

BOMBARDIER

SECOND QUARTERLY REPORT

Three- and six-month periods ended June 30, 2018

GLOSSARY

The following table shows the abbreviations used in this report.

Term	Description	Term	Description
AFS	Available for sale	GDP	Gross domestic product
BPS	Basis points	HFT	Held for trading
BT Holdco	Bombardier Transportation (Investment) UK Limited	IAS	International Accounting Standard(s)
CCTD	Cumulative currency translation difference	IASB	International Accounting Standards Board
CDPQ	Caisse de dépôt et placement du Québec	IFRIC	International Financial Reporting Interpretation Committee
CSALP	C Series Aircraft Limited Partnership	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 (loss) before financing expense, financing income and income taxes	NCI	Non-controlling interests
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	NMF	Information not meaningful
EBT	Earnings (loss) before income taxes	OCI	Other comprehensive income (loss)
EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.	PP&E	Property, plant and equipment
FVOCI	Fair value through other comprehensive income (loss)	PSU	Performance share unit
FVTP&L	Fair value through profit and loss	R&D	Research and development
GAAP	Generally accepted accounting principles	RSU	Restricted share unit
		SG&A	Selling, general and administrative
		U.K.	United Kingdom
		U.S.	United States of America

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

The results of operations and cash flows for the three- and six-month periods are not necessarily indicative of the results of operations and cash flows for the full fiscal year.

IFRS and non-GAAP measures

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

Materiality for disclosures

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

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

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements can generally be identified by the use of forward-looking terminology such as “may”, “will”, “shall”, “can”, “expect”, “estimate”, “intend”, “anticipate”, “plan”, “foresee”, “believe”, “continue”, “maintain” or “align”, the negative of these terms, variations of them or similar terminology. Forward-looking statements are presented for the purpose of assisting investors and others in understanding certain key elements of our current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of our business and anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

By their nature, forward-looking statements require management to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecast results set forth in forward-looking statements. While management considers these assumptions to be reasonable and appropriate based on information currently available, there is risk that they may not be accurate. The assumptions underlying the forward-looking statements made in this report in relation to the transaction with Airbus include the following material assumptions: the accuracy of our analyses and business case including estimated cash flows and revenues over the expected life of the program and thereafter; aircraft prices, unit costs and deliveries gradually improving during the acceleration phase; assumptions regarding the strength and quality of Airbus’ scale, reach, sales, marketing and support networks, supply chain and operational expertise, and customer relationships; the fulfilment and performance by each party of its obligations pursuant to the transaction agreement and future commercial agreements and absence of significant inefficiencies or other issues in connection therewith; the realization of the anticipated benefits and synergies of the transaction in the timeframe anticipated; our ability to continue with our funding plan of CSALP and to fund, if required, any cash shortfalls; adequacy of cash planning and management and project funding; and the accuracy of our assessment of anticipated growth drivers and sector trends. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the Strategic Priorities and Guidance and forward-looking statements sections in Overview, Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation in the MD&A of our financial report for the fiscal year ended December 31, 2017.

With respect to the transaction with Airbus specifically, certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to: reliance on our analyses and business case including estimated cash flows and revenues over the expected life of the program and thereafter; the occurrence of an event, change or other development having an adverse effect on Airbus’ scale and reach, sales, marketing or support networks, supply chain, operations, or customer relationships; the failure by either party to satisfy and perform its obligations pursuant to the transaction agreement and future commercial agreements and/or significant inefficiencies or other issues arising in connection therewith; the failure to realize, in the timeframe anticipated or at all, the anticipated benefits and synergies of the transaction; risks associated with our ability to continue with our funding plan of CSALP and to fund, if required, the cash shortfalls; inadequacy of cash planning and management and project funding; and reliance on our assessment of anticipated growth drivers and sector trends. Certain other factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, risks associated with general economic conditions, risks associated with our business environment (such as risks associated with “Brexit”, the financial condition of the airline industry, business aircraft customers, and the rail industry; trade policy (including potential changes to or the termination of the existing North American Free Trade Agreement between Canada, the U.S. and Mexico currently in discussion); increased competition; political instability and force majeure events or natural disasters), operational risks (such as risks related to developing new products and services; development of new business; the certification and homologation of products and services; fixed-price and fixed-term commitments and production and project execution; pressures on cash flows and capital expenditures based on project-cycle fluctuations and seasonality; our ability to successfully implement and execute our strategy and transformation plan; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; environmental, health and safety risks; dependence on certain customers and suppliers; human resources; reliance on information systems; reliance on and protection of intellectual property rights; and adequacy of insurance coverage), financing risks (such as risks related to liquidity and access to capital markets; retirement benefit plan risk; exposure to credit risk; substantial existing debt and interest payment requirements; certain restrictive debt covenants and minimum cash levels; financing support provided for the benefit of certain customers; and reliance on government support), market risks (such as

risks related to foreign currency fluctuations; changing interest rates; decreases in residual values; increases in commodity prices; and inflation rate fluctuations). For more details, see the Risks and uncertainties section in Other in the MD&A of our financial report for the fiscal year ended December 31, 2017.

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. Other risks and uncertainties not presently known to us or that we presently believe are not material could also cause actual results or events to differ materially from those expressed or implied in our forward-looking statements. In addition, there can be no assurance that the anticipated strategic benefits and operational, competitive and cost synergies of the transaction with Airbus will be realized in their entirety, in part or at all. The forward-looking statements set forth herein reflect management's expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2018	2017 <i>restated</i> ⁽¹⁾	Variance
Revenues	\$ 4,262	\$ 4,144	3 %
EBIT	\$ 191	\$ (57)	nmf
EBIT margin	4.5 %	(1.4)%	590 bps
EBIT before special items ⁽²⁾	\$ 271	\$ 230	18 %
EBIT margin before special items ⁽²⁾	6.4 %	5.6 %	80 bps
EBITDA before special items ⁽²⁾	\$ 336	\$ 313	7 %
EBITDA margin before special items ⁽²⁾	7.9 %	7.6 %	30 bps
Net income (loss)	\$ 70	\$ (243)	nmf
Diluted EPS (in dollars)	\$ 0.02	\$ (0.11)	\$ 0.13
Adjusted net income ⁽²⁾	\$ 87	\$ 91	(4)%
Adjusted EPS (in dollars) ⁽²⁾	\$ 0.03	\$ 0.05	\$ (0.02)
Net additions (proceeds) to PP&E and intangible assets	\$ (312)	\$ 389	nmf
Cash flows from operating activities	\$ (80)	\$ (181)	56 %
Free cash flow (usage) ⁽²⁾	\$ 232	\$ (570)	nmf
As at	June 30, 2018	December 31, 2017	Variance
Available short-term capital resources ⁽³⁾⁽⁴⁾	\$ 4,207	\$ 4,225	— %

Key highlights and events

- **Results for the first half of the year are in line with plan, supporting full year guidance:**
 - Revenues grew 3% to \$4.3 billion in the second quarter, driven by an 11% increase at Transportation (or 6% excluding currency impact) as it ramps up key contracts.
 - EBIT before special items⁽²⁾ grew 18% year over year to \$271 million, while EBITDA before special items⁽²⁾ grew 7% to \$336 million.
 - EBIT margins before special items⁽²⁾ for the quarter continued to trend positively and reached a strong 6.4% on a consolidated basis, with Transportation, Business Aircraft and Aerostructures and Engineering Services individually at or above 8.5%.
 - During the quarter, free cash flow⁽²⁾ was \$232 million positive, including net proceeds from the sale of the Downsview property of approximately \$600 million.
 - Excluding the positive impact from the sale of the Downsview property, free cash flow usage⁽²⁾ for the first half of the year was in line with expectations at approximately \$1.1 billion.
 - On July 1, 2018, we closed the C Series Partnership formed by Airbus (50.01%), Bombardier (33.55%) and Investissement Québec (16.44%). The partnership brings together two complementary product lines, and the benefit of Airbus' global reach creating significant value for the *C Series*.⁽⁵⁾ Accordingly, starting in the third quarter, the CSALP will be deconsolidated from Commercial Aircraft's results and replaced by an equity pick-up representing Bombardier's share of net earnings.

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽²⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.

⁽³⁾ Defined as cash and cash equivalents plus the amount available under our revolving credit facilities.

⁽⁴⁾ Due to the closing of our C Series Partnership with Airbus, the assets and liabilities of the *C Series* aircraft program are presented under Assets held for sale. Refer to the strategic partnership section in Commercial Aircraft, Note 11 - Cash and cash equivalent and Note 19 - Assets held for sale in the Consolidated financial statements for more details on the transaction as well as the accounting treatment as at June 30, 2018.

⁽⁵⁾ Subsequent to the C Series Partnership closing, Airbus rebranded *CS100* and *CS300* as A220-100 and A220-300, respectively.

- We are in line to achieve our 2018 revenue, EBIT before special items⁽¹⁾ and free cash flow⁽¹⁾ guidance, reflecting the deconsolidation of CSALP starting in the second half of the year.
 - Revenues for the year are expected between \$16.5 billion and \$17.0 billion, EBIT before special items⁽¹⁾ between \$900 million and \$1 billion, EBITDA before special items⁽¹⁾ between \$1.25 billion and \$1.35 billion, and free cash flow⁽¹⁾ breakeven plus or minus \$150 million excluding approximately \$600 million net proceeds from the sale of the Downsview property.⁽²⁾
- **Orders and new product introduction are positioning Bombardier for growth:**
 - Order intake during the quarter continued across segments, supporting backlog growth:
 - Transportation's book-to-bill was 1.1, leading to a backlog of \$34.0 billion.
 - Business Aircraft's backlog grew to \$14.1 billion.
 - The *CRJ Series* backlog grew to 60 aircraft as American Airlines and Delta Air Lines adopted the new ATMOSPHERE cabin.
 - In addition, in recent months, CSALP demonstrated strong momentum with orders from airBaltic (30 aircraft plus 30 options), JetBlue (Letter of intent for 60 aircraft and 60 options), and a future U.S. airline with majority investor David Neeleman (Memorandum of understanding for 60 aircraft).
 - The *Global 7500* aircraft continues to exceed expectations with the announcement on increased range and improvements made to takeoff and landing performance commitments. The *Global 7500* aircraft now boasts a 7,700 nautical miles range and is the largest, longest range business jet available on the market.⁽³⁾ With more than 2,400 hours of flight testing accomplished, demonstrating significant maturity and reliability, the class-defining aircraft is on track to enter into service later this year.
 - In addition, on May 28, 2018, Business Aircraft unveiled two new aircraft that further strengthen Bombardier's portfolio of business jets. The new Bombardier *Global 5500* and *Global 6500* aircraft feature an all-new Rolls-Royce engine and a newly optimized wing, increasing the aircraft fuel burn advantage by up to 13%. Building on the success of the *Global 5000* and *Global 6000* aircraft, these new aircraft have top speeds of Mach 0.90, and offer an additional range of 500 and 600 nautical miles or up to 1,300 nautical miles when operating out of hot-weather and high-altitude conditions.⁽³⁾ These aircraft are expected to enter into service at the end of 2019.

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

⁽²⁾ See the forward-looking statements disclaimer.

⁽³⁾ Currently under development. See the *Global 5500*, *Global 6500*, *Global 7500* and *Global 8000* aircraft disclaimer at the end of this MD&A.

2018 GUIDANCE UPDATE

The following is our updated 2018 guidance to reflect the deconsolidation of CSALP effective July 1, 2018 as a result of the closing of the partnership with Airbus SE.

		Guidance provided in our 2017 Financial Report ⁽¹⁾	Results for the six-month period ended June 30, 2018	2018 guidance update ⁽²⁾
CONSOLIDATED	Revenues	\$17.0-\$17.5 billion	\$8.3 billion	\$16.5-\$17.0 billion
	EBITDA before special items ⁽³⁾	\$1.15-\$1.25 billion	\$601 million	\$1.25-\$1.35 billion ⁽⁴⁾
	EBIT before special items ⁽³⁾	\$800-\$900 million	\$472 million	\$900 million-\$1.0 billion ⁽⁴⁾
	Free cash flow ⁽³⁾	Breakeven ± \$150 million	\$1.1 billion usage ⁽⁵⁾	unchanged ⁽⁵⁾
BUSINESS AIRCRAFT	Revenues	≥ \$5.0 billion	\$2.4 billion	unchanged
	EBIT margin before special items ⁽³⁾	≥ 8.0%	8.7%	unchanged
	Aircraft deliveries (in units)	~ 135	65	unchanged
COMMERCIAL AIRCRAFT	Revenues	~ \$2.7 billion	\$1.1 billion	~ \$1.7 billion
	EBIT before special items ⁽³⁾	~ (\$350 million)	(\$139 million)	~ (\$250 million) ⁽⁴⁾
	Aircraft deliveries (in units)	~ 75, including ~ 40 <i>C Series</i> and ~ 35 <i>CRJ Series</i> and <i>Q400</i>	31, including 13 <i>C Series</i> and 18 <i>CRJ Series</i> and <i>Q400</i>	~ 35 <i>CRJ Series</i> and <i>Q400</i>
AEROSTRUCTURES AND ENGINEERING SERVICES	Revenues	~ \$2.0 billion	\$0.9 billion	unchanged
	EBIT margin before special items ⁽³⁾	> 8.5%	11.5%	unchanged
TRANSPORTATION	Revenues	~ \$9.0 billion	\$4.6 billion	unchanged
	EBIT margin before special items ⁽³⁾	> 8.5%	8.6%	unchanged

CONSOLIDATED⁽²⁾

Consolidated revenue guidance for the year is revised to \$16.5-\$17.0 billion as a result of the deconsolidation of CSALP revenues starting July 1, 2018. On the earnings front, the deconsolidation of the *C Series* losses, offset by the equity pick-up, increases EBITDA before special items⁽³⁾ and EBIT before special items⁽³⁾ by \$100 million to respectively \$1.25-\$1.35 billion and \$900 million-\$1.0 billion.

COMMERCIAL AIRCRAFT⁽²⁾

We are reintroducing Commercial Aircraft's full year revenues guidance of approximately \$1.7 billion and EBIT loss before special items⁽³⁾ guidance of approximately \$250 million. This reflects the deconsolidation of CSALP from Commercial Aircraft's results starting in the third quarter, replaced by an equity pick-up representing Bombardier's share of net earnings. We also withdraw the guidance on *C Series* aircraft deliveries for the year.

⁽¹⁾ Refer to our 2017 Financial Report for further details.

⁽²⁾ See the forward-looking statements disclaimer as well as the forward-looking statements section in Overview and the Guidance and forward-looking statements section in each reportable segment in the 2017 Financial Report for details regarding the assumptions on which the guidance is based.

⁽³⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.

⁽⁴⁾ Net of our equity pick-up in CSALP starting July 1, 2018.

⁽⁵⁾ Excludes the net proceeds of approximately \$600 million from the sale of the Downsvew property.

CONSOLIDATED RESULTS OF OPERATIONS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Revenues	\$ 4,262	\$ 4,144	\$ 8,290	\$ 7,749
Cost of sales	3,709	3,642	7,248	6,793
Gross margin	553	502	1,042	956
SG&A	309	303	595	563
R&D	48	62	95	106
Share of income of joint ventures and associates	(30)	(55)	(50)	(87)
Other income	(45)	(38)	(70)	(29)
EBIT before special items ⁽²⁾	271	230	472	403
Special items	80	287	80	310
EBIT	191	(57)	392	93
Financing expense	163	198	325	342
Financing income	(31)	(12)	(69)	(22)
EBT	59	(243)	136	(227)
Income taxes	(11)	—	22	10
Net income (loss)	\$ 70	\$ (243)	\$ 114	\$ (237)
Attributable to				
Equity holders of Bombardier Inc.	\$ 68	\$ (227)	\$ 106	\$ (221)
NCI	\$ 2	\$ (16)	\$ 8	\$ (16)
EPS (in dollars)				
Basic	\$ 0.03	\$ (0.11)	\$ 0.04	\$ (0.11)
Diluted	\$ 0.02	\$ (0.11)	\$ 0.04	\$ (0.11)
(as a percentage of total revenues)				
EBIT before special items ⁽²⁾	6.4%	5.6 %	5.7%	5.2%
EBIT	4.5%	(1.4)%	4.7%	1.2%

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

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

Non-GAAP financial measures⁽¹⁾

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽²⁾	2018	2017 <i>restated</i> ⁽²⁾
EBITDA	\$ 264	\$ 64	\$ 529	\$ 292
EBITDA before special items	\$ 336	\$ 313	\$ 601	\$ 564
Adjusted net income	\$ 87	\$ 91	\$ 122	\$ 130
Adjusted EPS	\$ 0.03	\$ 0.05	\$ 0.04	\$ 0.06

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

⁽²⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

Reconciliation of segment to consolidated results

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Revenues				
Business Aircraft	\$ 1,307	\$ 1,389	\$ 2,417	\$ 2,411
Commercial Aircraft	616	626	1,079	1,151
Aerostructures and Engineering Services	455	443	901	841
Transportation	2,259	2,038	4,614	3,990
Corporate and Elimination	(375)	(352)	(721)	(644)
	\$ 4,262	\$ 4,144	\$ 8,290	\$ 7,749
EBIT before special items ⁽²⁾				
Business Aircraft	\$ 111	\$ 127	\$ 209	\$ 209
Commercial Aircraft	(66)	(118)	(139)	(174)
Aerostructures and Engineering Services	57	26	104	41
Transportation	207	223	396	406
Corporate and Elimination	(38)	(28)	(98)	(79)
	\$ 271	\$ 230	\$ 472	\$ 403
Special Items				
Business Aircraft	\$ 3	\$ 28	\$ 4	\$ 31
Commercial Aircraft	602	1	602	2
Aerostructures and Engineering Services	(8)	—	(7)	—
Transportation	44	213	42	232
Corporate and Elimination	(561)	45	(561)	45
	\$ 80	\$ 287	\$ 80	\$ 310
EBIT				
Business Aircraft	\$ 108	\$ 99	\$ 205	\$ 178
Commercial Aircraft	(668)	(119)	(741)	(176)
Aerostructures and Engineering Services	65	26	111	41
Transportation	163	10	354	174
Corporate and Elimination	523	(73)	463	(124)
	\$ 191	\$ (57)	\$ 392	\$ 93

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

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

Analysis of consolidated results

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

Special items

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

Special items were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2018	2017	2018	2017
C Series transaction with Airbus	1	599	—	599	—
Gain on disposal of PP&E	2	(561)	—	(561)	—
Impairment of non-core operations	3	17	—	17	—
Restructuring charges	4	15	218	16	241
Purchase of pension annuities	5	10	—	10	—
Reversal of Learjet 85 aircraft program cancellation provisions	6	—	(11)	(1)	(11)
Primove impairment and other costs	7	—	45	—	45
Re-negotiation of a commercial agreement	8	—	35	—	35
Tax impacts of special items	1	(70)	(8)	(70)	(9)
		\$ 10	\$ 279	\$ 10	\$ 301
Of which is presented in					
Special items in EBIT		\$ 80	\$ 287	\$ 80	\$ 310
Income taxes - effect of special items		(70)	(8)	(70)	(9)
		\$ 10	\$ 279	\$ 10	\$ 301

- The acquisition by Airbus of 50.01% of CSALP, the entity that manufactures and sells the C Series aircraft resulted in a pre-tax accounting charge of \$599 million (\$535 million after tax) that was recorded in the three-month period ended June 30, 2018, reflected as a reduction of the CSALP assets held for sale balance. The pre-tax accounting charge reflects all elements of the transaction, including: (i) the \$269 million fair value of warrants issued by Bombardier to Airbus on July 1, 2018, (ii) a \$310 million derivative liability which is associated with the expected off-market return on units to be issued to Bombardier by CSALP under Bombardier's funding commitments, and (iii) other Bombardier obligations towards CSALP. In addition, the transaction resulted in \$64 million tax recoveries. See Note 19 - Assets held for sale in the Consolidated financial statements for more details in respect of the transaction.
- Related to the sale of the Downsview property to the Public Sector Pension Investment Board (PSP Investments) during the three-month period ended June 30, 2018.
- An impairment charge related to non-core operations of \$17 million recorded in the three-month period ended June 30, 2018 with respect to the expected sale of legal entities, as part of the Transportation transformation plan.
- For the three- and six-month periods ended June 30, 2018, represents severance charges of \$11 million and \$12 million partially offset by curtailment gains of \$4 million, and impairment charges of PP&E of \$8 million, all related to previously-announced restructuring actions, respectively. For the three- and six-month periods ended June 30, 2017, represents severance charges of \$188 million and \$211 million partially offset by curtailment gains of \$2 million, and impairment charges of PP&E of \$32 million, all related to previously-announced restructuring actions, respectively.
- Represents non-cash loss on the settlement of defined benefit pension plans resulting from the purchase of annuities with insurance companies. As part of its ongoing de-risking strategies, the Corporation has an initiative for the buy-out of annuities payable to pensioners or deferred pensioners for certain plans to the extent they are fully funded on a buy-out basis, subject to compliance with certain conditions including applicable pension legislations

6. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by \$1 million for the six-month period ended June 30, 2018 (\$11 million for the three- and six-month periods ended June 30, 2017). The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.
7. Following a reassessment of the value of the *Primove* e-mobility technology and the status of existing contractual obligations, in the second quarter of 2017, the Corporation recorded an inventory write-down of \$22 million, impairment charges of PP&E of \$6 million, and a contract provision of \$17 million. Primove offers e-mobility solutions for several types of electronic rail and road vehicles.
8. A provision was taken during the second quarter of 2017 to reflect the anticipated outcome of a re-negotiation of a commercial agreement with a third party.

Net financing expense

Net financing expense amounted to \$132 million and \$256 million, respectively, for the three- and six-month periods ended June 30, 2018, compared to \$186 million⁽¹⁾ and \$320 million⁽¹⁾ for the corresponding periods last fiscal year.

The \$54 million decrease for the three-month period is mainly due to:

- net gains on certain financial instruments classified as FVTP&L (\$43 million); and
- higher borrowing costs capitalized to PP&E and intangible assets (\$19 million).

Partially offset by:

- higher interest on long-term debt, after the effect of hedges (\$15 million).

The \$64-million decrease for the six-month period is mainly due to:

- net gains on certain financial instruments classified as FVTP&L (\$46 million);
- higher borrowing costs capitalized to PP&E and intangible assets (\$40 million); and
- net gain from changes in discount rates of provisions (\$21 million).

Partially offset by:

- higher interest on long-term debt, after the effect of hedges (\$32 million).

⁽¹⁾ The net financing expense for the three- and six-month periods ended June 30, 2017 has been restated due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other and Note 8 - Financing expense and financing income in the Consolidated financial statements for details regarding restatements of comparative period figures.

Income taxes

The effective income tax rates for the three- and six-month periods ended June 30, 2018 were (18.6)% and 16.2% respectively, compared to the statutory income tax rate in Canada of 26.7%. In the three-month period, the negative effective income tax rate is mainly due to the positive impact of the permanent differences. In the six-month period, the lower effective income tax rate is due to the positive impact of the permanent differences, partially offset by the net non-recognition of income tax benefits related to tax losses and temporary differences.

The effective income tax rates for the three- and six-month periods ended June 30, 2017 were nil⁽¹⁾ and (4.4)%⁽¹⁾, respectively, compared to the statutory income tax rate in Canada of 26.7%. The nil and the negative effective income tax rates are due to the negative impacts of the net non-recognition of income tax benefits related to tax losses and temporary differences, partially offset by the reversal of certain tax contingency provisions.

⁽¹⁾ The effective income tax rates for the three- and six-month periods ended June 30, 2017 have been restated due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

CONSOLIDATED FINANCIAL POSITION

The total assets increased by \$113 million in the six-month period⁽¹⁾, including a negative currency impact of \$240 million. The \$353-million increase excluding the currency impact is mainly explained by:

- a \$436-million increase in gross inventories mainly in Business Aircraft and Aerostructures and Engineering Services;
- a \$410-million increase in aerospace program tooling. See the Investment in product development table in Business Aircraft for details; and
- a \$205-million increase in trade and other receivables mainly in Transportation.

Partially offset by:

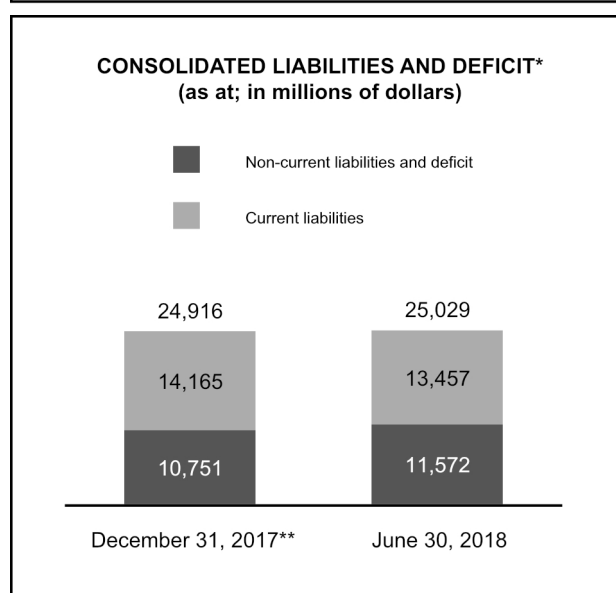
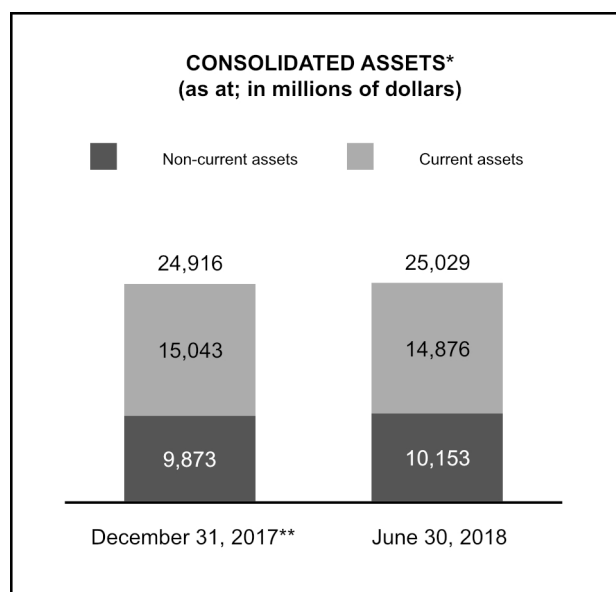
- a \$573-million decrease in assets held for sale related to the CSALP transaction with Airbus. See Note 19 - Assets held for sale in the Consolidated financial statements for more details; and
- a \$110-million decrease in cash and cash equivalents. See the Free cash flow usage and the Variation in cash and cash equivalents tables for details.

The total liabilities and deficit increased by \$113 million in the six-month period⁽¹⁾, including a currency impact of \$240 million. The \$353-million increase excluding the currency impact is mainly explained by:

- a \$771-million increase in equity mainly due to issuance of Class B Shares of \$475 million partially offset by \$52-million dividends to NCI, and a total comprehensive income of \$407 million; and
- a \$499-million increase in contract liabilities mainly in Business Aircraft and Transportation.

Partially offset by:

- a \$488-million decrease in provisions mainly in Transportations; and
- a \$411-million decrease in retirement benefit liability mainly due to remeasurement of defined benefits plans.



*The total assets and the total liabilities in the above graphs as at June 30, 2018 include \$3.7 billion and \$2.5 billion, respectively, (\$4.2 billion and \$2.7 billion, respectively, as at December 31, 2017) related to the CSALP, which are presented under Assets held for sale. Refer to the Strategic Partnership section in Commercial Aircraft and to Note 19 - Assets held for sale in the Consolidated financial statements for more details on the transaction as well as the accounting treatment as at June 30, 2018.

**Refer to the Accounting and reporting development section in Other for details regarding restatements of comparative period figures.

⁽¹⁾ For the purpose of the Consolidated financial position explanations included in this section, assets and liabilities comprise assets and liabilities reclassified as Assets held for sale. See Note 19 - Assets held for sale in the Consolidated financial statements for more details on CSALP assets and liabilities reclassification.

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow

Free cash flow (usage)⁽¹⁾

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽²⁾	2018	2017 <i>restated</i> ⁽²⁾
Net income (loss)	\$ 70	\$ (243)	\$ 114	\$ (237)
Non-cash items				
Amortization	64	78	126	156
Impairment charges on PP&E and intangible assets	9	43	11	43
Deferred income taxes	(29)	15	(23)	15
Gains on disposals of PP&E and intangible assets	(560)	(28)	(564)	(30)
C Series transaction with Airbus	599	—	599	—
Share of income of joint ventures and associates	(30)	(55)	(50)	(87)
Share-based expense	31	9	47	18
Dividends received from joint ventures and associates	2	1	19	3
Net change in non-cash balances	(236)	(1)	(830)	(379)
Cash flows from operating activities	(80)	(181)	(551)	(498)
Net proceeds (additions) to PP&E and intangible assets	312	(389)	62	(665)
Free cash flow (usage)⁽¹⁾	232	(570)	(489)	(1,163)
Net interest and income taxes paid	(230)	(164)	(390)	(305)
Free cash flow (usage) before net interest and income taxes paid⁽¹⁾	\$ 462	\$ (406)	\$ (99)	\$ (858)

The \$802-million improvement in free cash flow⁽¹⁾ for the three-month period is due to:

- lower net additions to PP&E and intangible assets (\$701 million) mainly due to the proceeds received from the sale of the Downsview property; and
- higher net income before non-cash items (\$335 million) mainly explained by lower special items⁽³⁾ and higher EBITDA before special items.⁽¹⁾

Partially offset by:

- a negative period-over-period variation in net change in non-cash balances (\$235 million) (see explanations below).

The \$674-million improvement in free cash flow⁽¹⁾ for the six-month period is due to:

- lower net additions to PP&E and intangible assets (\$727 million) mainly due to the proceeds received from the sale of the Downsview property; and
- higher net income before non-cash items (\$382 million) mainly explained by lower special items⁽³⁾ and higher EBITDA before special items.⁽¹⁾

Partially offset by:

- a negative period-over-period variation in net change in non-cash balances (\$451 million) (see explanations below).

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

⁽²⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽³⁾ Refer to the Consolidated results of operations section for details regarding special items.

Net change in non-cash balances

For the three-month period ended June 30, 2018, the \$236-million outflow is mainly due to:

- a decrease in Transportation's provisions;
- a decrease in trade and other payables mainly in Business Aircraft and Commercial Aircraft;
- an increase in inventories mainly in Business Aircraft mainly due to the ramp-up in production and in Aerostructures and Engineering Services;
- a decrease in Transportation's other liabilities;
- an increase in Transportation's trade and other receivables following deliveries; and
- an increase in Transportation's other assets.

Partially offset by:

- an increase in Transportation's contract liabilities on new orders and existing contracts;
- an increase in contract liabilities mainly related to Business Aircraft and Commercial Aircraft; and
- a decrease in Transportation's contract assets following deliveries.

For the three-month period ended June 30, 2017, the \$1-million outflow is mainly due to:

- an increase in Transportation's contract assets following ramp-up of production ahead of deliveries;
- a decrease in contract liabilities mainly in Business Aircraft and Commercial Aircraft; and
- an increase in trade and other receivables mainly in Transportation, Commercial Aircraft and Business Aircraft.

Partially offset by:

- an increase in trade and other payables mainly related to Transportation and Commercial Aircraft;
- an increase in Transportation's provisions;
- an increase in Transportation's contract liabilities on new orders and existing contracts; and
- a decrease in aerospace programs inventories mainly in Business Aircraft, partially offset by an increase in Commercial Aircraft's inventories mainly due to the production ramp-up for the *C Series* aircraft program.

For the six-month period ended June 30, 2018, the \$830-million outflow is mainly due to:

- an increase in inventories in Business Aircraft, Aerostructures and Engineering Services and Commercial Aircraft;
- a decrease in Transportation's provisions;
- a decrease in Transportation's other liabilities;
- an increase in Transportation's contract assets following the production ramp-up ahead of deliveries; and
- an increase in Transportation's trade and other receivables following deliveries.

Partially offset by:

- an increase in contract liabilities mainly in Business Aircraft and Commercial Aircraft;
- an increase in Transportation's contract liabilities on new orders and existing contracts; and
- an increase in Business Aircraft's trade and other payables.

For the six-month period ended June 30, 2017, the \$379-million outflow is mainly due to:

- an increase in Transportation's contract assets following ramp-up of production ahead of deliveries;
- a decrease in contract liabilities mainly related to Business Aircraft and Commercial Aircraft; and
- an increase in aerospace programs inventories mainly in Commercial Aircraft mainly due to the ramp-up in production in the *C Series* aircraft program, partially offset by a decrease in Business Aircraft's inventories.

Partially offset by:

- an increase in trade and other payables in Transportation and Commercial Aircraft;
- an increase in Transportation's provisions; and
- an increase in Transportation's contract liabilities on new orders and existing contracts.

Available short-term capital resources

Variation in cash and cash equivalents

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
Balance at the beginning of period	\$ 2,853 ⁽¹⁾	\$ 2,887	\$ 3,057 ⁽¹⁾	\$ 3,384
Free cash flow (usage) ⁽²⁾	232	(570)	(489)	(1,163)
Effect of exchange rate changes on cash and cash equivalents	(40)	9	27	21
Dividends paid on preferred shares	(4)	(4)	(10)	(8)
Dividends paid to NCI	(1)	—	(52)	(48)
Repayments of long-term debt	(1)	(8)	(8)	(17)
Issuance of Class B Shares	—	—	476	—
Net change in short-term borrowings	—	(53)	—	54
Other	(65)	(44)	(27)	(6)
Balance at the end of period	\$ 2,974	\$ 2,217	\$ 2,974	\$ 2,217
Reclassified as assets held for sale ⁽¹⁾	151	—	151	—
Balance at the end of period	\$ 2,823	\$ 2,217	\$ 2,823	\$ 2,217

Available short-term capital resources

	June 30, 2018	December 31, 2017
Cash and cash equivalents ⁽¹⁾	\$ 2,974	\$ 3,057
Available revolving credit facilities	1,233	1,168
Available short-term capital resources	\$ 4,207	\$ 4,225

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

In March 2018, we extended the maturity dates of Transportation's €640-million (\$741-million) unsecured revolving credit facility and the \$400-million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, to May 2021 and June 2021, respectively. In May 2018, the committed amount under Transportation's €640-million (\$741-million) unsecured revolving credit facility was increased to €722 million (\$836 million). In June 2018, the \$400-million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, was adjusted to \$397 million. These facilities were unused as at June 30, 2018.

⁽¹⁾ Due to the closing of our C Series Partnership with Airbus, the assets and liabilities of the C Series aircraft program are presented under Assets held for sale. Refer to the strategic partnership section in Commercial Aircraft, Note 11 - Cash and cash equivalent and Note 19 - Assets held for sale in the Consolidated financial statements for more details on the transaction as well as the accounting treatment as at June 30, 2018.

⁽²⁾ Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric and the Free cash flow usage table above for reconciliations to the most comparable IFRS measure.

Letter of credit facilities

In March 2018, the availability periods of Transportation's €3,560-million (\$4,124-million) letter of credit facility and the \$400-million letter of credit facility, which is available for the Corporation excluding Transportation, were extended by one year to May 2021 and June 2021, respectively.

In June 2018, the committed amount under Transportation's €3,560-million (\$4,124-million) letter of credit facility was increased to €3,725-million (\$4,315-million) and the \$400-million letter of credit facility, which is available for the Corporation excluding Transportation, was reduced to \$361 million.

Financial covenants

Effective in March 2018, the minimum liquidity required by the \$400-million letter of credit facility and the \$400-million unsecured revolving credit facility, which are available for the Corporation excluding Transportation, is now varying between \$600 million and \$850 million at the end of each quarter. The remaining covenants continue to require a minimum EBITDA to fixed charges ratio, a maximum gross debt and minimum EBITDA thresholds at the end of each quarter, all calculated based on an adjusted consolidated basis (i.e. excluding Transportation). In addition, the minimum liquidity required by the Transportation letter of credit and revolving credit facilities is now increased from €600 million (\$695 million) to €750 million (\$869 million) at the end of each quarter. The remaining covenants continue to require a minimum equity and a maximum debt to EBITDA ratio at the end of each quarter, all calculated based on Transportation stand-alone financial data.

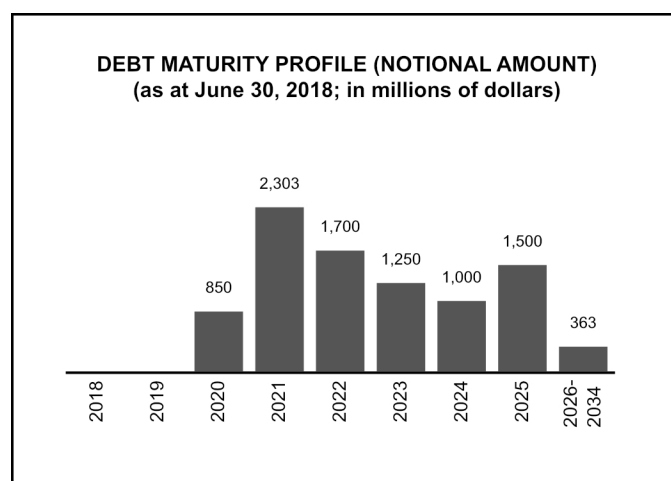
These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to any specific terms used in the MD&A. Minimum liquidity is not defined as comprising only cash and cash equivalents as presented in the consolidated statement of financial position.

The financial covenants under these credit facilities were all met as at June 30, 2018 and December 31, 2017.

Future liquidity requirements

We consider that our cash flows from operating activities, combined with our available short-term capital resources of \$4.2 billion will enable the development of new products to enhance our competitiveness and support our growth; will allow the payment of dividends, if and when declared by the Board of Directors; and will enable us to meet all other expected financial requirements in the foreseeable future. There is no significant debt maturing before 2020.

Following an agreement with a syndicate of underwriters that occurred on March 23, 2018, we issued 168,000,000 Class B Shares (subordinate voting) at a purchase price of CDN \$3.80, for an aggregate gross proceeds of CDN \$638 million (approximately \$500 million). The net proceeds of \$475 million are to supplement our working capital and for general corporate purposes.



CAPITAL STRUCTURE

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

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

Our objectives with regard to global metrics are as follows:

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

Interest coverage ratio

	For the four-quarter trailing periods ended ⁽¹⁾	
	June 30, 2018	December 31, 2017
Adjusted EBIT ⁽²⁾	\$ 893	\$ 823
Adjusted interest ⁽²⁾	\$ 668	\$ 631
Adjusted EBIT to adjusted interest ratio	1.3	1.3

Financial leverage ratio

	As at and for the four-quarter trailing periods ended ⁽¹⁾	
	June 30, 2018	December 31, 2017
Adjusted debt ⁽²⁾	\$ 9,550	\$ 9,631
Adjusted EBITDA ⁽²⁾	\$ 1,248	\$ 1,215
Adjusted debt to adjusted EBITDA ratio	7.7	7.9

⁽¹⁾ 2017 has been restated due to adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

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

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

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to \$2.0 billion as at June 30, 2018 (\$2.4 billion as at December 31, 2017). The measurement of this liability is dependent on numerous key long-term assumptions such as discount rates, future compensation increases, inflation rates and mortality rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. We closely monitor the impact of the net retirement benefit liability on our future cash flows and we have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with the retirement benefit plans. The \$464-million decrease in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability	
Balance as at December 31, 2017	\$ 2,442 ⁽¹⁾
Changes in discount rates and other financial assumptions	(432)
Other net actuarial gains on defined benefit obligations	(153)
Employer contributions	(138)
Changes in foreign exchange rates	(78)
Service costs	142
Actuarial losses on pension plan assets	136
Accretion on net retirement benefit obligation	34
Net losses on curtailment and settlement	6
Other	19
Balance as at June 30, 2018	\$ 1,978 ⁽¹⁾

⁽¹⁾ Includes retirement benefit assets of \$312 million as at June 30, 2018 (\$290 million as at December 31, 2017). Also includes net retirement benefit liability related to the *C Series* aircraft program in the amount of \$104 million reclassified as Liabilities directly associated with assets held for sale as at June 30, 2018 (\$99 million as at December 31, 2017).

NON-GAAP FINANCIAL MEASURES

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

Non-GAAP financial measures	
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets.
EBIT before special items	EBIT before special items which are amounts that do not reflect our core performance or where their separate presentation will assist users in understanding our results for the period, such as the impact of restructuring charges and significant impairment charges and reversals.
EBITDA before special items	EBIT before special items, amortization and impairment charges on PP&E and intangible assets.
Adjusted net income (loss)	Net income (loss) excluding special items, accretion on net retirement benefit obligations, certain net gains and losses arising from changes in measurement of provisions and of financial instruments carried at FVTP&L and the related tax impacts of these items.
Adjusted EPS	EPS calculated based on adjusted net income attributable to equity holders of Bombardier Inc., using the treasury stock method, giving effect to the exercise of all dilutive elements.
Free cash flow (usage)	Cash flows from operating activities less net additions to PP&E and intangible assets.
Free cash flow (usage) before net interest and income taxes paid or received	Free cash flow (usage) excluding cash paid and received for interest and income taxes, as per the consolidated statements of cash flows.
Adjusted debt	Long-term debt as presented in the consolidated statements of financial position adjusted for the fair value of derivatives (or settled derivatives) designated in related hedge relationships plus short-term borrowings 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 interest adjustment for operating leases.

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

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

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

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

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

Reconciliation of EBITDA before special items and EBITDA to EBIT

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
EBIT	\$ 191	\$ (57)	\$ 392	\$ 93
Amortization	64	78	126	156
Impairment charges on PP&E and intangible assets ⁽²⁾	9	43	11	43
EBITDA	264	64	529	292
Special items excluding impairment charges on PP&E and intangible assets ⁽²⁾	72	249	72	272
EBITDA before special items	\$ 336	\$ 313	\$ 601	\$ 564

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

	Three-month periods ended June 30			
	2018 (per share)		2017 (per share) <i>restated</i> ⁽¹⁾	
Net income (loss)	\$ 70		\$ (243)	
Adjustments to EBIT related to special items ⁽²⁾	80	\$ 0.03	287	\$ 0.13
Adjustments to net financing expense related to:				
Net change in provisions arising from changes in interest rates and net (gain) loss on certain financial instruments	(10)	0.00	39	0.02
Accretion on net retirement benefit obligations	15	0.01	19	0.01
Tax impact of special ⁽²⁾ and other adjusting items	(68)	(0.03)	(11)	0.00
Adjusted net income	87		91	
Net income (loss) attributable to NCI	(2)		16	
Preferred share dividends, including taxes	(7)		(6)	
Adjusted net income attributable to equity holders of Bombardier Inc.	\$ 78		\$ 101	
Weighted-average diluted number of common shares (in thousands)	2,552,892		2,241,996	
Adjusted EPS (in dollars)	\$ 0.03		\$ 0.05	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Three-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾
Diluted EPS	\$ 0.02	\$ (0.11)
Impact of special ⁽²⁾ and other adjusting items	0.01	0.16
Adjusted EPS	\$ 0.03	\$ 0.05

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

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

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

	Six-month periods ended June 30			
	2018 (per share)		2017 (per share) <i>restated</i> ⁽¹⁾	
Net income (loss)	\$	114	\$	(237)
Adjustments to EBIT related to special items ⁽²⁾		80	\$ 0.03	310
Adjustments to net financing expense related to:				
Net change in provisions arising from changes in interest rates and net (gain) loss on certain financial instruments		(36)	(0.01)	31
Accretion on net retirement benefit obligations		34	0.01	38
Tax impact of special ⁽²⁾ and other adjusting items		(70)	(0.03)	(12)
Adjusted net income		122		130
Net income (loss) attributable to NCI		(8)		16
Preferred share dividends, including taxes		(14)		(12)
Adjusted net income attributable to equity holders of Bombardier Inc.	\$	100	\$	134
Weighted-average diluted number of common shares (in thousands)		2,475,425		2,246,212
Adjusted EPS (in dollars)	\$	0.04	\$	0.06

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾
Diluted EPS	\$ 0.04	\$ (0.11)
Impact of special ⁽²⁾ and other adjusting items	—	0.17
Adjusted EPS	\$ 0.04	\$ 0.06

Reconciliation of adjusted debt to long-term debt

	As at	
	June 30, 2018	December 31, 2017
Long-term debt	\$ 9,140	\$ 9,218
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	(182)	(222)
Long-term debt, net	8,958	8,996
Operating lease obligations ⁽³⁾	592	635
Adjusted debt	\$ 9,550	\$ 9,631

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

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

⁽³⁾ 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

	Four-quarter trailing periods ended	
	June 30, 2018	December 31, 2017 <i>restated</i> ⁽¹⁾
EBIT	\$ 598	\$ 299
Special items ⁽²⁾	196	426
Interest received	66	61
Interest adjustment for operating leases ⁽³⁾	33	37
Adjusted EBIT	893	823
Amortization	284	314
Impairment charges on PP&E and intangible assets ⁽⁴⁾	5	7
Amortization adjustment for operating leases ⁽⁵⁾	66	71
Adjusted EBITDA	\$ 1,248	\$ 1,215

Reconciliation of adjusted interest to interest paid

	Four-quarter trailing periods ended	
	June 30, 2018	December 31, 2017
Interest paid	\$ 635	\$ 594
Interest adjustment for operating leases ⁽³⁾	33	37
Adjusted interest	\$ 668	\$ 631

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

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

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

⁽⁴⁾ Excluding amounts recognized as special items.

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

BUSINESS AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2018	2017 restated ⁽¹⁾	Variance
Revenues	\$ 1,307	\$ 1,389	(6)%
Aircraft deliveries (in units)	34	36	(2)
EBIT	\$ 108	\$ 99	9 %
EBIT margin	8.3%	7.1%	120 bps
EBIT before special items ⁽²⁾	\$ 111	\$ 127	(13)%
EBIT margin before special items ⁽²⁾	8.5%	9.1%	(60) bps
EBITDA before special items ⁽²⁾	\$ 142	\$ 152	(7)%
EBITDA margin before special items ⁽²⁾	10.9%	10.9%	—
Net additions to PP&E and intangible assets	\$ 232	\$ 373	(38)%
As at	June 30, 2018	December 31, 2017 restated ⁽¹⁾	
Order backlog (in billions of dollars)	\$ 14.1	\$ 13.8	2 %

Key highlights and events

- Business Aircraft's second quarter performance demonstrated strong execution on deliveries and sales, sustained progress on new programs, continued growth in aftermarket revenue, combined with the unveiling of two new aircraft that further strengthen Bombardier's business jets portfolio.
- During the second quarter, revenues totalled \$1.3 billion on 34 deliveries, with aftermarket revenue growing 21%, offset by lower aircraft revenues from fewer pre-owned aircraft available. On a year-to-date basis, revenues total \$2.4 billion, on track to the \$5 billion guidance for the full year.
- Year to date, deliveries reached 65 aircraft, in line with plan and last year, tracking to full year guidance of 135 aircraft deliveries.
- Margins continued to trend above the greater than 8% guidance, with EBIT margin before special items⁽²⁾ reaching 8.5% and 8.7% for the three- and six-month periods ended June 30, 2018, respectively.
- Aircraft backlog at the end of the second quarter increased to \$14.1 billion, reflecting strong market activity for the third consecutive quarter. Demand continues to be fuelled by North America while Asia Pacific, Greater China and Europe are exhibiting good momentum.
- The *Global 7500* aircraft continues to exceed expectations with the announcement on increased range and improvements made to takeoff and landing performance commitments. The *Global 7500* aircraft now boasts a 7,700 nautical miles range and is the largest, longest range business jet available on the market.⁽³⁾ With more than 2,400 hours of flight testing accomplished, demonstrating significant maturity and reliability, the class-defining aircraft is on track to enter into service later this year.
- In addition, on May 28, 2018, Business Aircraft unveiled the new Bombardier *Global 5500* and *Global 6500* aircraft featuring an all-new Rolls-Royce engine and a newly optimized wing, increasing the aircraft fuel burn advantage by up to 13%. Building on the success of the *Global 5000* and *Global 6000* aircraft, these new aircraft have top speeds of Mach 0.90, and offer an additional range of 500 and 600 nautical miles or up to 1,300 nautical miles when operating out of hot-weather and high-altitude conditions.⁽³⁾ These aircraft are expected to enter into service at the end of 2019.
- Following the sale of the Downsview property, Bombardier announced its plans to build a new centre of excellence and final assembly plant for its *Global* family of aircraft at Toronto's Pearson International Airport.

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures. The backlog figures as of December 31, 2017 and March 31, 2018 were also restated to \$13.8 billion and \$13.9 billion respectively in relation to some adjustments on certain long term services contracts.

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

⁽³⁾ Currently under development. See the *Global 5500*, *Global 6500*, *Global 7500* and *Global 8000* aircraft disclaimer at the end of this MD&A.

INDUSTRY AND ECONOMIC ENVIRONMENT

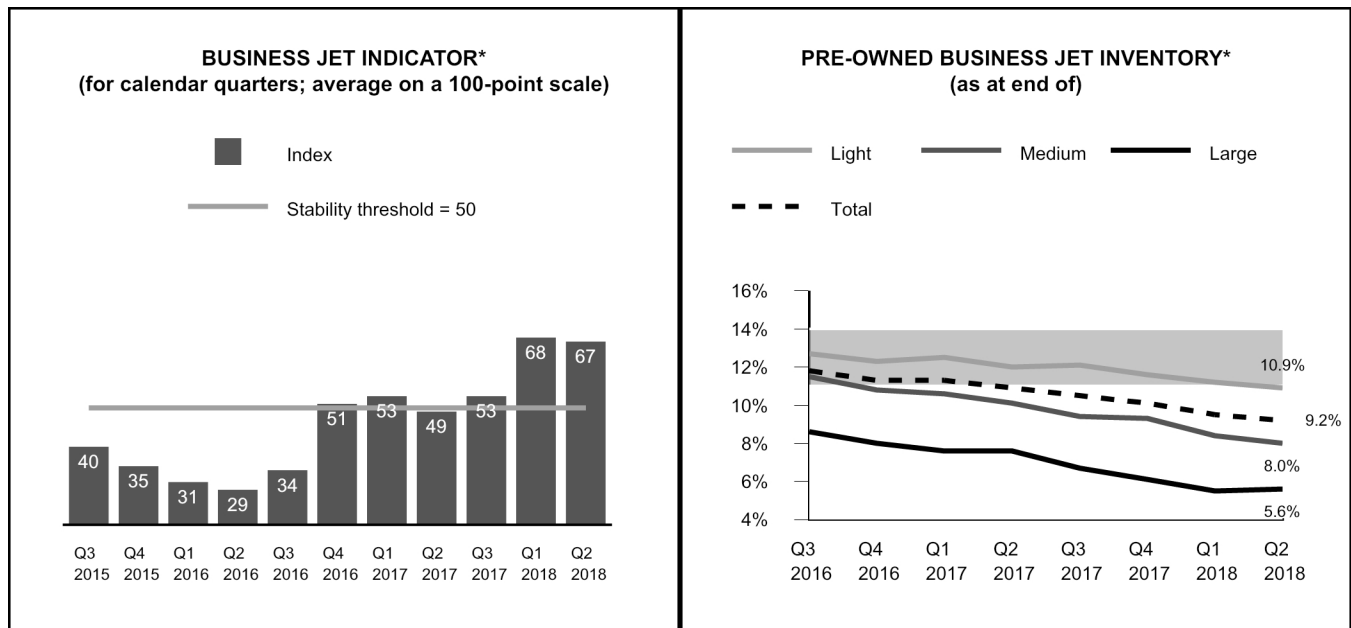
The early signs of positive momentum that occurred in the fourth quarter of 2017 have carried into the first half of 2018. As indicated in the graphs below, industry confidence⁽¹⁾ is above the threshold of market stability at the end of the second quarter, coming in at 67 points⁽²⁾, and business jet utilization in the U.S. and Europe remained stable compared to the same period last year. The global economy is expected to grow at a rate of 3.1% in 2018, higher than 3.0% growth in 2017.⁽³⁾ The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet stood at 9.2% as at June 30, 2018, an improvement from 9.5% as at March 31, 2018. This level of pre-owned inventory is below the 10-year historical range for the overall market, which is a positive indicator for the market.

Business aviation is poised for growth in the long term due to a stronger economic outlook combined with the introduction of new aircraft models and technologies. With the industry's most comprehensive product portfolio, Bombardier Business Aircraft is well positioned for success.

⁽¹⁾ As measured by the Barclays Business Jet Indicator.

⁽²⁾ According to the Barclays Business Jet Survey dated June 14, 2018.

⁽³⁾ According to "Oxford Economics Global Data Report" dated July 16, 2018.

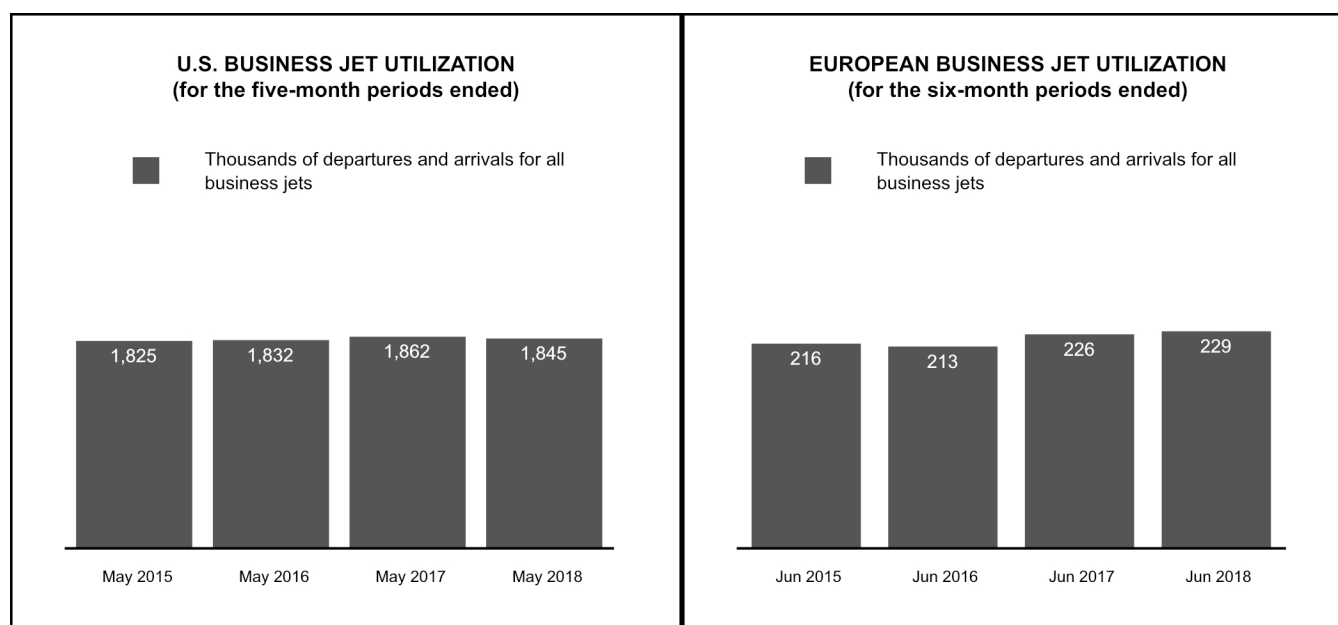


Source: Barclays from the start of 2018, previously UBS

* The Business Jet Indicator is a measure of market confidence from industry professionals, gathered through regular surveys of brokers, dealers, manufacturers, fractional providers, financiers and others. Methodologies used in the calculation of the Business Jet Indicator may differ following a change in the source of the data. UBS did not issue a survey for Q4 2017.

Sources: JETNET and Ascend online

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



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

Source: Eurocontrol

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Revenues				
Manufacturing and Other ⁽²⁾	\$ 1,001	\$ 1,137	\$ 1,840	\$ 1,910
Services ⁽³⁾	306	252	577	501
Total revenues	\$ 1,307	\$ 1,389	\$ 2,417	\$ 2,411
EBITDA before special items ⁽⁴⁾	\$ 142	\$ 152	\$ 256	\$ 254
Amortization	31	25	47	45
EBIT before special items ⁽⁴⁾	111	127	209	209
Special items	3	28	4	31
EBIT	\$ 108	\$ 99	\$ 205	\$ 178
EBIT margin before special items ⁽⁴⁾	8.5%	9.1%	8.7%	8.7%
EBIT margin	8.3%	7.1%	8.5%	7.4%

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽²⁾ Mainly composed of revenues from sale of new aircraft, specialized aircraft solutions and pre-owned aircraft.

⁽³⁾ Composed of revenues from aftermarket services including parts, *Smart Services*, service centres, training and technical publication.

⁽⁴⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

Revenues

The \$136-million decrease in manufacturing and other revenues for the three-month period is mainly due to fewer aircraft deliveries as well as lower revenues from sales of pre-owned aircraft, reflecting a lower level of pre-owned aircraft inventory.

The \$54-million increase in services revenues for the three-month period is mainly due to increase in activities in service centres and increase in sales of spare parts.

The \$70-million decrease in manufacturing and other revenues for the six-month period is mainly due to lower revenues from sales of pre-owned aircraft, reflecting a lower level of pre-owned aircraft inventory, partially offset by favourable mix of aircraft deliveries.

The \$76-million increase in services revenues for the six-month period is mainly due to increase in activities in service centres and increase in sales of spare parts.

Special items

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

The special items in EBIT were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2018	2017	2018	2017
Restructuring charges	1	\$ 3	\$ 4	\$ 5	\$ 7
Re-negotiation of a commercial agreement	2	—	35	—	35
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions	3	—	(11)	(1)	(11)
		\$ 3	\$ 28	\$ 4	\$ 31
EBIT margin impact		(0.2)%	(2.0)%	(0.2)%	(1.3)%

1. Represents severance charges related to previously-announced restructuring actions.
2. A provision was taken during the second quarter of 2017 to reflect the anticipated outcome of a re-negotiation of a commercial agreement with a third party.
3. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, we reduced the related provisions by \$1 million for the six-month period ended June 30, 2018 (\$11 million for the three- and six-month period ended June 30, 2017). The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.

EBIT margin

The EBIT margin before special items for the three-month period decreased by 0.6 percentage points, mainly as a result of:

- higher SG&A expense due to the introduction of new aircraft programs; and
- gains in prior period on the disposal of certain equipment.

Partially offset by:

- stronger contribution from aftermarket activities.

Including the impact of special items (see explanation of special items above), the EBIT margin for the three-month period increased by 1.2 percentage points compared to the same period last year.

The EBIT margin before special items for the six-month period remained stable mainly as stronger contribution from aftermarket activities was offset by lower deliveries on pre-owned aircraft, reflecting a lower level of pre-owned aircraft inventory, and gains in prior period on the disposal of certain equipment.

Including the impact of special items (see explanation of special items above), the EBIT margin for the six-month period increased by 1.1 percentage points compared to the same period last year.

Product development

Investment in product development

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
Program tooling ⁽¹⁾	\$ 218	\$ 369	\$ 416	\$ 545
R&D expense ⁽²⁾	3	3	6	5
	\$ 221	\$ 372	\$ 422	\$ 550
As a percentage of revenues ⁽³⁾	16.9%	26.8%	17.5%	22.8%

The carrying amount of business aircraft program tooling⁽⁴⁾ as at June 30, 2018 was \$4.0 billion, compared to \$3.6 billion as at December 31, 2017.

⁽¹⁾ Net amount capitalized in aerospace program tooling.

⁽²⁾ Excluding amortization of aerospace program tooling of \$14 million and \$25 million, respectively, for the three- and six-month period ended June 30, 2018 (\$13 million and \$22 million for the three- and six-month period ended June 30, 2017), as the related investments are already included in aerospace program tooling.

⁽³⁾ 2017 has been restated due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽⁴⁾ Capitalized borrowing costs included in the business aircraft aerospace program tooling balance amounted to \$559 million as at June 30, 2018 (\$441 million as at December 31, 2017).

The *Global 7500* and *Global 8000* aircraft program⁽¹⁾

The flight test program is tracking to plan and has exceeded 2,400 flight hours to date. On April 15, 2018, Bombardier announced that the *Global 7500* business jet can fly a range of 7,700 nautical miles, a full 300 nautical miles further than initial projections. In addition to its unsurpassed range, the *Global 7500* aircraft has exceeded takeoff and landing performance commitments, leading to a new published takeoff distance of 5,800 feet, at full fuel in standard operating conditions. This performance permits operators to use challenging airports without compromising for the larger cabin. In April 2018, Bombardier unveiled the Nuage seat, the industry's first new seat architecture in more than 30 years. The Nuage seat on board the *Global 7500* aircraft, and its patented components, are the result of years of research and development into optimal seat comfort. In May 2018, Bombardier introduced the revolutionary nice Touch cabin management system (CMS), a Bombardier-designed platform developed in collaboration with Lufthansa Technik and found exclusively on the *Global 7500* aircraft. The nice Touch CMS introduces a new way to connect with the cabin through the Bombardier Touch dial, featuring business aviation's first application of an OLED display.

In addition, we continue to advance the test program to ensure all systems operate with the highest level of reliability. Full-scale structural testing of the aircraft was successfully concluded on the Complete Airframe Static Test (CAST). Full-scale fatigue testing is also executing to plan, and Bombardier has successfully completed one lifetime of simulated flights, which exceeds the requirements at time of certification. The final assembly line activities are ramping up as multiple customer aircraft are now in production at our Downsview facilities and the first *Global 7500* production aircraft entered Bombardier's Global Completion Centre facilities earlier this year.

Delivering on the *Global 7500*'s significant backlog is a key priority for the Corporation. We are preparing for entry-into-service later this year and production ramp-up is ongoing. This includes working with our supply base to ensure every supplier is equipped to support the program's success. We are having on-going commercial discussions with our wing supplier, Triumph. As part of these discussions, we aim to support Triumph's needs, while also sustaining the long-term success of the *Global 7500* program for Bombardier.

The *Global 7500* and *Global 8000* aircraft program manufacturing process makes use of the highest calibre technology, including a state-of-the-art automated positioning system using laser-guided robots to join the wing structure to the fuselage with a very high level of precision.

The category-defining *Global 7500* aircraft is on track to enter into service later this year. It will set the standard for a new category of large business jets, as the first and only clean-sheet business jet with four living spaces.

⁽¹⁾ Currently under development. See the *Global 5500*, *Global 6500*, *Global 7500* and *Global 8000* aircraft disclaimer at the end of this MD&A.

The *Global 5500* and *Global 6500* aircraft program⁽¹⁾

In May 2018, during the European Business Aviation Conference and Exhibition (EBACE), Bombardier unveiled two additions to its business jet fleet: the *Global 5500* and *Global 6500* aircraft, with class-leading ranges of 5,700 and 6,600 nautical miles, respectively, top speeds of Mach 0.90 and Bombardier's advanced wing design for a comfortable and smooth ride. The aircraft showcased at EBACE is one of the two flight test vehicles that are supporting the certification campaign.

The *Global 5500* and *Global 6500* aircraft add to the industry's best large-category family, joining the high-performing *Global 5000* and *Global 6000* aircraft, and the unparalleled *Global 7500* aircraft. These new aircraft build on the success of the *Global 5000* and *Global 6000* aircraft by offering 500 and 600 nautical miles of additional range, respectively, coupled with an up to 13-per-cent fuel burn advantage in certain operating conditions, contributing to highly favourable operating costs versus smaller competing aircraft with less range.

The program's two flight test vehicles are currently in active testing in Wichita, Kansas, and the program is progressing on track toward certification with the aircraft expected to enter into service at the end of 2019. The Rolls-Royce Pearl engine was certified earlier this year and is currently in flight testing. The first flight test vehicle equipped with the Pearl engine flew for the first time on January 31, 2018.

⁽¹⁾ Currently under development. See the *Global 5500*, *Global 6500*, *Global 7500* and *Global 8000* aircraft disclaimer at the end of this MD&A.

Aircraft deliveries and order backlog

Aircraft deliveries

(in units)	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
Light				
<i>Learjet 70/75</i>	2	3	5	8
Medium				
<i>Challenger 350</i>	14	12	26	21
<i>Challenger 605/650</i>	6	6	12	12
<i>Challenger 850</i>	—	—	—	1
Large				
<i>Global 5000/Global 6000</i>	12	15	22	23
	34	36	65	65

Order backlog

(in billions of dollars)	June 30, 2018	As at December 31, 2017 <i>restated</i> ⁽¹⁾
	\$ 14.1	\$ 13.8

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures. The backlog figures as of December 31, 2017 and March 31, 2018 were also restated to \$13.8 billion and \$13.9 billion respectively in relation to some adjustments on certain long term services contracts.

The order backlog and the production horizon for programs are monitored to align production rates to reflect market demand. We maintained our industry-leading position in terms of order backlog.

COMMERCIAL AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2018	2017 <i>restated</i> ⁽¹⁾	Variance
Revenues	\$ 616	\$ 626	(2)%
Aircraft deliveries (in units)	18	20	(2)
Net orders (in units)	75	12	63
Book-to-bill ratio ⁽²⁾	4.2	0.6	3.6
EBIT	\$ (668)	\$ (119)	(461)%
EBIT margin	(108.4)%	(19.0)%	nmf
EBIT before special items ⁽³⁾	\$ (66)	\$ (118)	44 %
EBIT margin before special items ⁽³⁾	(10.7)%	(18.8)%	810 bps
EBITDA before special items ⁽³⁾	\$ (61)	\$ (97)	37 %
EBITDA margin before special items ⁽³⁾	(9.9)%	(15.5)%	560 bps
Net additions (proceeds) to PP&E and intangible assets	\$ 30	\$ (14)	nmf
As at	June 30, 2018	December 31, 2017	
Order backlog (in units)	481	433	48

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽²⁾ Ratio of new orders received over aircraft deliveries, in units.

⁽³⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for a definition of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

Key highlights and events

- On July 1, 2018, we closed the C Series Partnership formed by Airbus (50.01%), Bombardier (33.55%) and Investissement Québec (16.44%). The partnership brings together two complementary product lines, and the benefit of Airbus' global reach creating significant value for the *C Series*. Accordingly, starting in the third quarter, CSALP will be deconsolidated from Commercial Aircraft's results and replaced by Bombardier's share of its net earnings on an equity pick-up basis.
- During the quarter we delivered 18 commercial aircraft, consisting of 8 *C Series*, 5 *CRJ Series* and 5 *Q400* aircraft. With year to date deliveries of turboprops and regional jets totalling 18, Commercial Aircraft is on track to meet annual guidance of 35 deliveries for the regional aircraft platforms.
- With year-to-date revenues of \$1.1 billion and EBIT loss before special items⁽¹⁾ of \$139 million, we are reintroducing Commercial Aircraft's full year revenues guidance of approximately \$1.7 billion and EBIT loss before special items⁽¹⁾ guidance of approximately \$250 million. This reflects the deconsolidation of CSALP from Commercial Aircraft's results starting in the third quarter, replaced by an equity pick-up representing Bombardier's share of net earnings.
- The second quarter saw significant order activity with a Book-to-bill ratio of 4.2:
 - The *CRJ Series* backlog grew to 60 aircraft, with two *CRJ900* aircraft orders totalling 35 aircraft from American Airlines and Delta. These orders are the first with the new ATMOSPHERE cabin, setting the new standard of passenger experience in the regional jet market segment.
 - Other orders included 16 *Q400* aircraft from Ethiopian Airlines and African Aero Trading bringing the backlog to 56 aircraft.

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

- CSALP continued to demonstrate order momentum with three recent orders from marquee customers:
 - On May 28, 2018, airBaltic entered into a firm purchase agreement for 30 CS300⁽¹⁾ aircraft with options and purchase rights for an additional 30 aircraft. The all-C Series fleet is the backbone of airBaltic's new business plan and this significant reorder from our CS300⁽¹⁾ launch operator is a strong testimony to the aircraft's exceptional in-service performance.
 - Subsequent to the end of the quarter, CSALP received a letter of intent from JetBlue for 60 aircraft and 60 options, and a memorandum of understanding for 60 aircraft from a future U.S. airline with majority investor David Neeleman.

⁽¹⁾ Subsequent to the C Series Partnership closing, Airbus rebranded CS300 as A220-300.

2018 GUIDANCE UPDATE

The following is an update of guidance provided related to the deconsolidation of CSALP effective July 1, 2018 as a result of the closing of the partnership with Airbus SE.

	Guidance provided in our 2017 Financial Report ⁽¹⁾	Results for the six-month period ended June 30, 2018	2018 guidance update ⁽²⁾
Revenues	~ \$2.7 billion	\$1.1 billion	~ \$1.7 billion
EBIT before special items ⁽³⁾	~ (\$350 million)	(\$139 million)	~ (\$250 million) ⁽⁴⁾
Aircraft deliveries (in units)	~ 75, including ~ 40 C Series and ~ 35 CRJ Series and Q400	31, including 13 C Series and 18 CRJ Series and Q400	~ 35 CRJ Series and Q400

We are reintroducing Commercial Aircraft's full year revenues guidance of approximately \$1.7 billion and EBIT loss before special items⁽³⁾ guidance of approximately \$250 million. This reflects the deconsolidation of CSALP from Commercial Aircraft's results starting in the third quarter, replaced by an equity pick-up representing Bombardier's share of net earnings. We also withdraw the guidance on C Series aircraft deliveries for the year.

⁽¹⁾ Refer to our 2017 Financial Report for further details.

⁽²⁾ See the forward-looking statements disclaimer as well as the forward-looking statements section in Overview and the Guidance and forward-looking statements section in each reportable segment in the 2017 Financial Report for details regarding the assumptions on which the guidance is based.

⁽³⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

⁽⁴⁾ Net of our equity pick-up in CSALP starting July 1, 2018.

INDUSTRY AND ECONOMIC ENVIRONMENT

Since the beginning of 2018, the demand for commercial air travel, measured by revenue passenger kilometres ("RPK"),⁽¹⁾ has continued to show solid growth. 2018 is expected to be another year of above-trend growth for the industry-wide RPKs, despite the reduced stimulus from lower fares and a more mixed economic backdrop.⁽²⁾

Scheduled domestic and international commercial air travel, measured by RPK, were 7.4% and 6.5% higher, respectively, during the year-to-date period ended May 2018, compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors⁽³⁾ of 82.5% and 80.1%, respectively, during the year-to-date period ended May 2018, which were higher than the 82.0% and 79.5% respective levels experienced during the same period in 2017.⁽²⁾

⁽¹⁾ RPK is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported over one kilometre.

⁽²⁾ Per IATA's May 2018 Air Passenger Market Analysis report.

⁽³⁾ Passenger load factor is defined as the percentage of available seat kilometres used (RPK divided by available seat kilometres). Available seat kilometres are measured as the number of seats multiplied by the kilometres flown, whether a passenger occupied the seat or not.

For domestic commercial air travel specifically, increases in China, the U.S. and India account for most of the 7.4% increase in RPK compared to the same period last year. On the international commercial air travel side, increases in Europe, Asia-Pacific and North America account for most of the 6.5% increase in RPK compared to the same period last year.⁽¹⁾

Crude oil prices stood at approximately \$77 per barrel at the end of June 2018, compared to \$69 per barrel at the end of March 2018.⁽²⁾ The upward trend in oil prices has been driven by a combination of a gradual reduction in global oil inventories amid robust demand and tighter supply conditions, as well as geopolitical developments.⁽³⁾ Strong growth in production in the U.S. and other non-OPEC countries is expected to increase global oil inventories in the second half of 2018 and in 2019, which should contribute to the crude oil prices declining from current levels to an average of \$69 per barrel in 2019.⁽⁴⁾ Volatility in crude oil prices should result in continued demand for more fuel-efficient aircraft.

Environmental issues and regulations related to local air quality, aircraft emissions and community noise, as well as commitments by the aviation industry towards reducing carbon emissions, should speed up the retirement of older, less fuel-efficient aircraft worldwide.

IATA predicts that airline financial performance will remain strong in 2018, with forecasted commercial airline profits of \$33.8 billion, slightly down from 2017 profits of \$38.0 billion. Air travel growth remained strong in 2018 and businesses worldwide are generally optimistic about economic prospects. North American airlines are still expected to show the highest profits in dollars and percentage of revenues, driven by consolidation, helping to sustain load factors, and ancillaries.⁽⁵⁾

⁽¹⁾ Per IATA's May 2018 Air Passenger Market Analysis report.

⁽²⁾ Per the U.S. Energy Information Administration's (EIA) website.

⁽³⁾ Per IATA's May-June 2018 Airlines Financial Monitor Report.

⁽⁴⁾ Per the International Energy Agency (IEA) Oil Market Report released July 10, 2018.

⁽⁵⁾ Per IATA's June 2018 Economic Performance of the Airline Industry semi-annual report.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Revenues	\$ 616	\$ 626	\$ 1,079	\$ 1,151
EBITDA before special items ⁽²⁾	\$ (61)	\$ (97)	\$ (133)	\$ (135)
Amortization	5	16	6	34
Impairment charges on PP&E and intangible assets	—	5	—	5
EBIT before special items ⁽²⁾	(66)	(118)	(139)	(174)
Special items	602	1	602	2
EBIT	\$ (668)	\$ (119)	\$ (741)	\$ (176)
EBIT margin before special items ⁽²⁾	(10.7)%	(18.8)%	(12.9)%	(15.1)%
EBIT margin	(108.4)%	(19.0)%	(68.7)%	(15.3)%

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽²⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

Revenues

The \$10-million decrease for the three-month period is mainly due to lower revenues from pre-owned aircraft reflecting a lower level of pre-owned aircraft inventory, partially offset by an increase in aftermarket activities.

The \$72-million decrease for the six-month period is mainly due to lower revenues from pre-owned aircraft reflecting a lower level of pre-owned aircraft inventory, as well as fewer deliveries of turboprops and regional jets partially offset by higher *C Series* aircraft deliveries.

Special items

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

The special items in EBIT were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2018	2017	2018	2017
C Series transaction with Airbus	1	599	—	599	—
Restructuring charges	2	3	1	3	2
		\$ 602	\$ 1	\$ 602	\$ 2
EBIT margin impact		(97.7)%	(0.2)%	(55.8)%	(0.2)%

1. The acquisition by Airbus of 50.01% of CSALP, the entity that manufactures and sells the *C Series* aircraft resulted in a pre-tax accounting charge of \$599 million (\$535 million after tax) that was recorded in the three-month period ended June 30, 2018, reflected as a reduction of the CSALP assets held for sale balance. The pre-tax accounting charge reflects all elements of the transaction, including: (i) the \$269 million fair value of warrants issued by Bombardier to Airbus on July 1, 2018, (ii) a \$310 million derivative liability which is associated with the expected off-market return on units to be issued to Bombardier by CSALP under Bombardier's funding commitments, and (iii) other Bombardier obligations towards CSALP. In addition, the transaction resulted in \$64 million tax recoveries. See Note 19 - Assets held for sale in the Consolidated financial statements for more details in respect of the transaction.
2. Represents severance charges related to previously-announced restructuring actions.

EBIT margin

The EBIT margin before special items for the three-month period increased by 8.1 percentage points, mainly as a result of:

- less negative aircraft margins mainly due to lower losses from *C Series* operations; and
- a positive variance of financial instruments carried at fair value recorded in other expenses.

Partially offset by:

- a gain in prior period on the disposal of certain equipment.

Including the impact of special items (see explanation of special items above), the EBIT margin for the three-month period decreased by 89.4 percentage points compared to the same period last year.

The EBIT margin before special items for the six-month period increased by 2.2 percentage points, mainly as a result of:

- a positive variance of financial instruments carried at fair value recorded in other expenses.

Partially offset by:

- lower aircraft margins mainly due to regional jets; and
- a gain in prior period on the disposal of certain equipment.

Including the impact of special items (see explanation of special items above), the EBIT margin for the six-month period decreased by 53.4 percentage points compared to the same period last year.

Product development

Investment in product development

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
Program tooling ⁽¹⁾	\$ 14	\$ 13	\$ 30	\$ 80
R&D expense ⁽²⁾	1	1	3	2
	\$ 15	\$ 14	\$ 33	\$ 82
As a percentage of revenues ⁽³⁾	2.4%	2.2%	3.1%	7.1%

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

⁽²⁾ Excluding amortization of aerospace program tooling of \$2 million and \$4 million for the three- and six-month period ended June 30, 2018 (\$9 million and \$17 million for the three- and six-month period ended June 30, 2017), as the related investments are already included in aerospace program tooling.

⁽³⁾ 2017 figures have been restated due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

Aircraft deliveries, orders, book-to-bill ratio and order backlog

Aircraft deliveries

(in units)	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
Commercial jets				
CS100	—	3	—	3
CS300	8	3	13	4
Regional jets				
CRJ700	1	1	1	1
CRJ900	2	4	6	11
CRJ1000	2	2	4	3
Turboprops				
Q400	5	7	7	13
	18	20	31	35

Net orders

(in units)	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
Commercial jets				
CS300 ⁽¹⁾	30	—	30	—
Regional jets				
CRJ700	(6)	—	(6)	—
CRJ900	35	—	35	10
Turboprops				
Q400	16	12	20	13
	75	12	79	23
Book-to-bill ratio⁽²⁾	4.2	0.6	2.5	0.7

⁽¹⁾ Subsequent to the C Series Partnership closing, Airbus rebranded CS300 as A220-300.

⁽²⁾ Ratio of net orders received over aircraft deliveries, in units.

The following significant orders were received during the six-month period ended June 30, 2018:

Customer	Firm order	Value ⁽¹⁾
Second quarter		
airBaltic	30 CS300	\$2.9 billion
Delta Air Lines	20 CRJ900	\$961 million
American Airlines	15 CRJ900	\$719 million
Ethiopian Airlines	10 Q400	\$332 million
African Aero Trading	6 Q400	\$198 million
First quarter		
Conair Group Inc.	4 Q400	\$137 million

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

Commercial aircraft order backlog and options

(in units)	June 30, 2018		As at December 31, 2017	
	Firm orders	Options	Firm orders	Options
Commercial jets				
CS100 ⁽¹⁾	115 ⁽²⁾	88	115 ⁽²⁾	94
CS300 ⁽¹⁾	250 ⁽²⁾	143	233 ⁽²⁾	128
Regional jets				
CRJ700	1	—	8	—
CRJ900	53	21	24	6
CRJ1000	6	—	10	—
Turboprops				
Q400	56	—	43	—
	481	252	433	228

⁽¹⁾ Subsequent to the C Series Partnership closing, Airbus rebranded CS100 and CS300 as A220-100 and A220-300, respectively.

⁽²⁾ The total of 365 orders includes 117 firm orders with conversion rights to the other C Series aircraft model as at June 30, 2018 (total of 348 orders included 122 firm orders with conversion rights to the other C Series aircraft model as at December 31, 2017).

Subsequent to the end of this quarter, we announced that we signed a firm order for 4 CRJ900 aircraft with Uganda National Airlines Company Limited. Based on the list price, the firm order is valued at approximately \$190 million.

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

STRATEGIC PARTNERSHIP

Airbus acquired a majority stake in the C Series Aircraft Limited Partnership effective July 1, 2018

On June 8, 2018, the Corporation announced the closing of and the transfer of control of CSALP, the entity that manufactures and sells the *C Series* aircraft, to Airbus SE, effective July 1, 2018, and confirmed that all regulatory approvals had been obtained. The transaction by which Airbus would acquire a majority stake in CSALP and would provide procurement, sales and marketing, and customer support expertise to CSALP, was initially announced in October 2017. The closing of the previously announced transaction came into effect on July 1, 2018. Airbus SAS (Airbus), a wholly-owned subsidiary of Airbus SE, owns a 50.01% interest in CSALP. Bombardier and Investissement Québec (IQ) now own 33.55% and 16.44% respectively.

Since the Corporation will no longer control CSALP, the transaction will be accounted as a disposal of CSALP on July 1, 2018 in exchange for an equity interest in the partnership to be accounted for using the equity method of accounting and recorded in the Commercial Aircraft segment. The transaction resulted in a pre-tax accounting charge of \$599 million (\$535 million after tax) that was recorded in the three-month period ended June 30, 2018, reflected as a reduction of the CSALP assets held for sale balance, which has been included in Special items, see Note 7 - Special items in the Consolidated financial statements for more details. The pre-tax accounting charge reflects all elements of the transaction, including: (i) the \$269 million fair value of warrants issued by Bombardier to Airbus on July 1, 2018, (ii) a \$310 million derivative liability which is associated with the expected off-market return on units to be issued to Bombardier by CSALP under Bombardier's funding commitments, and (iii) other Bombardier obligations towards CSALP. In addition, the transaction resulted in \$64 million of tax recoveries.

CSALP's headquarters and primary assembly line and related functions will remain in Mirabel, Québec, with the support of Airbus' global reach and scale. Airbus' global industrial footprint will expand with the final assembly line in Canada and additional *C Series* aircraft production at Airbus' manufacturing site in Alabama, U.S.

Ownership Structure and Agreement Highlights

The *C Series* aircraft program is operated by CSALP in respect of which Bombardier and IQ held 67.11% and a 32.89% interest respectively as at June 30, 2018. Airbus has acquired a 50.01% interest in CSALP effective July 1, 2018. Airbus is also now responsible to provide (i) sales and marketing support services for the *C Series* aircraft program, (ii) management of procurement, which includes leading negotiations to improve CSALP level supplier agreements, and (iii) customer support for the *C Series* aircraft program. No cash contribution was made at closing by any of the partners, nor did CSALP assume any financial debt. As previously announced, Bombardier continues with its current funding plan of CSALP. Due to the early closing of the transaction, the terms of this plan were updated according to the following schedule: Bombardier will fund the cash shortfalls of CSALP, if required, during the second half of 2018, up to a maximum of \$225 million; during 2019, up to a maximum of \$350 million; and up to a maximum aggregate amount of \$350 million over the following two years, the whole in consideration for non-voting units of CSALP with cumulative annual dividends of 2%. Any excess shortfall during such periods will be shared proportionately amongst the Corporation, Airbus and IQ, but in the latter case, at its discretion.

Airbus benefits from call rights in respect of all of Bombardier's interest in CSALP at fair market value, including its non-voting units (which shall for such purposes each have the same fair market value as each participating unit held by Bombardier), exercisable no earlier than 7.5 years following the closing of the transaction, except in certain circumstances such as an adverse change in the control of Bombardier, where the right is then accelerated. Bombardier benefits from a corresponding put right whereby it could require that Airbus acquires its interest at fair market value after the expiry of such 7.5-year period. Airbus also benefits from a call right exercisable any time before the expiry of such 7.5-year period in respect of the non-voting units of CSALP held by Bombardier, for an amount equal to the invested amount plus the cumulative annual preferred return of 2%. IQ's interest is redeemable at fair market value by CSALP, under certain conditions, starting on June 30, 2023. IQ also benefits from tag along rights in connection with a sale by Bombardier of its interest in the partnership.

The Board of Directors of CSALP consists of seven directors, four of whom were proposed by Airbus, two of whom were proposed by Bombardier, and one of whom was proposed by IQ. Airbus was entitled to name the Chairman of CSALP.

Furthermore, as previously announced, Bombardier, upon closing, issued in the name of Airbus warrants exercisable for a total number of 100,000,000 Class B shares (subordinate voting) in the capital of Bombardier, exercisable for a period of five years at an exercise price per share equal to \$1.74, being the U.S. dollar equivalent of CDN \$2.29. The warrants contain market standard adjustment provisions, including in the event of corporate changes, stock splits, non-cash dividends, distributions of rights, options or warrants to all or substantially all shareholders or consolidations.

AEROSTRUCTURES AND ENGINEERING SERVICES

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2018	2017 restated ⁽¹⁾	Variance
Revenues	\$ 455	\$ 443	3 %
EBIT	\$ 65	\$ 26	150 %
EBIT margin	14.3%	5.9%	840 bps
EBIT before special items ⁽²⁾	\$ 57	\$ 26	119 %
EBIT margin before special items ⁽²⁾	12.5%	5.9%	660 bps
EBITDA before special items ⁽²⁾	\$ 69	\$ 35	97 %
EBITDA margin before special items ⁽²⁾	15.2%	7.9%	730 bps
Net additions (proceeds) to PP&E and intangible assets	\$ (1)	\$ 3	nmf

Key highlights and events

- Aerostructures and Engineering Services is poised for growth as it continues the production ramp-up of *C Series* and *Global 7500* aircraft; activities are progressing well, with a large share of 2018 and 2019 component production underway.
- Revenues for the quarter were slightly above last year's, while EBIT before special items⁽²⁾ more than doubled, yielding a margin of 12.5% for the quarter. This strong performance is largely the result of operational efficiencies and a one-time positive intersegment settlement associated with the closing of the C Series Partnership.

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

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

INDUSTRY AND ECONOMIC ENVIRONMENT

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

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

In the commercial aircraft market, passenger traffic levels and load factors remain strong on a year-to-date basis. Meanwhile, the indicators of the business jet market are positive. Overall, we remain confident in the long-term potential for significant growth in the aircraft industry.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Revenues				
External revenues	\$ 81	\$ 90	\$ 182	\$ 197
Intersegment revenues	374	353	719	644
Total revenues	455	443	901	841
EBITDA before special items ⁽²⁾	\$ 69	\$ 35	\$ 129	\$ 66
Amortization	12	9	25	25
EBIT before special items ⁽²⁾	57	26	104	41
Special items	(8)	—	(7)	—
EBIT	\$ 65	\$ 26	\$ 111	\$ 41
EBIT margin before special items ⁽²⁾	12.5%	5.9%	11.5%	4.9%
EBIT margin	14.3%	5.9%	12.3%	4.9%

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽²⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

Revenues

The \$12 million increase for the three-month period is due to:

- higher intersegment revenues (\$21 million), mainly due to higher volume for business aircraft.

Partially offset by:

- lower external revenues (\$9 million), mainly due to lower manufacturing volume.

The \$60-million increase for the six-month period is due to:

- higher intersegment revenues (\$75 million), mainly due to higher volume for business aircraft.

Partially offset by:

- lower external revenues (\$15 million), mainly due to lower manufacturing volume.

Special items

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

The special item for the three- and six-month periods ended June 30, 2018 represented an adjustment to severance charges related to previously-announced restructuring actions.

EBIT margin

The EBIT margin before special items for the three-month period increased by 6.6 percentage points, mainly as a result of:

- higher margins on intersegment aircraft contracts, mainly due to better performance and positive impact from one-time intersegment settlement; and
- higher margins on external contracts.

Including the impact of special items (see explanation of special items above), the EBIT margin for the three-month period increased by 8.4 percentage points compared to the same period last year.

The EBIT margin before special items for the six-month period increased by 6.6 percentage points, mainly as a result of higher margins on intersegment aircraft contracts, mainly due to better performance, favourable exchange rates and positive impact from one-time intersegment settlement, as well as the recognition of inventory net realizable value charges last year.

Including the impact of special items (see explanation of special items above), the EBIT margin for the six-month period increased by 7.4 percentage points compared to the same period last year.

TRANSPORTATION

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2018	2017 <i>restated</i> ⁽¹⁾	Variance
Revenues	\$ 2,259	\$ 2,038	11 %
Order intake (in billions of dollars)	\$ 2.4	\$ 2.7	(11)%
Book-to-bill ratio ⁽²⁾	1.1	1.3	(0.2)
EBIT	\$ 163	\$ 10	nmf
EBIT margin	7.2%	0.5%	670 bps
EBIT before special items ⁽³⁾	\$ 207	\$ 223	(7)%
EBIT margin before special items ⁽³⁾	9.2%	10.9%	(170) bps
EBITDA before special items ⁽³⁾	\$ 232	\$ 250	(7)%
EBITDA margin before special items ⁽³⁾	10.3%	12.3%	(200) bps
Net additions to PP&E and intangible assets	\$ 46	\$ 18	156 %
As at	June 30, 2018	December 31, 2017	
		<i>restated</i> ⁽¹⁾	
Order backlog (in billions of dollars)	\$ 34.0	\$ 35.1	(3)%

Key highlights and events

- Revenues in the second quarter continued to grow, increasing by 11% year over year (or 6% excluding currency impact) to reach \$4.6 billion for the six-month period, driven by the ramp-up of key projects. Revenues increased across all segments, comprising rolling stock and systems, services and signalling, tracking to full year revenue guidance of \$9.0 billion.
- The major project ramp-up phase initiated mid-2017 continued in the first half of 2018, building \$471 million in working capital to meet an acceleration of deliveries and cash flow in the second half of the year.
- EBIT before special items⁽³⁾ reached \$207 million in the quarter, or a margin of 9.2%. Year-to-date margin of 8.6% continued to trend towards the greater than 8.5% margin guidance for the year.
- Supporting future growth, our order intake reached \$2.4 billion in the second quarter, bringing our book-to-bill ratio⁽²⁾ to 1.1 for the period, and our backlog to \$34.0 billion. In the first half of the year, orders were signed across geographies including Europe, Asia-Pacific and North America, and include exercise of call-offs by customers and a strong order intake of service contracts.
- In June, we have inaugurated our new final assembly building in Bautzen, Germany. Being our most advanced and efficient assembly site, this new facility makes increased use of digital technologies in line with our industrial strategy.
- During the quarter, Jim Vounassis was appointed Chief Operating Officer for Transportation. Jim will help drive operational excellence as we execute on our rail backlog.

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽²⁾ Ratio of new orders over revenues.

⁽³⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for a definition of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

INDUSTRY AND ECONOMIC ENVIRONMENT

Globally, the order volume across the industry continued to show growth in the first half of the year. Across all regions, growth is expected to accelerate in the second half of 2018.

Europe

In Europe, order volume during the first half of 2018 has contracted compared to the same period of 2017. The decline in 2018 was mainly due to the strong order volume for commuter and regional trains in Germany, France and the U.K. in the first quarter of 2017. During the second quarter of 2018, volume was driven primarily by a medium size order awarded for high speed trains in Sweden, as well as various sizeable contracts awarded across Western Europe for urban mobility solutions such as metro and light rail vehicles (LRV). The most significant orders in the services and signalling segments were granted in France and the U.K. In Eastern Europe, a significant contract for very high speed trains was awarded in Turkey along with a services contract, and in Poland various services and signalling agreements were signed for both mainline and urban mobility solutions.

The outlook for Europe is expected to remain positive throughout the rest of 2018. Opportunities are anticipated for high speed trains in France, Italy and Sweden, while in Germany, Italy and France significant orders are foreseen for commuter and regional trains. Europe is to remain the main market for LRVs with upcoming opportunities in various cities, with the most sizeable contracts expected in Germany, Italy and the Netherlands. In the services and signalling segments orders continue to be anticipated across all Western Europe with the most significant in Germany and Spain. In Eastern Europe, Poland, Czech Republic and Turkey are seen as the main drivers for order volume in 2018 with rolling stock orders expected for all types of trains. Considerable investments in the services and signalling segments are expected in Czech Republic and Poland.

North America

The North American order volume significantly increased on a year-to-date basis compared to the same period of 2017, primarily due to the noteworthy metro contract awarded in the first quarter of 2018 for the supply of trains for the City of New York. Additionally a significant metro order along with a maintenance contract was granted in Canada, as well as an automated people mover (APM) system and services contract in the U.S.

The region's outlook is optimistic with significant rolling stock opportunities for urban and mainline mobility solutions. In the U.S. various sizable tenders are expected to close for commuter and metro cars. Furthermore, large services contracts are anticipated to be granted for heavy maintenance and operations for the City of New York metro system. In Canada, in the rolling stock segment medium size orders are anticipated for metros as well as various services and signalling opportunities, with the most significant orders foreseen across the North American market for commuter and regional trains and LRVs. In Mexico, opportunities are expected in the rolling stock segment for LRVs along with maintenance contracts.

Asia-Pacific

In Asia-Pacific, during the first half of 2018 the order volume remained stable when compared to the same period of 2017. In the second quarter of 2018, the most significant order was awarded in Taiwan for the supply of commuter trains. Furthermore, various small and medium size orders were awarded in China and Singapore for metro trains and Bangladesh for locomotives. In the signalling segment orders were secured in Australia and Bangladesh.

Asia-Pacific is foreseen to bring further opportunities during the second half of the year especially for metro trains in China and for commuter and regional trains in Taiwan. Further investments are anticipated for urban transit solutions in China, South Korea, Singapore and India, while in Thailand and Australia medium size contracts are to be awarded for mainline mobility solutions. Additionally, significant contracts are expected to be awarded in the services and signalling segments across the vast majority of countries in the Asia-Pacific region with the most significant in China, Thailand and Australia.

Rest of World

In the first half of 2018 the order volume in the Rest of World region remained stable compared to the same period in 2017. In the second quarter of 2018, the most significant contracts were signed for the supply of commuter and regional trains in Argentina as well as for locomotives in Iran. Additionally, small orders for maintenance and signalling were granted in Argentina while a large signalling contract was signed in Egypt.

In the upcoming quarters, noteworthy orders are expected in Colombia, Iran, Russia and Panama for mainline and mass transit mobility solutions as well as various small and medium orders for solutions across the rolling stock segment. Moreover, large services opportunities are foreseen for various train types in Saudi Arabia, Argentina and Brazil. Investments in maintenance and signalling are expected to continue in multiple countries in the Rest of World region.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Revenues				
Rolling stock and systems ⁽²⁾	\$ 1,475	\$ 1,384	\$ 3,082	\$ 2,704
Services ⁽³⁾	522	459	1,059	893
Signalling ⁽⁴⁾	262	195	473	393
Total revenues	\$ 2,259	\$ 2,038	\$ 4,614	\$ 3,990
EBITDA before special items ⁽⁵⁾	\$ 232	\$ 250	\$ 446	\$ 457
Amortization	25	27	50	51
EBIT before special items ⁽⁵⁾	207	223	396	406
Special items	44	213	42	232
EBIT	\$ 163	\$ 10	\$ 354	\$ 174
EBIT margin before special items ⁽⁵⁾	9.2%	10.9%	8.6%	10.2%
EBIT margin	7.2%	0.5%	7.7%	4.4%

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽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, bogies, mass transit and airport systems, and mainline systems.

⁽³⁾ Comprised of revenues from fleet maintenance, asset life management, component re-engineering and overhaul, material solutions, and operations and maintenance of systems.

⁽⁴⁾ Comprised of revenues from mass transit signalling, mainline signalling, industrial signalling and *OPTIFLO* service solutions for signalling.

⁽⁵⁾ Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

Revenues

Total revenues for the three- and six-month periods ended June 30, 2018, have increased by \$221 million and \$624 million, respectively, compared to the same periods last year. Excluding positive currency impacts of \$107 million and \$308 million, respectively, revenues have increased by \$114 million, or 6%, and \$316 million, or 8%, for the three- and six-month periods, respectively, compared to the same periods last year.

The \$114-million increase excluding currency impact for the three-month period is mainly explained by:

- higher activities in rolling stock and systems in North America and the Rest of World region, mostly due to ramp-up in production related to some commuter and regional train contracts in North America, and some locomotive and mass transit system contracts in the Rest of World region, partly offset by some metro contracts in North America nearing completion (\$68 million);
- higher activities in signalling mainly in Europe and Asia-Pacific (\$58 million); and
- higher activities in services mainly in Europe (\$41 million).

Partially offset by:

- lower activities in rolling stock and systems in Asia-Pacific, mostly due to some metro and light rail vehicle contracts nearing completion (\$46 million).

The \$316-million increase excluding currency impact for the six-month period is mainly explained by:

- higher activities in rolling stock and systems in North America, Europe and the Rest of World region, mostly due to ramp-up in production related to some commuter and regional train contracts in Europe and North America, some metro contracts in North America, some locomotive contracts in Europe and the Rest of World region, some high-speed and very high-speed train contracts in Europe, and some mass transit system contracts in the Rest of World region, partly offset by some light rail vehicle contracts in North America and Europe and some intercity train contracts in Europe nearing completion (\$211 million);
- higher activities in services mainly in Europe and Asia-Pacific (\$102 million); and
- higher activities in signalling mainly in Asia-Pacific and Europe (\$46 million).

Partially offset by:

- lower activities in rolling stock and systems in Asia-Pacific, mostly due to some metro and light rail vehicle contracts nearing completion, partly offset by ramp-up in production related to some propulsion contracts (\$43 million).

Special items

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

The special items for the three- and six-month period ended June 30, 2018 represent:

- an impairment charge related to non-core operations of \$17 million recorded in the second quarter with respect to the expected sale of legal entities as part of our transformation plan;
- \$10 million non-cash loss on the settlement of defined benefit pension plans recorded in the second quarter related to the purchase of annuities with insurance companies. As part of its ongoing de-risking strategies, the Corporation has an initiative for the buy-out of annuities payable to pensioners or deferred pensioners for certain plans to the extent they are fully funded on a buy-out basis, subject to compliance with certain conditions including applicable pension legislations; and
- severance charges of \$7 million related to the previously announced restructuring actions, of which \$9 million were recorded in the second quarter; in line with these initiatives, asset write-downs of \$8 million were also recorded as restructuring charges in the second quarter.

The special items for the three- and six-month periods ended June 30, 2017 represented severance charges of \$181 million and \$200 million, respectively, related to previously-announced restructuring actions, and asset write-downs of \$32 million for the implementation of site specialization strategy related to these initiatives, recorded as restructuring charges in the second quarter.

EBIT margin

The EBIT margins before special items for the three- and six-month periods decreased by 1.7 percentage points and 1.6 percentage points, respectively, mainly as a result of:

- a lower share of income from joint ventures and associates, mainly due to better performance in the same periods last year;
- lower margin in rolling stock and systems, mainly due to unfavourable contract mix; and
- lower margin in signalling, mainly due to adjustments on certain contracts.

Partially offset by:

- higher margin in services, mainly due to better performance.

Including the impact of special items (see explanation of special items above), the EBIT margins for the three- and six-month periods increased by 6.7 percentage points and 3.3 percentage points, respectively, compared to the same periods last year.

Orders and backlog

Order backlog

(in billions of dollars)	June 30, 2018	As at December 31, 2017 <i>restated</i> ⁽¹⁾
	\$ 34.0	\$ 35.1

With a book-to-bill ratio⁽²⁾ of 1.0 for the first half of the year, the \$1.1-billion decrease in order backlog is due to the weakening of some foreign currencies, mainly the euro, pound sterling, Australian dollar, Swedish krona and South African rand, versus the U.S. dollar as at June 30, 2018, compared to December 31, 2017.

Order intake and book-to-bill ratio

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
Order intake (in billions of dollars)	\$ 2.4	\$ 2.7	\$ 4.7	\$ 4.9
Book-to-bill ratio ⁽²⁾	1.1	1.3	1.0	1.2

Order intake for the three- and six-month periods ended June 30, 2018, is slightly below the order intake for the same periods last year, and is mainly driven by several orders across various product segments and regions. The variances include positive currency impacts of \$126 million and \$290 million, for the three- and six-month periods respectively. We maintained a leading position⁽³⁾ in our relevant and accessible rail market.⁽⁴⁾

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

⁽²⁾ Ratio of new orders over revenues.

⁽³⁾ Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.

⁽⁴⁾ Our relevant and accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition, and excluding the infrastructure, freight wagon and shunter segments.

The significant orders obtained during the six-month period ended June 30, 2018 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value
Second quarter					
Västtrafik	Sweden	High-speed electric multiple units (EMUs)	120	Rolling stock and systems	\$ 452
Undisclosed	Southeast Asia	Rail system maintenance services	n/a	Services	\$ 287
Los Angeles Airport (LAX) via LAX Integrated Express Solutions (LINXS)	U.S.	Design and supply of <i>INNOVIA</i> automated people mover (APM) 300 cars, signalling, onboard and wayside communication systems	44	Rolling stock and systems, and Signalling	\$ 219 ⁽¹⁾
Austrian Federal Railways (ÖBB)	Austria	Exercise of a call-off for <i>TALENT</i> 3 EMUs	150	Rolling stock and systems	\$ 218
Brussels Intercommunal Transportation Company (STIB)	Belgium	<i>FLEXITY</i> trams	60	Rolling stock and systems	\$ 206
First quarter					
City of Phoenix	U.S.	Extension of APM system and supply of <i>INNOVIA</i> APM 200 cars	24	Rolling stock and systems, and Signalling	\$ 305
Maryland Transit Administration (MTA)	U.S.	Extension of Operations and Maintenance (O&M) services contract	n/a	Services	\$ 288
Land Transport Authority (LTA)	Singapore	<i>INNOVIA</i> APM 300 cars, retrofit of <i>INNOVIA</i> APM 100 cars and signalling system upgrade	19	Rolling stock and systems, and Signalling	\$ 262
Transport for London (TfL)	U.K.	Extension of existing train service agreement (TSA)	n/a	Services	\$ 149
Société Nationale des Chemins de fer Français (SNCF), on behalf of Île-de-France Mobilités	France	Exercise of an option for <i>OMNEO</i> / Regio 2N double-deck EMUs	72	Rolling stock and systems	\$ 120 ⁽²⁾
Transport for London (TfL)	U.K.	Exercise of an option for <i>AVENTRA</i> EMUs and TSA	45	Rolling stock and systems, and Services	\$ 104

⁽¹⁾ Contract signed as part of the LINXS consortium which comprises Bombardier Transportation, ACS Infrastructure Development, Balfour Beatty Investments, Fluor Enterprises and HOCHTIEF PPP Solutions North America. The total contract is valued at \$4.9 billion, and only our share of the design and build portion is stated above. For the operations and maintenance portion of the contract, valued at \$576 million, see below.

⁽²⁾ Contract value includes price escalation based on estimates.

n/a: Not applicable

During the second quarter ended June 30, 2018, a joint venture in North America in which Transportation has a 55 percent share was awarded a contract from the LINXS consortium for the operations and maintenance portion at Los Angeles Airport (LAX) contract in the U.S., valued at \$576 million. This order is not included in our backlog as at June 30, 2018, since it is a joint venture.

Subsequent to the end of the second quarter, we obtained the following orders which are not included in the backlog as at June 30, 2018:

- an order from Singapore's Land Transport Authority (LTA) for the supply of 396 *MOVIA* metro cars, valued at approximately \$607 million. The contract includes an option for long-term service support, and if exercised by SMRT Corporation Ltd, the total contract could be worth up to \$881 million; and
- exercise of a call-off by Société Nationale des Chemins de fer Français (SNCF) on behalf of Île-de-France Mobilités, France, for an additional 36 Francilien train sets (270 cars), valued at \$303 million.

OTHER

OFF-BALANCE SHEET ARRANGEMENTS

Factoring facilities

In the normal course of its business, Transportation has set up factoring facilities, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €865 million (\$1.0 billion) were outstanding under such facilities as at June 30, 2018 (€907 million (\$1.1 billion) as at December 31, 2017). During the three- and six-month periods ended June 30, 2018, trade receivables of €363 million (\$434 million) and €629 million (\$762 million), respectively, were sold to these facilities (€473 million (\$515 million) and €721 million (\$779 million), respectively, during the three- and six-month periods ended June 30, 2017).

Other arrangements

In the normal course of operations, we maintain other off-balance sheet arrangements including credit and residual value guarantees, financing commitments and financing structures related to the sale of commercial aircraft. There was no significant change in these arrangements during the six-month period ended June 30, 2018. Refer to the Off-balance sheet arrangements section in Other of our Financial Report for the year ended December 31, 2017 for a description of these arrangements, and to Note 25, Commitments and Contingencies, to the interim consolidated financial statements for further details.

RISKS AND UNCERTAINTIES

We operate in industry segments which present a variety of risk factors and uncertainties. The risks and uncertainties that we currently believe could materially affect our business activities, financial condition, cash flows and results of operations are described in our Financial Report for the fiscal year ended December 31, 2017 in Other, but are not necessarily the only risks and uncertainties that we face.

There was no significant change to these risks and uncertainties during the six-month period ended June 30, 2018, other than those described elsewhere in this MD&A. Also refer to Note 25, Commitments and contingencies, to our interim consolidated financial statements.

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

ACCOUNTING AND REPORTING DEVELOPMENTS

Changes in accounting policies

Financial instruments

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

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

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

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

IFRS 9 was adopted effective January 1, 2018 and resulted in no adjustments.

Revenue Recognition

In May 2014, the IASB released IFRS 15, *Revenue from contracts with customers*, which supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue* as well as other related interpretations. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services.

The majority of long-term manufacturing and service contracts at Transportation previously accounted for under the percentage-of-completion method meet the requirements for revenue recognition over time and therefore will continue to apply the percentage-of-completion method. The principal differences identified in respect of the Corporation's accounting for long-term contracts at Transportation relate to the treatment of customer options for additional trains and the recognition of variable consideration such as price escalation clauses.

Under IAS 11, estimated revenues at completion included anticipated customer options for additional trains if it was probable that the customer will exercise the options and the amount can be measured reliably. Under IFRS 15, customer options are only included in the transaction price of the contract when they become legally enforceable as a result of the customer exercising its right to purchase the additional trains. This change results in the deferral of revenue and margin until the customer exercises their option.

Under IAS 11, variable considerations such as price escalation clauses were included in estimated revenues at completion when the amount is considered probable and can be reliably measured. IFRS 15 introduces the concept of a constraint on the recognition of variable consideration whereby amounts can only be included in the transaction price to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The introduction of this constraint results in the transaction price recognizing the effect of price escalation for certain indices at a later point in time.

For the aerospace segments, revenues from the sale of aircraft continue to be recognized when the aircraft have been delivered.

IFRS 15 indicates IAS 37, *Provisions, Contingent liabilities and Contingent Assets*, should be applied to onerous contracts but contains no other requirements as to their measurement. On adoption of IFRS 15, all loss provisions for contracts with customers follow the same policy for the definition of unavoidable costs of fulfilling the contract. In line with one of the two approaches identified as reasonable by the IFRS Interpretations Committee in its June 13, 2017 tentative agenda decision, the Corporation defines unavoidable costs as the costs that the Corporation cannot avoid because it has the contract (for example, this would include an allocation of overhead costs if those costs are incurred for activities required to complete the contract). This approach was used for long-term contracts, and has been applied to other contracts in the aerospace segments increasing the amount of onerous contract provisions and thereby lower subsequent inventory net realizable value charges.

The Corporation accounts for a significant financing component on orders where timing of cash receipts and revenue recognition differ substantially. Most of the Corporation's contracts do not have a significant financing component. However, there are several orders in the Business Aircraft segment where advances were received well before expected delivery and therefore a financing component has been accounted for separately. The result is that interest expense is accrued during the advance period and the transaction price will be increased by a corresponding amount.

Under IFRS 15, revenues earned by the Aerostructures and Engineering Services on the inter-segment contract for the *C Series* program will be recognized at a point in time (delivery) as opposed to the current policy whereby it is recognized over-time (long-term contract accounting). Although this impacts the timing of revenues and profit recognition for the Aerostructures and Engineering Services segment, since it is inter-segment there is no impact on the consolidated results of the Corporation.

While these changes impact the timing of revenue and margin recognition, and result in a reduction of equity at transition, there is no change to cash flows. Furthermore, there is no change in profitability over the life of the contracts.

IFRS 15 was adopted effective January 1, 2018 and the changes have been accounted for retroactively in accordance with the transition rules of IFRS 15. Refer to Note 2, Changes in accounting policies, to our interim consolidated financial statements, for further details on impact of adopting IFRS 15.

Future changes in accounting policies

Leases

In January 2016, the IASB released IFRS 16, *Leases*, to replace the previous leases Standard, IAS 17, *Leases*, and related Interpretations. Refer to Note 3, Future changes in accounting policies, to our interim consolidated financial statements, for more detail.

IFRS 16 will be effective for the Corporation's fiscal year beginning on January 1, 2019. The Corporation is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements. Where the Corporation is a lessee, the Corporation expects IFRS 16 will result in on-balance sheet recognition of most of its leases that are considered operating leases under IAS 17. This will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the present value of the future lease payments. Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense. The Corporation is continuing to assess the impact of the new standard on its consolidated financial statements and will provide further updates as it advances in its assessment.

Income taxes

In June 2017, the IASB released IFRIC 23, *Uncertainty over income tax treatments*. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Refer to Note 3, Future changes in accounting policies, to our interim consolidated financial statements, for more detail.

IFRIC 23 will be effective for the Corporation's fiscal year beginning on January 1, 2019, with earlier application permitted. The Corporation is assessing the impact of the adoption of this standard on its consolidated financial statements and will provide further updates as it advances in its assessment.

Retirement and other long-term employee benefits

In February 2018, the IASB released an amendment to IAS 19, *Employee Benefits*, effective on January 1, 2019. The amendment relates to accounting for plan amendments, curtailments and settlements on defined benefit plans. The amendment requires the use of updated actuarial assumptions to determine current service cost and net interest for the period after a plan amendment, curtailment or settlement. The Corporation is assessing the impact of this amendment and will provide further updates as it advances in its assessment.

CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the six-month period ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FOREIGN EXCHANGE RATES

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

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

	June 30, 2018	December 31, 2017	Decrease
Euro	1.1583	1.1993	(3%)
Canadian dollar	0.7522	0.7975	(6%)
Pound sterling	1.3085	1.3517	(3%)

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows, for the three-month periods ended:

	June 30, 2018	June 30, 2017	Increase
Euro	1.1948	1.0981	9%
Canadian dollar	0.7765	0.7424	5%
Pound sterling	1.3644	1.2789	7%

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows, for the six-month periods ended:

	June 30, 2018	June 30, 2017	Increase
Euro	1.2116	1.0813	12%
Canadian dollar	0.7845	0.7490	5%
Pound sterling	1.3772	1.2583	9%

SELECTED FINANCIAL INFORMATION

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

Fiscal years	2018				2017				2016
	Second	First	<i>restated</i> ⁽¹⁾ Fourth	<i>restated</i> ⁽¹⁾ Third	<i>restated</i> ⁽¹⁾ Second	<i>restated</i> ⁽¹⁾ First	Fourth	Third	
Revenues	\$ 8,290	\$ 4,028	\$ 4,611	\$ 3,839	\$ 4,144	\$ 3,605	\$ 4,380	\$ 3,736	
Net income (loss) attributable to equity holders of Bombardier Inc.	\$ 68	\$ 38	\$ (190)	\$ (83)	\$ (227)	\$ 6	\$ (251)	\$ (79)	
EPS (in dollars)									
Basic	\$ 0.03	\$ 0.01	\$ (0.09)	\$ (0.04)	\$ (0.11)	\$ 0.00	\$ (0.12)	\$ (0.04)	
Diluted	\$ 0.02	\$ 0.01	\$ (0.09)	\$ (0.04)	\$ (0.11)	\$ 0.00	\$ (0.12)	\$ (0.04)	
Adjusted net income (loss) attributable to equity holders of Bombardier Inc. ⁽²⁾	\$ 78	\$ 22	\$ (38)	\$ (2)	\$ 101	\$ 28	\$ (147)	\$ (2)	
Adjusted EPS (in dollars) ⁽²⁾	\$ 0.03	\$ 0.01	\$ (0.02)	\$ 0.00	\$ 0.05	\$ 0.01	\$ (0.07)	\$ 0.00	

⁽¹⁾ Due to the adoption of IFRS 15, *Revenue from contracts with customers*. Refer to the Accounting and reporting developments section in Other for detail regarding restatements of comparative period figures.

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

SHAREHOLDER INFORMATION

Authorized, issued and outstanding share data, as at July 31, 2018

	Authorized	Issued and outstanding
Class A Shares (multiple voting) ⁽¹⁾	3,592,000,000	313,756,749
Class B Shares (subordinate voting) ⁽²⁾	3,592,000,000	2,050,715,096 ⁽³⁾
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	5,811,736
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	6,188,264
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

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

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

⁽³⁾ Net of 52,983,051 Class B Subordinate Voting Shares purchased and held in trust in connection with the PSU and RSU plans.

Warrant, share option, PSU, DSU and RSU data as at June 30, 2018

Warrants issued and outstanding	205,851,872 ⁽¹⁾
Options issued and outstanding under the share option plans	129,531,924
PSUs, DSUs and RSUs issued and outstanding under the PSU, DSU and RSU plans	109,465,263
Class B Subordinate Voting Shares held in trust to satisfy PSU and RSU obligations	52,983,051

⁽¹⁾ On July 1, 2018, Bombardier issued in the name of Airbus warrants exercisable for a total number of 100,000,000 Class B shares (subordinate voting) in the capital of Bombardier, exercisable for a period of five years at an exercise price per share equal to \$1.74, being the U.S. dollar equivalent of CDN \$2.29.

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

Third Quarterly Report, for the period ending September 30, 2018	November 8, 2018
Financial Report, for the fiscal year ending December 31, 2018	February 14, 2019
First Quarterly Report, for the period ending March 31, 2019	May 2, 2019
Second Quarterly Report, for the period ending June 30, 2019	August 1, 2019

Information

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August 1, 2018

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

The *Global 5500*, *Global 6500*, *Global 7500* and *Global 8000* aircraft are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specifications and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind.

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2018

(Unaudited)

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

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

Term	Description	Term	Description
AFS	Available for sale	FVTP&L	Fair value through profit and loss
BPS	Basis points	HFT	Held for trading
BT Holdco	Bombardier Transportation (Investment) UK Limited	IAS	International Accounting Standard(s)
CCTD	Cumulative currency translation difference	IASB	International Accounting Standards Board
CDPQ	Caisse de dépôt et placement du Québec	IFRIC	International Financial Reporting Interpretation Committee
CSALP	C Series Aircraft Limited Partnership	IFRS	International Financial Reporting Standard(s)
DDHR	Derivative designated in a hedge relationship	L&R	Loans and receivables
DSU	Deferred share unit	NCI	Non-controlling interests
EBIT	Earnings (loss) before financing expense, financing income and income taxes	OCI	Other comprehensive income (loss)
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	PP&E	Property, plant and equipment
EBT	Earnings (loss) before income taxes	PSU	Performance share unit
EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.	R&D	Research and development
FVOCI	Fair value through other comprehensive income (loss)	RSU	Restricted share unit
		SG&A	Selling, general and administrative
		U.S.	United States of America

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in millions of U.S. dollars, except per share amounts)

	Notes	Three-month periods ended June 30		Six-month periods ended June 30	
		2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Revenues		\$ 4,262	\$ 4,144	\$ 8,290	\$ 7,749
Cost of sales	13	3,709	3,642	7,248	6,793
Gross margin		553	502	1,042	956
SG&A		309	303	595	563
R&D	5	48	62	95	106
Share of income of joint ventures and associates		(30)	(55)	(50)	(87)
Other income	6	(45)	(38)	(70)	(29)
Special items	7	80	287	80	310
EBIT		191	(57)	392	93
Financing expense	8	163	198	325	342
Financing income	8	(31)	(12)	(69)	(22)
EBT		59	(243)	136	(227)
Income taxes		(11)	—	22	10
Net income (loss)		\$ 70	\$ (243)	\$ 114	\$ (237)
Attributable to					
Equity holders of Bombardier Inc.		\$ 68	\$ (227)	\$ 106	\$ (221)
NCI		2	(16)	8	(16)
		\$ 70	\$ (243)	\$ 114	\$ (237)
EPS (in dollars)	9				
Basic		\$ 0.03	\$ (0.11)	\$ 0.04	\$ (0.11)
Diluted		\$ 0.02	\$ (0.11)	\$ 0.04	\$ (0.11)

⁽¹⁾ Refer to Note 2 for the impact of changes in accounting policies.

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in millions of U.S. dollars)

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Net income (loss)	\$ 70	\$ (243)	\$ 114	\$ (237)
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges				
Foreign exchange re-evaluation	—	(1)	(1)	(5)
Net gain (loss) on derivative financial instruments	(125)	101	(177)	94
Reclassification to income or to the related non-financial asset	(33)	30	(49)	90
Income taxes	35	(17)	45	(29)
	(123)	113	(182)	150
FVOCI financial assets				
Net unrealized gain (loss)	(1)	(1)	(5)	1
CCTD				
Net investments in foreign operations	9	(91)	28	(71)
Items that are never reclassified to net income				
Retirement benefits				
Remeasurement of defined benefit plans	530	(18)	494	(79)
Income taxes	(56)	(23)	(42)	(24)
	474	(41)	452	(103)
Total OCI	359	(20)	293	(23)
Total comprehensive income (loss)	\$ 429	\$ (263)	\$ 407	\$ (260)
Attributable to				
Equity holders of Bombardier Inc.	\$ 531	\$ (320)	\$ 465	\$ (340)
NCI	(102)	57	(58)	80
	\$ 429	\$ (263)	\$ 407	\$ (260)

⁽¹⁾ Refer to Note 2 for the impact of changes in accounting policies.

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

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

	Notes	June 30 2018	December 31 2017 <i>restated</i> ⁽¹⁾	January 1 2017 <i>restated</i> ⁽¹⁾
Assets				
Cash and cash equivalents	11	\$ 2,823	\$ 2,988	\$ 3,384
Trade and other receivables		1,358	1,174	1,220
Contract assets	12	2,563	2,460	1,631
Inventories	13	3,877	3,429	4,286
Other financial assets	14	192	415	336
Other assets	15	404	427	427
Assets held for sale	19	3,659	4,150	—
Current assets		14,876	15,043	11,284
PP&E		1,573	1,696	1,949
Aerospace program tooling		3,967	3,581	5,174
Goodwill		1,959	2,042	1,855
Deferred income taxes		618	595	698
Investments in joint ventures and associates		512	491	332
Other financial assets	14	825	825	915
Other assets	15	699	643	588
Non-current assets		10,153	9,873	11,511
		\$ 25,029	\$ 24,916	\$ 22,795
Liabilities				
Trade and other payables		\$ 4,052	\$ 3,964	\$ 3,045
Provisions	16	1,325	1,630	1,542
Contract liabilities	12	3,726	3,820	3,840
Other financial liabilities	17	390	342	608
Other liabilities	18	1,506	1,723	1,634
Liabilities directly associated with assets held for sale	19	2,458	2,686	—
Current liabilities		13,457	14,165	10,669
Provisions	16	698	781	1,561
Contract liabilities	12	1,745	1,272	1,673
Long-term debt		9,129	9,200	8,738
Retirement benefits		2,186	2,633	2,647
Other financial liabilities	17	1,068	965	999
Other liabilities	18	575	595	891
Non-current liabilities		15,401	15,446	16,509
		28,858	29,611	27,178
Equity (deficit)				
Attributable to equity holders of Bombardier Inc.		(5,748)	(6,608)	(6,054)
Attributable to NCI		1,919	1,913	1,671
		(3,829)	(4,695)	(4,383)
		\$ 25,029	\$ 24,916	\$ 22,795
Commitments and contingencies	25			

⁽¹⁾ Refer to Note 2 for the impact of changes in accounting policies.

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

For the three-month periods ended

(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.													
	Share capital			Retained earnings (deficit)			Accumulated OCI					Total	NCI	Total equity (deficit)
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remeasurement losses	Contributed surplus	FVOCI financial assets	Cash flow hedges	CCTD					
As at March 31, 2018	\$ 347	\$ 2,629	\$ 73	\$ (6,423)	\$ (2,596)	\$ 187	\$ —	\$ 68	\$ (515)	\$ (6,230)	\$ 1,946	\$ (4,284)		
Total comprehensive income														
Net income	—	—	—	68	—	—	—	—	—	68	2	70		
OCI	—	—	—	—	471	—	(1)	(116)	109	463	(104)	359		
	—	—	—	68	471	—	(1)	(116)	109	531	(102)	429		
Options exercised	—	4	—	—	—	(1)	—	—	—	3	—	3		
Dividends	—	—	—	(7)	—	—	—	—	—	(7)	—	(7)		
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(1)	(1)		
Share-based expense	—	—	—	—	—	31	—	—	—	31	—	31		
Change in NCI	—	—	—	(76)	—	—	—	—	—	(76)	76	—		
As at June 30, 2018	\$ 347	\$ 2,633	\$ 73	\$ (6,438)	\$ (2,125)	\$ 217	\$ (1)	\$ (48)	\$ (406)	\$ (5,748)	\$ 1,919	\$ (3,829)		
As at March 31, 2017 ⁽¹⁾	\$ 347	\$ 2,152	\$ 73	\$ (5,808)	\$ (2,831)	\$ 137	\$ 8	\$ (86)	\$ (155)	\$ (6,163)	\$ 1,738	\$ (4,425)		
Total comprehensive income														
Net loss	—	—	—	(227)	—	—	—	—	—	(227)	(16)	(243)		
OCI	—	—	—	—	(32)	—	(1)	111	(171)	(93)	73	(20)		
	—	—	—	(227)	(32)	—	(1)	111	(171)	(320)	57	(263)		
Dividends	—	—	—	(6)	—	—	—	—	—	(6)	—	(6)		
Share-based expense	—	—	—	—	—	9	—	—	—	9	—	9		
Change in NCI	—	—	—	(48)	—	—	—	—	—	(48)	48	—		
As at June 30, 2017⁽¹⁾	\$ 347	\$ 2,152	\$ 73	\$ (6,089)	\$ (2,863)	\$ 146	\$ 7	\$ 25	\$ (326)	\$ (6,528)	\$ 1,843	\$ (4,685)		

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

For the six-month periods ended

(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.											
	Share capital			Retained earnings (deficit)			Accumulated OCI					Total equity (deficit)
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remeasurement losses	Contributed surplus	FVOCI financial assets	Cash flow hedges	CCTD	Total	NCI	
As at December 31, 2017 ⁽¹⁾	\$ 347	\$ 2,154	\$ 73	\$ (6,414)	\$ (2,577)	\$ 171	\$ 4	\$ 127	\$ (493)	\$ (6,608)	\$ 1,913	\$ (4,695)
Total comprehensive income												
Net income	—	—	—	106	—	—	—	—	—	106	8	114
OCI	—	—	—	—	452	—	(5)	(175)	87	359	(66)	293
	—	—	—	106	452	—	(5)	(175)	87	465	(58)	407
Issuance of share capital ⁽²⁾	—	475	—	—	—	—	—	—	—	475	—	475
Options exercised	—	4	—	—	—	(1)	—	—	—	3	—	3
Dividends	—	—	—	(14)	—	—	—	—	—	(14)	—	(14)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(52)	(52)
Share-based expense	—	—	—	—	—	47	—	—	—	47	—	47
Change in NCI	—	—	—	(116)	—	—	—	—	—	(116)	116	—
As at June 30, 2018	\$ 347	\$ 2,633	\$ 73	\$ (6,438)	\$ (2,125)	\$ 217	\$ (1)	\$ (48)	\$ (406)	\$ (5,748)	\$ 1,919	\$ (3,829)
As at January 1, 2017 ⁽¹⁾	\$ 347	\$ 2,152	\$ 73	\$ (5,716)	\$ (2,772)	\$ 128	\$ 6	\$ (123)	\$ (149)	\$ (6,054)	\$ 1,671	\$ (4,383)
Total comprehensive income												
Net loss	—	—	—	(221)	—	—	—	—	—	(221)	(16)	(237)
OCI	—	—	—	—	(91)	—	1	148	(177)	(119)	96	(23)
	—	—	—	(221)	(91)	—	1	148	(177)	(340)	80	(260)
Dividends	—	—	—	(12)	—	—	—	—	—	(12)	—	(12)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(48)	(48)
Share-based expense	—	—	—	—	—	18	—	—	—	18	—	18
Change in NCI	—	—	—	(140)	—	—	—	—	—	(140)	140	—
As at June 30, 2017 ⁽¹⁾	\$ 347	\$ 2,152	\$ 73	\$ (6,089)	\$ (2,863)	\$ 146	\$ 7	\$ 25	\$ (326)	\$ (6,528)	\$ 1,843	\$ (4,685)

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽²⁾ See Note 20 – Share Capital for more details.

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions of U.S. dollars)

	Notes	Three-month periods ended June 30		Six-month periods ended June 30	
		2018	2017 <i>restated</i> ⁽¹⁾	2018	2017 <i>restated</i> ⁽¹⁾
Operating activities					
Net income (loss)		\$ 70	\$ (243)	\$ 114	\$ (237)
Non-cash items					
Amortization		64	78	126	156
Impairment charges on PP&E and intangible assets	6, 7	9	43	11	43
Deferred income taxes		(29)	15	(23)	15
Gains on disposals of PP&E and intangible assets	6, 7	(560)	(28)	(564)	(30)
C Series transaction with Airbus	7	599	—	599	—
Share of income of joint ventures and associates		(30)	(55)	(50)	(87)
Share-based expense	21	31	9	47	18
Dividends received from joint ventures and associates		2	1	19	3
Net change in non-cash balances	22	(236)	(1)	(830)	(379)
Cash flows from operating activities		(80)	(181)	(551)	(498)
Investing activities					
Additions to PP&E and intangible assets		(310)	(443)	(577)	(724)
Proceeds from disposals of PP&E and intangible assets	7	622	54	639	59
Other		(1)	(6)	37	22
Cash flows from investing activities		311	(395)	99	(643)
Financing activities					
Repayments of long-term debt		(1)	(8)	(8)	(17)
Net change in short-term borrowings		—	(53)	—	54
Dividends paid ⁽²⁾		(4)	(4)	(10)	(8)
Issuance of Class B Shares	20	—	—	476	—
Dividends to NCI		(1)	—	(52)	(48)
Other		(64)	(38)	(64)	(28)
Cash flows from financing activities		(70)	(103)	342	(47)
Effect of exchange rates on cash and cash equivalents		(40)	9	27	21
Net increase (decrease) in cash and cash equivalents		121	(670)	(83)	(1,167)
Cash and cash equivalents at beginning of period ⁽³⁾	11	2,853	2,887	3,057	3,384
Cash and cash equivalents at end of period ⁽³⁾	11	\$ 2,974	\$ 2,217	\$ 2,974	\$ 2,217
Supplemental information ⁽⁴⁾⁽⁵⁾					
Cash paid for					
Interest		\$ 188	\$ 161	\$ 338	\$ 297
Income taxes		\$ 52	\$ 19	\$ 71	\$ 32
Cash received for					
Interest		\$ 8	\$ 5	\$ 16	\$ 11
Income taxes		\$ 2	\$ 11	\$ 3	\$ 13

⁽¹⁾ Refer to Note 2 for the impact of changes in accounting policies.

⁽²⁾ Related to preferred shares.

⁽³⁾ For the purpose of the statement of cash flows, cash and cash equivalents comprise the cash reclassified as asset held for sale. See Note 19 – Assets held for sale for more details on the CSALP assets and liabilities reclassification.

⁽⁴⁾ 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.

⁽⁵⁾ Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivables after the effect of hedges and the interest portion related to the settlement of an interest-rate swap, if any.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2018

(Unaudited)

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

1. BASIS OF PREPARATION

Bombardier Inc. (“the Corporation” or “our” or “we”) is incorporated under the laws of Canada. The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft, as well as major aircraft structural components, and rail transportation equipment and systems, and is a provider of related services. The Corporation carries out its operations in four distinct segments: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation.

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IAS 34, *Interim financial reporting*, as issued by the IASB. The interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements except for the changes in accounting policies described in Note 2 – Changes in accounting policies. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s Financial Report for the fiscal year ended December 31, 2017.

These interim consolidated financial statements for the three- and six-month periods ended June 30, 2018 were authorized for issuance by the Board of Directors on August 1, 2018.

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

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

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

	Exchange rates as at		
	June 30, 2018	December 31, 2017	January 1, 2017
Euro	1.1583	1.1993	1.0541
Canadian dollar	0.7522	0.7975	0.7430
Pound sterling	1.3085	1.3517	1.2312

	Average exchange rates for the three-month periods ended		Average exchange rates for the six-month periods ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Euro	1.1948	1.0981	1.2116	1.0813
Canadian dollar	0.7765	0.7424	0.7845	0.7490
Pound sterling	1.3644	1.2789	1.3772	1.2583

2. CHANGES IN ACCOUNTING POLICIES

Financial instruments

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

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

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

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

IFRS 9 was adopted effective January 1, 2018 and resulted in no adjustments.

Revenue Recognition

In May 2014, the IASB released IFRS 15, *Revenue from contracts with customers*, which supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue* as well as other related interpretations. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services.

The majority of long-term manufacturing and service contracts at Transportation previously accounted for under the percentage-of-completion method meet the requirements for revenue recognition over time and therefore will continue to apply the percentage-of-completion method. The principal differences identified in respect of the Corporation's accounting for long-term contracts at Transportation relate to the treatment of customer options for additional trains and the recognition of variable consideration such as price escalation clauses.

Under IAS 11, estimated revenues at completion included anticipated customer options for additional trains if it was probable that the customer will exercise the options and the amount can be measured reliably. Under IFRS 15, customer options are only included in the transaction price of the contract when they become legally enforceable as a result of the customer exercising its right to purchase the additional trains. This change results in the deferral of revenue and margin until the customer exercises their option.

Under IAS 11, variable considerations such as price escalation clauses were included in estimated revenues at completion when the amount is considered probable and can be reliably measured. IFRS 15 introduces the concept of a constraint on the recognition of variable consideration whereby amounts can only be included in the transaction price to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The introduction of this constraint results in the transaction price recognizing the effect of price escalation for certain indices at a later point in time.

For the aerospace segments, revenues from the sale of aircraft continue to be recognized when the aircraft have been delivered.

IFRS 15 indicates IAS 37, *Provisions, Contingent liabilities and Contingent Assets*, should be applied to onerous contracts but contains no other requirements as to their measurement. On adoption of IFRS 15, all loss provisions for contracts with customers follow the same policy for the definition of unavoidable costs of fulfilling the contract. In line with one of the two approaches identified as reasonable by the IFRS Interpretations Committee in its June 13, 2017 tentative agenda decision, the Corporation defines unavoidable costs as the costs that the Corporation cannot avoid because it has the contract (for example, this would include an allocation of overhead costs if those costs are incurred for activities required to complete the contract). This approach was used for long-term contracts, and has been applied to other contracts in the aerospace segments increasing the amount of onerous contract provisions and thereby lower subsequent inventory net realizable value charges.

The Corporation accounts for a significant financing component on orders where timing of cash receipts and revenue recognition differ substantially. Most of the Corporation's contracts do not have a significant financing component. However, there are several orders in the Business Aircraft segment where advances were received well before expected delivery and therefore a financing component has been accounted for separately. The result is that interest expense is accrued during the advance period and the transaction price will be increased by a corresponding amount.

Under IFRS 15, revenues earned by the Aerostructures and Engineering Services on the inter-segment contract for the *C Series* program will be recognized at a point in time (delivery) as opposed to the current policy whereby it is recognized over-time (long-term contract accounting). Although this impacts the timing of revenues and profit recognition for the Aerostructures and Engineering Services segment, since it is inter-segment there is no impact on the consolidated results of the Corporation.

While these changes impact the timing of revenue and margin recognition, and result in a reduction of equity at transition, there is no change to cash flows. Furthermore, there is no change in profitability over the life of the contracts.

IFRS 15 was adopted effective January 1, 2018 and the changes have been accounted for retroactively in accordance with the transition rules of IFRS 15.

Impact of adopting IFRS 15 changes in accounting policies

The following tables summarize the Corporation's retroactive restatements to its consolidated financial statements resulting from the adoption of IFRS 15, *Revenue from contracts with customers*, including the impact of reclassification.

The impacts on the consolidated statements of comprehensive income and on the consolidated equity position, net of income taxes, are as follows:

	As at January 1, 2017
Equity as previously reported	\$ (3,489)
Customer options	(635)
Variable consideration	(85)
Onerous contract provisions	(154)
Significant financing component	(25)
CCTD, taxes and other	5
Net change to equity	(894)
Equity as restated	\$ (4,383)

	Three-month period ended June 30, 2017
Comprehensive loss as previously reported	\$ (273)
Net loss:	
Customer options	60
Variable consideration	2
Onerous contract provisions	7
Significant financing component	(4)
Taxes and other	(12)
Net change to net loss	53
OCI	
CCTD	(43)
Net increase to comprehensive loss	10
Comprehensive loss as restated	\$ (263)
	Six-month period ended June 30, 2017
Comprehensive loss as previously reported	\$ (294)
Net loss:	
Customer options	66
Variable consideration	26
Onerous contract provisions	22
Significant financing component	(9)
Taxes and other	(15)
Net change to net loss	90
OCI	
CCTD	(56)
Net increase to comprehensive loss	34
Comprehensive loss as restated	\$ (260)
	As at June 30, 2017
Equity as previously reported	\$ (3,825)
Customer options	(569)
Variable consideration	(59)
Onerous contract provisions	(132)
Significant financing component	(34)
CCTD, taxes and other	(66)
Net change to equity	(860)
Equity as restated	\$ (4,685)

Three-month period ended September 30, 2017	
Comprehensive income as previously reported	\$ 200
Net income:	
Customer options	15
Variable consideration	(4)
Onerous contract provisions	9
Significant financing component	(6)
Taxes and other	3
Net change to net income	17
OCI	
CCTD	(23)
Net increase to comprehensive income	(6)
Comprehensive income as restated	\$ 194
Nine-month period ended September 30, 2017	
Comprehensive loss as previously reported	\$ (94)
Net loss:	
Customer options	81
Variable consideration	22
Onerous contract provisions	31
Significant financing component	(15)
Taxes and other	(12)
Net change to net loss	107
OCI	
CCTD	(79)
Net increase to comprehensive loss	28
Comprehensive loss as restated	\$ (66)
As at September 30, 2017	
Equity as previously reported	\$ (3,623)
Customer options	(554)
Variable consideration	(63)
Onerous contract provisions	(123)
Significant financing component	(40)
CCTD, taxes and other	(86)
Net change to equity	(866)
Equity as restated	\$ (4,489)

	Three-month period ended December 31, 2017
Comprehensive loss as previously reported	\$ (85)
Net loss:	
Customer options	(83)
Variable consideration	7
Onerous contract provisions	(1)
Significant financing component	(5)
Taxes and other	3
Net change to net loss	(79)
OCI	
CCTD	(18)
Net increase to comprehensive loss	(97)
Comprehensive loss as restated	\$ (182)
	Fiscal year ended December 31, 2017
Comprehensive loss as previously reported	\$ (179)
Net loss:	
Customer options	(2)
Variable consideration	29
Onerous contract provisions	30
Significant financing component	(20)
Taxes and other	(9)
Net change to net loss	28
OCI	
CCTD	(97)
Net decrease to comprehensive loss	(69)
Comprehensive loss as restated	\$ (248)
	As at December 31, 2017
Equity as previously reported	\$ (3,732)
Customer options	(637)
Variable consideration	(56)
Onerous contract provisions	(124)
Significant financing component	(45)
CCTD, taxes and other	(101)
Net change to equity	(963)
Equity as restated	\$ (4,695)

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

Three-month period ended June 30, 2017				
	As previously reported		Adjustments	As restated
Revenues	\$ 4,092	\$ 52	\$ 4,144	
Cost of sales	3,656	(14)	3,642	
Gross margin	436	66	502	
SG&A	303	—	303	
R&D	62	—	62	
Share of income of joint ventures and associates	(55)	—	(55)	
Other income	(38)	—	(38)	
Special items	287	—	287	
EBIT	(123)	66	(57)	
Financing expense	194	4	198	
Financing income	(12)	—	(12)	
EBT	(305)	62	(243)	
Income taxes	(9)	9	—	
Net income (loss)	\$ (296)	\$ 53	\$ (243)	
Attributable to				
Equity holders of Bombardier Inc.	\$ (289)	\$ 62	\$ (227)	
NCI	(7)	(9)	(16)	
	\$ (296)	\$ 53	\$ (243)	
EPS (in dollars)				
Basic and diluted	\$ (0.13)	\$ 0.02	\$ (0.11)	

Six-month period ended June 30, 2017				
	As previously reported		Adjustments	As restated
Revenues	\$ 7,668	\$ 81	\$ 7,749	
Cost of sales	6,823	(30)	6,793	
Gross margin	845	111	956	
SG&A	563	—	563	
R&D	106	—	106	
Share of income of joint ventures and associates	(87)	—	(87)	
Other income	(29)	—	(29)	
Special items	310	—	310	
EBIT	(18)	111	93	
Financing expense	333	9	342	
Financing income	(22)	—	(22)	
EBT	(329)	102	(227)	
Income taxes	(2)	12	10	
Net income (loss)	\$ (327)	\$ 90	\$ (237)	
Attributable to				
Equity holders of Bombardier Inc.	\$ (317)	\$ 96	\$ (221)	
NCI	(10)	(6)	(16)	
	\$ (327)	\$ 90	\$ (237)	
EPS (in dollars)				
Basic and diluted	\$ (0.15)	\$ 0.04	\$ (0.11)	

Three-month period ended September 30, 2017				
	As previously reported	Adjustments	As restated	
Revenues	\$ 3,835	\$ 4	\$ 3,839	
Cost of sales	3,369	(14)	3,355	
Gross margin	466	18	484	
SG&A	300	—	300	
R&D	53	—	53	
Share of income of joint ventures and associates	(52)	—	(52)	
Other income	—	—	—	
Special items	50	—	50	
EBIT	115	18	133	
Financing expense	175	6	181	
Financing income	(14)	—	(14)	
EBT	(46)	12	(34)	
Income taxes	71	(5)	66	
Net income (loss)	\$ (117)	\$ 17	\$ (100)	
Attributable to				
Equity holders of Bombardier Inc.	\$ (91)	\$ 8	\$ (83)	
NCI	(26)	9	(17)	
	\$ (117)	\$ 17	\$ (100)	
EPS (in dollars)				
Basic and diluted	\$ (0.05)	\$ 0.01	\$ (0.04)	

Nine-month period ended September 30, 2017				
	As previously reported	Adjustments	As restated	
Revenues	\$ 11,503	\$ 85	\$ 11,588	
Cost of sales	10,192	(44)	10,148	
Gross margin	1,311	129	1,440	
SG&A	863	—	863	
R&D	159	—	159	
Share of income of joint ventures and associates	(139)	—	(139)	
Other income	(29)	—	(29)	
Special items	360	—	360	
EBIT	97	129	226	
Financing expense	507	15	522	
Financing income	(35)	—	(35)	
EBT	(375)	114	(261)	
Income taxes	69	7	76	
Net income (loss)	\$ (444)	\$ 107	\$ (337)	
Attributable to				
Equity holders of Bombardier Inc.	\$ (408)	\$ 104	\$ (304)	
NCI	(36)	3	(33)	
	\$ (444)	\$ 107	\$ (337)	
EPS (in dollars)				
Basic and diluted	\$ (0.19)	\$ 0.04	\$ (0.15)	

Three-month period ended December 31, 2017				
	As previously reported	Adjustments	As restated	
Revenues	\$ 4,715	\$ (104)	\$ 4,611	
Cost of sales	4,084	(28)	4,056	
Gross margin	631	(76)	555	
SG&A	331	—	331	
R&D	81	—	81	
Share of income of joint ventures and associates	(36)	—	(36)	
Other expense	40	—	40	
Special items	66	—	66	
EBIT	149	(76)	73	
Financing expense	273	8	281	
Financing income	(23)	—	(23)	
EBT	(101)	(84)	(185)	
Income taxes	8	(5)	3	
Net loss	\$ (109)	\$ (79)	\$ (188)	
Attributable to				
Equity holders of Bombardier Inc.	\$ (108)	\$ (82)	\$ (190)	
NCI	(1)	3	2	
	\$ (109)	\$ (79)	\$ (188)	
EPS (in dollars)				
Basic and diluted	\$ (0.05)	\$ (0.04)	\$ (0.09)	

Fiscal year ended December 31, 2017				
	As previously reported	Adjustments	As restated	
Revenues	\$ 16,218	\$ (19)	\$ 16,199	
Cost of sales	14,276	(72)	14,204	
Gross margin	1,942	53	1,995	
SG&A	1,194	—	1,194	
R&D	240	—	240	
Share of income of joint ventures and associates	(175)	—	(175)	
Other expense	11	—	11	
Special items	426	—	426	
EBIT	246	53	299	
Financing expense	778	23	801	
Financing income	(56)	—	(56)	
EBT	(476)	30	(446)	
Income taxes	77	2	79	
Net income (loss)	\$ (553)	\$ 28	\$ (525)	
Attributable to				
Equity holders of Bombardier Inc.	\$ (516)	\$ 22	\$ (494)	
NCI	(37)	6	(31)	
	\$ (553)	\$ 28	\$ (525)	
EPS (in dollars)				
Basic and diluted	\$ (0.25)	\$ 0.01	\$ (0.24)	

In addition to changes impacting net income (loss), contract penalties were reclassified from cost of sales to revenues.

The impacts on the segmented results of operations are as follows, for:

Three-month period ended March 31, 2017						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Revenues	\$ 1,952	\$ 1,022	\$ 525	\$ 398	\$ (292)	\$ 3,605
EBIT before special items	\$ 183	\$ 82	\$ (56)	\$ 15	\$ (51)	\$ 173
EBIT	\$ 164	\$ 79	\$ (57)	\$ 15	\$ (51)	\$ 150

Three-month period ended June 30, 2017						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Revenues	\$ 2,038	\$ 1,389	\$ 626	\$ 443	\$ (352)	\$ 4,144
EBIT before special items	\$ 223	\$ 127	\$ (118)	\$ 26	\$ (28)	\$ 230
EBIT	\$ 10	\$ 99	\$ (119)	\$ 26	\$ (73)	\$ (57)

Three-month period ended September 30, 2017						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Revenues	\$ 2,146	\$ 1,074	\$ 515	\$ 349	\$ (245)	\$ 3,839
EBIT before special items	\$ 192	\$ 90	\$ (74)	\$ 27	\$ (52)	\$ 183
EBIT	\$ 140	\$ 87	\$ (75)	\$ 33	\$ (52)	\$ 133

Three-month period ended December 31, 2017						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Revenues	\$ 2,415	\$ 1,448	\$ 651	\$ 426	\$ (329)	\$ 4,611
EBIT before special items	\$ 140	\$ 120	\$ (133)	\$ 20	\$ (8)	\$ 139
EBIT	\$ 129	\$ 129	\$ (138)	\$ 7	\$ (54)	\$ 73

Fiscal year ended December 31, 2017						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Revenues	\$ 8,551	\$ 4,933	\$ 2,317	\$ 1,616	\$ (1,218)	\$ 16,199
EBIT before special items	\$ 738	\$ 419	\$ (381)	\$ 88	\$ (139)	\$ 725
EBIT	\$ 443	\$ 394	\$ (389)	\$ 81	\$ (230)	\$ 299

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

	December 31, 2017		
	As previously reported	Adjustments	As restated
Assets			
Trade and other receivables	\$ 1,231	\$ (57)	\$ 1,174
Contract assets	—	2,460	2,460
Inventories	5,890	(2,461)	3,429
Other assets	1,094	(24)	1,070
Deferred income taxes	603	(8)	595
Other current assets	7,553	—	7,553
Other non-current assets	8,635	—	8,635
	\$ 25,006	\$ (90)	\$ 24,916
Liabilities			
Trade and other payables	\$ 4,194	\$ (230)	\$ 3,964
Provisions	1,751	660	2,411
Contract liabilities	—	5,092	5,092
Advances and progress billings in excess of long-term contract inventories	1,990	(1,990)	—
Advances on aerospace programs	2,074	(2,074)	—
Other liabilities	3,056	(738)	2,318
Liabilities directly associated with assets held for sale	2,533	153	2,686
Other current liabilities	342	—	342
Other non-current liabilities	12,798	—	12,798
	28,738	873	29,611
Equity (deficit)			
Attributable to equity holders of Bombardier Inc.	(5,702)	(906)	(6,608)
Attributable to NCI	1,970	(57)	1,913
	(3,732)	(963)	(4,695)
	\$ 25,006	\$ (90)	\$ 24,916
January 1, 2017			
	As previously reported	Adjustments	As restated
Assets			
Trade and other receivables	\$ 1,291	\$ (71)	\$ 1,220
Contract assets	—	1,631	1,631
Inventories	5,844	(1,558)	4,286
Other assets	1,041	(26)	1,015
Deferred income taxes	705	(7)	698
Other current assets	3,720	—	3,720
Other non-current assets	10,225	—	10,225
	\$ 22,826	\$ (31)	\$ 22,795
Liabilities			
Trade and other payables	\$ 3,239	\$ (194)	\$ 3,045
Provisions	2,266	837	3,103
Contract liabilities	—	5,513	5,513
Advances and progress billings in excess of long-term contract inventories	1,539	(1,539)	—
Advances on aerospace programs	3,085	(3,085)	—
Other liabilities	3,194	(669)	2,525
Other current liabilities	608	—	608
Other non-current liabilities	12,384	—	12,384
	26,315	863	27,178
Equity (deficit)			
Attributable to equity holders of Bombardier Inc.	(5,243)	(811)	(6,054)
Attributable to NCI	1,754	(83)	1,671
	(3,489)	(894)	(4,383)
	\$ 22,826	\$ (31)	\$ 22,795

In addition to changes impacting equity, there were certain reclassifications made. Contract related balances were reclassified from inventories, advances and progress billings in excess of long-term contract inventories, advances on aerospace programs, other assets and other liabilities to contract assets and contract liabilities. Refer to Note 12 - Contract balances for more details.

Furthermore, since IFRS 15 indicates IAS 37, *Provisions, Contingent liabilities and Contingent Assets* should be applied to onerous contracts, the onerous contract provisions related to long-term contracts in Transportation are no longer netted against contract related balances and instead were reclassified from inventories to provisions. In the interim consolidated financial statements for the six-month period ended June 30, 2018, to better reflect provision utilization based on contract percentage of completion, the reclassification of onerous contract provisions were reduced by \$674 million, \$741 million, \$1,082 million and \$1,221 million as at January 1, 2017, March 31, 2017, December 31, 2017 and March 31, 2018 respectively, compared with the amounts in the interim consolidated financial statements for the three-month period ended March 31, 2018. These reclassifications between contract related balances and provisions in the statement of financial position had no impact on results of operations, equity or cash flows. Refer to Note 12 - Contract balances and Note 16 - Provisions for more details.

There was no impact on cash flows from operating activities, investing activities and financing activities as a result of adopting IFRS 15.

As a result of the above mentioned adjustments and reclassifications, certain disclosures that are required in annual financial statements in accordance with IFRS 15, which were not included in the Corporation's most recent annual consolidated financial statements, have been included in these interim consolidated financial statements. Refer to Note 26 - Additional annual disclosures for more details.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

Leases

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

IFRS 16 will be effective for the Corporation's fiscal year beginning on January 1, 2019. The Corporation is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements. Where the Corporation is a lessee, the Corporation expects IFRS 16 will result in on-balance sheet recognition of most of its leases that are considered operating leases under IAS 17. This will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the present value of the future lease payments. Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense. The Corporation is continuing to assess the impact of the new standard on its consolidated financial statements and will provide further updates as it advances in its assessment.

Income taxes

In June 2017, the IASB released IFRIC 23, *Uncertainty over income tax treatments*. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances.

IFRIC 23 will be effective for the Corporation's fiscal year beginning on January 1, 2019, with earlier application permitted. The Corporation is assessing the impact of the adoption of this standard on its consolidated financial statements and will provide further updates as it advances in its assessment.

Retirement and other long-term employee benefits

In February 2018, the IASB released an amendment to IAS 19, *Employee Benefits*, effective on January 1, 2019. The amendment relates to accounting for plan amendments, curtailments and settlements on defined benefit plans. The amendment requires the use of updated actuarial assumptions to determine current service cost and net interest for the period after a plan amendment, curtailment or settlement. The Corporation is assessing the impact of this amendment and will provide further updates as it advances in its assessment.

4. SEGMENT DISCLOSURE

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

Business Aircraft

Business Aircraft designs, manufactures and provides aftermarket support for three families of business jets (*Learjet*, *Challenger* and *Global*), spanning from the light to large categories.

Commercial Aircraft

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

Aerostructures and Engineering Services

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

Transportation

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

Corporate and Elimination

Corporate and Elimination comprise corporate charges that are not allocated to segments, elimination of profit on intercompany transactions and other adjustments.

The segmented information is prepared using the same accounting policies as those described in the annual consolidated financial statements for the fiscal year ended December 31, 2017, except for the changes in accounting policies described in Note 2 – Changes in accounting policies.

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

Three-month period ended June 30, 2018						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 2,257	\$ 1,306	\$ 616	\$ 81	\$ 2	\$ 4,262
Intersegment revenues	2	1	—	374	(377)	—
Total revenues	2,259	1,307	616	455	(375)	4,262
EBIT before special items	207	111	(66)	57	(38)	271
Special items ⁽¹⁾	44	3	602	(8)	(561)	80
EBIT	\$ 163	\$ 108	\$ (668)	\$ 65	\$ 523	191
Financing expense						163
Financing income						(31)
EBT						59
Income taxes						(11)
Net income						\$ 70
Other information						
R&D ⁽²⁾	\$ 26	\$ 17	\$ 3	\$ 2	\$ —	\$ 48
Net additions (proceeds) to PP&E and intangible assets ⁽¹⁾⁽³⁾	\$ 46	\$ 232	\$ 30	\$ (1)	\$ (619)	\$ (312)
Amortization	\$ 25	\$ 31	\$ 5	\$ 12	\$ (9)	\$ 64
Impairment charges on PP&E and intangible assets ⁽¹⁾	\$ 8	\$ —	\$ —	\$ —	\$ 1	\$ 9

⁽¹⁾ See Note 7 – Special items for more details.

⁽²⁾ Includes tooling amortization. See Note 5 – Research and development for more details.

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

Three-month period ended June 30, 2017 ⁽¹⁾						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 2,036	\$ 1,389	\$ 627	\$ 90	\$ 2	\$ 4,144
Intersegment revenues	2	—	(1)	353	(354)	—
Total revenues	2,038	1,389	626	443	(352)	4,144
EBIT before special items	223	127	(118)	26	(28)	230
Special items ⁽²⁾	213	28	1	—	45	287
EBIT	\$ 10	\$ 99	\$ (119)	\$ 26	\$ (73)	(57)
Financing expense						198
Financing income						(12)
EBT						(243)
Income taxes						—
Net loss						\$ (243)
Other information						
R&D ⁽³⁾	\$ 30	\$ 16	\$ 10	\$ —	\$ 6	\$ 62
Net additions to PP&E and intangible assets ⁽⁴⁾	\$ 18	\$ 373	\$ (14)	\$ 3	\$ 9	\$ 389
Amortization	\$ 27	\$ 25	\$ 16	\$ 9	\$ 1	\$ 78
Impairment charges on intangible assets	\$ —	\$ —	\$ 5	\$ —	\$ —	\$ 5
Impairment charges on PP&E ⁽²⁾	\$ 32	\$ —	\$ —	\$ —	\$ 6	\$ 38

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽²⁾ See Note 7 – Special items for more details.

⁽³⁾ Includes tooling amortization. See Note 5 – Research and development for more details.

⁽⁴⁾ As per the consolidated statements of cash flows.

Six-month period ended June 30, 2018						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 4,611	\$ 2,416	\$ 1,079	\$ 182	\$ 2	\$ 8,290
Intersegment revenues	3	1	—	719	(723)	—
Total revenues	4,614	2,417	1,079	901	(721)	8,290
EBIT before special items	396	209	(139)	104	(98)	472
Special items ⁽¹⁾	42	4	602	(7)	(561)	80
EBIT	\$ 354	\$ 205	\$ (741)	\$ 111	\$ 463	392
Financing expense						325
Financing income						(69)
EBT						136
Income taxes						22
Net income						\$ 114
Other information						
R&D ⁽²⁾	\$ 54	\$ 31	\$ 7	\$ 3	\$ —	\$ 95
Net additions (proceeds) to PP&E and intangible assets ⁽¹⁾⁽³⁾	\$ 71	\$ 420	\$ 46	\$ 9	\$ (608)	\$ (62)
Amortization	\$ 50	\$ 47	\$ 6	\$ 25	\$ (2)	\$ 126
Impairment charges on PP&E and intangible assets ⁽¹⁾	\$ 8	\$ —	\$ —	\$ —	\$ 3	\$ 11

⁽¹⁾ See Note 7 – Special items for more details.

⁽²⁾ Includes tooling amortization. See Note 5 – Research and development for more details.

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

Six-month period ended June 30, 2017 ⁽¹⁾						
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total
Results of operations						
External revenues	\$ 3,987	\$ 2,411	\$ 1,151	\$ 197	\$ 3	\$ 7,749
Intersegment revenues	3	—	—	644	(647)	—
Total revenues	3,990	2,411	1,151	841	(644)	7,749
EBIT before special items	406	209	(174)	41	(79)	403
Special items ⁽²⁾	232	31	2	—	45	310
EBIT	\$ 174	\$ 178	\$ (176)	\$ 41	\$ (124)	93
Financing expense						342
Financing income						(22)
EBT						(227)
Income taxes						10
Net loss						\$ (237)
Other information						
R&D ⁽³⁾	\$ 49	\$ 27	\$ 19	\$ 1	\$ 10	\$ 106
Net additions to PP&E and intangible assets ⁽⁴⁾	\$ 24	\$ 581	\$ 61	\$ 11	\$ (12)	\$ 665
Amortization	\$ 51	\$ 45	\$ 34	\$ 25	\$ 1	\$ 156
Impairment charges on intangible assets	\$ —	\$ —	\$ 5	\$ —	\$ —	\$ 5
Impairment charges on PP&E ⁽²⁾	\$ 32	\$ —	\$ —	\$ —	\$ 6	\$ 38

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽²⁾ See Note 7 – Special items for more details.

⁽³⁾ Includes tooling amortization. See Note 5 – Research and development for more details.

⁽⁴⁾ As per the consolidated statements of cash flows.

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

	June 30, 2018	December 31, 2017 ⁽¹⁾	January 1, 2017 ⁽¹⁾
Assets			
Total assets	\$ 25,029	\$ 24,916	\$ 22,795
Assets not allocated to segments			
Cash and cash equivalents ⁽²⁾	2,974	3,057	3,384
Income tax receivable ⁽³⁾	87	60	41
Deferred income taxes	618	595	698
Segmented assets	21,350	21,204	18,672
Liabilities			
Total liabilities	28,858	29,611	27,178
Liabilities not allocated to segments			
Interest payable ⁽⁴⁾	138	139	141
Income taxes payable ⁽⁵⁾	187	187	217
Long-term debt ⁽⁶⁾	9,140	9,218	8,769
Segmented liabilities	\$ 19,393	\$ 20,067	\$ 18,051
Net segmented assets			
Transportation	\$ (575)	\$ (1,106)	\$ (754)
Business Aircraft	\$ 2,513	\$ 2,178	\$ 1,393
Commercial Aircraft	\$ (58)	\$ 311	\$ 293
Aerostructures and Engineering Services	\$ 485	\$ 190	\$ 62
Corporate and Elimination	\$ (408)	\$ (436)	\$ (373)

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽²⁾ Refer to Note 11 – Cash and cash equivalents.

⁽³⁾ Included in other assets.

⁽⁴⁾ Included in trade and other payables.

⁽⁵⁾ Included in other liabilities.

⁽⁶⁾ The current portion of long-term debt is included in other financial liabilities.

The Corporation's revenues by market segment were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
Business Aircraft				
Manufacturing and Other ⁽²⁾	\$ 1,001	\$ 1,137	\$ 1,840	\$ 1,910
Services ⁽³⁾	306	252	577	501
	1,307	1,389	2,417	2,411
Commercial Aircraft⁽⁴⁾	616	626	1,079	1,151
Aerostructures and Engineering Services				
External revenues	81	90	182	197
Intersegment revenues	374	353	719	644
	455	443	901	841
Transportation				
Rolling stock and systems ⁽⁵⁾	1,475	1,384	3,082	2,704
Services ⁽⁶⁾	522	459	1,059	893
Signalling ⁽⁷⁾	262	195	473	393
	2,259	2,038	4,614	3,990
Corporate and Elimination	(375)	(352)	(721)	(644)
	\$ 4,262	\$ 4,144	\$ 8,290	\$ 7,749

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽²⁾ Includes revenues from sale of new aircraft, specialized aircraft solutions and pre-owned aircraft.

⁽³⁾ Includes revenues from aftermarket services including parts, *Smarts Services*, service centres, training and technical publication.

⁽⁴⁾ Includes manufacturing, services and other.

⁽⁵⁾ 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, bogies, mass transit and airport systems, and mainline systems.

⁽⁶⁾ Comprised of revenues from fleet maintenance, asset life management, component re-engineering and overhaul, material solutions, and operations and maintenance of systems.

⁽⁷⁾ Comprised of revenues from mass transit signalling, mainline signalling, industrial signalling and *OPTIFLO* service solutions for signalling.

5. RESEARCH AND DEVELOPMENT

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
R&D expenditures	\$ 249	\$ 419	\$ 486	\$ 662
Less: development expenditures capitalized to aerospace program tooling	(217)	(379)	(420)	(595)
	32	40	66	67
Add: amortization of aerospace program tooling	16	22	29	39
	\$ 48	\$ 62	\$ 95	\$ 106

6. OTHER INCOME

Other income was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
Changes in estimates and fair value ⁽¹⁾	\$ (48)	\$ (14)	\$ (71)	\$ (4)
Impairment of PP&E and intangible assets ⁽²⁾	1	5	3	5
Losses (gains) on disposals of intangible assets and PP&E ⁽²⁾	1	(28)	(3)	(30)
Severance and other involuntary termination costs (including changes in estimates) ⁽²⁾	1	2	1	3
Other	—	(3)	—	(3)
	\$ (45)	\$ (38)	\$ (70)	\$ (29)

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

⁽²⁾ Excludes those presented in special items.

7. SPECIAL ITEMS

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

Special items were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
<i>C Series</i> transaction with Airbus ⁽¹⁾	\$ 599	\$ —	\$ 599	\$ —
Gain on disposal of PP&E ⁽²⁾	(561)	—	(561)	—
Impairment of non-core operations ⁽³⁾	17	—	17	—
Restructuring charges ⁽⁴⁾	15	218	16	241
Purchase of pension annuities ⁽⁵⁾	10	—	10	—
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions ⁽⁶⁾	—	(11)	(1)	(11)
<i>Primove</i> impairment and other costs ⁽⁷⁾	—	45	—	45
Re-negotiation of a commercial agreement ⁽⁸⁾	—	35	—	35
Tax impacts of special items ⁽¹⁾	(70)	(8)	(70)	(9)
	\$ 10	\$ 279	\$ 10	\$ 301
Of which is presented in				
Special items in EBIT	\$ 80	\$ 287	\$ 80	\$ 310
Income taxes - effect of special items	(70)	(8)	(70)	(9)
	\$ 10	\$ 279	\$ 10	\$ 301

⁽¹⁾ The acquisition by Airbus of 50.01% of CSALP, the entity that manufactures and sells the *C Series* aircraft resulted in a pre-tax accounting charge of \$599 million (\$535 million after tax) that was recorded in the three-month period ended June 30, 2018, reflected as a reduction of the CSALP assets held for sale balance. The pre-tax accounting charge reflects all elements of the transaction, including: (i) the \$269 million fair value of warrants issued by Bombardier to Airbus on July 1, 2018, (ii) a \$310 million derivative liability which is associated with the expected off-market return on units to be issued to Bombardier by CSALP under Bombardier's funding commitments, and (iii) other Bombardier obligations towards CSALP. In addition, the transaction resulted in \$64 million tax recoveries. See Note 19 - Assets held for sale for more details in respect of the transaction.

⁽²⁾ Related to the sale of the Downsview property to the Public Sector Pension Investment Board (PSP Investments) during the three-month period ended June 30, 2018.

⁽³⁾ An impairment charge related to non-core operations of \$17 million recorded in the three-month period ended June 30, 2018 with respect to the expected sale of legal entities, as part of the Transportation transformation plan.

⁽⁴⁾ For the three- and six-month periods ended June 30, 2018, represents severance charges of \$11 million and \$12 million partially offset by curtailment gains of \$4 million, and impairment charges of PP&E of \$8 million, all related to previously-announced restructuring actions, respectively. For the three- and six-month periods ended June 30, 2017, represents severance charges of \$188 million and \$211 million partially offset by curtailment gains of \$2 million, and impairment charges of PP&E of \$32 million, all related to previously-announced restructuring actions, respectively.

⁽⁵⁾ Represents the non-cash loss on the settlement of defined benefit pension plans resulting from the purchase of annuities with insurance companies. As part of its ongoing de-risking strategies, the Corporation has an initiative for the buy-out of annuities payable to pensioners or deferred pensioners for certain plans to the extent they are fully funded on a buy-out basis, subject to compliance with certain conditions including applicable pension legislations.

⁽⁶⁾ Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by \$1 million for the six-month period ended June 30, 2018 (\$11 million for the three- and six-month periods ended June 30, 2017). The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.

⁽⁷⁾ Following a reassessment of the value of the *Primove* e-mobility technology and the status of existing contractual obligations, in the second quarter of 2017, the Corporation recorded an inventory write-down of \$22 million, impairment charges of PP&E of \$6 million, and a contract provision of \$17 million. *Primove* offers e-mobility solutions for several types of electronic rail and road vehicles.

⁽⁸⁾ A provision was taken during the second quarter of 2017 to reflect the anticipated outcome of a re-negotiation of a commercial agreement with a third party.

8. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
Financing expense				
Accretion on other financial liabilities	\$ 20	\$ 15	\$ 38	\$ 28
Accretion on net retirement benefit obligations	15	19	34	38
Net loss on certain financial instruments ⁽²⁾	—	41	—	28
Accretion on provisions	7	5	13	10
Accretion on advances ⁽³⁾	6	4	12	9
Amortization of letter of credit facility costs	4	4	8	8
Changes in discount rates of provisions	—	—	—	3
Other	24	19	42	32
	76	107	147	156
Interest on long-term debt, after effect of hedges	87	91	178	186
	\$ 163	\$ 198	\$ 325	\$ 342
Financing income				
Net gain on certain financial instruments ⁽²⁾	\$ (2)	\$ —	\$ (18)	\$ —
Changes in discount rates of provisions	(8)	(2)	(18)	—
Other	(12)	(3)	(14)	(5)
	(22)	(5)	(50)	(5)
Interest on cash and cash equivalents	(6)	(3)	(11)	(6)
Income from investment in securities	(3)	(2)	(6)	(7)
Interest on loans and lease receivables, after effect of hedges	—	(2)	(2)	(4)
	(9)	(7)	(19)	(17)
	\$ (31)	\$ (12)	\$ (69)	\$ (22)

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

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

⁽³⁾ Represents adjustments to transaction prices for certain orders with a significant financing component due to a significant delay between timing of cash receipt and revenue recognition.

Borrowing costs capitalized to PP&E and intangible assets totalled \$63 million and \$122 million for the three- and six-month periods ended June 30, 2018, using an average capitalization rate of 6.61% (\$44 million and \$82 million and 6.20% and 6.08% for the three- and six-month periods ended June 30, 2017, respectively). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

9. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
(Number of shares, stock options, PSUs, DSUs, RSUs and warrants, in thousands)				
Net income (loss) attributable to equity holders of Bombardier Inc.	\$ 68	\$ (227)	\$ 106	\$ (221)
Preferred share dividends, including taxes	(7)	(6)	(14)	(12)
Net income (loss) attributable to common equity holders of Bombardier Inc.	\$ 61	\$ (233)	\$ 92	\$ (233)
Weighted-average number of common shares outstanding	2,328,262	2,194,862	2,271,095	2,194,854
Net effect of stock options, PSUs, DSUs, RSUs, warrants and conversion option	224,630	—	204,330	—
Weighted-average diluted number of common shares	2,552,892	2,194,862	2,475,425	2,194,854
EPS (in dollars)				
Basic	\$ 0.03	\$ (0.11)	\$ 0.04	\$ (0.11)
Diluted	\$ 0.02	\$ (0.11)	\$ 0.04	\$ (0.11)

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

The effect of the exercise of stock options, PSUs, DSUs, RSUs and warrants was included in the calculation of diluted EPS in the above table, except for 12,258,234 and 20,795,364 for the three- and six-month periods ended June 30, 2018, respectively (352,112,125 and 352,692,200 for the three- and six-month periods ended June 30, 2017, respectively) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation's Class B Shares (subordinate voting) or predetermined financial performance targets had not been met or the effect of the exercise would be antidilutive. The calculation of diluted EPS did not include the impact of the CDPQ conversion option as this was antidilutive. This is because CDPQ's minimum return entitlement was greater than their share of the BT Holdco net income on an as converted basis assuming the maximum CDPQ ownership on conversion if Transportation does not achieve its performance targets.

10. FINANCIAL INSTRUMENTS

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

	FVTP&L			FVOCI	Amortized cost	DDHR	Total carrying value	Fair value
	FVTP&L	Designated						
June 30, 2018								
Financial assets								
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ 2,823	\$ —	\$ 2,823	\$ 2,823	\$ 2,823
Trade and other receivables	—	—	—	1,358	—	1,358	1,358	1,358
Other financial assets	342	—	307	280	88	1,017	1,035	1,035
	\$ 342	\$ —	\$ 307	\$ 4,461	\$ 88	\$ 5,198	\$ 5,216	\$ 5,216
Financial liabilities								
Trade and other payables	\$ —	\$ —	n/a	\$ 4,052	\$ —	\$ 4,052	\$ 4,052	\$ 4,052
Long-term debt ⁽¹⁾	—	—	n/a	9,140	—	9,140	9,464	9,464
Other financial liabilities	413	65	n/a	747	222	1,447	1,535	1,535
	\$ 413	\$ 65	n/a	\$ 13,939	\$ 222	\$ 14,639	\$ 15,051	\$ 15,051
December 31, 2017								
Financial assets								
Cash and cash equivalents	\$ 2,988	\$ —	\$ —	\$ —	\$ —	\$ 2,988	\$ 2,988	\$ 2,988
Trade and other receivables	—	—	—	1,174	—	1,174	1,174	1,174
Other financial assets	79	216	361	331	253	1,240	1,278	1,278
	\$ 3,067	\$ 216	\$ 361	\$ 1,505	\$ 253	\$ 5,402	\$ 5,440	\$ 5,440
Financial liabilities								
Trade and other payables	\$ —	\$ 6	n/a	\$ 3,958	\$ —	\$ 3,964	\$ 3,964	\$ 3,964
Long-term debt ⁽¹⁾	—	—	n/a	9,218	—	9,218	9,354	9,354
Other financial liabilities	354	74	n/a	677	184	1,289	1,329	1,329
	\$ 354	\$ 80	n/a	\$ 13,853	\$ 184	\$ 14,471	\$ 14,647	\$ 14,647
January 1, 2017								
Financial assets								
Cash and cash equivalents	\$ 3,384	\$ —	\$ —	\$ —	\$ —	\$ 3,384	\$ 3,384	\$ 3,384
Trade and other receivables	—	—	—	1,220	—	1,220	1,220	1,220
Other financial assets	144	227	374	310	196	1,251	1,272	1,272
	\$ 3,528	\$ 227	\$ 374	\$ 1,530	\$ 196	\$ 5,855	\$ 5,876	\$ 5,876
Financial liabilities								
Trade and other payables	\$ —	\$ 6	n/a	\$ 3,039	\$ —	\$ 3,045	\$ 3,045	\$ 3,045
Long-term debt ⁽¹⁾	—	—	n/a	8,769	—	8,769	8,624	8,624
Other financial liabilities	259	141	n/a	808	368	1,576	1,616	1,616
	\$ 259	\$ 147	n/a	\$ 12,616	\$ 368	\$ 13,390	\$ 13,285	\$ 13,285

⁽¹⁾ Includes the current portion of long-term debt.

n/a: Not applicable

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows, as at:

	June 30, 2018	December 31, 2017	January 1, 2017
Cash and cash equivalents ⁽¹⁾	\$ 2,974	\$ 3,057	\$ 3,384
Reclassified as assets held for sale	151	69	—
Cash and cash equivalents	\$ 2,823	\$ 2,988	\$ 3,384

⁽¹⁾ For purpose of the statement of cash flows, cash and cash equivalents comprise the cash reclassified as asset held for sale. See Note 19 – Assets held for sale for more details on the CSALP assets and liabilities reclassification.

12. CONTRACT BALANCES

Contract assets were as follows, as at:

	June 30, 2018	December 31, 2017 ⁽¹⁾	January 1, 2017 ⁽¹⁾
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	\$ 8,434	\$ 8,306	\$ 6,796
Less: advances and progress billings	(6,380)	(6,171)	(5,362)
	2,054	2,135	1,434
Service contracts			
Cost incurred and recorded margins	554	367	270
Less: advances and progress billings	(45)	(42)	(73)
	509	325	197
	\$ 2,563	\$ 2,460	\$ 1,631

Contract liabilities were as follows, as at:

	June 30, 2018	December 31, 2017 ⁽¹⁾	January 1, 2017 ⁽¹⁾
Advances on aerospace programs	\$ 2,455	\$ 2,120	\$ 3,110
Advances and progress billings in excess of long-term contract cost incurred and recorded margin	2,207	1,981	1,497
Other deferred revenues	809	991	906
	\$ 5,471	\$ 5,092	\$ 5,513
Of which current	\$ 3,726	\$ 3,820	\$ 3,840
Of which non-current	1,745	1,272	1,673
	\$ 5,471	\$ 5,092	\$ 5,513

⁽¹⁾ Restated, refer to Note 2 - Changes in accounting policies for more details.

In connection with certain long-term contracts, Transportation enters into arrangements whereby amounts are received from third-party advance providers in exchange for the rights to customer payments. There is no recourse to Transportation if the customer defaults on its payment obligations assigned to the third-party advance provider. Amounts received under these arrangements are included as advances and progress billings in reduction of long-term contracts (production contracts) in contract assets and amounted to €607 million (\$703 million) as at June 30, 2018 (€434 million (\$520 million) as at December 31, 2017 and €471 million (\$496 million) as at January 1, 2017). The third-party advance providers could request repayment of these amounts if Transportation fails to perform its contractual obligations under the related long-term contract.

13. INVENTORIES

Inventories were as follows, as at:

	June 30, 2018	December 31, 2017 ⁽¹⁾	January 1, 2017 ⁽¹⁾
Aerospace programs	\$ 2,987	\$ 2,472	\$ 3,187
Finished products ⁽²⁾	759	749	904
Other	131	208	195
	\$ 3,877	\$ 3,429	\$ 4,286

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽²⁾ Finished products include 3 new aircraft not associated with a firm order and 2 pre-owned aircraft, totalling \$57 million as at June 30, 2018 (3 new aircraft and 5 pre-owned aircraft, totalling \$93 million as at December 31, 2017 and 1 new aircraft and 12 pre-owned aircraft, totalling \$67 million as at January 1, 2017).

The amount of inventories recognized as cost of sales totalled \$1,523 million and \$2,802 million for the three- and six-month periods ended June 30, 2018, respectively (\$1,695 million and \$2,940 million for the three- and six-month periods ended June 30, 2017, respectively). These amounts include \$73 million and \$160 million of write-downs and \$9 million of reversal of write-downs for the three- and six-month periods ended June 30, 2018, respectively (\$120 million and \$199 million of write-downs and \$6 million and \$14 million of reversal of write-downs for the three- and six-month periods ended June 30, 2017, respectively).

14. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	June 30, 2018	December 31, 2017	January 1, 2017
Investments in securities ⁽¹⁾⁽²⁾	\$ 307	\$ 361	\$ 380
Long-term contract receivables	242	253	231
Investments in financing structures ⁽²⁾	217	219	211
Derivative financial instruments	190	332	340
Aircraft loans and lease receivables ⁽²⁾	25	49	64
Restricted cash	23	12	10
Other	13	14	15
	\$ 1,017	\$ 1,240	\$ 1,251
Of which current	\$ 192	\$ 415	\$ 336
Of which non-current	825	825	915
	\$ 1,017	\$ 1,240	\$ 1,251

⁽¹⁾ Includes \$16 million of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at June 30, 2018 (\$51 million as at December 31, 2017, and \$78 million as at January 1, 2017).

⁽²⁾ Carried at fair value, except for \$2 million of aircraft loans and lease receivables at amortized cost as at June 30, 2018. Carried at fair value, except for \$2 million of aircraft loans and lease receivables, nil of investments in securities and \$50 million of investment in financing structures carried at amortized cost as at December 31, 2017 (\$2 million, \$6 million and \$46 million, respectively, as at January 1, 2017).

15. OTHER ASSETS

Other assets were as follows, as at:

	June 30, 2018	December 31, 2017 ⁽¹⁾	January 1, 2017 ⁽¹⁾
Retirement benefits	\$ 312	\$ 290	\$ 124
Sales tax and other taxes	220	262	238
Prepaid sales concessions	148	174	274
Intangible assets other than aerospace program tooling and goodwill	148	120	112
Prepaid expenses	126	107	145
Income taxes receivable	87	60	41
Deferred financing charges	47	40	51
Other	15	17	30
	\$ 1,103	\$ 1,070	\$ 1,015
Of which current	\$ 404	\$ 427	\$ 427
Of which non-current	699	643	588
	\$ 1,103	\$ 1,070	\$ 1,015

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

16. PROVISIONS

Changes in provisions were as follows, for the three- and six-month periods ended June 30:

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Onerous contracts	Other ⁽¹⁾	Total
Balance as at December 31, 2017 ⁽²⁾⁽³⁾	\$ 672	\$ 554	\$ 277	\$ 1,420	\$ 196	\$ 3,119
Additions	32	—	3 ⁽⁴⁾	22	5	62
Utilization	(50)	(58)	(29)	(193)	(2)	(332)
Reversals	(10)	(2)	(2)	(58)	—	(72)
Accretion expense	—	3	—	3	—	6
Effect of changes in discount rates	—	(4)	—	(6)	—	(10)
Effect of foreign currency exchange rate changes	9	—	5	16	2	32
Balance as at March 31, 2018 ⁽²⁾⁽³⁾	\$ 653	\$ 493	\$ 254	\$ 1,204	\$ 201	\$ 2,805
Additions	37	—	23 ⁽⁴⁾	79	7	146
Utilization	(54)	(11)	(14)	(116)	(2)	(197)
Reversals	(10)	(3)	(16) ⁽⁴⁾	(59)	(1)	(89)
Accretion expense	1	3	—	3	—	7
Effect of changes in discount rates	—	(3)	—	(5)	—	(8)
Reclassified as liabilities directly associated with assets held for sale ⁽⁵⁾	(15)	—	—	(555)	—	(570)
Effect of foreign currency exchange rate changes	(27)	—	(15)	(25)	(4)	(71)
Balance as at June 30, 2018	\$ 585	\$ 479	\$ 232	\$ 526	\$ 201	\$ 2,023
Of which current	\$ 494	\$ 46	\$ 91	\$ 518	\$ 176	\$ 1,325
Of which non-current	91	433	141	8	25	698
	\$ 585	\$ 479	\$ 232	\$ 526	\$ 201	\$ 2,023

⁽¹⁾ Mainly comprised of claims and litigations.

⁽²⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽³⁾ Opening balances are before the assets held for sale reclassification. See Note 19 – Assets held for sale for more details on the CSALP assets and liabilities reclassification.

⁽⁴⁾ See Note 7 – Special items for more details on additions and reversals related to restructuring charges.

⁽⁵⁾ See Note 19 – Assets held for sale for more details on the CSALP assets and liabilities reclassification.

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Onerous contracts	Other ⁽¹⁾	Total
Balance as at January 1, 2017 ⁽²⁾	\$ 670	\$ 562	\$ 111	\$ 1,594	\$ 166	\$ 3,103
Additions	53	2	24 ⁽³⁾	79	3	161
Utilization	(44)	(11)	(42)	(191)	(28)	(316)
Reversals	(14)	—	(2)	(10)	(1)	(27)
Accretion expense	—	2	—	2	1	5
Effect of changes in discount rates	—	—	—	5	—	5
Effect of foreign currency exchange rate changes	9	—	3	9	1	22
Balance as at March 31, 2017 ⁽²⁾	\$ 674	\$ 555	\$ 94	\$ 1,488	\$ 142	\$ 2,953
Additions	50	—	188 ⁽³⁾	97 ⁽⁴⁾	43	378
Utilization	(33)	(6)	(25)	(118) ⁽⁵⁾	(1)	(183)
Reversals	(22)	(3)	—	(16)	(2)	(43)
Accretion expense	1	2	—	2	—	5
Effect of changes in discount rates	—	(2)	—	—	—	(2)
Effect of foreign currency exchange rate changes	21	—	14	33	2	70
Balance as at June 30, 2017 ⁽²⁾	\$ 691	\$ 546	\$ 271	\$ 1,486	\$ 184	\$ 3,178
Of which current	\$ 536	\$ 68	\$ 192	\$ 748	\$ 85	\$ 1,629
Of which non-current	155	478	79	738	99	1,549
	\$ 691	\$ 546	\$ 271	\$ 1,486	\$ 184	\$ 3,178

⁽¹⁾ Mainly comprised of claims and litigations.

⁽²⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽³⁾ See Note 7 – Special items for more details on additions related to restructuring charges.

⁽⁴⁾ See Note 7 – Special items for more details on the addition related to the re-negotiation of a commercial agreement and on the addition related to the *Primove* impairment and other costs.

⁽⁵⁾ See Note 7 – Special items for more details on the reversal of *Learjet 85* aircraft program cancellation provisions.

17. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	June 30, 2018	December 31, 2017	January 1, 2017
Derivative financial instruments	\$ 635	\$ 538	\$ 627
Government refundable advances	561	550	395
Lease subsidies	65	74	141
Current portion of long-term debt	11	18	31
Vendor non-recurring costs	7	13	351
Sale and leaseback obligations	—	—	25
Other	179	114	37
	\$ 1,458	\$ 1,307	\$ 1,607
Of which current	\$ 390	\$ 342	\$ 608
Of which non-current	1,068	965	999
	\$ 1,458	\$ 1,307	\$ 1,607

18. OTHER LIABILITIES

Other liabilities were as follows, as at:

	June 30, 2018	December 31, 2017 ⁽¹⁾	January 1, 2017 ⁽¹⁾
Employee benefits	\$ 625	\$ 690	\$ 652
Accruals for long-term contract costs	545	640	579
Supplier contributions to aerospace programs	386	388	650
Income taxes payable	187	187	217
Other taxes payable	157	234	163
Other	181	179	264
	\$ 2,081	\$ 2,318	\$ 2,525
Of which current	\$ 1,506	\$ 1,723	\$ 1,634
Of which non-current	575	595	891
	\$ 2,081	\$ 2,318	\$ 2,525

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

19. ASSETS HELD FOR SALE

On June 8, 2018, the Corporation announced the closing of and the transfer of control of CSALP, the entity that manufactures and sells the *C Series* aircraft, to Airbus SE, effective July 1, 2018, and confirmed that all regulatory approvals had been obtained. The transaction by which Airbus would acquire a majority stake in CSALP and would provide procurement, sales and marketing, and customer support expertise to CSALP, was initially announced in October 2017. The closing of the previously announced transaction came into effect on July 1, 2018. Airbus SAS (Airbus), a wholly-owned subsidiary of Airbus SE, owns a 50.01% interest in CSALP. Bombardier and Investissement Québec (IQ) now own 33.55% and 16.44% respectively.

Since the Corporation will no longer control CSALP, the transaction will be accounted as a disposal of CSALP on July 1, 2018 in exchange for an equity interest in the partnership to be accounted for using the equity method of accounting and recorded in the Commercial Aircraft segment. The transaction resulted in a pre-tax accounting charge of \$599 million (\$535 million after tax) that was recorded in the three-month period ended June 30, 2018, reflected as a reduction of the CSALP assets held for sale balance, which has been included in Special items, see Note 7 - Special items. The pre-tax accounting charge reflects all elements of the transaction, including: (i) the \$269 million fair value of warrants issued by Bombardier to Airbus on July 1, 2018, (ii) a \$310 million derivative liability which is associated with the expected off-market return on units to be issued to Bombardier by CSALP under Bombardier's funding commitments, and (iii) other Bombardier obligations towards CSALP. In addition, the transaction resulted in \$64 million of tax recoveries.

CSALP's headquarters and primary assembly line and related functions will remain in Mirabel, Québec, with the support of Airbus' global reach and scale. Airbus' global industrial footprint will expand with the final assembly line in Canada and additional *C Series* aircraft production at Airbus' manufacturing site in Alabama, U.S.

Ownership Structure and Agreement Highlights

The *C Series* aircraft program is operated by CSALP in respect of which Bombardier and IQ held 67.11% and a 32.89% interest respectively as at June 30, 2018. Airbus has acquired a 50.01% interest in CSALP effective July 1, 2018. Airbus is also now responsible to provide (i) sales and marketing support services for the *C Series* aircraft program, (ii) management of procurement, which includes leading negotiations to improve CSALP level supplier agreements, and (iii) customer support for the *C Series* aircraft program. No cash contribution was made at closing by any of the partners, nor did CSALP assume any financial debt. As previously announced, Bombardier continues with its current funding plan of CSALP. Due to the early closing of the transaction, the terms of this plan were updated according to the following schedule: Bombardier will fund the cash shortfalls of CSALP, if required, during the second half of 2018, up to a maximum of \$225 million; during 2019, up to a maximum of \$350 million; and up to a maximum aggregate amount of \$350 million over the following two years, the whole in consideration for non-voting units of CSALP with cumulative annual dividends of 2%. Any excess shortfall during such periods will be shared proportionately amongst the Corporation, Airbus and IQ, but in the latter case, at its discretion.

Airbus benefits from call rights in respect of all of Bombardier's interest in CSALP at fair market value, including its non-voting units (which shall for such purposes each have the same fair market value as each participating unit held by Bombardier), exercisable no earlier than 7.5 years following the closing of the transaction, except in certain circumstances such as an adverse change in the control of Bombardier, where the right is then accelerated. Bombardier benefits from a corresponding put right whereby it could require that Airbus acquires its interest at fair market value after the expiry of such 7.5-year period. Airbus also benefits from a call right exercisable any time before the expiry of such 7.5-year period in respect of the non-voting units of CSALP held by Bombardier, for an amount equal to the invested amount plus the cumulative annual preferred return of 2%. IQ's interest is redeemable at fair market value by CSALP, under certain conditions, starting on June 30, 2023. IQ also benefits from tag along rights in connection with a sale by Bombardier of its interest in the partnership.

The Board of Directors of CSALP consists of seven directors, four of whom were proposed by Airbus, two of whom were proposed by Bombardier, and one of whom was proposed by IQ. Airbus was entitled to name the Chairman of CSALP.

Furthermore, as previously announced, Bombardier, upon closing, issued in the name of Airbus warrants exercisable for a total number of 100,000,000 Class B shares (subordinate voting) in the capital of Bombardier, exercisable for a period of five years at an exercise price per share equal to \$1.74, being the U.S. dollar equivalent of CDN \$2.29. The warrants contain market standard adjustment provisions, including in the event of corporate changes, stock splits, non-cash dividends, distributions of rights, options or warrants to all or substantially all shareholders or consolidations.

Assets held for sale

The major class of assets held for sale or liabilities directly associated with assets held for sale was as follows, as at:

	June 30, 2018	December 31, 2017 ⁽¹⁾
Cash and cash equivalents	\$ 151	\$ 69
Other current assets ⁽²⁾	991	1,043
Non-current assets ⁽³⁾	2,517	3,038
Total assets	\$ 3,659	\$ 4,150
Current liabilities ⁽⁴⁾	\$ 957	\$ 971
Non-current liabilities ⁽⁵⁾	1,501	1,715
Total liabilities	\$ 2,458	\$ 2,686

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

⁽²⁾ Mainly comprised of inventories.

⁽³⁾ Mainly comprised of aerospace program tooling.

⁽⁴⁾ Mainly comprised of other financial liabilities, trade and other payables and contract liabilities.

⁽⁵⁾ Mainly comprised of provisions, contract liabilities and other financial liabilities.

These assets and liabilities are reported in the Commercial aircraft reportable segment.

20. SHARE CAPITAL

Following an agreement with a syndicate of underwriters that occurred on March 23, 2018, the Corporation issued 168,000,000 Class B Shares (subordinate voting) at a purchase price of CDN \$3.80, for an aggregate gross proceeds of CDN \$638 million (approximately \$500 million).

The net proceeds of \$475 million are to supplement our working capital and for general corporate purposes.

21. SHARE-BASED PLANS

PSU, DSU and RSU plans

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

	Three-month periods ended June 30					
	2018			2017		
	PSU	DSU	RSU	PSU	DSU	RSU
Balance at beginning of period	66,325,351	1,154,381	20,596,123	39,121,351	2,677,843	21,709,319
Granted	21,995,038	—	—	1,545,263	—	—
Exercised	—	—	—	—	—	—
Forfeited	(508,708)	—	(96,922)	(602,984)	—	(353,138)
Balance at end of period	87,811,681	1,154,381 ⁽¹⁾	20,499,201	40,063,630	2,677,843 ⁽¹⁾	21,356,181

	Six-month periods ended June 30					
	2018			2017		
	PSU	DSU	RSU	PSU	DSU	RSU
Balance at beginning of period	67,131,352	1,154,381	20,798,101	39,324,712	2,677,843	22,058,924
Granted	22,163,609	—	—	2,182,285	—	—
Exercised	—	—	—	—	—	—
Forfeited	(1,483,280)	—	(298,900)	(1,443,367)	—	(702,743)
Balance at end of period	87,811,681	1,154,381 ⁽¹⁾	20,499,201	40,063,630	2,677,843 ⁽¹⁾	21,356,181

⁽¹⁾ Of which 1,154,381 DSUs are vested as at June 30, 2018 (1,260,639 as at June 30, 2017).

The compensation expense, with respect to the PSU, DSU and RSU plans, amounted to \$25 million and \$36 million during the three- and six-month periods ended June 30, 2018, respectively (\$5 million and \$11 million during the three- and six-month periods ended June 30, 2017, respectively).

Share option plans

The number of options issued and outstanding to purchase Class B Shares (subordinate voting) has varied as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018	2017	2018	2017
	Balance at beginning of period	116,156,992	97,258,265	116,307,725
Granted	15,421,524	571,158	15,421,524	1,927,765
Exercised	(877,836)	—	(941,133)	—
Forfeited	—	(1,465,802)	—	(2,472,600)
Expired	(1,168,756)	(2,548,000)	(1,256,192)	(2,678,730)
Balance at end of period	129,531,924	93,815,621	129,531,924	93,815,621

A compensation expense of \$6 million and \$11 million was recorded during the three- and six-month periods ended June 30, 2018, respectively, with respect to share option plans (\$4 million and \$7 million for the three- and six-month periods ended June 30, 2017, respectively).

22. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2018 ⁽¹⁾	2017 ⁽²⁾	2018 ⁽¹⁾	2017 ⁽²⁾
Trade and other receivables	\$ (91)	\$ (124)	\$ (203)	\$ (33)
Inventories	(63)	113	(419)	(155)
Contract assets	22	(343)	(172)	(590)
Contract liabilities	544	(43)	499	(182)
Other financial assets and liabilities, net	(4)	(22)	45	34
Other assets	(92)	21	2	25
Trade and other payables	(262)	328	105	611
Provisions	(161)	128	(501)	(46)
Retirement benefit liability	17	(19)	39	(6)
Other liabilities	(146)	(40)	(225)	(37)
	\$ (236)	\$ (1)	\$ (830)	\$ (379)

⁽¹⁾ For the purpose of the statement of cash flows, net change in non-cash balances comprise all assets and liabilities of CSALP reclassified as asset held for sale. See Note 19 – Assets held for sale for more details on the CSALP assets and liabilities reclassification.

⁽²⁾ Restated, refer to Note 2 for the impact of changes in accounting policies.

23. CREDIT FACILITIES

In March 2018, the availability periods of Transportation's €3,560-million (\$4,124-million) letter of credit facility and the \$400-million letter of credit facility, which is available for the Corporation excluding Transportation, were extended by one year to May 2021 and June 2021, respectively. In addition, the maturity dates of Transportation's €640-million (\$741-million) unsecured revolving credit facility and the \$400-million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, were also extended by one year to May 2021 and June 2021, respectively.

Effective in March 2018, the minimum liquidity required by the \$400-million letter of credit facility and the \$400-million unsecured revolving credit facility, which are available for the Corporation excluding Transportation, is now varying between \$600 million and \$850 million at the end of each quarter. The remaining covenants continue to require a minimum EBITDA to fixed charges ratio, a maximum gross debt and minimum EBITDA thresholds at the end of each quarter, all calculated based on an adjusted consolidated basis (i.e. excluding Transportation). In addition, the minimum liquidity required by the Transportation letter of credit and revolving credit facilities is now increased from €600 million (\$695 million) to €750 million (\$869 million) at the end of each quarter. The remaining covenants continue to require a minimum equity and a maximum debt to EBITDA ratio at the end of each quarter, all calculated based on Transportation stand-alone financial data.

In May 2018, the committed amount under Transportation's €640-million (\$741-million) unsecured revolving credit facility was increased to €722 million (\$836 million). In June 2018, the \$400-million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, was adjusted to \$397 million.

In June 2018, the committed amount under Transportation's €3,560-million (\$4,124-million) letter of credit facility was increased to €3,725-million (\$4,315-million) and the \$400-million letter of credit facility, which is available for the Corporation excluding Transportation, was reduced to \$361 million.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Methods and assumptions

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

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

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

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

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

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

The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of the conversion option embedded in the BT Holdco convertible shares. The fair value of the embedded conversion option is based on the difference in present value between: the convertible shares' accrued liquidation preference based on the minimum return entitlement; and the fair value of the common shares on an as converted basis. This value is dependent on the Transportation segment meeting the performance incentives agreed upon with the CDPQ, the timing of exercise of the conversion rights and the applicable conversion rate. The simulation model generates multiple Transportation performance scenarios over the expected term of the option. Fair value of the shares on an as converted basis is calculated using an EBIT multiple, which is based on market data, to determine the enterprise value. The discount rate used is also determined using market data. The Corporation uses internal assumptions to determine the term of the instrument and the future performance of the Transportation segment.

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

Financial instruments whose carrying value approximates fair value – The fair values of trade and other receivables, certain aircraft loans and lease receivables, 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, because they bear variable interest-rate or because the terms and conditions are comparable to current market terms and conditions for similar items.

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

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

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

Fair value hierarchy

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

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows, as at June 30, 2018:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	\$ 23	\$ —	\$ —	\$ 23
Derivative financial instruments ⁽¹⁾	190	—	190	—
Investments in securities	307	48	259	—
Investments in financing structures	217	—	—	217
	\$ 737	\$ 48	\$ 449	\$ 240
Financial liabilities				
Lease subsidies	\$ (65)	\$ —	\$ —	\$ (65)
Derivative financial instruments ⁽¹⁾	(635)	—	(317)	(318)
	\$ (700)	\$ —	\$ (317)	\$ (383)

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

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

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at December 31, 2017	\$ 47	\$ 219 ⁽¹⁾	\$ (6)	\$ (122)	\$ (304)
Net gains (losses) and interest included in net income ⁽²⁾	(2)	2	—	(1)	—
Settlements	(20)	(3)	6	7	—
Effect of foreign currency exchange rate changes	—	—	—	—	(7)
Balance as at March 31, 2018	\$ 25	\$ 218	\$ —	\$ (116)	\$ (311)
Net gains (losses) and interest included in net income ⁽²⁾	(1)	4	—	(1)	(24)
Settlements	(1)	(5)	—	15	—
Effect of foreign currency exchange rate changes	—	—	—	—	17
Balance as at June 30, 2018	\$ 23	\$ 217	\$ —	\$ (102)	\$ (318)
Reclassified as liabilities directly associated with assets held for sale ⁽³⁾	—	—	—	37	—
Balance as at June 30, 2018	\$ 23	\$ 217	\$ —	\$ (65)	\$ (318)

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at January 1, 2017	\$ 62	\$ 165	\$ (6)	\$ (141)	\$ (170)
Net gains (losses) and interest included in net income ⁽²⁾	2	1	—	(1)	(2)
Settlements	(4)	(1)	—	9	—
Effect of foreign currency exchange rate changes	—	—	—	—	(3)
Balance as at March 31, 2017	\$ 60	\$ 165	\$ (6)	\$ (133)	\$ (175)
Net losses and interest included in net income ⁽²⁾	—	—	—	(2)	(46)
Issuances	—	—	(3)	—	—
Settlements	(13)	(1)	—	5	—
Effect of foreign currency exchange rate changes	—	—	—	—	(10)
Balance as at June 30, 2017	\$ 47	\$ 164	\$ (9)	\$ (130)	\$ (231)

⁽¹⁾ Restated, refer to Note 2 for the impact of changes in accounting policies. Following the adoption of IFRS 9, an investment in financing structures was reclassified as FVTP&L.

⁽²⁾ Of which an amount of nil million represents realized gains for the three- and six-month periods ended June 30, 2018 which is recorded in financing income (nil and \$1 million represents realized gains for the three- and six-month periods ended June 30, 2017, respectively, which is recorded in financing income).

⁽³⁾ See Note 19 – Assets held for sale for more details on the CSALP assets and liabilities reclassification.

Main assumptions developed internally for Level 3 hierarchy

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

These main assumptions are as follows as at June 30, 2018:

Main assumptions (weighted average)	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Internally assigned credit rating	Between B- to CCC+ (B-)	Between BB- to CCC+ (B+)	Between BB- to B- (B+)
Discount rate adjustments for marketability	10.03%	Between 1.81% and 8.44% (6.70%)	n/a

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

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

Sensitivity to selected changes of assumptions for Level 3 hierarchy

These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at June 30, 2018:

Impact on EBT			Change of assumptions		
Change in fair value recognized in EBT for the :					
Gain (loss)	Three-month period ended June 30, 2018	Six-month period ended June 30, 2018	Decrease in aircraft residual value curves by 5%	Downgrade the internally assigned credit rating of unrated customers by 1 notch	Increase the marketability adjustments by 100 bps
Aircraft loans and lease receivables	\$ (2)	\$ (5)	\$ (1)	\$ (1)	\$ (1)
Investment in financing structures	\$ (1)	\$ (3)	\$ (5)	\$ (11)	\$ (8)
Lease subsidies	\$ (1)	\$ (1)	n/a	\$ 1	n/a

n/a: Not applicable

Conversion option

Sensitivity analysis

A 5% decrease in the expected future performance of the Transportation segment would have resulted in a decrease in the fair value with a corresponding gain recognized in EBT for the six-month period ended June 30, 2018 of \$20 million.

A 5% increase in the expected future performance of the Transportation segment would have resulted in an increase in the fair value with a corresponding loss recognized in EBT for the six-month period ended June 30, 2018 of \$24 million.

25. COMMITMENTS AND CONTINGENCIES

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

	June 30, 2018	December 31, 2017	January 1, 2017
Aircraft sales			
Residual value	\$ 788	\$ 1,060	\$ 1,300
Credit	1,089	1,221	1,233
Mutually exclusive exposure ⁽¹⁾	(491)	(540)	(557)
Total credit and residual value exposure	\$ 1,386	\$ 1,741	\$ 1,976
Trade-in commitments	\$ 1,248	\$ 1,437	\$ 1,721
Conditional repurchase obligations	\$ 129	\$ 143	\$ 207
Other			
Credit	\$ 48	\$ 52	\$ 48

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

Provisions for anticipated losses amounting to \$479 million as at June 30, 2018 (\$554 million as at December 31, 2017 and \$562 million as at January 1, 2017) have been established to cover the risks from credit and residual value guarantees. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to \$102 million as at June 30, 2018 (\$122 million as at December 31, 2017 and \$141 million as at January 1, 2017).

The Corporation has committed to invest additional capital contributions in CSALP in case of any liquidity shortfall in CSALP, of which as at June 30, 2018, the Corporation has contributed \$1.1 billion in CSALP. See Note 19 - Assets held for sale for more details in respect of the Corporation's future funding commitments.

Litigation

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

While the Corporation cannot predict the final outcome of all legal proceedings pending as at June 30, 2018, 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.

Transportation

Since the fourth quarter of 2016, the Swedish police authorities are conducting an on-going investigation in relation to allegations concerning a 2013 contract for the supply of signalling equipment to Azerbaijan Railways ADY. The Corporation's subsidiary has launched an internal review into the allegations which is conducted by external advisors under the supervision of counsel. Both the investigation and the internal review are ongoing. On August 18, 2017, charges were laid against a then employee of the subsidiary for aggravated bribery and, alternatively, influence trafficking. The trial on these charges took place from August 29 to September 20, 2017. No charges were laid against the subsidiary of the Corporation. In a decision rendered on October 11, 2017, the then employee was acquitted of all charges. The decision was appealed on October 25, 2017 by the Prosecution Authority. The underlying contract that gave rise to this matter is being audited by the World Bank Group pursuant to its contractual audit rights. The audit is still ongoing and no results have been communicated so far regarding the same. The Corporation's policy is to comply with all applicable laws and it is cooperating to the extent possible with the investigation and the audit. The Moscow office of Bombardier Transportation (Signal), a Russian joint venture, were visited by a unit of the Moscow Region Custom on April 2, 2018. Due to the nature of the above proceedings, it is not possible at this time to identify potential outcomes.

Investigation in Brazil

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

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

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

Petition before the U.S. Department of Commerce and the U.S. International Trade Commission

On April 27, 2017, The Boeing Company filed a petition before the U.S. Department of Commerce and the U.S. International Trade Commission (“USITC”) seeking the imposition of antidumping and countervailing duties on imports from Canada to the U.S. of large civil aircraft with 100 to 150 seats. The Boeing petition alleged that the Corporation’s *C Series* aircraft program has received government subsidies, that the Corporation is “dumping” the *C Series* aircraft into the U.S. market, and that such sales represent a threat to the domestic aerospace industry in the U.S. On December 18, 2017, the U.S. Department of Commerce issued a final affirmative countervailing duty determination of 212.39% and a final affirmative antidumping duty determination of 79.82%, subject to the final ruling by the USITC. On January 26, 2018, the USITC ruled in favour of the Corporation and issued its final determination on the threat of injury, finding that the U.S. industry is not injured or threatened with material injury by reason of imports of 100- to 150-seat large civil aircraft from Canada. This decision means that the U.S. Commerce Department will not publish and apply antidumping or countervailing duty orders against imports of such aircraft from Canada. The Boeing Company has not appealed the USITC decision within the deadline and accordingly this decision is now final and the Corporation has withdrawn the notices it had filed of its intention to appeal the U.S. Department of Commerce determinations since they are now moot, thereby concluding all proceedings in this matter.

Transnet

The Corporation has learned through relevant media reports of the appointment of a *Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector, including organs of state* (“Inquiry”) for which the terms of reference were published by presidential proclamation on January 25, 2018. Before and after the Inquiry, the media made allegations of irregularities with respect to multiple procurements regarding the supply of 1,064 locomotives by South African train operator Transnet Freight Rail. The Corporation has not received any communication or request for information from the authorities conducting the inquiry. The Corporation has launched an internal review into the allegations which is conducted by external advisors under the supervision of counsel. The review is still ongoing but based on information known to the Corporation at this time, there is no reason to believe that the Corporation has been involved in any wrongdoing with respect to the procurement by Transnet of 240 *TRAXX* locomotives from Bombardier Transportation in one of numerous aforementioned procurements.

Spain

In December, 2017, the Spanish Competition Authority (“CNMC”) conducted an inspection at the offices of Bombardier European Investments, S.L.U. (“BEI”) in Madrid. According to the Inspection Order, CNMC’s inspection follows information it learned about possible irregularities in public tenders with the Railway Infrastructures Administrator (“ADIF”). There are currently no charges nor allegations that BEI breached any law. Under Spanish law, the inspection is referred to as a “preliminary investigation”, and not as a formal investigation. On January 2, 2018, BEI received an information request from the CNMC regarding the legal and operational organization of BEI. BEI is cooperating with the authorities to the extent possible and responded to the information request. There is no formal next step as yet determined by the CNMC in this preliminary investigation. The Corporation’s policy is to comply with all applicable laws, including antitrust and competition laws. In light of the early stage of the preliminary investigation, management is unable to predict its duration or outcome, including whether any operating division of the Corporation could be found liable for any violation of law or the extent of any fine, if found to be liable.

26. ADDITIONAL ANNUAL DISCLOSURES

As a result of the adjustments discussed in Note 2 – Changes in accounting policies, certain disclosures that are required in annual financial statements in accordance with IFRS 15, which were not included in the Corporation's most recent annual consolidated financial statements, have been included in these interim consolidated financial statements.

Certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information.

A. SEGMENT DISCLOSURE

The Corporation's revenues by market segment were as follows, for fiscal year:

	2017
Business Aircraft	
Manufacturing and Other ⁽¹⁾	\$ 3,883
Services ⁽²⁾	1,050
	4,933
Commercial Aircraft⁽³⁾	2,317
Aerostructures and Engineering Services	
External revenues	398
Intersegment revenues	1,218
	1,616
Transportation	
Rolling stock and systems ⁽⁴⁾	5,800
Services ⁽⁵⁾	1,882
Signalling ⁽⁶⁾	869
	8,551
Corporate and Elimination	(1,218)
	\$ 16,199

⁽¹⁾ Includes revenues from sale of new aircraft, specialized aircraft solutions and pre-owned aircraft.

⁽²⁾ Includes revenues from aftermarket services including parts, *Smarts Services*, service centres, training and technical publication.

⁽³⁾ Includes manufacturing, services and other.

⁽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, bogies, mass transit and airport systems, and mainline systems.

⁽⁵⁾ Comprised of revenues from fleet maintenance, asset life management, component re-engineering and overhaul, material solutions, and operations and maintenance of systems.

⁽⁶⁾ Comprised of revenues from mass transit signalling, mainline signalling, industrial signalling and *OPTIFLO* service solutions for signalling.

B. FINANCING EXPENSE AND FINANCING INCOME

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

	2017
Financing expense	
Net loss on certain financial instruments ⁽¹⁾	\$ 102
Accretion on net retirement benefit obligations	78
Accretion on other financial liabilities	59
Loss on repurchase of long-term debt ⁽²⁾	23
Accretion on provisions	22
Accretion on advances ⁽³⁾	21
Amortization of letter of credit facility costs	17
Tax litigation ⁽⁴⁾	11
Other	103
	436
Interest on long-term debt, after effect of hedges	365
	\$ 801 ⁽⁵⁾
Financing income	
Changes in discount rates of provisions	\$ (7)
Other	(18)
	(25)
Income from investment in securities	(13)
Interest on cash and cash equivalents	(11)
Interest on loans and lease receivables, after effect of hedges	(7)
	(31)
	\$ (56) ⁽⁶⁾

⁽¹⁾ Net losses (gains) on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.

⁽²⁾ Represents the loss related to the redemption of the \$600-million Senior Notes due 2019 for fiscal year 2017, which was recorded as a special item.

⁽³⁾ Represents adjustments to transaction prices for certain orders with a significant financing component due to a significant delay between timing of cash receipt and revenue recognition.

⁽⁴⁾ Represents a change in the estimates used to determine the provision related to tax litigation.

⁽⁵⁾ Of which \$453 million represents the interest expense calculated using the effective interest rate method for financial liabilities classified as other than HFT for fiscal year 2017.

⁽⁶⁾ Of which \$7 million represents the interest income calculated using the effective interest rate method for financial assets classified as L&R for fiscal year 2017.

C. EARNINGS PER SHARE

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

	2017
(Number of shares, stock options, PSUs, DSUs, RSUs and warrants, in thousands)	
Net loss attributable to equity holders of Bombardier Inc.	\$ (494)
Preferred share dividends, including taxes	(27)
Net loss attributable to common equity holders of Bombardier Inc.	\$ (521)
Weighted-average number of common shares outstanding	2,195,379
Net effect of stock options, PSUs, DSUs, RSUs, warrants and conversion option	—
Weighted-average diluted number of common shares	2,195,379
EPS (in dollars)	
Basic and diluted	\$ (0.24)

D. TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows, as at:

	Total	Not past due	Past due but not impaired		Impaired
			less than 90 days	more than 90 days	
December 31, 2017					
Trade receivables, gross	\$ 1,149	\$ 669	\$ 195	\$ 171	\$ 114
Allowance for doubtful accounts	(70)	—	—	—	(70)
	\$ 1,079	\$ 669	\$ 195	\$ 171	\$ 44
Other	95				
Total	\$ 1,174				
January 1, 2017					
Trade receivables, gross	\$ 1,138	\$ 790	\$ 118	\$ 121	\$ 109
Allowance for doubtful accounts	(44)	—	—	—	(44)
	\$ 1,094	\$ 790	\$ 118	\$ 121	\$ 65
Other	126				
Total	\$ 1,220				

E. CONTRACT BALANCES

Revenues recognized were as follows for fiscal years:

	2017
Revenues recognized from:	
Contract liability balance at the beginning of the period	
Long term production and service contracts	\$ 1,672
Advances on aerospace programs	1,158
	\$ 2,830

Impairment losses recognized were as follows for fiscal years:

	2017
Impairment losses recognized on:	
Receivables arising from:	
Production contracts	\$ 28
Service contracts	1
	\$ 29

F. PROVISIONS

Changes in provisions were as follows, for fiscal year:

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Onerous contracts	Other ⁽¹⁾	Total
Balance as at January 1, 2017	\$ 670	\$ 562	\$ 111	\$ 1,594	\$ 166	\$ 3,103
Additions	227	81	265	303	89	965
Utilization	(167)	(86)	(104)	(477)	(59)	(893)
Reversals	(108)	(2)	(14)	(64)	(11)	(199)
Accretion expense	1	8	—	8	5	22
Effect of changes in discount rates	(1)	(9)	—	3	—	(7)
Reclassified as liabilities directly associated with assets held for sale ⁽²⁾	(13)	—	—	(695)	—	(708)
Effect of foreign currency exchange rate changes	50	—	19	53	6	128
Balance as at December 31, 2017	\$ 659	\$ 554	\$ 277	\$ 725	\$ 196	\$ 2,411
Of which current	\$ 557	\$ 72	\$ 126	\$ 708	\$ 167	\$ 1,630
Of which non-current	102	482	151	17	29	781
	\$ 659	\$ 554	\$ 277	\$ 725	\$ 196	\$ 2,411

⁽¹⁾ Mainly comprised of claims and litigations.

⁽²⁾ See Note 19 – Assets held for sale for more details on the CSALP assets and liabilities reclassification.

G. NET CHANGE IN NON-CASH BALANCES

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

	2017 ⁽¹⁾
Trade and other receivables	\$ 82
Inventories	(42)
Contract assets	(664)
Contract liabilities	85
Other financial assets and liabilities, net	325
Other assets	(73)
Trade and other payables	1,028
Provisions	(201)
Retirement benefit liability	166
Other liabilities	40
	\$ 746

⁽¹⁾ For the purpose of the statement of cash flows, net change in non-cash balances comprise all assets and liabilities of CSALP reclassified as asset held for sale. See Note 19 – Assets held for sale for more details on the CSALP assets and liabilities reclassification.

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