December 31, 2012 (three airlines represented 47% as at December 31, 2011 and 46% as at February 1, 2011). 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.
(4) Includes nil securities ceded as collateral for guarantees issued in connection with the sale of aircraft as at December 31, 2012 ($167 million as at December 31, 2011 and $152 million as at February 1, 2011).

18. OTHER ASSETS

Other assets were as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Prepaid expenses	**$ 367**	$ 298	$ 327
Sales tax and other taxes	**281**	185	183
Intangible assets other than aerospace program tooling and goodwill[1]	**212**	227	243
Flexjet fractional ownership deferred costs	**206**	186	156
Deferred financing charges	**103**	85	65
Investments in associates[2]	**66**	37	57
Retirement benefits[3]	**38**	13	29
Other	**33**	33	50
	$ 1,306	$ 1,064	$ 1,110
Of which current	**$ 683**	$ 559	$ 648
Of which non-current	**623**	505	462
	$ 1,306	$ 1,064	$ 1,110

(1) See note 20 – Intangible assets.
(2) The Corporation has pledged shares in associates, with a carrying value of $60 million as at December 31, 2012 ($30 million as at December 31, 2011 and $33 million as at February 1, 2011).
(3) See note 21 – Retirement benefits.

19. 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, 2011	$	**95**	$	**2,002**	$	**1,189**	$	**163**	$	**561**	$	**4,010**
Additions		**7**		**106**		**70**		**221**		**12**		**416**
Disposals		**(5)**		**(4)**		**(47)**		**-**		**(85)**		**(141)**
Transfers		**-**		**34**		**162**		**(178)**		**(18)**		**-**
Effect of foreign currency exchange rate changes		**2**		**28**		**13**		**1**		**1**		**45**
Balance as at December 31, 2012	**$**	**99**	**$**	**2,166**	**$**	**1,387**	**$**	**207**	**$**	**471**	**$**	**4,330**
Accumulated amortization and impairment												
Balance as at December 31, 2011	$	**-**	**$**	**(1,097)**	**$**	**(764)**	**$**	**-**	**$**	**(285)**	**$**	**(2,146)**
Amortization		**-**		**(61)**		**(110)**		**-**		**(14)**		**(185)**
Impairment		**-**		**(2)**		**(7)**		**-**		**-**		**(9)**
Disposals		**-**		**3**		**31**		**-**		**29**		**63**
Transfers		**-**		**-**		**(2)**		**-**		**2**		**-**
Effect of foreign currency exchange rate changes		**-**		**(18)**		**(7)**		**-**		**-**		**(25)**
Balance as at December 31, 2012	**$**	**-**	**$**	**(1,175)**	**$**	**(859)**	**$**	**-**	**$**	**(268)**	**$**	**(2,302)**
Net carrying value	**$**	**99**	**$**	**991**	**$**	**528**	**$**	**207**	**$**	**203**	**$**	**2,028**

		Land		Buildings		Equipment		Construction in progress		Other		Total
Cost												
Balance as at February 1, 2011	$	102	$	2,046	$	1,181	$	175	$	564	$	4,068
Additions		-		45		61		128		72		306
Disposals		(2)		(44)		(138)		-		(75)		(259)
Transfers		-		22		111		(138)		5		-
Effect of foreign currency exchange rate changes		(5)		(67)		(26)		(2)		(5)		(105)
Balance as at December 31, 2011	$	95	$	2,002	$	1,189	$	163	$	561	$	4,010
Accumulated amortization and impairment												
Balance as at February 1, 2011	$	-	$	(1,121)	$	(788)	$	-	$	(281)	$	(2,190)
Amortization		-		(60)		(102)		-		(16)		(178)
Disposals		-		42		117		-		12		171
Effect of foreign currency exchange rate changes		-		42		9		-		-		51
Balance as at December 31, 2011	$	-	$	(1,097)	$	(764)	$	-	$	(285)	$	(2,146)
Net carrying value	$	95	$	905	$	425	$	163	$	276	$	1,864

Included in the above table are assets under finance lease, where the Corporation is the lessee, presented in other, with cost and accumulated amortization amounting to $170 million and $77 million, respectively, as at December 31, 2012 ($214 million and $88 million as at December 31, 2011 and $185 million and $75 million as at February 1, 2011).

Also included in the above table are aircraft under operating leases where the Corporation is the lessor, presented in other, with a cost and accumulated amortization amounting to $51 million and $12 million, respectively, as at December 31, 2012 ($88 million and $10 million as at December 31, 2011 and $144 million and $22 million as at February 1, 2011). Rental income from operating leases and amortization of assets under operating leases amounted to $10 million and $5 million respectively for fiscal year 2012 ($14 million and $6 million respectively for fiscal year 2011).

20. 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, 2011	**$ 1,091**	**$ 5,105**	**$ 6,196**	**$ 2,253**	**$ 704**	**$ 9,153**
Additions	**163**	**1,565**	**1,728**	**-**	**43**	**1,771**
Disposals	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Effect of foreign currency exchange rate changes	**-**	**-**	**-**	**72**	**11**	**83**
Balance as at December 31, 2012	**$ 1,254**	**$ 6,670**	**$ 7,924**	**$ 2,325**	**$ 754**	**$ 11,003**
Accumulated amortization and impairment						
Balance as at December 31, 2011	**$ (588)**	**$ (2,440)**	**$ (3,028)**	**$ -**	**$ (477)**	**$ (3,505)**
Amortization	**(16)**	**(110)**	**(126)**	**-**	**(60)**	**(186)**
Disposals	**-**	**-**	**-**	**-**	**3**	**3**
Effect of foreign currency exchange rate changes	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Balance as at December 31, 2012	**$ (604)**	**$ (2,550)**	**$ (3,154)**	**$ -**	**$ (542)**	**$ (3,696)**
Net carrying value	**$ 650**	**$ 4,120**	**$ 4,770**	**$ 2,325**	**$ 212**	**$ 7,307**

	Aerospace program tooling			Goodwill	Other [1] [2]	Total
	Acquired	Internally generated	Total [3]			
Cost						
Balance as at February 1, 2011	$ 949	$ 4,076	$ 5,025	$ 2,358	$ 864	$ 8,247
Additions	142	1,029	1,171	-	49	1,220
Disposals	-	-	-	-	(182)	(182)
Effect of foreign currency exchange rate changes	-	-	-	(105)	(27)	(132)
Balance as at December 31, 2011	$ 1,091	$ 5,105	$ 6,196	$ 2,253	$ 704	$ 9,153
Accumulated amortization and impairment						
Balance as at February 1, 2011	$ (578)	$ (2,359)	$ (2,937)	$ -	$ (621)	$ (3,558)
Amortization	(10)	(81)	(91)	-	(59)	(150)
Disposals	-	-	-	-	182	182
Effect of foreign currency exchange rate changes	-	-	-	-	21	21
Balance as at December 31, 2011	$ (588)	$ (2,440)	$ (3,028)	$ -	$ (477)	$ (3,505)
Net carrying value	$ 503	$ 2,665	$ 3,168	$ 2,253	$ 227	$ 5,648

(1) Presented in Note 18 – Other assets
(2) Includes internally generated intangible assets with a cost and accumulated amortization of $325 million and $207 million, respectively, as at December 31, 2012 ($294 million and $176 million as at December 31, 2011 and $433 million and $328 million as at February 1, 2011).
(3) Includes intangible assets under development with a cost of $4,059 million as at December 31, 2012 ($2,489 million as at December 31, 2011 and $1,347 million as at February 1, 2011).

Aerospace program tooling
The net carrying value of aerospace program tooling comprises $2,766 million for commercial aircraft and $2,004 million for business aircraft as at December 31, 2012 ($1,851 million and $1,317 million respectively as at December 31, 2011 and $1,249 million and $839 million respectively as at February 1, 2011).

Goodwill
Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT reportable segment as a group of CGUs. During the fourth quarter of fiscal year 2012 the Corporation completed an impairment test. The Corporation did not identify any impairment.

21. RETIREMENT BENEFITS

Defined benefit plans
The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering a majority of its employees. Defined benefits are generally based on salary and years of service. The Corporation also provides other defined benefit plans, consisting essentially of post-retirement healthcare coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the components of the retirement benefits costs and financing expense and financing income for fiscal years:

		2012		2011 [1]
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
EBIT or capitalized costs[2]				
Current service cost	**$ 292**	**$ 12**	$ 201	$ 9
Past service costs (credit)	**9**	**4**	3	(1)
Curtailment	**-**	**-**	(10)	-
Settlement	**(18)**	**-**	(3)	(1)
	283	**16**	191	7
Financing expense and financing income				
Accretion on retirement benefit obligations	**424**	**17**	402	16
Expected return on pension plan assets	**(427)**	**-**	(418)	-
	(3)	**17**	(16)	16
Total retirement benefits costs	**$ 280**	**$ 33**	$ 175	$ 23

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Costs capitalized as part of the cost of inventories and other self-constructed assets.

Changes in the cumulative amount of net actuarial losses recognized in OCI, and presented as a separate component of deficit, were as follows for fiscal years:

Gains (losses)	
Balance as at February 1, 2011	$ (1,978)
Actuarial losses, net	(1,728)
Reversal of asset ceiling and additional liability	178
Effect of exchange rate changes	61
Income taxes	234
Balance as at December 31, 2011	(3,233)
Actuarial gains, net	229
Effect of exchange rate changes	(57)
Income taxes	(25)
Balance as at December 31, 2012	**$ (3,086)**

As permitted under IFRS 1, the Corporation has not determined the amount of actuarial gains and losses that would have been recognized in OCI prior to the adoption of IFRS on February 1, 2010. The cumulative net actuarial losses, before income taxes, recognized directly in OCI since February 1, 2010 amounted to $3,432 million.

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

	2012		2011	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
Change in benefit obligation				
Obligation at beginning of year	**$ 9,242**	**$ 365**	$ 7,762	$ 327
Accretion	**424**	**17**	402	16
Current service cost	**292**	**12**	201	9
Plan participants' contributions	**40**	**-**	38	-
Past service cost	**15**	**8**	3	-
Actuarial losses	**76**	**19**	1,372	35
Benefits paid	**(296)**	**(15)**	(268)	(11)
Curtailment	**-**	**-**	(10)	-
Settlement	**(85)**	**-**	(4)	(2)
Effect of exchange rate changes	**277**	**10**	(254)	(9)
Obligation at end of year	**$ 9,985**	**$ 416**	$ 9,242	$ 365
Change in plan assets				
Fair value at beginning of year	**$ 6,395**	**$ -**	$ 6,322	$ -
Employer contributions	**404**	**15**	373	12
Plan participants' contributions	**40**	**-**	38	-
Expected return	**427**	**-**	418	-
Actuarial (losses) gains	**324**	**-**	(321)	-
Benefits paid	**(296)**	**(15)**	(268)	(11)
Settlement	**(67)**	**-**	(1)	(1)
Effect of exchange rate changes	**207**	**-**	(166)	-
Fair value at end of year	**$ 7,434**	**$ -**	$ 6,395	$ -

The following tables present the reconciliation of the funded status to the amount recognized in the consolidated statements of financial position as at:

	December 31, 2012		December 31, 2011		February 1, 2011	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Funded status - deficit						
Present value of obligations of funded plans	**$ 9,249**	**$ -**	$ 8,673	$ -	$ 7,171	$ -
Fair value of plan assets	**(7,434)**	**-**	(6,395)	-	(6,322)	-
	1,815	**-**	2,278	-	849	-
Present value of obligations of unfunded plans	**736**	**416**	569	365	591	327
Unrecognized past service credits[1]	**(7)**	**(1)**	-	1	-	2
Impact of asset ceiling test	**-**	**-**	-	-	97	-
Liability arising from minimum funding requirement[1]	**-**	**-**	-	-	80	-
Net amount recognized	**$ 2,544**	**$ 415**	$ 2,847	$ 366	$ 1,617	$ 329
Amounts included in:						
Retirement benefit						
Liability	**$ 2,582**	**$ 415**	$ 2,860	$ 366	$ 1,646	$ 329
Asset[2]	**(38)**	**-**	(13)	-	(29)	-
Net liability	**$ 2,544**	**$ 415**	$ 2,847	$ 366	$ 1,617	$ 329

[1] Comprises the effect of exchange rate changes.
[2] Presented in Note 18 – Other assets.

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

	December 31, 2012		December 31, 2011		February 1, 2011	
	Benefit obligation	**Plan assets**	Benefit obligation	Plan assets	Benefit obligation	Plan assets
Canada	**$ 5,230**	**$ 3,685**	$ 5,019	$ 3,125	$ 3,929	$ 3,078
U.K.	**3,137**	**2,951**	2,855	2,496	2,605	2,483
U.S.	**900**	**513**	864	521	677	497
Germany	**518**	**-**	389	-	428	-
Switzerland	**390**	**250**	301	222	277	228
Other	**226**	**35**	179	31	173	36
	$ 10,401	**$ 7,434**	$ 9,607	$ 6,395	$ 8,089	$ 6,322

Plan assets are held in trust and their weighted-average allocations were as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Cash and cash equivalents	**2%**	3%	3%
Publicly traded investments:			
Equity securities	**48%**	46%	54%
Fixed-income securities	**41%**	41%	37%
Global infrastructure and real estate assets	**9%**	10%	6%

Actual return on plan assets was $751 million for fiscal year 2012 ($97 million for the fiscal year 2011). 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, 2012 and 2011 and February 1, 2011.

Contributions to funded defined benefit pension plans and benefit payments related to unfunded defined benefit pension plans are estimated at $458 million for fiscal year 2013, compared to actual contributions of $404 million for fiscal year 2012. Benefit payments to other retirement benefit plans are estimated at $16 million for fiscal year 2013, compared to actual benefits paid of $15 million for fiscal year 2012.

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, 2012		December 31, 2011		February 1, 2011	
(in percentage)	**Pension benefits**	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit cost						
Discount rate	**4.44%**	**4.25%**	5.40%	5.40%	5.64%	5.74%
Expected long-term rate of return on plan assets	**6.47%**	**n/a**	6.89%	n/a	7.00%	n/a
Rate of compensation increase	**3.71%**	**3.50%**	3.72%	3.50%	3.73%	3.50%
Inflation rate	**2.24%**	**n/a**	2.61%	n/a	2.71%	n/a
Ultimate health care cost trend rate	**n/a**	**5.00%**	n/a	5.00%	n/a	5.00%
Benefit obligation						
Discount rate	**4.25%**	**4.38%**	4.44%	4.25%	5.40%	5.40%
Rate of compensation increase	**3.35%**	**3.25%**	3.71%	3.50%	3.72%	3.50%
Inflation rate	**2.19%**	**n/a**	2.24%	n/a	2.61%	n/a
Ultimate health care cost trend rate	**n/a**	**5.00%**	n/a	5.00%	n/a	5.00%

n/a: Not applicable

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

Increase (decrease)	**Retirement benefit cost for fiscal year 2012**	**Net retirement benefit liability as at December 31, 2012**
Discount rate	$ (15)	$ (446)
Expected return on plan assets	$ (17)	n/a
Rate of compensation increase	$ 10	$ 91
Inflation rate	$ 8	$ 127

n/a: Not applicable

As at December 31, 2012, 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 7% and to decrease progressively to 5% by calendar year 2017 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, 2012 and for fiscal year 2012:

	One percentage point increase	**One percentage point decrease**
Effect on the net retirement benefit liability	$ 45	$ (39)
Effect on the retirement benefit cost	$ 4	$ (3)

The following table presents the impact of actuarial gains (losses) arising on plan assets and defined benefit obligation as at:

	December 31 2012	December 31 2011	January 31 2011	February 1 2010
Present value of defined benefit obligation	**$ 10,401**	$ 9,607	$ 8,089	$ 7,217
Fair value of plan assets	**(7,434)**	(6,395)	(6,322)	(5,181)
Deficit	**$ 2,967**	$ 3,212	$ 1,767	$ 2,036
Actuarial gains (losses) arising on:[1]				
Plan assets	**$ 324**	$ (321)	$ 323	n/a
Defined benefit obligation	**$ (95)**	$ (1,407)	$ (162)	n/a

[1] The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

Defined contribution pension plans

The Corporation also offers Canadian and Foreign defined contribution plans covering a portion of its employees. Defined contribution plan formulas are based on a percentage of salary.

Contributions to defined contributions pension plans, which correspond to the benefit cost recognized, amounted to $78 million for fiscal year 2012 ($52 million for fiscal year 2011). Contributions to defined contribution pension plans are estimated at $77 million for fiscal year 2013.

22. TRADE AND OTHER PAYABLES

Trade and other payables were as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Trade payables	**$ 2,641**	$ 2,144	$ 2,045
Accrued liabilities	**548**	582	597
Interest	**66**	59	89
Other	**298**	425	342
	$ 3,553	$ 3,210	$ 3,073

23. PROVISIONS

Changes in provisions were as follows for fiscal years 2012 and 2011:

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other [1]	Total
Balance as at December 31, 2011	**$ 1,073**	**$ 456**	**$ 38**	**$ 105**	**$ 1,672**
Additions	**308**	**7**	**120** [2]	**27**	**462**
Utilization	**(365)**	**(2)**	**(24)**	**(12)**	**(403)**
Reversals	**(66)**	**(65)**	**(10)**	**(29)**	**(170)**
Accretion expense	**1**	**1**	**-**	**-**	**2**
Effect of changes in discount rates	**-**	**5**	**-**	**-**	**5**
Effect of foreign currency exchange rate changes	**15**	**-**	**3**	**-**	**18**
Balance as at December 31, 2012	**$ 966**	**$ 402**	**$ 127**	**$ 91**	**$ 1,586**
Of which current	**$ 818**	**$ 73**	**$ 122**	**$ 49**	**$ 1,062**
Of which non-current	**148**	**329**	**5**	**42**	**524**
	$ 966	**$ 402**	**$ 127**	**$ 91**	**$ 1,586**

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other [1]	Total
Balance as at February 1, 2011	$ 1,120	$ 493	$ 70	$ 129	$ 1,812
Additions	485	-	32	23	540
Utilization	(437)	(60)	(37)	(16)	(550)
Reversals	(59)	(27)	(26)	(29)	(141)
Accretion expense	1	16	-	1	18
Effect of changes in discount rates	1	34	-	1	36
Effect of foreign currency exchange rate changes	(38)	-	(1)	(4)	(43)
Balance as at December 31, 2011	$ 1,073	$ 456	$ 38	$ 105	$ 1,672
Of which current	$ 929	$ 52	$ 33	$ 64	$ 1,078
Of which non-current	144	404	5	41	594
	$ 1,073	$ 456	$ 38	$ 105	$ 1,672

[1] Includes litigations and claims, as well as environmental liabilities.
[2] See note 8 – Special items for more details on the addition related to BT restructuring charges.

24. LONG-TERM DEBT

Long-term debt was as follows as at:

			Interest rate			December 31 2012	December 31 2011	February 1 2011
	Amount in currency of origin	Currency	Contractual [1]	After effect of fair value hedges	Maturity	**Amount**	Amount	Amount
Senior notes	785	EUR	7.25%	3-month Libor + 4.83	Nov. 2016	**$ 1,162**	$ 1,146	$ 1,152
	650	USD	7.50%	3-month Libor + 4.19	Mar. 2018	**724**	714	660
	850	USD	7.75%	3-month Libor + 4.14	Mar. 2020	**978**	962	864
	780	EUR	6.13%	3-month Euribor + 2.87	May 2021	**1,183**	1,082	1,042
	500	USD	5.75%	n/a	Mar. 2022	**492**	-	-
Notes	151	USD	6.75%	3-month Libor + 2.26	n/a	**-**	153	158
	162	USD	6.30%	3-month Libor + 1.59	May 2014	**171**	176	178
	250	USD	7.45%	n/a	May 2034	**247**	247	247
Debentures	150	CAD	7.35%	n/a	Dec. 2026	**150**	146	149
Other[2]	Various[3]	Various	Various [3]	n/a	2013-2026	**298**	315	212
						$ 5,405	$ 4,941	$ 4,662
Of which current[4]						**$ 45**	$ 193	$ 17
Of which non-current						**5,360**	4,748	4,645
						$ 5,405	$ 4,941	$ 4,662

(1) Interests on long-term debt as at December 31, 2012 is payable semi-annually, except for the other debts for which the timing of interest payments is variable.
(2) Includes obligations under finance leases.
(3) The notional amount of other long-term debt is $298 million as at December 31, 2012 ($315 million as at December 31, 2011 and $212 million as at February 1, 2011). The contractual interest rate, which represent a weighted average rate, is 4.54% as at December 31, 2012 (4.39% as at December 31, 2011 and 5.54% as at February 1, 2011).
(4) See Note 25 – Other financial liabilities
n/a: Not applicable

All Senior notes and Notes rank pari-passu and are unsecured.

For issuance of long-term debt subsequent to the reporting date, see Note 39 – Events after the reporting date.

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, 2012	December 31, 2011	February 1, 2011
Within one year	**$ 45**	$ 189	$ 17
Between one and five years	**1,358**	1,360	404
More than five years	**3,522**	3,001	4,151
	$ 4,925	$ 4,550	$ 4,572

25. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Government refundable advances	**$ 398**	$ 317	$ 284
Sale and leaseback obligations	**168**	163	216
Lease subsidies[1]	**158**	140	161
Derivative financial instruments[2]	**141**	344	677
Vendor non-recurring costs	**53**	13	15
Current portion of long-term debt[3]	**45**	193	17
Other	**93**	64	22
	$ 1,056	$ 1,234	$ 1,392
Of which current	**$ 455**	$ 732	$ 860
Of which non-current	**601**	502	532
	$ 1,056	$ 1,234	$ 1,392

(1) The amount contractually required to be paid is $203 million as at December 31, 2012 ($158 million as at December 31, 2011 and $215 million as at February 1, 2011).
(2) See note 13 – Financial instruments.
(3) See note 24 – 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 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, 2012	December 31, 2011	February 1, 2011
Accruals for long-term contract costs	**$ 705**	$ 816	$ 796
Employee benefits[1]	**654**	672	714
Deferred revenues	**499**	424	450
Supplier contributions to aerospace programs	**364**	348	314
Flexjet fractional ownership deferred revenues	**241**	212	196
Income and other taxes payable	**239**	216	166
Deferred income taxes[2]	**46**	67	53
Other	**445**	409	433
	$ 3,193	$ 3,164	$ 3,122
Of which current	**$ 2,236**	$ 2,262	$ 2,214
Of which non-current	**957**	902	908
	$ 3,193	$ 3,164	$ 3,122

(1) Comprised of all employee benefits excluding those related to retirement benefits, which are reported in the line items retirement benefits and in other assets (see Note 21 – Retirement benefits).
(2) See Note 11 – Income taxes

27. SHARE CAPITAL

Preferred shares

The preferred shares authorized were as follows as at December 31, 2012, December 31, 2011 and February 1, 2011:

	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, 2012	December 31, 2011	February 1, 2011
Series 2 Cumulative Redeemable Preferred Shares	**9,692,521** (1)	9,464,920	9,464,920
Series 3 Cumulative Redeemable Preferred Shares	**2,307,479** (1)	2,535,080	2,535,080
Series 4 Cumulative Redeemable Preferred Shares	**9,400,000**	9,400,000	9,400,000

(1) During fiscal year 2012, 227,601 Series 3 Cumulative Redeemable Preferred Shares were converted to Series 2 Cumulative Redeemable Preferred Shares.

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, 2012 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, as 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, 2012 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 Articles of Amalgamation.

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, 2012	December 31, 2011
Issued and fully paid		
Balance at beginning of year	**314,537,237**	316,109,537
Converted to Class B	**(75)**	(1,572,300)
Balance at end of year	**314,537,162**	314,537,237
Authorized	**1,892,000,000**	1,892,000,000

Class B Shares (Subordinate Voting)

	December 31, 2012	December 31, 2011
Issued and fully paid		
Balance at beginning of year	**1,438,677,056**	1,436,997,894
Issuance of shares	**1,687,250**	2,112,862
Repurchase of shares	**-**	(2,006,000)
Converted from Class A	**75**	1,572,300
	1,440,364,381	1,438,677,056
Held in trust under the PSU plan		
Balance at beginning of year	**(29,325,303)**	(27,459,675)
Purchased	**-**	(8,275,000)
Distributed	**4,783,276**	6,409,372
Balance at end of year	**(24,542,027)**	(29,325,303)
Balance at end of year	**1,415,822,354**	1,409,351,753
Authorized	**1,892,000,000**	1,892,000,000

During fiscal year 2012 no Class B Shares (Subordinate Voting) were repurchased and cancelled (2,006,000 were repurchased and cancelled for a total amount of $14 million during fiscal year 2011).

Dividends
Dividends declared were as follows:

	Dividend declared for fiscal years				**Dividend declared after**	
	December 31, 2012		December 31, 2011		**December 31, 2012**	
		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	**0.10**	**$ 31**	0.10	$ 32	0.03	$ 8
Class B common shares	**0.10**	**146**	0.10	147	0.03	37
		177		179		45
Series 2 Preferred Shares	**0.75**	**8**	0.69	7	0.13	1
Series 3 Preferred Shares	**1.05**	**3**	1.32	3	0.20	1
Series 4 Preferred Shares	**1.56**	**18**	1.56	15	0.39	3
		29		25		5
		$ 206		$ 204		$ 50

28. SHARE-BASED PLANS

PSU and DSU plans
The Board of Directors of the Corporation approved a PSU plan under which PSUs may be granted to executives and other designated employees. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting). 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 2012, a combined value of $50 million of DSUs and PSUs were authorized for issuance (a combined total of 8,835,000 PSUs and DSUs were authorized for issuance during fiscal year 2011).

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

		2012		2011
	PSU	**DSU**	PSU	DSU
Balance at beginning of year	**19,149,004**	**4,367,000**	18,225,184	2,966,000
Granted	**10,248,069**	**2,638,352**	6,824,306	1,562,000
Performance adjustment	**47,359**	**10,960**	1,156,478	-
Exercised	**(4,783,276)**	**(43,865)**	(6,409,372)	-
Cancelled	**(481,316)**	**(299,000)**	(647,592)	(161,000)
Balance at end of year	**24,179,840**	**6,673,447** (1)	19,149,004	4,367,000

(1) Of which 1,175,984 DSUs are vested as at December 31, 2012.

PSUs and DSUs granted will vest if a financial performance threshold is met. The conversion ratio for vested PSUs and DSUs ranges from 70% to 150%. PSUs and DSUs generally vest 3 years following the grant date if the financial performance thresholds are met. For grants issued between February 1, 2010 and December 31, 2012, the vesting dates range from June 8, 2013 to August 14, 2015.

The weighted-average grant date fair value of PSUs and DSUs granted during fiscal year 2012 was $3.68 ($7.04 during fiscal year 2011). The fair value of each PSUs and DSUs 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 27 – Share capital) in connection with the PSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of nil was recorded during fiscal year 2012 with respect to the PSU and DSU plans ($31 million during fiscal year 2011). This compensation expense of nil is due to the revision, in the second quarter of fiscal year 2012, of assumptions related to future performance.

Share option plans
Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 67,207,682 were available for issuance under these share option plans as at December 31, 2012.

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.
- 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, 2012:

		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$)**
2 to 4	2,393,552	3.44	3.45	2,393,552	3.45
4 to 6	10,153,204	5.84	4.03	-	-
6 to 8	3,344,845	5.43	7.01	-	-
	15,891,601			2,393,552	

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

		2012		2011
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**9,724,983**	**5.22**	6,388,414	4.22
Granted	**6,512,071**	**3.64**	3,598,000	6.99
Cancelled	**(345,453)**	**5.27**	(261,431)	5.13
Balance at end of year	**15,891,601**	**4.57**	9,724,983	5.22
Options exercisable at end of year	**2,393,552**	**3.45**	-	-

Performance share option plan – For options issued to key employees after May 27, 2003, and before June 1, 2009, 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. These options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective. The options terminate no later than seven years after the grant date. As at December 31, 2012, target prices ranged between $4.50 Cdn and $8 Cdn.

The summarized information on the performance share option plan is as follows as at December 31, 2012:

			Issued and outstanding			Exercisable
Exercise price range (Cdn$)	**Number of options**	**Weighted-average target price (Cdn$)**	**Weighted-average remaining life (years)**	**Weighted-average exercise price (Cdn$)**	**Number of options**	**Weighted-average exercise price (Cdn$)**
2 to 4	3,463,100	4.51	0.45	3.24	3,453,100	3.23
4 to 6	4,279,188	6.02	1.45	5.51	4,199,188	5.50
8 to 10	4,856,200	8.00	2.44	8.53	-	-
	12,598,488				7,652,288	

The weighted-average share price of options exercised during fiscal year 2012 was $3.83 ($6.70 during fiscal year 2011).

The number of options has varied as follows for fiscal years:

	2012		2011	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**15,797,863**	**5.60**	26,497,775	5.06
Exercised	**(1,687,250)**	**2.55**	(2,112,862)	3.11
Cancelled	**(989,125)**	**6.50**	(630,550)	6.44
Expired	**(523,000)**	**2.93**	(7,956,500)	4.40
Balance at end of year	**12,598,488**	**6.05**	15,797,863	5.60
Options exercisable at end of year	**7,652,288**	**4.48**	10,358,663	4.14

Prior share option plans – For options issued to key employees prior to May 27, 2003, and options issued to directors, 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 option was granted. These options are all vested, and terminate no later than 10 years after the grant date.

All options issued and outstanding expired or were cancelled during fiscal year 2012.

Share-based compensation expense for options

The weighted-average grant date fair value of stock options granted during fiscal year 2012 was $1.21 per option ($2.43 per option for fiscal year 2011). 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:

	2012	2011
Risk-free interest rate	**1.51%**	2.21%
Expected life	**5 years**	5 years
Expected volatility in market price of shares	**44.95%**	44.53%
Expected dividend yield	**2.46%**	1.81%

A compensation expense of $7 million was recorded during fiscal year 2012 with respect to share option plans ($7 million during fiscal year 2011).

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 contributes 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 $8 million for fiscal year 2012 ($7 million for fiscal year 2011). 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.

29. NET CHANGE IN NON-CASH BALANCES

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

		2012		2011
Trade and other receivables	$	**(95)**	$	(87)
Inventories		**(205)**		(148)
Other financial assets and liabilities, net		**60**		(193)
Other assets		**(222)**		(8)
Trade and other payables		**348**		156
Provisions		**(106)**		(97)
Advances and progress billings in excess of related long-term contract inventories		**102**		(436)
Advances on aerospace programs		**599**		(128)
Retirement benefits liability		**(88)**		(178)
Other liabilities		**3**		91
	$	**396**	$	(1,028)

30. 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 (calendar year)	
December 31, 2012									
BT facility	**$**	**4,486**	(1)	**$**	**3,291**	**$**	**1,195**	**2017**	(2)
BA facility		**600**			**430**		**170**	**2015**	(3)
PSG facility		**900**			**339**		**561**	**2013**	(4)
	$	**5,986**		**$**	**4,060**	**$**	**1,926**		
December 31, 2011									
BT facility	$	4,399	(1)	$	3,805	$	594	2016	
BA facility		600			264		336	2014	
PSG facility		900			318		582	2012	(4)
	$	5,899		$	4,387	$	1,512		
February 1, 2011									
BT facility	$	5,212	(1)	$	3,633	$	1,579	2013	
BA facility		600			211		389	2011	
PSG facility		900			352		548	2011	(4)
	$	6,712		$	4,196	$	2,516		

(1) €3,400 million as at December 31, 2012 and 2011 (€3,800 million as at February 1, 2011).
(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 two year amortizing period during which new letters of credit cannot be issued. The final maturity date of the facility is 2017. The facility can be extended in April 2013 for a year subject to approval by a majority of the bank syndicate members.
(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 a year subject to approval by a majority of the bank syndicate members.
(4) The performance security guarantee facility ("PSG facility") is renewed and extended annually if mutually agreed. In June 2012, the facility was extended until June 2013 and is intended to be renewed in annual increments thereafter. If the facility is not extended, the letters of credit issued under this facility will amortize over their maturity.

In addition to the outstanding letters of credit shown in the above table, letters of credit of $985 million were outstanding under various bilateral agreements as at December 31, 2012 ($753 million as at December 31, 2011 and $708 million as at February 1, 2011).

The Corporation also uses numerous bilateral bonding facilities with insurance companies to support BT's operations. An amount of $2.3 billion was outstanding under such facilities as at December 31, 2012 ($2.1 billion as at December 31, 2011 and $2.0 billion as at February 1, 2011).

Revolving credit facilities
The Corporation has a $750-million unsecured revolving credit facility ("revolving credit facility") that matures in June 2015 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar cash drawing) plus a margin based on the Corporation's credit ratings. This facility is available for cash drawings for the general working capital needs of the Corporation. In addition, in March 2012, the Corporation entered into a three-year unsecured revolving credit facility ("BT revolving credit facility") amounting to €500 million ($660 million), available to BT for cash drawings. The facility matures in March 2015 and bears interest at EURIBOR plus a margin.

Financial covenants
The Corporation is subject to various financial covenants under the BA and BT letter of credit facilities and the two unsecured revolving credit facilities, which must be met on a quarterly basis. The BA letter of credit and revolving credit facility include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio all calculated based on an adjusted consolidated basis i.e. excluding BT. The BT letter of credit and BT revolving credit facility include financial covenants requiring minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on BT standalone 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 31 – Capital management or to the specific terms used in the MD&A. In addition, the Corporation must maintain a minimum BT liquidity of €600 million ($792 million) at the end of each quarter and a minimum BA liquidity of $500 million at the end of each fiscal quarter. These conditions were all met as at December 31, 2012 and 2011 and February 1, 2011.

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.

Invested collateral
Investments were used as collateral for the previous €3.8-billion ($5.2-billion) BT letter of credit facility and for the previous $600-million BA letter of credit facility. Under the BA and BT letter of credit facilities, invested collateral is no longer required.

31. CAPITAL MANAGEMENT

The Corporation's capital management strategy is designed to maintain strong liquidity and to optimize its capital structure in order to reduce costs and improve its ability to seize strategic opportunities. The Corporation analyzes its capital structure using global metrics, which are based on a broad economic view of the Corporation. The Corporation manages and monitors its global metrics such that it can achieve an investment-grade profile over the medium to long-term.

The Corporation modified its global metrics to align them to those the Corporation's believe should be used to assess its creditworthiness. Adjusted EBIT and EBITDA now exclude special items such as the impact of restructuring charges, significant impairment charges and reversals thereof, as well as other unusual items.

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. A reconciliation of the global metrics to the most comparable IFRS financial measures are provided in the Non-GAAP financial measures section of the MD&A for fiscal year 2012.

		2012		2011
Adjusted EBIT(1)	**$**	**957**	$	1,271
Adjusted interest(2)	**$**	**289**	$	271
Adjusted EBIT to adjusted interest ratio		**3.3**		4.7
Adjusted debt(3)	**$**	**5,671**	$	5,263
Adjusted EBITDA(4)	**$**	**1,388**	$	1,657
Adjusted debt to adjusted EBITDA ratio(5)		**4.1**		3.2

(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 of PP&E, including amortization adjustment for operating leases.
(5) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

In addition to the above global level metrics, the Corporation separately monitors its net retirement benefit liability which amounted to $2,959 million as at December 31, 2012 ($3,213 million as at December 31, 2011). The measurement of this liability is dependent on numerous key long term assumptions such as those regarding future compensation increases, inflation rates, mortality rates and current discount 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 30 – Credit facilities for a description of bank covenants.

32. 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 BA 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 two manufacturing segments, BA and BT. 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 13 – Financial instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Aircraft loans and lease receivables	**$ 395**	$ 432	$ 397
Derivative financial instruments	**$ 656**	$ 523	$ 501
Investments in securities	**$ 196**	$ 341	$ 325
Investments in financing structures	**$ 194**	$ 192	$ 205

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 BA receivables, aircraft loans and lease receivables and servicing fees. BA receivables are usually not externally or internally quoted, however the credit quality of customers are dynamically reviewed and are 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 37 – 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, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, 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.

Maturity analysis –The maturity analysis of financial assets and financial liabilities, excluding derivative financial instruments, was as follows as at December 31, 2012:

	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	2,896	$ 2,896	$ -	$ -	$ -	$ -	$ -	$ 2,896
Trade and other receivables	1,525	1,401	41	14	32	-	37	1,525
Other financial assets[(1)]	$ 1,024	90	170	93	422	433	57	1,265
Assets		4,387	211	107	454	433	94	5,686
Trade and other payables	$ 3,553	3,500	8	7	2	-	36	3,553
Other financial liabilities[(1)]	$ 870	283	160	148	375	333	-	1,299
Long-term debt								
Principal	$ 5,405	45	225	1,133	3,104	418	-	4,925
Interest		332	659	639	891	325	-	2,846
Liabilities		4,160	1,052	1,927	4,372	1,076	36	12,623
Net amount		$ 227	$ (841)	$ (1,820)	$ (3,918)	$ (643)	$ 58	$ (6,937)

(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 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, 2012:

	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	$ 11,740	$ 215	$ 31	$ -	$ -	$ -	$ 246
Interest-rate derivatives	3,727	99	81	131	82	35	428
	$ 15,467	$ 314	$ 112	$ 131	$ 82	$ 35	$ 674
Derivative financial liabilities							
Forward foreign exchange contracts	$ 8,415	$ (129)	$ (4)	$ -	$ -	$ -	$ (133)
Interest-rate derivatives	15	-	14	(23)	-	-	(9)
	$ 8,430	$ (129)	$ 10	$ (23)	$ -	$ -	$ (142)
Net amount		$ 185	$ 122	$ 108	$ 82	$ 35	$ 532

(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 and Euro. 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 managed by the segments and covered by a central treasury function. Foreign currency exposures are managed 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 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. BA has adopted a progressive hedging strategy while BT 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.

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 2012 is before giving effect to cash flow hedge relationships.

										Effect on EBT
			CAD/USD		**GBP/USD**		**EUR/USD**		**EUR/CHF**	**Other**
Gain (loss)	+10%	$	16	$	(2)	$	7	$	-	$ (6)

The following impact on OCI for fiscal year 2012 is for derivatives designated in a cash flow hedge relationship. For derivatives that qualify for hedge accounting, 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**		**EUR/USD**		**EUR/CHF**	**Other**
Gain (loss)	+10%	$	182	$	54	$	78	$	109	$ (53)

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 24 – Long-term debt). The Corporation is exposed from time to time to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer in the future. 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, by matching asset and liability positions, 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 and cross currency 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, 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.

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, 2012 and December 31, 2011, the impact on EBT would have been a negative adjustment of $74 million for December 31, 2012 ($52 million for December 31, 2011).

33. 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 most advantageous active 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 probability, 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 based on a range of methods and assumptions. 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 the fair value 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, restricted cash, trade and other payables, and sales and leaseback obligations measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments or because they bear variable interest-rate or because the terms and conditions are comparable to current market terms and conditions for similar items.

Aircraft loans and lease receivables designated as FVTP&L – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate the fair value. The 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 assumption 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 the specific factors of the current aircraft market.

Lease subsidies – The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of lease subsidies incurred in connection with the sale of commercial aircraft. The 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 – The 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 to estimates the fair value of forward agreements and interest-rate derivatives. The fair value is calculated using market data such as interest rates, credit spreads and foreign exchange spot rate.

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

Long-term debt – The fair value of long-term debt is estimated using public quotations 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. The fair value is calculated 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, 2012:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	$ 416	$ -	$ -	$ 416
Derivative financial instruments[(1)]	735	-	735	-
Servicing fees	57	-	-	57
Investments in securities	202 [(2)]	32	170	-
Investments in financing structures	196	-	150	46
	$ 1,606	$ 32	$ 1,055	$ 519
Financial liabilities				
Lease subsidies	$ 158	$ -	$ -	$ 158
Derivative financial instruments[(1)]	141	-	141	-
	$ 299	$ -	$ 141	$ 158

[(1)] Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, and cross-currency interest-rate swap agreements and embedded derivatives.
[(2)] Excludes $15 million of investments carried at cost.

Changes in fair value of Level 3 financial instruments were as follows for fiscal years 2012 and 2011:

	Aircraft loans and lease receivables	Servicing fees	Investment in financing structures	Lease subsidies
Balance as at February 1, 2011	$ 407	$ 49	$ 37	$ (161)
Gains and interests included in net income	41	9	12	1
Issuances	38	-	-	(14)
Settlements	(46)	(1)	2	34
Balance as at December 31, 2011	440	57	51	(140)
Gains (losses) and interests included in net income	11	1	1	(26)
Issuances	3	-	(6)	(38)
Settlements	(38)	(1)	-	46
Balance as at December 31, 2012	**$ 416**	**$ 57**	**$ 46**	**$ (158)**

Sensitivity to selected changes of assumptions for Level 3 hierarchy
When measuring Level 3 financial instruments at fair value, some assumptions may not be derived from an observable market. 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, 2012:

Impact on EBT	**Change in fair value**		**Change of assumption**
Gain (loss)	**Change in fair value recognized in net income during fiscal year 2012**	**Downgrade the internally assigned credit rating of unrated customers by 1 notch**	**Increase the liquidity risk by 100 bps**
Aircraft loans and lease receivables	$ (23)	$ (15)	$ (22)

34. INVESTMENTS IN JOINT VENTURES

In the normal course of business, the Corporation carries out a portion of its businesses through joint ventures, mainly in BT. The Corporation’s pro rata share of revenues and net income of joint ventures was as follows for fiscal years:

	2012	2011 [(1)]
Revenues	**$ 517**	$ 547
Cost of sales	**393**	371
Gross margin	**124**	176
SG&A	**8**	7
EBIT	**116**	169
Financing income	**(12)**	(11)
EBT	**128**	180
Income taxes	**20**	34
Net income	**$ 108**	$ 146

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA’s results and 12 months of BT’s results.

The Corporation's pro rata share of assets and liabilities of joint ventures was as follows as at:

	December 31, 2012	December 31, 2011	February 1, 2011
Cash and cash equivalents	**$ 339**	$ 480	$ 636
Other current assets	**$ 406**	$ 163	$ 152
Non-current assets	**$ 134**	$ 129	$ 134
Current liabilities	**$ 636**	$ 538	$ 723

35. 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:

	2012		2011 [(1)]	
	Joint ventures	**Associates**	Joint ventures	Associates
Sales of products and services, and other income	**$ 77**	**$ 44**	$ 59	$ 218
Purchase of products and services, and other expenses	**$ 2**	**$ 49**	$ 10	$ 95

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

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

	December 31, 2012		December 31, 2011		February 1, 2011	
	Joint ventures	**Associates**	Joint ventures	Associates	Joint ventures	Associates
Receivables	**$ 73**	**$ 28**	$ 59	$ 32	$ 93	$ 36
Payables	**$ 4**	**$ 28**	$ 1	$ 2	$ 3	$ 2
Advances and progress billings in excess of long-term contract inventories	**$ -**	**$ -**	$ -	$ -	$ -	$ 60

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 BA and BT, and the Senior Vice Presidents of Bombardier Inc., were as follows for fiscal years:

	2012	2011 [(1)]
Share-based payments	**$ 12**	$ 13
Salaries, bonuses and other short-term benefits	**9**	12
Retirement benefits	**4**	4
Other long-term benefits	**1**	1
	$ 26	$ 30

(1) The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

36. UNCONSOLIDATED SPECIAL PURPOSE ENTITIES

The following table presents the assets and liabilities of unconsolidated special purpose entities ("SPEs") in which the Corporation had a significant exposure as at:

	December 31, 2012		December 31, 2011		February 1, 2011	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Financing structures related to the sale of commercial aircraft	**$ 8,365**	**$ 5,973**	$ 9,071	$ 6,603	$ 9,992	$ 7,293

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

Typically, these SPEs 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 SPEs 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. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation's maximum potential exposure was $1.9 billion, of which $381 million was recorded as provisions and related liabilities as at December 31, 2012 ($1.9 billion and $350 million, respectively, as at December 31, 2011 and $2.0 billion and $439 million, respectively, as at February 1, 2011). The Corporation's maximum exposure under these guarantees is included in Note 37 – Commitments and contingencies.

The Corporation concluded that it did not control these SPEs.

37. 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 36 – 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, 2012	December 31, 2011	February 1, 2011
Aircraft sales			
Residual value (a)	**$ 1,812**	$ 2,108	$ 2,239
Credit (a)	**1,218**	1,389	1,453
Mutually exclusive exposure[1]	**(594)**	(771)	(806)
Total credit and residual value exposure	**$ 2,436**	$ 2,726	$ 2,886
Trade-in commitments (b)	**$ 3,098**	$ 1,619	$ 1,214
Conditional repurchase obligations (c)	**$ 489**	$ 457	$ 446
Other[2]			
Credit and residual value (e)	**$ 47**	$ 156	$ 159
Performance guarantees (f)	**$ 41**	$ 36	$ 34

(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 g) 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 $402 million as at December 31, 2012 ($456 million as at December 31, 2011 and $493 million as at February 1, 2011) 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 independent third-party evaluations adjusted to reflect specific factors of the current aircraft market, 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 $158 million as at December 31, 2012 ($140 million as at December 31, 2011 and $161 million as at February 1, 2011). 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 underlying aircraft and lease subsidies.

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 2025. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 67% of the total maximum credit risk as at December 31, 2012 (66% as at December 31, 2011 and 64% as at February 1, 2011).

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, 2012	December 31, 2011	February 1, 2011
Less than 1 year	**$ 41**	$ 59	$ 58
From 1 to 5 years	**850**	840	758
From 5 to 10 years	**855**	1,094	1,257
From 10 to 15 years	**66**	115	166
	$ 1,812	$ 2,108	$ 2,239

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, 2012	December 31, 2011	February 1, 2011
Less than 1 year	**$ 373**	$ 694	$ 468
From 1 to 3 years	**1,361**	330	417
Thereafter	**1,364**	595	329
	$ 3,098	$ 1,619	$ 1,214

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, 2012	December 31, 2011	February 1, 2011
Less than 1 year	**$ 248**	$ 348	$ 197
From 1 to 3 years	**232**	35	140
Thereafter	**9**	74	109
	$ 489	$ 457	$ 446

d) Fractional ownership put options – Under the U.S. *Flexjet* fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled $359 million as at December 31, 2012 ($396 million as at December 31, 2011 and $498 million as at February 1, 2011). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet price risk in connection with these options.

Other guarantees

e) 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 $47 million as at December 31, 2012 and 2011 and as at February 1, 2011. This guarantee matures in 2025. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements for BT, amounting to nil as at December 31, 2012 ($109 million as at December 31, 2011 and $112 million as at February 1, 2011). These guarantees expired in 2012.

f) Performance guarantees – In certain projects carried out through consortia or other partnership vehicles in BT, 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 case to the warranty period.

The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to $41 million as at December 31, 2012 ($36 million as at December 31, 2011 and $34 million as at February 1, 2011), 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.

g) 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, 2012	December 31, 2011	February 1, 2011
Within 1 year	**$ 130**	$ 100	$ 108
Between 1 and 5 years	**249**	216	248
More than 5 years	**268**	271	227
	$ 647	$ 587	$ 583

Rent expense was $141 million for fiscal year 2012 ($123 million for fiscal year 2011).

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, 2012	December 31, 2011	February 1, 2011
Within 1 year	**$ 7,062**	$ 5,669	$ 5,975
Between 1 and 5 years	**3,943**	3,912	3,711
More than 5 years	**361**	464	426
	$ 11,366	$ 10,045	$ 10,112

The purchase obligations of the Corporation includes capital commitments for the purchase of PP&E and intangible assets amounting to $292 million and $356 million, respectively, as at December 31, 2012 ($195 million and $50 million as at December 31, 2011).

Litigations
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 legal proceedings pending as at December 31, 2012, 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.

38. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period, mainly a reclassification from advances and progress billings in excess of long-term contract inventories to other liabilities, and from other income to share of income of associates.

39. EVENTS AFTER THE REPORTING DATE

In January 2013, the Corporation issued, at par, unsecured Senior Notes comprised of $750 million, bearing interest at 4.25% per year, due on January 15, 2016 and $1,250 million, bearing interest at 6.125% per year, due on January 15, 2023.

The Corporation intends to use the net proceeds of $1,973 million for general corporate purposes.

MAIN BUSINESS LOCATIONS

BOMBARDIER INC.

Corporate Office
800 René-Lévesque Blvd. West
Montréal, Québec
Canada H3B 1Y8
Tel.: +1 514 861 9481
Fax: +1 514 861 7053

BOMBARDIER AEROSPACE

Headquarters
400 Côte-Vertu Road West
Dorval, Québec
Canada H4S 1Y9
Tel.: +1 514 855 5000
Fax: +1 514 855 7401

Toronto Site
123 Garratt Blvd.
Toronto, Ontario
Canada M3K 1Y5
Tel.: +1 416 633 7310
Fax: +1 416 375 4546

Learjet Inc.
One Learjet Way
Wichita, Kansas 67209
United States
Tel.: +1 316 946 2000
Fax: +1 316 946 2220

Short Brothers plc
Airport Road
Belfast BT3 9DZ
Northern Ireland
Tel.: +44 2890 458 444
Fax: +44 2890 733 396

Mexico Manufacturing Centre
Airport Site
Carretera Qro-Tequisquiapan
Km 22,500
C.P. 76270
Colon, Qro
Querétaro, Mexico
Tel.: +52 442 101 7500
Fax: +52 442 101 7502

Bombardier Capital Inc.
261 Mountain View Drive
Colchester, Vermont 05446
United States
Tel.: +1 800 949 5568 or
+1 802 764 5232
Fax: +1 802 764 5244

Flexjet
3400 Waterview Parkway
Suite 400
Richardson, Texas 75080
United States
Tel.: +1 800 353 9538
(toll-free, North
America only)
Fax: +1 972 720 2435

BOMBARDIER TRANSPORTATION

Global Headquarters
Schöneberger Ufer 1
10785 Berlin
Germany
Tel.: +49 30 986 07 0
Fax: +49 30 986 07 2000

Mainline and Metros
Am Rathenaupark
16761 Hennigsdorf
Germany
Tel.: +49 33 02 89 0
Fax: +49 33 02 89 20 88

Locomotives, Light Rail Vehicles and Equipment
Schöneberger Ufer 1
10785 Berlin
Germany
Tel.: +49 30 986 07 0
Fax: +49 30 986 07 2000

Bombardier Transportation North America
1101 Parent Street
Saint-Bruno, Québec
Canada J3V 6E6
Tel.: +1 450 441 2020
Fax: +1 450 441 1515

Services
Schöneberger Ufer 1
10785 Berlin
Germany
Tel.: +49 30 986 07 0
Fax: +49 30 986 07 2000

Systems
Schöneberger Ufer 1
10785 Berlin
Germany
Tel.: +49 30 986 07 0
Fax: +49 30 986 07 2000

Rail Control Solutions
Årstaängsvägen 29
PO Box 425 05
126 16 Stockholm
Sweden
Tel.: +46 10 852 0000
Fax: +46 10 852 5100

BOARD OF DIRECTORS, COMMITTEES OF THE BOARD AND CORPORATE MANAGEMENT

BOARD OF DIRECTORS

Laurent Beaudoin, C.C., FCPA, FCA
Chairman of the Board of Directors
Bombardier Inc.

Pierre Beaudoin
President and Chief Executive Officer
Bombardier Inc.

André Bérard
Corporate Director
Lead Director
Bombardier Inc.

Joanne Bissonnette
Corporate Director

J.R. André Bombardier
Vice Chairman of the Board of Directors
Bombardier Inc.

Martha Finn Brooks
Corporate Director

L. Denis Desautels, O.C., FCPA, FCA
Corporate Director

Thierry Desmarest
Honorary Chairman and member of the Board of Directors
Total S.A.

Jean-Louis Fontaine
Vice Chairman of the Board of Directors
Bombardier Inc.

Sheila Fraser, FCPA, FCA
Corporate Director

Daniel Johnson
Counsel
McCarthy Tétrault LLP

Jean C. Monty
Corporate Director

Carlos E. Represas
Corporate Director

Jean-Pierre Rosso
Chairman
World Economic ForumUSA Inc.

Heinrich Weiss
Chairman and Chief Executive Officer
SMS Holding GmbH

COMMITTEES OF THE BOARD

Audit Committee
Chair: L. Denis Desautels
Members: André Bérard, Sheila Fraser, Daniel Johnson, Jean-Pierre Rosso

Human Resources and Compensation Committee
Chair: Jean C. Monty
Members: André Bérard, Martha Finn Brooks, Thierry Desmarest, Carlos E. Represas

Corporate Governance and Nominating Committee
Chair: Jean-Pierre Rosso
Members: Thierry Desmarest, Jean C. Monty, Carlos E. Represas, Heinrich Weiss

Finance and Risk Management Committee
Chair: André Bérard
Members: L. Denis Desautels, Martha Finn Brooks, Daniel Johnson, Carlos E. Represas

CORPORATE MANAGEMENT

Pierre Beaudoin
President and Chief Executive Officer
Bombardier Inc.

Guy C. Hachey
President and Chief Operating Officer
Bombardier Aerospace

André Navarri
President and Chief Operating Officer
Bombardier Transportation

Pierre Alary, FCPA, FCA, C. Dir.
Senior Vice President and Chief Financial Officer
Bombardier Inc.

Richard C. Bradeen
Senior Vice President
Bombardier Inc.

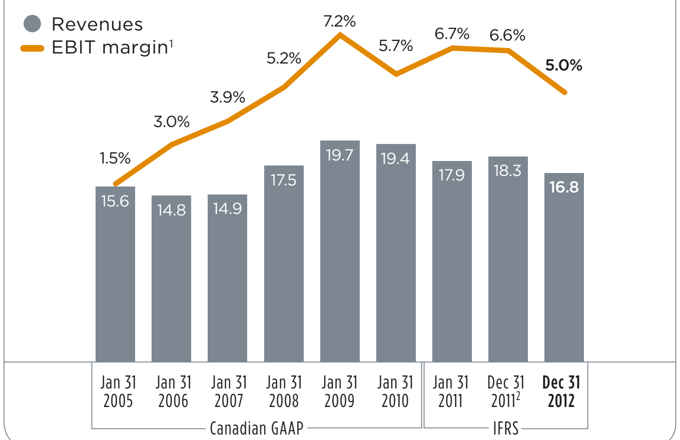
Daniel Desjardins
Senior Vice President
General Counsel and Corporate Secretary
Bombardier Inc.

John Paul Macdonald
Senior Vice President
Human Resources and Public Affairs
Bombardier Inc.

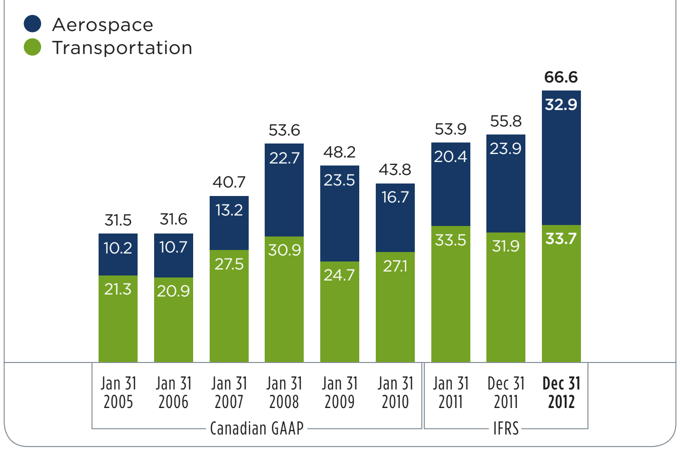
INVESTOR INFORMATION

Our performance at a glance

REVENUES AND EBIT MARGIN
(for fiscal years ended; in billions of dollars)

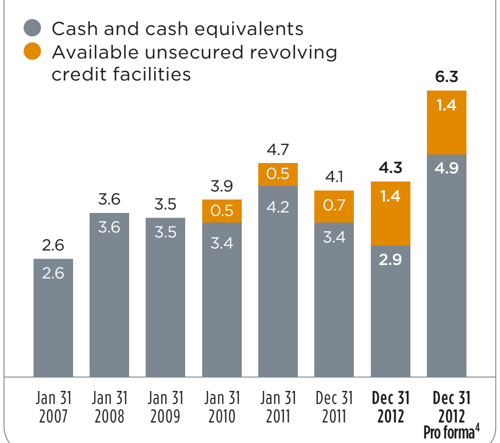


ORDER BACKLOG[3]
(as at; in billions of dollars)

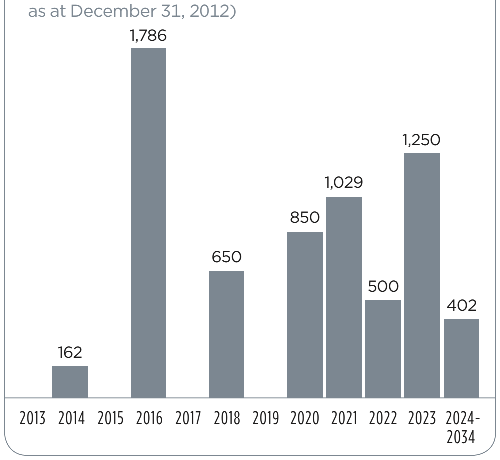


1 From continuing operations before special items (EBIT margins before special items are non-GAAP financial measures). Special items for fiscal years ended January 31, 2008 and before may not be entirely comparable to items reported in the years thereafter. Refer to non-GAAP financial measures section in the MD&A for definition of EBIT margin before special items.
2 Fiscal year ended December 31, 2011 comprises 11 months of results from Aerospace and 12 months of results from Transportation.
3 Order backlog as at December 31, 2012, December 31, 2011 and January 31, 2011 have been restated to include long-term maintenance and spares support agreements in Aerospace.

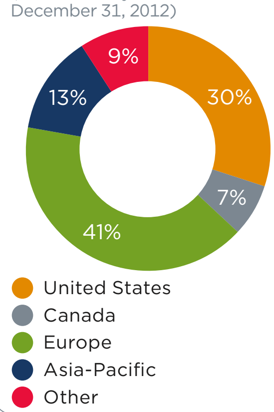
LIQUIDITY
(as at; in billions of dollars)



DEBT MATURITY PROFILE
(notional amount, in millions of dollars; pro forma[4]; as at December 31, 2012)

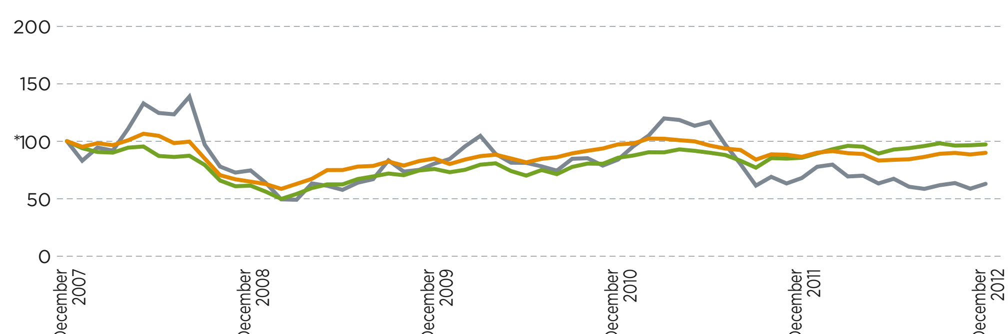


GEOGRAPHIC SEGMENTATION OF REVENUES
(for the fiscal year ended December 31, 2012)



4 Pro forma basis gives effect to January 2013 debt issuance.

BOMBARDIER'S STOCK PERFORMANCE
December 31, 2007 to December 31, 2012

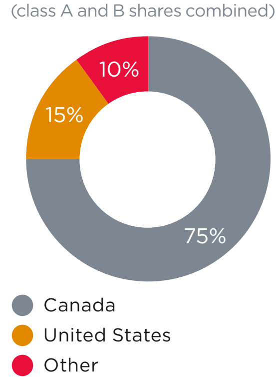


MARKET CAPITALIZATION
$6.5 BILLION CDN
(as at December 31, 2012)

BBD S&P 500 SPTSX

*Index: closing price as at December 31, 2007 = 100

ESTIMATED SHARE OWNERSHIP BY REGION
(class A and B shares combined)



STOCK EXCHANGE LISTINGS

Class A and Class B shares	Toronto (Canada)
Preferred shares, Series 2, Series 3 and Series 4	Toronto (Canada)
Stock listing ticker	BBD (Toronto)

FISCAL YEAR 2013 FINANCIAL RESULTS

First quarterly report	May 9, 2013
Second quarterly report	August 1, 2013
Third quarterly report	October 31, 2013
Annual report, Q4 and 2013 year-end	February 13, 2014

DIVIDENDS PER SHARE DECLARED IN 2012 ON AN ANNUAL BASIS

	Class A	Class B	Preferred shares, Series 2	Preferred shares, Series 3	Preferred shares, Series 4
Dividends declared in 2012	$0.10	$0.10	$0.75	$1.05	$1.56
Yields*	2.6%	2.7%	5.6%	7.8%	6.4%

*Based on dividends declared in 2012 and share prices as at December 31, 2012.

SHARE CAPITAL

Authorized, issued and outstanding as at December 31, 2012

	Authorized	Issued and outstanding
Class A shares	1,892,000,000	314,537,162
Class B shares	1,892,000,000	1,440,364,381[1]
Preferred shares, Series 2	12,000,000	9,692,521
Preferred shares, Series 3	12,000,000	2,307,479
Preferred shares, Series 4	9,400,000	9,400,000

1 Including 24,542,027 shares purchased and held in trust for the performance stock unit plan.

PREFERRED DIVIDENDS PAYMENT DATES

Payment subject to approval by the Board of Directors

Series 2

Record date	Payment date	Record date	Payment date
2012-12-31	2013-01-15	2013-06-28	2013-07-15
2013-01-31	2013-02-15	2013-07-31	2013-08-15
2013-02-28	2013-03-15	2013-08-30	2013-09-15
2013-03-29	2013-04-15	2013-09-30	2013-10-15
2013-04-30	2013-05-15	2013-10-31	2013-11-15
2013-05-31	2013-06-15	2013-11-29	2013-12-15

COMMON DIVIDENDS PAYMENT DATES

Payment subject to approval by the Board of Directors

Class A		Class B	
Record date	Payment date	Record date	Payment date
2013-03-15	2013-03-31	2012-03-15	2013-03-31
2013-06-14	2013-06-30	2012-06-14	2013-06-30
2013-09-13	2013-09-30	2012-09-13	2013-09-30
2013-12-13	2013-12-31	2012-12-13	2013-12-31

PREFERRED DIVIDENDS PAYMENT DATES

Payment subject to approval by the Board of Directors

Series 3		Series 4	
Record date	Payment date	Record date	Payment date
2013-01-18	2013-01-31	2013-01-18	2013-01-31
2013-04-12	2013-04-30	2013-04-12	2013-04-30
2013-07-12	2013-07-31	2013-07-12	2013-07-31
2013-10-18	2013-10-31	2013-10-18	2013-10-31

Please note that unless stated otherwise, all dividends paid by Bombardier since January 2006 on all of its common and preferred shares are considered 'eligible dividends' as per the Canadian Income Tax Act and any corresponding provincial or territorial legislation. The same designation applies under the Quebec Taxation Act for dividends declared after March 23, 2006.

SHAREHOLDERS

If you wish to obtain a copy of this annual report, or other corporate documents, we encourage you to download them from our website at bombardier.com, which provides practical, timely and environmentally friendly access. You can, however, order paper copies from our website or by contacting:

Bombardier Inc., Public Affairs
800 René-Lévesque Blvd. West
Montréal, Québec
Canada H3B 1Y8
Tel.: +1 514 861 9481, extension 13390
Fax: +1 514 861 2420

INVESTORS

Bombardier Inc., Investor Relations
800 René-Lévesque Blvd. West
Montréal, Québec
Canada H3B 1Y8
Tel.: +1 514 861 9481, extension 13273
Fax: +1 514 861 2420
Email: investors@bombardier.com

INCORPORATION

The Corporation was incorporated on June 19, 1902, by letters patent and prorogated June 23, 1978, under the Canadian Business Corporations Act.

TRANSFER AGENT AND REGISTRAR

Shareholders with inquiries concerning their shares should contact:

Computershare
Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario, Canada M5J 2Y1
or
1500 University Street, Suite 700
Montréal, Québec, Canada H3A 3S8
Tel.: +1 514 982 7555 or +1 800 564 6253
(toll-free, North America only)
Fax: +1 416 263 9394 or +1 888 453 0330
(toll-free, North America only)
Email: service@computershare.com

AUDITORS

Ernst & Young LLP
800 René-Lévesque Blvd. West
Montréal, Québec, Canada H3B 1X9

ANNUAL MEETING

The annual meeting of shareholders will be held on Thursday, May 9, 2013, at 9:30 a.m. at the following address:

Montreal Museum of Fine Arts
Maxwell Cummings Auditorium
1379 Sherbrooke Street West
Montréal, Québec, Canada H3G 1J5

STEPPING AHEAD ONLINE

Today's investors increasingly turn to the internet to get the information they need to make judicious decisions. In keeping with this trend, we've just put the finishing touches on a new and more comprehensive investor relations website. Growing our investor relations story online also makes sense environmentally. It enables us to reduce the size of our annual report and the amount of paper we use to print it.

FOR MORE INFORMATION ON:	VISIT:
Investor Relations	ir.bombardier.com
Annual Report, latest financial reports, and Management Proxy Circular	ir.bombardier.com/en/financial-reports
Profile, Strategy and Market	ir.bombardier.com/en/profile
Corporate Social Responsibility	csr.bombardier.com
Dividends and other share information	ir.bombardier.com/en/share-information

DUPLICATION

Although Bombardier strives to ensure that registered shareholders receive only one copy of corporate documents, duplication is unavoidable if securities are registered under different names and addresses. If this is the case, please call one of the following numbers: +1 514 982 7555 or +1 800 564 6253 (toll-free, North America only) or send an email to service@computershare.com.