

BOMBARDIER

SECOND QUARTERLY REPORT

Three- and six-month periods ended June 30, 2017

GLOSSARY

The following table shows the abbreviations used in this report.

Term	Description	Term	Description
AFS	Available for sale	GAAP	Generally accepted accounting principles
BPS	Basis points	GDP	Gross domestic product
CAGR	Compound annual growth rate	HFT	Held for trading
CCTD	Cumulative currency translation difference	IAS	International Accounting Standard(s)
CDPQ	Caisse de dépôt et placement du Québec	IASB	International Accounting Standards Board
CGU	Cash generating unit	IFRIC	International Financial Reporting Interpretation Committee
CIS	Commonwealth of Independent States	IFRS	International Financial Reporting Standard(s)
CSALP	C Series Aircraft Limited Partnership	L&R	Loans and receivables
DDHR	Derivative designated in a hedge relationship	MD&A	Management's discussion and analysis
DSU	Deferred share unit	NCI	Non-controlling interests
EBIT	Earnings (loss) before financing expense, financing income and income taxes	NMF	Information not meaningful
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	OCI	Other comprehensive income (loss)
EBT	Earnings (loss) before income taxes	PP&E	Property, plant and equipment
EIS	Entry-into-service	PSG	Performance security guarantee
EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.	PSU	Performance share unit
FTV	Flight test vehicle	R&D	Research and development
FVTP&L	Fair value through profit and loss	RSU	Restricted share unit
		RVG	Residual value guarantee
		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 fulfill our responsibilities for financial reporting and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the MD&A and financial statements for issuance to shareholders.

The data presented in this MD&A is structured by reporting 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 impact and expected benefits of the investment by the Government of Québec in the C Series Aircraft Limited Partnership and of the private placement of a minority stake in Transportation by the CDPQ on our operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; and the impact of such investments on our balance sheet and liquidity position.

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

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry, business aircraft customers, and the rail industry; trade policy; increased competition; political instability and force majeure), operational risks (such as risks related to developing new products and services; development of new business; the certification and homologation of products and services; fixed-price and fixed-term commitments and production and project execution; pressures on cash flows based on project-cycle fluctuations and seasonality; our ability to successfully implement and execute our strategy and transformation plan; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; the environment; dependence on certain customers and suppliers; human resources; reliance on information systems; reliance on and protection of intellectual property rights; and adequacy of insurance coverage), financing risks (such as risks related to liquidity and access to capital markets; retirement benefit plan risk; exposure to credit risk; substantial existing debt and interest payment requirements; certain restrictive debt covenants and minimum cash levels; financing support provided for the benefit of certain customers; and reliance on government support), market risks (such as risks related to foreign currency fluctuations; changing interest rates; decreases in residual values; increases in commodity prices; and inflation rate fluctuations). For more details, see the Risks and uncertainties section in Other in the MD&A of our financial report for the fiscal year ended December 31, 2016. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the Guidance and forward-looking statements sections in the MD&A of our financial report for the fiscal year ended December 31, 2016.

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

OVERVIEW

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2017	2016	Variance
Revenues	\$ 4,092	\$ 4,309	(5)%
EBIT	\$ (123)	\$ (251)	51 %
EBIT margin	(3.0)%	(5.8)%	280 bps
EBIT before special items ⁽¹⁾	\$ 164	\$ 106	55 %
EBIT margin before special items ⁽¹⁾	4.0 %	2.5 %	150 bps
EBITDA before special items ⁽¹⁾	\$ 247	\$ 204	21 %
EBITDA margin before special items ⁽¹⁾	6.0 %	4.7 %	130 bps
Net loss	\$ (296)	\$ (490)	40 %
Diluted EPS (in dollars)	\$ (0.13)	\$ (0.24)	46 %
Adjusted net income (loss) ⁽¹⁾	\$ 39	\$ (83)	147 %
Adjusted EPS (in dollars) ⁽¹⁾	\$ 0.02	\$ (0.06)	133 %
Net additions to PP&E and intangible assets	\$ 389	\$ 332	17 %
Cash flows from operating activities	\$ (181)	\$ (158)	(15)%
Free cash flow usage ⁽¹⁾	\$ (570)	\$ (490)	(16)%
As at	June 30, 2017	December 31, 2016	
Available short-term capital resources ⁽²⁾	\$ 3,290	\$ 4,477	(27)%

Key highlights and events

- **Results for the first half of the year are in line with plan, supporting full year guidance:**
 - Resumed revenue growth through the first six months of 2017 at Transportation as project execution accelerates.
 - Deliveries on aerospace programs for the first six months of 2017 are in line with market demand, reaching 65 deliveries in Business Aircraft and 35 deliveries in Commercial Aircraft, including 7 deliveries of the *C Series* aircraft program.
 - Strong EBIT momentum in the second quarter with a 4.0% EBIT margin before special items,⁽¹⁾ driven by profitability⁽³⁾ expansion at Transportation to 8.2% and Business Aircraft to 8.9%.
 - We are in line to achieve our 2017 revenue, EBIT before special items⁽¹⁾ and free cash flow guidance⁽¹⁾ including a positive update to our consolidated profitability⁽³⁾ guidance:
 - Consolidated EBIT before special items⁽¹⁾ guidance narrowed to the upper half of the range to between \$580 million and \$630 million, driven by increased profitability⁽³⁾ for Transportation and Business Aircraft and an adjustment to Aerostructures and Engineering Services profitability,⁽³⁾ aligning profitability⁽³⁾ guidance to approximately 8.0% in each of these business segments.
- **Continued progress on key aircraft program milestones and transformation:**
 - We continued to make progress in the development of the *Global 7000* and *Global 8000* aircraft program, with three FTVs in flight testing, two remaining FTVs are in advanced stages of pre-flight preparation and multiple production aircraft have started moving through the assembly line.
 - Transformation initiatives continue to improve our cost structure. In Transportation, progress was made during the quarter towards our ongoing structural transformation, which will enable the multi-year site specialization strategy. Key milestones were reached with Supervisory Boards and unions in Germany, Switzerland and Belgium.
- The Corporation announced that Mrs. Sheila Fraser expressed her intention to resign from the Company's Board of Directors for personal reasons. The Board accepted Mrs. Fraser's resignation and thanks her for her five years of dedicated service and insight and wisdom she brought to Bombardier during her tenure.

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

⁽³⁾ Profitability is based on EBIT before special items or EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Consolidated results of operations section, as well as each reportable segment's Analysis of results section for reconciliations to the most comparable IFRS measures for the three- and six-month periods ended June 30, 2017.

2017 GUIDANCE UPDATE

Our guidance for revenues, deliveries and free cash flow for the full year 2017 remain unchanged. The following is an update of profitability guidance⁽¹⁾ provided in our 2016 Financial Report.

	Guidance provided in our 2016 Financial Report	Results for the six-month period ended June 30, 2017	2017 guidance update ⁽²⁾
Consolidated	EBIT before special items ⁽¹⁾ in the range of \$530 million to \$630 million.	EBIT before special items ⁽¹⁾ of \$292 million.	EBIT before special items ⁽¹⁾ in the range of \$580 million to \$630 million.
Business Aircraft	EBIT margin before special items ⁽¹⁾ of approximately 7.5%.	EBIT margin before special items ⁽¹⁾ of 8.4%.	EBIT margin before special items ⁽¹⁾ of approximately 8.0%.
Aerostructures and Engineering Services	EBIT margin before special items ⁽¹⁾ above 8.5%.	EBIT margin before special items ⁽¹⁾ of 7.6%.	EBIT margin before special items ⁽¹⁾ of approximately 8.0%.
Transportation	EBIT margin before special items ⁽¹⁾ of approximately 7.5%.	EBIT margin before special items ⁽¹⁾ of 8.1%.	EBIT margin before special items ⁽¹⁾ of approximately 8.0%.

Consolidated⁽²⁾

On a consolidated basis, we are in line to achieve our 2017 revenue, profitability⁽¹⁾ and free cash flow guidance. We are narrowing our EBIT before special items⁽¹⁾ guidance to the upper end of the range, to between \$580 million and \$630 million, from \$530 million to \$630 million.

Business Aircraft⁽²⁾

Business Aircraft is in line to achieve 2017 revenue guidance of approximately \$5.0 billion and approximately 135 deliveries. We are increasing our Business Aircraft profitability guidance⁽¹⁾ for the full year 2017 to approximately 8.0%, mainly due to the strong performance in the first half of the year.

Commercial Aircraft⁽²⁾

Commercial Aircraft is in line to achieve 2017 revenue guidance of approximately \$2.9 billion and between approximately 80 to 85 deliveries. We are reaffirming our full year profitability guidance.⁽¹⁾

Aerostructures and Engineering Services⁽²⁾

Aerostructures and Engineering Services is in line to achieve 2017 revenue guidance of approximately \$1.7 billion. We are revising Aerostructures and Engineering Services profitability guidance⁽¹⁾ for the full year 2017 to approximately 8.0%, mainly due to the performance in the first half of the year.

Transportation⁽²⁾

Transportation is in line to achieve 2017 revenue guidance of approximately \$8.5 billion. We are increasing Transportation's profitability guidance⁽¹⁾ for the year to approximately 8.0%, mainly due to the strong performance in the first half of the year, which was driven by strong project execution.

⁽¹⁾ Profitability guidance is based on EBIT or EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Consolidated results of operations section, as well as each reportable segment's Analysis of results section for reconciliations to the most comparable IFRS measures for the six-month period ended June 30, 2017.

⁽²⁾ See the forward-looking statements disclaimer and each reportable segment's Guidance and forward-looking statements section in the 2016 Financial Report for details regarding the assumptions on which the guidance is based.

CONSOLIDATED RESULTS OF OPERATIONS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Revenues	\$ 4,092	\$ 4,309	\$ 7,668	\$ 8,223
Cost of sales	3,656	3,840	6,823	7,328
Gross margin	436	469	845	895
SG&A	303	301	563	565
R&D	62	74	106	134
Share of income of joint ventures and associates	(55)	(18)	(87)	(32)
Other expense (income)	(38)	6	(29)	(8)
EBIT before special items⁽¹⁾	164	106	292	236
Special items	287	357	310	431
EBIT	(123)	(251)	(18)	(195)
Financing expense	194	187	333	355
Financing income	(12)	(11)	(22)	(19)
EBT	(305)	(427)	(329)	(531)
Income taxes	(9)	63	(2)	97
Net loss	\$ (296)	\$ (490)	\$ (327)	\$ (628)
Attributable to				
Equity holders of Bombardier Inc.	\$ (289)	\$ (531)	\$ (317)	\$ (692)
NCI	\$ (7)	\$ 41	\$ (10)	\$ 64
EPS (in dollars)				
Basic and diluted	\$ (0.13)	\$ (0.24)	\$ (0.15)	\$ (0.32)
(as a percentage of total revenues)				
EBIT before special items ⁽¹⁾	4.0 %	2.5 %	3.8 %	2.9 %
EBIT	(3.0)%	(5.8)%	(0.2)%	(2.4)%

Non-GAAP financial measures⁽¹⁾

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
EBITDA	\$ (2)	\$ (153)	\$ 181	\$ (8)
EBITDA before special items	\$ 247	\$ 204	\$ 453	\$ 423
Adjusted net income (loss)	\$ 39	\$ (83)	\$ 41	\$ (117)
Adjusted EPS	\$ 0.02	\$ (0.06)	\$ 0.02	\$ (0.09)

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

Reconciliation of segment to consolidated results

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Revenues				
Business Aircraft	\$ 1,386	\$ 1,473	\$ 2,393	\$ 2,776
Commercial Aircraft	640	764	1,180	1,380
Aerostructures and Engineering Services	426	425	814	893
Transportation	1,975	1,964	3,898	3,844
Corporate and Elimination	(335)	(317)	(617)	(670)
	\$ 4,092	\$ 4,309	\$ 7,668	\$ 8,223
EBIT before special items⁽¹⁾				
Business Aircraft	\$ 123	\$ 98	\$ 200	\$ 185
Commercial Aircraft	(86)	(103)	(141)	(169)
Aerostructures and Engineering Services	33	30	62	65
Transportation	161	124	314	239
Corporate and Elimination	(67)	(43)	(143)	(84)
	\$ 164	\$ 106	\$ 292	\$ 236
Special Items				
Business Aircraft	\$ 28	\$ (114)	\$ 31	\$ (109)
Commercial Aircraft	1	483	2	483
Aerostructures and Engineering Services	—	(39)	—	(19)
Transportation	213	37	232	129
Corporate and Elimination	45	(10)	45	(53)
	\$ 287	\$ 357	\$ 310	\$ 431
EBIT				
Business Aircraft	\$ 95	\$ 212	\$ 169	\$ 294
Commercial Aircraft	(87)	(586)	(143)	(652)
Aerostructures and Engineering Services	33	69	62	84
Transportation	(52)	87	82	110
Corporate and Elimination	(112)	(33)	(188)	(31)
	\$ (123)	\$ (251)	\$ (18)	\$ (195)

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

Analysis of consolidated results

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

Special items

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

Special items were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2017	2016	2017	2016
Restructuring charges	1	\$ 218	\$ 44	\$ 241	\$ 156
<i>Primove</i> impairment and other costs	2	45	—	45	—
Re-negotiation of a commercial agreement	3	35	—	35	—
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions	4	(11)	(54)	(11)	(54)
Onerous contracts provision - <i>C Series</i> aircraft program	5	—	492	—	492
Pension obligation	6	—	(139)	—	(139)
Tax litigation	7	—	40	—	40
Foreign exchange gains related to the sale of a minority stake in Transportation	8	—	—	—	(38)
Transaction costs	9	—	—	—	8
Tax impacts of special items		(8)	(3)	(9)	(13)
		\$ 279	\$ 380	\$ 301	\$ 452
Of which is presented in					
Special items in EBIT		\$ 287	\$ 357	\$ 310	\$ 431
Financing expense - interests related to tax litigation	7	—	26	—	26
Financing expense - transaction costs	9	—	—	—	8
Income taxes - effect of special items		(8)	(3)	(9)	(13)
		\$ 279	\$ 380	\$ 301	\$ 452

- For the three- and six-month periods ended June 30, 2017, represents severance charges of \$188 million and \$211 million, respectively, partially offset by curtailment gains of \$2 million, and impairment charges of PP&E of \$32 million, all related to previously-announced restructuring actions. For the three- and six-month periods ended June 30, 2016, represents restructuring charges of \$48 million and \$173 million, respectively, and curtailment gains of \$4 million and \$17 million, respectively, also related to previously-announced restructuring actions.
- 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, we recorded an inventory write-down of \$22 million, impairment charges of PP&E of \$6 million, and a contract provision of \$17 million, in Corporate and Elimination. *Primove* offers e-mobility solutions for several types of electronic rail and road vehicles.
- 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.
- Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, we reduced the related provisions by \$11 million in the second quarter of 2017 (\$54 million in the second quarter of 2016). The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.
- Represents provision for onerous contracts in conjunction with the closing of *C Series* aircraft firm orders in the second quarter of 2016.

6. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to \$139 million was reversed in the second quarter of 2016.
7. Represents a change in the estimates used to determine the provision related to tax litigation.
8. Represents foreign exchange gains related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation.
9. Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco.

Net financing expense

Net financing expense amounted to \$182 million and \$311 million, respectively, for the three- and six-month periods ended June 30, 2017, compared to \$176 million and \$336 million for the corresponding periods last fiscal year.

The \$6-million increase for the three-month period is mainly due to:

- a higher net loss related to certain financial instruments classified as FVTP&L (\$34 million); and
- higher interest on long-term debt, after the effect of hedges (\$13 million).

Partially offset by:

- interest related to a tax litigation provision recognized last year (\$26 million), recorded as a special item;
- higher borrowing costs capitalized to PP&E and intangible assets (\$11 million); and
- lower amortization of letter of credit facility costs (\$7 million).

The \$25-million decrease for the six-month period is mainly due to:

- interest related to a tax litigation provision recognized last year (\$26 million), recorded as a special item;
- higher borrowing costs capitalized to PP&E and intangible assets (\$23 million);
- lower net financing expense from changes in discount rates of provisions (\$9 million);
- transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco recognized in the corresponding period last year (\$8 million), recorded as a special item; and
- lower amortization of letter of credit facility costs (\$8 million).

Partially offset by:

- higher interest on long-term debt, after the effect of hedges (\$26 million); and
- a higher net loss related to certain financial instruments classified as FVTP&L (\$15 million).

Income taxes

The effective income tax rates for the three- and six-month periods ended June 30, 2017 were 3.0% and 0.6%, respectively, compared to the statutory income tax rate in Canada of 26.7%. The lower 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.

The effective income tax rates for the three- and six-month periods ended June 30, 2016 were (14.8)% and (18.3)%, respectively, compared to the statutory income tax rate in Canada of 26.8%. The negative effective income tax rates were mainly due to the negative impact of the net non-recognition of income tax benefits related to tax losses and temporary differences.

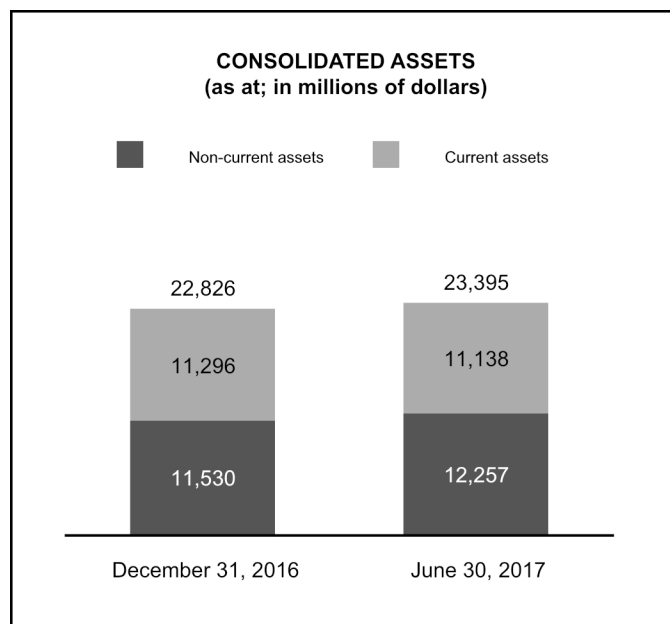
CONSOLIDATED FINANCIAL POSITION

The total assets increased by \$569 million in the six-month period, including a positive currency impact of \$383 million. The \$186-million increase excluding the currency impact is mainly explained by:

- a \$1.1-billion increase in gross inventories mainly in Transportation and Commercial Aircraft; and
- a \$551-million increase in aerospace program tooling. See the Investment in product development tables in Business Aircraft and Commercial Aircraft for details.

Partially offset by:

- a \$1.2-billion decrease in cash and cash equivalents. See the Free cash flow usage and the Variation in cash and cash equivalents tables for details; and
- a \$302-million increase in advances and progress billings related to Transportation.

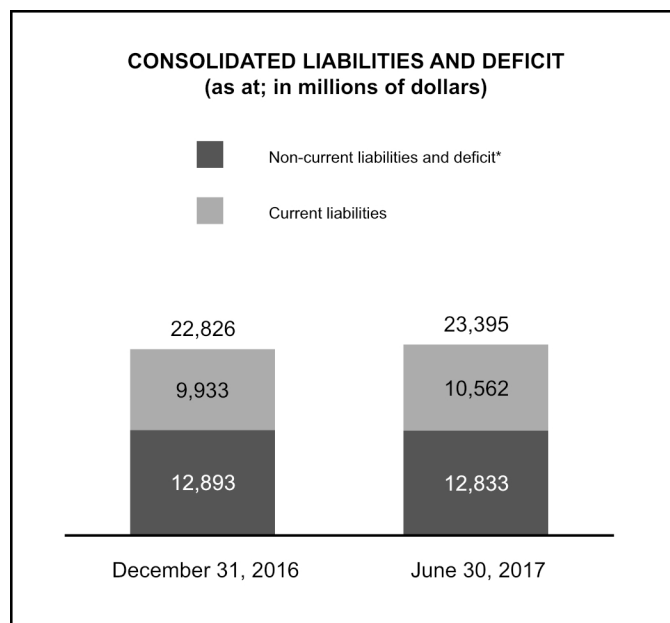


The total liabilities and deficit increased by \$569 million in the six-month period, including a currency impact of \$383 million. The \$186-million increase excluding the currency impact is mainly explained by:

- a \$618-million increase in trade and other payables mainly in Transportation and Commercial Aircraft.

Partially offset by:

- a \$200-million decrease in advances on aerospace programs in Business and Commercial Aircraft; and
- a \$248-million increase in deficit, mainly due to the net loss recorded during the six-month period.



*Includes a deficit of \$3.8 billion as at June 30, 2017 (a deficit of \$3.5 billion as at December 31, 2016).

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow

Free cash flow usage ⁽¹⁾	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Net loss	\$ (296)	\$ (490)	\$ (327)	\$ (628)
Non-cash items				
Amortization	78	98	156	187
Impairment charges on PP&E and intangible assets	43	—	43	—
Deferred income taxes	8	(52)	5	(56)
Share of income of joint ventures and associates	(55)	(18)	(87)	(32)
Other	(19)	3	(12)	(1)
Dividends received from joint ventures and associates	1	34	3	80
Net change in non-cash balances	59	267	(279)	(164)
Cash flows from operating activities	(181)	(158)	(498)	(614)
Net additions to PP&E and intangible assets	(389)	(332)	(665)	(626)
Free cash flow usage⁽¹⁾	(570)	(490)	(1,163)	(1,240)
Net interest and income taxes paid	(164)	(114)	(305)	(317)
Free cash flow usage before net interest and income taxes paid⁽¹⁾	\$ (406)	\$ (376)	\$ (858)	\$ (923)

The \$80-million deterioration of free cash flow usage⁽¹⁾ for the three-month period is mainly due to:

- a negative period-over-period variation in net change in non-cash balances (\$208 million) (see explanations below); and
- higher net additions to PP&E and intangible assets (\$57 million).

Partially offset by:

- lower net loss (\$194 million) mainly explained by lower special items⁽²⁾ and income taxes.

The \$77-million improvement of free cash flow usage⁽¹⁾ for the six-month period is mainly due to:

- lower net loss (\$301 million) mainly explained by lower special items⁽²⁾ and income taxes.

Partially offset by:

- a negative period-over-period variation in net change in non-cash balances (\$115 million) (see explanations below);
- lower dividends received from joint ventures and associates (\$77 million); and
- higher net additions to PP&E and intangible assets (\$39 million).

Net change in non-cash balances

For the three-month period ended June 30, 2017, the \$59-million inflow is mainly due to:

- an increase in trade and other payables mainly related to Transportation and Commercial Aircraft;
- an increase in Transportation's advances and progress billings 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 mainly due to the ramp-up in production in the *C Series* aircraft program.

Partially offset by:

- an increase in Transportation's gross inventories following ramp-up in production ahead of deliveries; and
- a decrease in Business Aircraft and Commercial Aircraft's advances on aerospace programs.

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

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

For the three-month period ended June 30, 2016, the \$267-million inflow is mainly due to:

- an increase in provisions, mainly due to the onerous contracts provision for the *C Series* aircraft program recorded as a special item;
- an increase in Commercial Aircraft's advances on aerospace programs mainly for the *C Series* aircraft program; and
- a decrease in inventories, mainly in Business Aircraft and regional jets, partially offset by an increase in Transportation's gross inventories following ramp-up in production ahead of deliveries and in the *C Series* aircraft program inventory, due to the ramp-up in production and including the impacts of write-downs on early production units.⁽¹⁾

Partially offset by:

- a decrease in Business Aircraft's advances on aerospace programs;
- a decrease in trade and other payables related to Business Aircraft and Transportation, partially offset by an increase in Commercial Aircraft;
- a decrease in the net other financial assets and liabilities; and
- a change in retirement benefit liability, excluding the impact of the remeasurement of defined benefit plans included in OCI, mainly related to the reversal of a constructive obligation for discretionary ad hoc indexation increases to certain pensions, recorded as a special item, following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice.

For the six-month period ended June 30, 2017, the \$279-million outflow is mainly due to:

- an increase in Transportation's gross inventories following ramp-up in production ahead of deliveries;
- a decrease in Business Aircraft and Commercial Aircraft's advances on aerospace programs; and
- an increase in aerospace programs inventories mainly in Commercial Aircraft due to the ramp-up in production of the *C Series* aircraft program and including the impacts of write-downs on early production units⁽¹⁾, partially offset by a decrease in Business Aircraft's inventories.

Partially offset by:

- an increase in trade and other payables mainly related to Transportation and Commercial Aircraft; and
- an increase in Transportation's advances and progress billings on new orders and existing contracts.

For the six-month period ended June 30, 2016, the \$164-million outflow is mainly due to:

- a decrease in trade and other payables mainly related to Business Aircraft and Transportation;
- a decrease in Business Aircraft's advances on aerospace programs;
- a change in retirement benefit liability, excluding the impact of the remeasurement of defined benefit plans included in OCI, mainly related to the reversal of a constructive obligation for discretionary ad hoc indexation increases to certain pensions, recorded as a special item, following a communication to plan members that we do not expect to grant such increases in the foreseeable future in line with our current practice.
- an increase in inventories, mainly due to an increase in Transportation's gross inventories following ramp-up in production ahead of deliveries and in the *C Series* aircraft program, due to the ramp-up in production and including the impacts of write-downs on early production units,⁽¹⁾ partially offset by a decrease in Business Aircraft and regional jets; and
- a decrease in the net other financial assets and liabilities.

Partially offset by:

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

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

Available short-term capital resources

Variation in cash and cash equivalents

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Balance at the beginning of period	\$ 2,887	\$ 3,359	\$ 3,384	\$ 2,720
Free cash flow usage ⁽¹⁾	(570)	(490)	(1,163)	(1,240)
Net change in short-term borrowings	(53)	111	54	111
Dividends paid to NCI	—	—	(48)	(42)
Effect of exchange rate changes on cash and cash equivalents	9	(60)	21	(69)
Repayments of long-term debt	(8)	(39)	(17)	(47)
Dividends paid on preferred shares	(4)	(4)	(8)	(8)
Net proceeds from the sale of minority stakes in subsidiaries	—	466	—	1,932
Other	(44)	(7)	(6)	(21)
Balance at the end of period	\$ 2,217	\$ 3,336	\$ 2,217	\$ 3,336

Available short-term capital resources

	June 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 2,217	\$ 3,384
Available revolving credit facilities	1,073	1,093
Available short-term capital resources	\$ 3,290	\$ 4,477

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 2017, we extended the maturity dates of Transportation's €658-million and the \$400-million⁽²⁾ unsecured revolving credit facilities to May 2020 and June 2020, respectively. In addition, Transportation's €658-million unsecured revolving credit facility was decreased to €640 million (\$730 million).

Short-term borrowings of €50 million (\$57 million) remain outstanding under Transportation's €640-million (\$730-million) unsecured revolving credit facility as at June 30, 2017 (nil as at December 31, 2016).

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

⁽²⁾ Available for other than Transportation's usage.

Letter of credit facilities

In March 2017, we extended the availability periods of Transportation's €3.31-billion (\$3.8 billion) and the \$400-million⁽¹⁾ letter of credit facilities by one year to May 2020 and June 2020, respectively. In May 2017, the committed amount under Transportation's facility was increased to €3.5 billion (\$4.0 billion).

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

Financial covenants

Effective March 2017, the minimum liquidity level of \$750 million at the end of each quarter required by the \$400-million⁽¹⁾ letter of credit facility and the \$400-million⁽¹⁾ unsecured revolving credit facility, is now between \$750 million and \$850 million depending on the level of the EBITDA to fixed charges ratio. The remaining covenants continue to require a minimum EBITDA to fixed charges ratio, a maximum gross debt and a minimum EBITDA threshold, all calculated based on an adjusted consolidated basis, excluding Transportation.

Transportation's letter of credit facility and unsecured revolving facility continue to require a minimum liquidity level of €600 million (\$685 million) at the end of each quarter, as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a Transportation stand-alone basis.

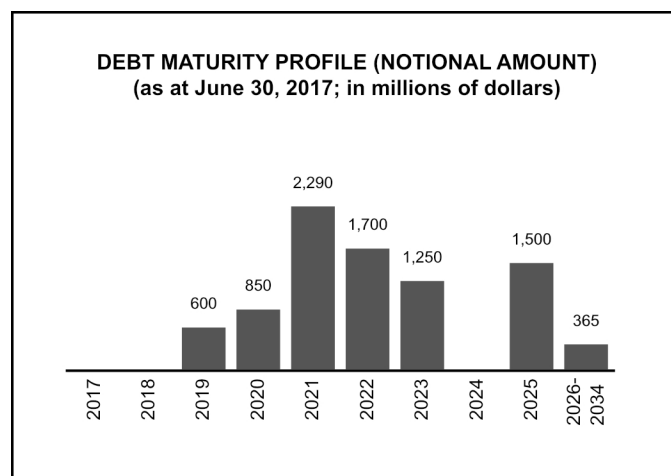
These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to any specific terms used in the MD&A. Minimum liquidity is not defined as comprising only cash and cash equivalents as presented in the consolidated statement of financial position.

The financial covenants under these credit facilities were all met as at June 30, 2017 and December 31, 2016.

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

Future liquidity requirements

We consider that our cash flows from operating activities, combined with our available short-term capital resources of \$3.3 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 2019.



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	
	June 30, 2017	December 31, 2016
Adjusted EBIT ⁽¹⁾	\$ 542	\$ 498
Adjusted interest ⁽¹⁾	\$ 627	\$ 618
Adjusted EBIT to adjusted interest ratio	0.9	0.8

The interest coverage ratio improved as a result of higher adjusted EBIT mainly due to higher EBIT before special items.

Financial leverage ratio

	As at and for the four-quarter trailing periods ended	
	June 30, 2017	December 31, 2016
Adjusted debt ⁽¹⁾	\$ 9,268	\$ 9,184
Adjusted EBITDA ⁽¹⁾	\$ 960	\$ 943
Adjusted debt to adjusted EBITDA ratio	9.7	9.7

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.

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

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to \$2.7 billion as at June 30, 2017 (\$2.5 billion as at December 31, 2016). 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 \$160-million increase in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability

Balance as at December 31, 2016	\$ 2,523 ⁽¹⁾
Changes in discount rates and other financial assumptions	408
Other net actuarial losses on defined benefit obligations	(88)
Actuarial gains on pension plan assets	(295)
Employer contributions	(152)
Service costs	132
Changes in foreign exchange rates	111
Accretion on net retirement benefit obligation	38
Other	6
Balance as at June 30, 2017	\$ 2,683 ⁽¹⁾

⁽¹⁾ Includes retirement benefit assets of \$122 million as at June 30, 2017 (\$124 million as at December 31, 2016).

NON-GAAP FINANCIAL MEASURES

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

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

We believe that providing certain non-GAAP financial measures in addition to IFRS measures provides users of our 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 performance measures does not imply that these items are necessarily non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities in our industry may define the above measures differently than we do. In those cases, it may be difficult to compare the performance of those entities to ours based on these similarly-named non-GAAP measures.

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

- EBIT before special items to EBIT – see the Results of operations tables in the 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	
	2017	2016	2017	2016
EBIT	\$ (123)	\$ (251)	\$ (18)	\$ (195)
Amortization	78	98	156	187
Impairment charges on PP&E and intangible assets ⁽¹⁾	43	—	43	—
EBITDA	(2)	(153)	181	(8)
Special items excluding impairment charges on PP&E and intangible assets ⁽¹⁾	249	357	272	431
EBITDA before special items	\$ 247	\$ 204	\$ 453	\$ 423

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

	Three-month periods ended June 30			
	2017		2016	
	(per share)		(per share)	
Net loss	\$ (296)		\$ (490)	
Adjustments to EBIT related to special items ⁽¹⁾	287	\$ 0.13	357	\$ 0.16
Adjustments to net financing expense related to:				
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments	39	0.02	10	0.00
Accretion on net retirement benefit obligations	19	0.01	17	0.01
Interest related to tax litigation ⁽¹⁾	—	—	26	0.01
Tax impact of special ⁽¹⁾ and other adjusting items	(10)	(0.01)	(3)	0.00
Adjusted net income (loss)	39		(83)	
Net loss (income) attributable to NCI	7		(41)	
Preferred share dividends, including taxes	(6)		(6)	
Adjusted net income (loss) attributable to equity holders of Bombardier Inc.	\$ 40		\$ (130)	
Weighted-average diluted number of common shares (in thousands)	2,239,122		2,222,874	
Adjusted EPS (in dollars)	\$ 0.02		\$ (0.06)	

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

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Three-month periods ended June 30	
	2017	2016
Diluted EPS	\$ (0.13)	\$ (0.24)
Impact of special ⁽¹⁾ and other adjusting items	0.15	0.18
Adjusted EPS	\$ 0.02	\$ (0.06)

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

	Six-month periods ended June 30			
	2017		2016	
	(per share)		(per share)	
Net loss	\$ (327)		\$ (628)	
Adjustments to EBIT related to special items ⁽¹⁾	310	\$ 0.14	431	\$ 0.19
Adjustments to net financing expense related to:				
Accretion on net retirement benefit obligations	38	0.02	34	0.02
Net change in provisions arising from changes in interest rates and net (gain) loss on certain financial instruments	31	0.01	25	0.01
Interest related to tax litigation ⁽¹⁾	—	—	26	0.01
Transaction costs related to the conversion option embedded in the CDPQ investment ⁽¹⁾	—	—	8	0.00
Tax impact of special ⁽¹⁾ and other adjusting items	(11)	0.00	(13)	0.00
Adjusted net income (loss)	41		(117)	
Net loss (income) attributable to NCI	10		(64)	
Preferred share dividends, including taxes	(12)		(11)	
Adjusted net income (loss) attributable to equity holders of Bombardier Inc.	\$ 39		\$ (192)	
Weighted-average diluted number of common shares (in thousands)	2,244,283		2,222,942	
Adjusted EPS (in dollars)	\$ 0.02		\$ (0.09)	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Six-month periods ended June 30	
	2017	2016
Diluted EPS	\$ (0.15)	\$ (0.32)
Impact of special ⁽¹⁾ and other adjusting items	0.17	0.23
Adjusted EPS	\$ 0.02	\$ (0.09)

Reconciliation of adjusted debt to long-term debt

	As at	
	June 30, 2017	December 31, 2016
Long-term debt	\$ 8,807	\$ 8,769
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	(251)	(278)
Long-term debt, net	8,556	8,491
Short-term borrowings ⁽²⁾	57	—
Operating lease obligations ⁽³⁾	655	668
Sale and leaseback obligations	—	25
Adjusted debt	\$ 9,268	\$ 9,184

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

⁽²⁾ Relates to amounts drawn under Transportation's €640-million (\$730-million) unsecured revolving credit facility. Also see Note 18 - Credit facilities.

⁽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, 2017	December 31, 2016
EBIT	\$ 119	\$ (58)
Special items ⁽¹⁾	364	485
Interest received	21	20
Interest adjustment for operating leases ⁽²⁾	38	51
Adjusted EBIT	542	498
Amortization	340	371
Impairment charges on PP&E and intangible assets ⁽³⁾	5	—
Amortization adjustment for operating leases ⁽⁴⁾	73	74
Adjusted EBITDA	\$ 960	\$ 943

Reconciliation of adjusted interest to interest paid

	Four-quarter trailing periods ended	
	June 30, 2017	December 31, 2016
Interest paid	\$ 588	\$ 565
Interest adjustment for operating leases ⁽²⁾	38	51
Accretion expense on sale and leaseback obligations	1	2
Adjusted interest	\$ 627	\$ 618

⁽¹⁾ Refer to the Consolidated results of operations section for details regarding special items for the six-month periods ended June 30, 2017 and 2016. The special items included in EBIT in the third and fourth quarters of 2016 relate to: restructuring charges of \$59 million and \$5 million of reduction of provisions related to the cancellation of the *Learjet 85* aircraft program.

⁽²⁾ 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.

⁽³⁾ Excluding amounts recognized as special items.

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

BUSINESS AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2017	2016	Variance
Revenues	\$ 1,386	\$ 1,473	(6)%
Aircraft deliveries (in units)	36	42	(6)
EBIT	\$ 95	\$ 212	(55)%
EBIT margin	6.9%	14.4%	(750) bps
EBIT before special items ⁽¹⁾	\$ 123	\$ 98	26 %
EBIT margin before special items ⁽¹⁾	8.9%	6.7%	220 bps
EBITDA before special items ⁽¹⁾	\$ 148	\$ 146	1 %
EBITDA margin before special items ⁽¹⁾	10.7%	9.9%	80 bps
Net additions to PP&E and intangible assets	\$ 373	\$ 162	130 %
As at	June 30, 2017	December 31, 2016	
Order backlog (in billions of dollars)	\$ 14.7	\$ 15.4	(5)%

Key highlights and events

- We are increasing our EBIT margin before special items⁽¹⁾ guidance to approximately 8.0% and reaffirming our revenue and delivery guidance for the year.
- Delivered 36 aircraft in the second quarter, including a high level of *Global* aircraft deliveries, yielding a strong EBIT margin before special items⁽¹⁾ of 8.9%. On a year-to-date basis, deliveries total 65 aircraft, on target to reach our full year guidance of 135 aircraft deliveries.
- In May 2017, we unveiled the new Premier cabin for the *Global 5000* and *Global 6000* business jets. The new design draws inspiration from the high-end craftsmanship and the spaciousness, comfort and productivity of the *Global 7000* and *Global 8000* aircraft cabins.
- Continued to progress on the *Global 7000* and *Global 8000* aircraft program with three FTVs in flight testing, cumulating more than 500 flight hours. The flight validation program and aircraft systems integration are demonstrating a high degree of maturity. We also entered into a comprehensive settlement agreement with Triumph Aerostructures LLC that resolves all outstanding commercial disputes related to the manufacture of the aircraft program's wing. Multiple production aircraft started moving through the assembly line and the program is on track for EIS in the second half of 2018.
- In line with our strategy to grow our aftermarket business, we inaugurated two service centres at the Biggin Hill Airport in London, England, and in Tianjin, China, further strengthening our customer support network.
- In June 2017, we achieved the historic milestone of delivering the 3,000th *Learjet* business jet manufactured, which was also the 100th *Learjet 75* aircraft to be delivered.

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

2017 GUIDANCE UPDATE

The following is an update of profitability guidance⁽¹⁾ provided in our 2016 Financial Report.

Guidance provided in our 2016 Financial Report	Results for the six-month period ended June 30, 2017	2017 guidance update ⁽²⁾
EBIT margin before special items ⁽¹⁾ of approximately 7.5%.	EBIT margin before special items ⁽¹⁾ of 8.4%.	EBIT margin before special items ⁽¹⁾ of approximately 8.0%.

Business Aircraft is in line to achieve 2017 revenue guidance of approximately \$5.0 billion and approximately 135 deliveries. We are increasing our Business Aircraft profitability guidance⁽¹⁾ for the full year 2017 to approximately 8.0%, mainly due to the strong performance in the first half of the year.

⁽¹⁾ Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Analysis of results section for a reconciliation to the most comparable IFRS measure for the six-month period ended June 30, 2017.

⁽²⁾ See the forward-looking statements disclaimer and Business Aircraft's Guidance and forward-looking statements section in the 2016 Financial Report for details regarding the assumptions on which the guidance is based.

INDUSTRY AND ECONOMIC ENVIRONMENT

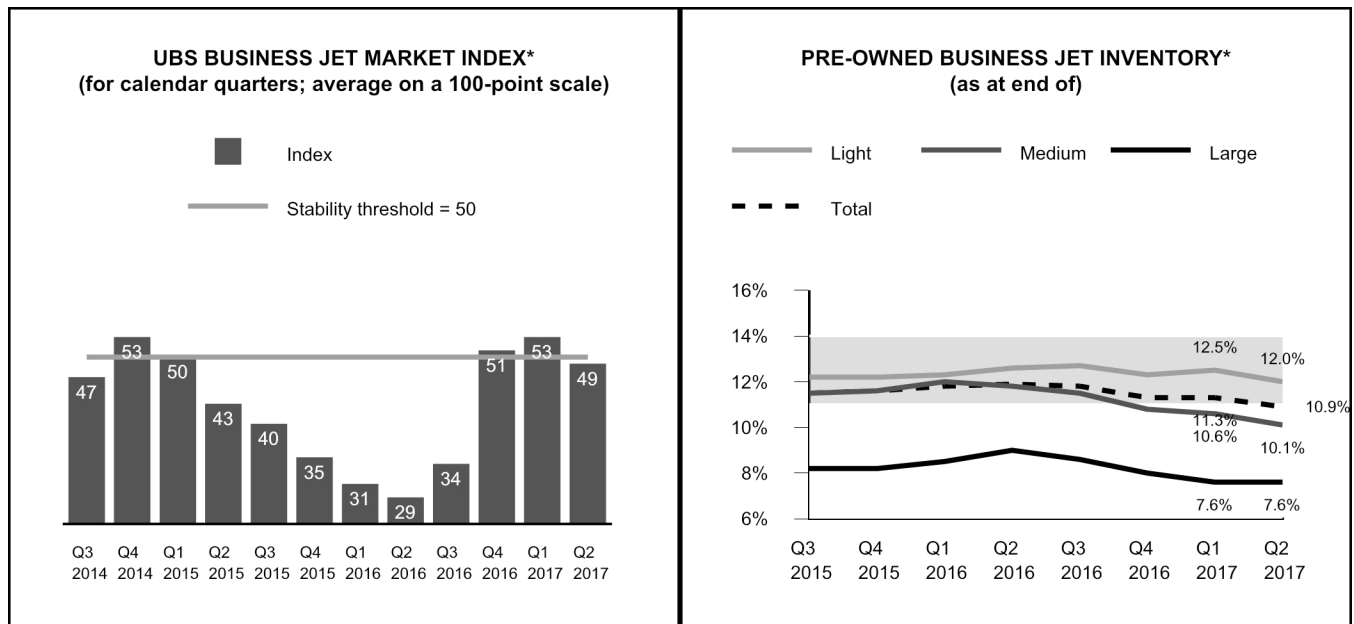
Industry short-term indicators are stable. Industry confidence⁽¹⁾ was near the threshold of market stability as at the end of the second quarter.⁽²⁾ As indicated in the graphs below, overall business jet utilization in the U.S. and Europe increased compared to the same periods in the last three years. The global economy is expected to grow at a rate of 2.8% in 2017, higher than growth of 2.3% in 2016.⁽³⁾ The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet stood at 10.9% as at June 30, 2017, a decrease from 11.3% as at March 31, 2017. We consider this level of pre-owned inventory to be in line with the low end of the normal range for the overall market.

We remain confident in the potential of the business aircraft industry, with significant growth expected in the long term due to a better economic outlook combined with the introduction of new aircraft models and technologies.

⁽¹⁾ As measured by the UBS Business Jet Market Index.

⁽²⁾ According to the June 2017 UBS Business Jet Survey.

⁽³⁾ According to "Oxford Economics Global Data Report" dated July 17, 2017.

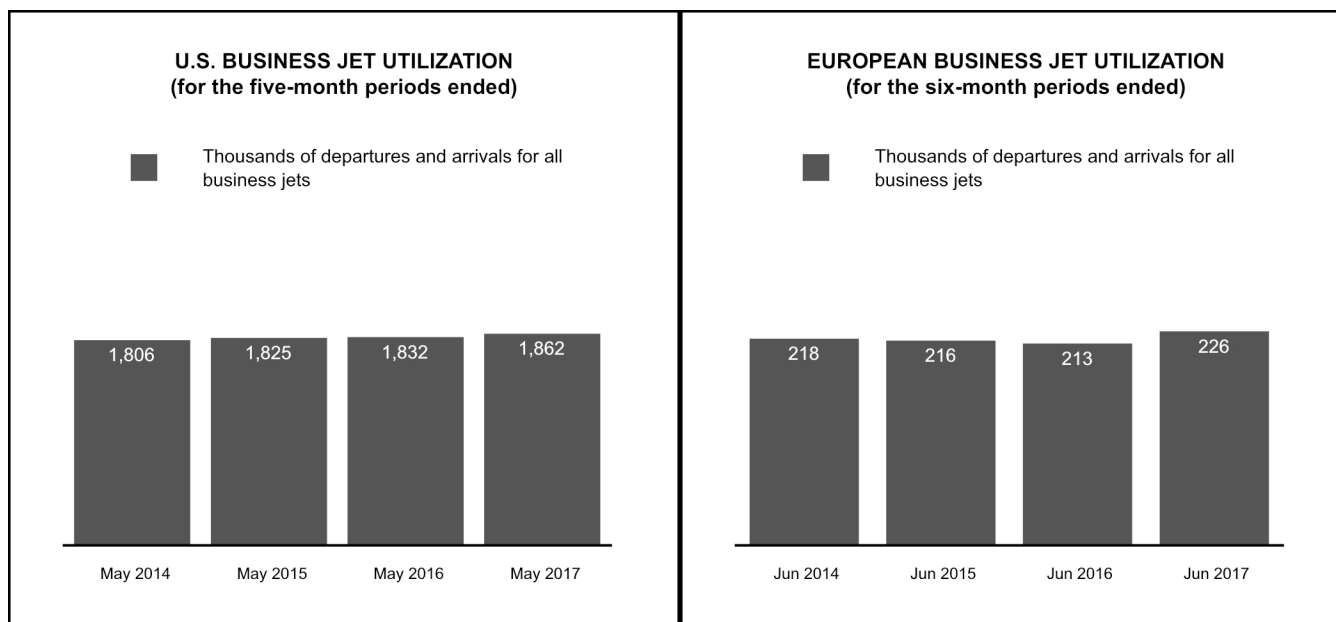


Source: UBS

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

Sources: JETNET and Ascend online

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



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

Source: Eurocontrol

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Revenues	\$ 1,386	\$ 1,473	\$ 2,393	\$ 2,776
EBITDA before special items⁽¹⁾	\$ 148	\$ 146	\$ 245	\$ 258
Amortization	25	48	45	73
EBIT before special items⁽¹⁾	123	98	200	185
Special items	28	(114)	31	(109)
EBIT	\$ 95	\$ 212	\$ 169	\$ 294
EBIT margin before special items ⁽¹⁾	8.9%	6.7%	8.4%	6.7%
EBIT margin	6.9%	14.4%	7.1%	10.6%

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

Revenues

Planned lower aircraft deliveries, as well as lower revenues from sales of pre-owned aircraft reflecting a lower level of pre-owned aircraft inventory, are the main drivers of the \$87-million and \$383-million decreases for the three- and six-month periods, respectively.

Special items

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

The special items were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2017	2016	2017	2016
Re-negotiation of a commercial agreement	1	\$ 35	\$ —	\$ 35	\$ —
Restructuring charges	2	4	3	7	8
Pension obligation	3	—	(63)	—	(63)
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions	4	(11)	(54)	(11)	(54)
		\$ 28	\$ (114)	\$ 31	\$ (109)
EBIT margin impact		(2.0)%	7.7%	(1.3)%	3.9%

1. 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.
2. Represent restructuring charges related to previously-announced restructuring actions.
3. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members, in the second quarter of 2016, that we do not expect to grant such increases in the foreseeable future in line with our current practice, the constructive obligation amounting to \$63 million was reversed.
4. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, we reduced the related provisions by \$11 million and \$54 million in the second quarters of 2017 and 2016, respectively. 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 increased by 2.2 percentage points, mainly as a result of:

- lower aerospace program tooling amortization included in R&D expense;
- improved margins on pre-owned aircraft activities; and
- favourable mix of aircraft deliveries.

Partially offset by:

- lower absorption of SG&A expenses as well as aircraft program costs due to lower revenues as planned.

Including the impact of special items (see explanation of special items above), the EBIT margin for the three-month period decreased by 7.5 percentage points compared to the same period last year.

The EBIT margin before special items for the six-month period increased by 1.7 percentage points, mainly as a result of:

- lower aerospace program tooling amortization included in R&D expense; and
- improved margins on pre-owned aircraft activities.

Partially offset by:

- lower absorption of SG&A expenses as well as aircraft program costs due to lower revenues as planned.

Including the impact of special items (see explanation of special items above), the EBIT margin for the six-month period decreased by 3.5 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	
	2017	2016	2017	2016
Program tooling ⁽¹⁾	\$ 369	\$ 161	\$ 545	\$ 323
R&D expense ⁽²⁾	3	1	5	2
	\$ 372	\$ 162	\$ 550	\$ 325
As a percentage of revenues	26.8%	11.0%	23.0%	11.7%

The carrying amount of business aircraft program tooling⁽³⁾ as at June 30, 2017 was \$3.2 billion, compared to \$2.6 billion as at December 31, 2016.

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

On May 10, 2017, the third *Global 7000* FTV joined the *Global 7000* and *Global 8000* flight test program, which has now exceeded 500 flight hours. Progress continues on the program's two remaining FTVs, which are in advanced stages of pre-flight preparation while multiple production aircraft are on the final assembly line.

In addition, ground testing continues with several test rigs to ensure all systems operate with the highest level of reliability when the aircraft enters into service.

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

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

⁽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 \$13 million and \$22 million, respectively, for the three- and six-month periods ended June 30, 2017 (\$33 million and \$58 million, respectively, for the three- and six-month periods ended June 30, 2016), as the related investments are already included in aerospace program tooling.

⁽³⁾ Capitalized borrowing costs included in the business aircraft aerospace program tooling balance amounted to \$345 million as at June 30, 2017 (\$266 million as at December 31, 2016).

Aircraft deliveries and industry-leading order backlog

Aircraft deliveries

(in units)	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Light				
<i>Learjet 70/75</i>	3	5	8	6
Medium				
<i>Challenger 350</i>	12	16	21	30
<i>Challenger 605/650</i>	6	7	12	9
<i>Challenger 850</i>	—	—	1	—
Large				
<i>Global 5000/Global 6000</i>	15	14	23	28
	36	42	65	73

Order backlog

(in billions of dollars)	As at	
	June 30, 2017	December 31, 2016
	\$ 14.7	\$ 15.4

COMMERCIAL AIRCRAFT

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2017	2016	Variance
Revenues	\$ 640	\$ 764	(16)%
Aircraft deliveries (in units)	20	27	(7)
Net orders (in units)	12	159	(147)
Book-to-bill ratio ⁽¹⁾	0.6	5.9	(5.3)
EBIT	\$ (87)	\$ (586)	85 %
EBIT margin	(13.6)%	(76.7)%	nmf
EBIT before special items ⁽²⁾	\$ (86)	\$ (103)	17 %
EBIT margin before special items ⁽²⁾	(13.4)%	(13.5)%	10 bps
EBITDA before special items ⁽²⁾	\$ (65)	\$ (90)	28 %
EBITDA margin before special items ⁽²⁾	(10.2)%	(11.8)%	160 bps
Net additions to PP&E and intangible assets	\$ (14)	\$ 137	nmf
As at	June 30, 2017	December 31, 2016	
Order backlog (in units)	424	436	(12)

Key highlights and events

- We are reaffirming our revenue, delivery and EBIT before special items⁽²⁾ guidance for the full year.
- Delivered 20 commercial aircraft during the quarter, including 6 *C Series*, 7 *CRJ Series* and 7 *Q400* aircraft. With year-to-date deliveries of regional aircraft and turboprops totaling 28 aircraft, we reached the halfway mark of our full year delivery guidance for *CRJ Series* and *Q400* aircraft. Production is ramping-up to support approximately 30 *C Series* aircraft deliveries. *C Series* aircraft deliveries are expected to gradually intensify in the second half of the year.
- Including deliveries during the month of July 2017, *C Series* aircraft fleet now totals 16 aircraft, with both the *CS100* and *CS300* aircraft continuing to perform well with Swiss International Air Lines (SWISS) and Air Baltic Corporation AS (airBaltic).
- During the quarter, we received firm orders for 12 *Q400* aircraft, valued at \$397 million at list price, and letters of intent (LOI) for up to 52 *Q400* aircraft, valued at up to \$1.8 billion at list price. This order activity includes an LOI from SpiceJet for up to 50 aircraft, and the exercise of options by Philippine Airlines for 7 additional aircraft.
- With respect to the petition filed by The Boeing Company (Boeing) before the U.S. Department of Commerce and the U.S. International Trade Commission regarding the alleged threat caused by future exports of *C Series* family of aircraft to the U.S., we disagree with the assertions and are responding to the petition proceedings. We expect the U.S. Department of Commerce to issue its preliminary determinations on applicable duties, if any, during the fall of 2017 and to issue its final determinations during the first half of 2018.

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

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

INDUSTRY AND ECONOMIC ENVIRONMENT

Since the beginning of 2017, the demand for air travel, measured by revenue passenger kilometres (“RPK”),⁽¹⁾ continues to show robust growth for commercial airlines compared to the same period last year, driven by stronger global economic conditions and lower airfares.⁽²⁾

Scheduled domestic and international commercial air travel, measured by RPK, were 7.3% and 8.3% higher, respectively, during the year-to-date period ended May 2017, compared to the same period last year. Commercial airlines worldwide achieved domestic and international passenger load factors⁽³⁾ of 82.0% and 79.5%, respectively, during the year-to-date period ended May 2017, and were higher than the 80.7% and 77.9% respective levels experienced during the same period in 2016.⁽²⁾

For domestic commercial air travel specifically, increases in China, the U.S. and India account for most of the 7.3% increase in RPK compared to the same period last year. On the international commercial air travel side, increases in Europe, Asia-Pacific and the Middle-East account for most of the 8.3% increase in RPK compared to the same period last year.⁽²⁾

Regional passenger traffic measured by RPK for the four leading U.S. network carriers⁽⁴⁾ and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., Commercial Aircraft’s largest market, decreased by 1.3% during the year-to-date period ended June 2017, compared to the same period last year. These airlines achieved an average passenger load factor of 79.0% during the year-to-date period ended June 2017, compared to 79.7% during the same period in 2016.

In June 2017, crude oil prices reached their lowest levels in seven months. Oil prices stood at approximately \$47 per barrel at the end of June 2017.⁽⁵⁾ The futures markets currently expect only a modest increase in oil prices from current levels over the medium term.⁽⁶⁾ This could lead some airlines to delay their decision to renew their fleet in the short term, but low fuel prices should continue to help improve airline profitability, which in turn provides an opportunity for airlines to reinvest in their fleets. In addition, 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 2017. IATA forecasts commercial airline profits of \$31.4 billion for 2017, down from 2016 estimated profits of \$34.8 billion. Air travel growth has been strong in 2017 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, which helped to sustain load factors, and ancillaries.⁽⁷⁾

⁽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 2017 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.

⁽⁴⁾ Delta Air Lines, American Airlines, United Airlines, and Alaska Air.

⁽⁵⁾ Per the U.S. Energy Information Administration’s (EIA) website.

⁽⁶⁾ Per IATA’s May-June 2017 Airlines Financial Monitor report.

⁽⁷⁾ Per IATA’s June 2017 semi-annual Economic Performance of the Airline Industry report.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Revenues	\$ 640	\$ 764	\$ 1,180	\$ 1,380
EBITDA before special items⁽¹⁾	\$ (65)	\$ (90)	\$ (102)	\$ (130)
Amortization	16	13	34	39
Impairment charges on PP&E and intangible assets	5	—	5	—
EBIT before special items⁽¹⁾	(86)	(103)	(141)	(169)
Special items	1	483	2	483
EBIT	\$ (87)	\$ (586)	\$ (143)	\$ (652)
EBIT margin before special items ⁽¹⁾	(13.4)%	(13.5)%	(11.9)%	(12.2)%
EBIT margin	(13.6)%	(76.7)%	(12.1)%	(47.2)%

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

Revenues

The \$124-million and \$200-million decreases for the three- and six-month periods, respectively, are mainly due to fewer deliveries of regional jets following the previously-announced production rate adjustment, 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 were as follows:

	Ref	Three-month periods ended June 30		Six-month periods ended June 30	
		2017	2016	2017	2016
Restructuring charges	1	\$ 1	\$ —	\$ 2	\$ —
Onerous contracts provision - <i>C Series</i> aircraft program	2	—	516	—	516
Pension obligation	3	—	(33)	—	(33)
		\$ 1	\$ 483	\$ 2	\$ 483
EBIT margin impact		(0.2)%	(63.2)%	(0.2)%	(35.0)%

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

EBIT margin

The EBIT margin before special items for the three-month period remained relatively stable, mainly as a result of:

- higher other income mainly due to a net positive variance of certain financial instruments carried at fair value and a gain on disposal of PP&E;
- improved margins related to pre-owned aircraft activities; and
- stronger contribution from aftermarket activities due to higher margins this year as well as a favourable mix between aftermarket activities and aircraft deliveries.

Partially offset by:

- lower aircraft margins, mainly due to the *C Series* aircraft program production ramp-up, partially offset by a favourable Canadian dollar exchange rate, after giving effect to hedges.

Including the impact of special items (see explanation of special items above), the EBIT margin for the three-month period increased by 63.1 percentage points compared to the same period last year.

The EBIT margin before special items for the six-month period increased by 0.3 percentage point, mainly as a result of:

- higher other income mainly due to a gain on disposal of PP&E and a net positive variance of certain financial instruments carried at fair value;
- stronger contribution from aftermarket activities due to higher margins this year as well as a favourable mix between aftermarket activities and aircraft deliveries; and
- improved margins related to pre-owned aircraft activities.

Partially offset by:

- lower aircraft margins, mainly due to the *C Series* aircraft program production ramp-up, partially offset by a favourable Canadian dollar exchange rate, after giving effect to hedges.

Including the impact of special items (see explanation of special items above), the EBIT margin for the six-month period increased by 35.1 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	
	2017	2016	2017	2016
Program tooling ⁽¹⁾	\$ 13	\$ 130	\$ 80	\$ 225
R&D expense ⁽²⁾	1	—	2	1
	\$ 14	\$ 130	\$ 82	\$ 226
As a percentage of revenues	2.2%	17.0%	6.9%	16.4%

The carrying amount of commercial aircraft program tooling⁽³⁾ as at June 30, 2017 was \$2.6 billion, at a similar level compared to the amount as at December 31, 2016.

⁽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 \$9 million and \$17 million, respectively, for the three- and six-month periods ended June 30, 2017 (\$6 million and \$11 million, respectively, for the three- and six-month periods ended June 30, 2016), as the related investments are already included in aerospace program tooling.

⁽³⁾ Capitalized borrowing costs included in the commercial aircraft aerospace program tooling balance amounted to \$298 million as at June 30, 2017 (\$299 million as at December 31, 2016).

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	
	2017	2016	2017	2016
Commercial jets				
<i>CS100</i>	3	1	3	1
<i>CS300</i>	3	—	4	—
Regional jets				
<i>CRJ700</i>	1	1	1	1
<i>CRJ900</i>	4	15	11	27
<i>CRJ1000</i>	2	2	3	4
Turboprops				
<i>Q400</i>	7	8	13	14
	20	27	35	47

Net orders

(in units)	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Commercial jets				
<i>CS100</i>	—	75	—	75
<i>CS300</i>	—	52	—	52
Regional jets				
<i>CRJ900</i>	—	17	10	19
Turboprops				
<i>Q400</i>	12	15	13	15
	12	159	23	161
Book-to-bill ratio⁽¹⁾	0.6	5.9	0.7	3.4

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

The following significant orders were received during the six-month period ended June 30, 2017:

Customer	Firm order	Value ⁽¹⁾
Second quarter		
Philippine Airlines, Inc. (Philippines)	7 <i>Q400</i>	\$ 235
Ethiopian Airlines Enterprise (Ethiopia)	5 <i>Q400</i>	\$ 162
First quarter		
CityJet (Ireland)	10 <i>CRJ900</i>	\$ 467

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

In June 2017, we signed a letter of intent (LOI) with SpiceJet including 25 *Q400* aircraft and purchase rights for an additional 25 *Q400* aircraft. Based on list price, the LOI could be valued at up to \$1.7 billion. This LOI is not included in the order backlog as at June 30, 2017.

Commercial aircraft order backlog and options

(in units)	June 30, 2017		December 31, 2016	
	Firm orders	Options	Firm orders	Options
Commercial jets				
<i>CS100</i>	115 ⁽¹⁾	99	118 ⁽¹⁾	99
<i>CS300</i>	231 ⁽¹⁾	133	235 ⁽¹⁾	133
Regional jets				
<i>CRJ700</i>	8	—	9	—
<i>CRJ900</i>	25	16	26	18
<i>CRJ1000</i>	14	—	17	—
Turboprops				
<i>Q400</i>	31	6	31	12
	424	254	436	262

⁽¹⁾ The total of 346 orders includes 122 firm orders with conversion rights to the other *C Series* aircraft model as at June 30, 2017 (total of 353 orders included 137 firm orders with conversion rights to the other *C Series* aircraft model as at December 31, 2016).

Consistent with our previously-disclosed production rate adjustments, deliveries of regional jets in the three- and six-month periods ended June 30, 2017 are lower compared to the same periods last year. We are in line with our full year delivery guidance for approximately 80 to 85 aircraft deliveries including approximately 30 deliveries of the *C Series* aircraft family, the low end of our delivery guidance range for this program.

AEROSTRUCTURES AND ENGINEERING SERVICES

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2017	2016	Variance
Revenues	\$ 426	\$ 425	— %
External order intake	\$ 151	\$ 105	44 %
External book-to-bill ratio ⁽¹⁾	1.7	1.0	0.7
EBIT	\$ 33	\$ 69	(52)%
EBIT margin	7.7%	16.2%	(850) bps
EBIT before special items ⁽²⁾	\$ 33	\$ 30	10 %
EBIT margin before special items ⁽²⁾	7.7%	7.1%	60 bps
EBITDA before special items ⁽²⁾	\$ 42	\$ 42	— %
EBITDA margin before special items ⁽²⁾	9.9%	9.9%	0 bps
Net additions to PP&E and intangible assets	\$ 3	\$ 4	(25)%
As at	June 30, 2017	December 31, 2016	
External order backlog	\$ 99	\$ 42	136 %

Key highlights and events

- We are reaffirming our revenue guidance and revising our EBIT margin before special items⁽²⁾ guidance to approximately 8.0% for the year.
- EBIT margin before special items⁽²⁾ was 7.7% for the quarter and 7.6% year-to-date, an improvement compared to the same periods last year, driven mainly by higher margins on intersegment contracts and aftermarket sales.
- Effective July 1, 2017, Michael Ryan became President, Bombardier Aerostructures and Engineering Services. Mr. Ryan, who previously served as Vice President and General Manager of Bombardier's Belfast Aerostructures facility, succeeds Jean Séguin who is retiring after a very successful 36-year career with Bombardier. Mr. Ryan reports directly to Alain Bellemare, President and Chief Executive Officer, Bombardier Inc.

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

⁽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.

2017 GUIDANCE UPDATE

The following is an update of profitability guidance⁽¹⁾ provided in our 2016 Financial Report.

Guidance provided in our 2016 Financial Report	Results for the six-month period ended June 30, 2017	2017 guidance update ⁽²⁾
EBIT margin before special items ⁽¹⁾ above 8.5%.	EBIT margin before special items ⁽¹⁾ of 7.6%.	EBIT margin before special items ⁽¹⁾ of approximately 8.0%.

Aerostructures and Engineering Services is in line to achieve 2017 revenue guidance of approximately \$1.7 billion. We are revising Aerostructures and Engineering Services profitability guidance⁽¹⁾ for the full year 2017 to approximately 8.0%, mainly due to the performance in the first half of the year.

⁽¹⁾ Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Analysis of results section for a reconciliation to the most comparable IFRS measure for the six-month period ended June 30, 2017.

⁽²⁾ See the forward-looking statements disclaimer and Aerostructures and Engineering Services' Guidance and forward-looking statements section in the 2016 Financial Report for details regarding the assumptions on which the guidance is based.

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, short-term indicators of the business jet market are stable. 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	
	2017	2016	2017	2016
Revenues				
External revenues	\$ 90	\$ 109	\$ 197	\$ 224
Intersegment revenues	336	316	617	669
	426	425	814	893
EBITDA before special items⁽¹⁾	\$ 42	\$ 42	\$ 87	\$ 91
Amortization	9	12	25	26
EBIT before special items⁽¹⁾	33	30	62	65
Special items	—	(39)	—	(19)
EBIT	\$ 33	\$ 69	\$ 62	\$ 84
EBIT margin before special items ⁽¹⁾	7.7%	7.1%	7.6%	7.3%
EBIT margin	7.7%	16.2%	7.6%	9.4%

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

Revenues

The \$79-million decrease for the six-month period is due to:

- lower intersegment revenues (\$52 million), mainly due to lower volume for regional aircraft, partially offset by higher volume for the *C Series* aircraft program related to the production ramp-up; and
- lower external revenues (\$27 million), mainly due to lower manufacturing volume, partially offset by an increase in aftermarket sales.

Special items

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

There were no special items in the three- and six-month periods ended June 30, 2017.

The special items for the three- and six-month periods ended June 30, 2016 represented:

- a \$43-million decrease in the pension obligation. Bombardier had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that we no longer expected to grant such increases in the foreseeable future in line with our current practice, the constructive obligation was reversed in the second quarter; and
- restructuring charges related to previously-announced restructuring actions, of which \$20 million was recorded in the first quarter and \$4 million in the second quarter.

EBIT margin

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

- higher margins on intersegment commercial aircraft contracts, due to last year's recognition of expected losses on the *C Series* aircraft program; and
- higher margins on aftermarket sales.

Partially offset by:

- lower margins on external contracts.

Including the impact of special items (see explanation of special items above), the EBIT margin for the three-month period decreased by 8.5 percentage points compared to the same period last year.

The EBIT margin before special items (see explanation of special items above) for the six-month period increased by 0.3 percentage point, mainly as a result of:

- higher margins on intersegment aircraft contracts, mainly due to favourable Canadian dollar and pound sterling exchange rates, after giving effect to hedges, as well as last year's recognition of expected losses on the *C Series* aircraft program; and
- higher margins on aftermarket sales.

Partially offset by:

- lower margins on external contracts.

Including the impact of special items (see explanation of special items above), the EBIT margin for the six-month period decreased by 1.8 percentage points compared to the same period last year.

Order backlog and book-to-bill ratio

External order backlog

	June 30, 2017	As at December 31, 2016
	\$ 99	\$ 42

External order intake and book-to-bill ratio

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
External order intake	\$ 151	\$ 105	\$ 254	\$ 204
External book-to-bill ratio ⁽¹⁾	1.7	1.0	1.3	0.9

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

TRANSPORTATION

HIGHLIGHTS

Results of the quarter

Three-month periods ended June 30	2017	2016	Variance
Revenues	\$ 1,975	\$ 1,964	1 %
Order intake (in billions of dollars)	\$ 2.7	\$ 2.1	29 %
Book-to-bill ratio ⁽¹⁾	1.4	1.1	0.3
EBIT	\$ (52)	\$ 87	(160)%
EBIT margin	(2.6)%	4.4%	(700) bps
EBIT before special items ⁽²⁾	\$ 161	\$ 124	30 %
EBIT margin before special items ⁽²⁾	8.2 %	6.3%	190 bps
EBITDA before special items ⁽²⁾	\$ 188	\$ 149	26 %
EBITDA margin before special items ⁽²⁾	9.5 %	7.6%	190 bps
Net additions to PP&E and intangible assets	\$ 18	\$ 29	(38)%
As at	June 30, 2017	December 31, 2016	
Order backlog (in billions of dollars)	\$ 32.7	\$ 30.1	9 %

Key highlights and events

- We are reaffirming our revenue guidance and increasing our EBIT margin before special items⁽²⁾ guidance to approximately 8.0% for the year.
- Revenue growth is gaining momentum as execution of key projects progresses, increasing 3.6% in the second quarter compared to the same period last fiscal year excluding the currency impact, and 4.4% on a year-to-date basis.
- EBIT margin before special items⁽²⁾ increased by 1.9 percentage points in the second quarter compared to the same period last fiscal year, reaching 8.2% in the second quarter, including the positive impacts of transformation initiatives. EBIT margin before special items⁽²⁾ for the six-month period reached 8.1%.
- During the second quarter of 2017, we won several significant orders in Europe, mainly in the U.K. and France, resulting in a book to bill ratio⁽¹⁾ of 1.4. The majority of our order intake in the second quarter of 2017 is based on current product platforms, supporting the re-use of existing technologies.
- Significant progress was made during the quarter towards our ongoing structural transformation, which will enable the multi-year site specialization strategy. Key milestones were reached with Supervisory Boards and unions in Germany, Switzerland and Belgium, which will lead to gradual manpower adjustments of up to 2,200 positions in Germany, 650 in Switzerland and 160 in Belgium. In connection with those organizational changes, severance costs of \$181 million and asset write-downs of \$32 million were recorded as restructuring charges in the second quarter in special items.

⁽¹⁾ Ratio of new orders over revenues.

⁽²⁾ 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.

2017 GUIDANCE UPDATE

The following is an update of profitability guidance⁽¹⁾ provided in our 2016 Financial Report.

Guidance provided in our 2016 Financial Report	Results for the six-month period ended June 30, 2017	2017 guidance update ⁽²⁾
EBIT margin before special items ⁽¹⁾ of approximately 7.5%.	EBIT margin before special items ⁽¹⁾ of 8.1%.	EBIT margin before special items ⁽¹⁾ of approximately 8.0%.

Transportation is in line to achieve 2017 revenue guidance of approximately \$8.5 billion. We are increasing Transportation's profitability guidance⁽¹⁾ for the year to approximately 8.0%, mainly due to the strong performance in the first half of the year, which was driven by strong project execution.

⁽¹⁾ Profitability guidance is based on EBIT margin before special items. Refer to the Non-GAAP financial measures section for a definition of this metric and the Analysis of results section for a reconciliation to the most comparable IFRS measure for the six-month period ended June 30, 2017.

⁽²⁾ See the forward-looking statements disclaimer and Transportation's Guidance and forward-looking statements section in the 2016 Financial Report for details regarding the assumptions on which the guidance is based.

INDUSTRY AND ECONOMIC ENVIRONMENT

The overall BT relevant and accessible market⁽¹⁾ continues its positive development with order growth in Europe and a stable level of order evolution in the Rest of world region. Asia-Pacific and the North American order levels decreased on a year-to-date basis due to large orders awarded in 2016. Based on UNIFE forecasts, the overall BT relevant and accessible rail market is expected to grow at an average annualized rate of 3.4% over the next five years.⁽²⁾

In Europe, the first half of 2017 the level of orders increased compared to the same period in 2016. In the commuter and regional train segment several noteworthy orders were awarded mainly in the U.K. and France. On year-to-date basis the overall volume of services and signalling orders remained stable compared to last year. Services contracts were signed primarily in Western Europe while the main signalling orders were signed in Bulgaria, Poland and Denmark. In the second half of 2017 significant orders are expected to be awarded in France and Poland in the metro and light rail vehicle segments. In the commuter and regional train segment further opportunities are anticipated mainly in the U.K., Germany, Switzerland and France while Poland, Czech Republic and Turkey are expected to continue to drive demand in Eastern Europe across all segments. Eastern Europe is foreseen to modernize current fleet and infrastructure supported by the 2014-2020 European financial framework defining the European Union investment plan.

The North American order activity declined compared to the first half of last year primarily due to a large order awarded in the services segment in Baltimore, U.S., in 2016. In the second quarter of 2017, several middle-sized contracts were signed in the light rail vehicle and commuter and regional train segments in both the U.S. and Canada. Moreover, in the U.S., orders were awarded in the signalling and services segments. Despite the weaker volume, a major order is anticipated in the U.S. in the locomotive segment as well as in the commuter and regional train segment. In Canada, orders are expected to be awarded primarily in the urban transit segment with a major rolling stock order in the metro segment. In signalling and services, small and medium projects are expected to be awarded across North America. In Mexico, small investments are anticipated in urban transit for rolling stock and signalling solutions.

In Asia-Pacific, order volume decreased in the first half of 2017 due to major investments secured in 2016 in China, Thailand and Taiwan for the extension and upgrade of new metro lines as well as significant business projects signed in Australia and South Korea in 2016. The 2017 volume was generated through many small orders across all segments in Australia, China and Malaysia. The region is expected to continue to invest heavily

⁽¹⁾ Transportation's relevant and accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition, and excluding the infrastructure, freight wagon and shunter segments.

⁽²⁾ Based on data from the UNIFE World Rail Market Study "Forecast 2016 to 2021" published in September 2016, based on 60 countries representing more than 95% of the world rail market.

in urban transit applications to tackle challenges like congestion and urbanization. A medium size order is foreseen in the second half of 2017 for a turnkey project in Taiwan. Further investments are anticipated in the metro segment in China, as well as in the systems segment in Thailand and China. Services opportunities are anticipated in China and Australia while further investment in the signalling segment is expected in Australia, The Philippines and Taiwan.

In the Rest of world region, order activity remained stable compared to the first half of 2016. In the second quarter of 2017 a significant locomotive order was awarded in Egypt, together with a maintenance contract. By the end of the year, order awards are expected in the commuter and regional train segment in Argentina and Israel. Other markets of the Rest of world region also show growth potential due to a strong need for mobility solutions to support rapid urbanization, especially in South America and the Middle East.

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Revenues	\$ 1,975	\$ 1,964	\$ 3,898	\$ 3,844
EBITDA before special items⁽¹⁾	\$ 188	\$ 149	\$ 365	\$ 288
Amortization	27	25	51	49
EBIT before special items⁽¹⁾	161	124	314	239
Special items	213	37	232	129
EBIT	\$ (52)	\$ 87	\$ 82	\$ 110
EBIT margin before special items ⁽¹⁾	8.2 %	6.3%	8.1%	6.2%
EBIT margin	(2.6)%	4.4%	2.1%	2.9%

⁽¹⁾ 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, 2017, have increased by \$11 million and \$54 million, respectively, compared to the same periods last year. Excluding negative currency impacts of \$60 million and \$115 million, respectively, revenues have increased by \$71 million, or 3.6%, and \$169 million, or 4.4%, for the three- and six-month periods, respectively, compared to the same periods last year.

The \$71-million increase excluding currency impact for the three-month period is mainly explained by:

- higher activities in rolling stock in North America, mainly due to ramp-up in production related to some metro and light rail vehicle contracts (\$87 million); and
- higher activities in systems mainly in Europe, and in signalling in the Rest of world region and North America (\$37 million).

Partially offset by:

- lower activities in rolling stock in Europe, following completion of some commuter and regional train, locomotive, metro and light rail vehicle contracts, partially offset by ramp-up in production related to some intercity and high-speed train contracts (\$40 million); and
- lower activities in signalling in Europe (\$14 million).

The \$169-million increase excluding currency impact for the six-month period is mainly explained by:

- higher activities in rolling stock in North America, mainly due to ramp-up in production related to some light rail vehicle and metro contracts (\$182 million); and
- higher activities in signalling in the Rest of world region, North America and Asia-Pacific, and in systems in Europe (\$63 million).

Partially offset by:

- lower activities in rolling stock in the Rest of world region and Asia-Pacific, following completion of some propulsion contracts in both regions as well as a very high-speed train contract in Asia-Pacific (\$48 million); and
- lower activities in systems in the Rest of world region, and in signalling in Europe (\$40 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 periods ended June 30, 2017 represent severance costs of \$181 million and \$200 million, respectively, mainly related to our European transformation. In line with these initiatives, asset write-downs of \$32 million were recorded as restructuring charges in the second quarter, as we implement the site specialization strategy.

The special items for the three- and six-month periods ended June 30, 2016 represented:

- restructuring charges of \$124 million related to previously-announced restructuring actions, of which \$37 million were recorded in the second quarter; and
- a foreign exchange loss of \$5 million related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation, recorded in the first quarter.

EBIT margin

The EBIT margin before special items for the three-month period increased by 1.9 percentage points, mainly as a result of:

- higher margin in systems, mainly due to better performance;
- a higher share of income from joint ventures and associates; and
- higher absorption of lower SG&A expenses, including a positive impact from transformation savings.

Partially offset by:

- lower margin in rolling stock, mainly due to an unfavourable contract mix.

Including the impact of special items (see explanation of special items above), the EBIT margin for the three-month period decreased by 7.0 percentage points compared to the same period last year.

The EBIT margin before special items for the six-month period increased by 1.9 percentage points, mainly as a result of:

- a higher share of income from joint ventures and associates;
- higher margin in systems, mainly due to better performance; and
- higher absorption of lower SG&A expenses, including a positive impact from transformation savings.

Partially offset by:

- lower margin in rolling stock, mainly due to an unfavourable contract mix.

Including the impact of special items (see explanation of special items above), the EBIT margin for the six-month period decreased by 0.8 percentage point, compared to the same period last year.

Orders and backlog

Order backlog

		As at
(in billions of dollars)	June 30, 2017	December 31, 2016
	\$ 32.7	\$ 30.1

The \$2.6 billion increase in order backlog is due to higher order intake than revenues (\$1.0 billion), and the strengthening of some foreign currencies, mainly the euro, pound sterling, Australian dollar, and Swiss franc, versus the U.S. dollar as at June 30, 2017, compared to December 31, 2016 (\$1.6 billion).

Order intake and book-to-bill ratio

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Order intake (in billions of dollars)	\$ 2.7	\$ 2.1	\$ 4.9	\$ 3.3
Book-to-bill ratio ⁽¹⁾	1.4	1.1	1.3	0.9

The \$0.6 billion and \$1.6 billion increases in order intake in the three- and six-month periods ended June 30, 2017, respectively, reflect several orders across various product segments and regions, with focus in Europe, and include negative currency impacts of \$227 million and \$303 million, respectively. We maintained a leading position⁽²⁾ in our relevant and accessible rail market.⁽³⁾

The significant orders obtained during the six-month period ended June 30, 2017 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value
Second quarter					
FirstGroup and MTR	U.K.	AVENTRA Electrical Multiple Units (EMUs) and Technical Services and Spares Supply Agreement (TSSSA)	750	Rolling stock and Services	\$ 1,100
Société Nationale des Chemins de fer Français (SNCF) on behalf of Syndicat des Transports d'Ile-de-France (STIF)	France	OMNEO / Regio 2N double-deck EMUs	664	Rolling stock	\$ 968 ⁽⁴⁾
First quarter					
Société Nationale des Chemins de fer Français (SNCF)	France	Design and build of intermediate cars, design of air conditioning and passenger access systems	299	Rolling stock	\$ 395 ⁽⁵⁾
Zurich Public Transport (VBZ)	Switzerland	FLEXITY trams	70	Rolling stock	\$ 296
Prasarana Malaysia Berhad	Malaysia	INNOVIA metro 300 cars	108	Rolling stock	\$ 266 ⁽⁶⁾
Deutsche Bahn AG (DB)	Germany	TRAXX locomotives TWINDEXX Vario double-deck intercity cars	25 124	Rolling stock	n/a ⁽⁷⁾

During the six-month period ended June 30, 2017, the following significant orders were awarded to our joint ventures and are not included in our backlog:

- In March 2017, our Chinese joint venture, Bombardier Sifang (Qingdao) Transportation Ltd. (BST), of which we own 50% of the shares, was awarded a contract with China Railway Corp. (CRC) to supply 144 CRH1A-A new generation high-speed train cars for China's evolving high-speed rail network. The contract for 18 eight-car trainsets is valued at \$284 million.
- In May 2017, our Chinese joint venture, Shentong Bombardier (Shanghai) Rail Transit Vehicle Maintenance Co. Ltd. (SHBRT), of which we own 50% of the shares, was awarded two contracts with Shanghai Shentong Metro Group Co. Ltd. to provide 10-years of overhaul services for 498 metro cars operating on Shanghai Metro's lines 7 and 9. Together, the two contracts are valued at \$158 million.

⁽¹⁾ Ratio of new orders over revenues.

⁽²⁾ Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.

⁽³⁾ 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.

⁽⁴⁾ Contract value includes price escalation based on best faith assessment of assumptions.

⁽⁵⁾ Contract signed as part of a consortium with Alstom. The order is valued at \$1.22 billion, and only our share is stated above.

⁽⁶⁾ Contract signed together with local partner HARTASUMA SDN BHD. The order is valued at \$388 million, and only our share is stated above.

⁽⁷⁾ Contract value not disclosed.

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 €980 million (\$1.1 billion) were outstanding under such facilities as at June 30, 2017 (€820 million (\$864 million) as at December 31, 2016). During the three- and six-month period ended June 30, 2017, trade receivables of €473 million (\$515 million) and €721 million (\$779 million), respectively, were sold to these facilities (€261 million (\$295 million) and €536 million (\$598 million), respectively, during the three- and six-month periods ended June 30, 2016).

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, 2017. Refer to the Off-balance sheet arrangements section in Other of our Financial Report for the year ended December 31, 2016 for a description of these arrangements, and to Note 20, 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, 2016 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, 2017, other than those described elsewhere in this MD&A. Also refer to Note 20, 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

Future changes in accounting policies

Financial instruments

In July 2014, the IASB completed the three-part project to replace IAS 39, *Financial instruments: recognition and measurement* by issuing IFRS 9, *Financial instruments*. IFRS 9, *Financial instruments* includes classification and measurement of financial assets and financial liabilities, a forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. Refer to Note 2, Future changes in accounting policies, to our interim consolidated financial statements, for more detail.

IFRS 9 will be effective for our fiscal year beginning on January 1, 2018. We are currently assessing the impact of the adoption of this standard on our consolidated financial statements. We do not expect significant hedge accounting differences in respect of our aerospace segments. We continue to analyze the application of hedge accounting under the new standard in respect of long-term contracts in our Transportation segment. Our preliminary analysis has not identified significant recognition or measurement differences in respect of classification and measurement.

Revenue Recognition

In May 2014, the IASB released IFRS 15, *Revenue from contracts with customers*, which supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue* as well as other related interpretations. Refer to Note 2, Future changes in accounting policies, to our interim consolidated financial statements, for more detail.

The standard will be effective for our fiscal year beginning on January 1, 2018. We are continuing to assess the impact of the new standard on our consolidated financial statements.

The majority of long-term manufacturing and service contracts at Transportation currently accounted for under the percentage-of-completion method are expected to meet the requirements for revenue recognition over time. We anticipate our accounting for customer options will change, in particular with respect to when the options are considered in estimated revenues at completion. This change will result in the deferral of revenue and margin and a reduction of equity at transition. We are currently assessing whether the new standard will result in the deferral of revenue recognition in respect of certain variable consideration such as estimated price escalation.

Revenues from the sale of new aircraft will continue to be recognized when the aircraft have been delivered.

We will need to account for a significant financing component on orders where timing of cash receipts and revenue recognition differ substantially.

IFRS 15 indicates IAS 37, *Provisions, Contingent liabilities and Contingent Assets*, should be applied to onerous contracts but contains no other requirements as to their measurement. When the new revenue standard is adopted all loss provisions for contracts with customers will need to follow the same policy for the definition of unavoidable costs of fulfilling the contract. We expect to define unavoidable costs as the costs that we cannot avoid because we have 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 is currently used for long-term contracts, however it would represent a change in accounting policy for other contracts and would increase the amount of onerous contract provisions and result in a reduction of equity at transition.

While these changes will impact the timing of revenue and margin recognition, and will result in a reduction of equity at transition, there will be no changes to the treatment of cash flows and cash will still be collected in line with contractual terms.

We will provide further updates during the course of fiscal year 2017 as we advance in our assessment.

Leases

In January 2016, the IASB released IFRS 16, *Leases*, to replace the previous leases Standard, IAS 17, *Leases*, and related Interpretations. Refer to Note 2, Future changes in accounting policies, to our interim consolidated financial statements, for more detail.

IFRS 16 will be effective for our fiscal year beginning on January 1, 2019. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements. Where we are a lessee, we expect IFRS 16 will result in on-balance sheet recognition of most of our leases that are considered operating leases under IAS 17. This will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the present value of the future lease payments. Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense.

CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the six-month period ended June 30, 2017 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, 2017	December 31, 2016	Increase
Euro	1.1413	1.0541	8%
Canadian dollar	0.7677	0.7430	3%
Pound sterling	1.2971	1.2312	5%

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, 2017	June 30, 2016	Decrease
Euro	1.0981	1.1300	(3%)
Canadian dollar	0.7424	0.7758	(4%)
Pound sterling	1.2789	1.4372	(11%)

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, 2017	June 30, 2016	Decrease
Euro	1.0813	1.1157	(3%)
Canadian dollar	0.7490	0.7511	—%
Pound sterling	1.2583	1.4344	(12%)

SELECTED FINANCIAL INFORMATION

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

Fiscal years	2017				2016			2015
	Second	First	Fourth	Third	Second	First	Fourth	Third
Revenues	\$ 4,092	\$ 3,576	\$ 4,380	\$ 3,736	\$ 4,309	\$ 3,914	\$ 5,017	\$ 4,138
Net loss	\$ (296)	\$ (31)	\$ (259)	\$ (94)	\$ (490)	\$ (138)	\$ (677)	\$ (4,888)
EPS (in dollars)								
Basic and diluted	\$ (0.13)	\$ (0.02)	\$ (0.12)	\$ (0.04)	\$ (0.24)	\$ (0.07)	\$ (0.31)	\$ (2.20)
Adjusted net income (loss) ⁽¹⁾	\$ 39	\$ 2	\$ (141)	\$ (10)	\$ (83)	\$ (34)	\$ 9	\$ 2
Adjusted EPS (in dollars) ⁽¹⁾	\$ 0.02	\$ 0.00	\$ (0.07)	\$ 0.00	\$ (0.06)	\$ (0.03)	\$ 0.00	\$ 0.00

⁽¹⁾ 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 26, 2017

	Authorized	Issued and outstanding
Class A Shares (multiple voting) ⁽¹⁾	3,592,000,000	313,900,549
Class B Shares (subordinate voting) ⁽²⁾	3,592,000,000	1,879,197,506 ⁽³⁾
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

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

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

⁽³⁾ Net of 53,478,358 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, 2017

Warrants issued and outstanding	205,851,872
Options issued and outstanding under the share option plans	93,815,621
PSUs, DSUs and RSUs issued and outstanding under the PSU, DSU and RSU plans	64,097,654
Class B Subordinate Voting Shares held in trust to satisfy PSU and RSU obligations	53,478,358

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

Third Quarterly Report, for the period ending September 30, 2017	November 2, 2017
Financial Report, for the fiscal year ending December 31, 2017	February 15, 2018
First Quarterly Report, for the period ending March 31, 2018	April 26, 2018
Second Quarterly Report, for the period ending June 30, 2018	July 26, 2018

Information

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July 27, 2017

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.

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2017

(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	IFRS	International Financial Reporting Standard(s)
CSALP	C Series Aircraft Limited Partnership	L&R	Loans and receivables
DDHR	Derivative designated in a hedge relationship	NCI	Non-controlling interests
DSU	Deferred share unit	OCI	Other comprehensive income (loss)
EBIT	Earnings (loss) before financing expense, financing income and income taxes	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
		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	
		2017	2016	2017	2016
Revenues		\$ 4,092	\$ 4,309	\$ 7,668	\$ 8,223
Cost of sales	10	3,656	3,840	6,823	7,328
Gross margin		436	469	845	895
SG&A		303	301	563	565
R&D	4	62	74	106	134
Share of income of joint ventures and associates		(55)	(18)	(87)	(32)
Other expense (income)	5	(38)	6	(29)	(8)
Special items	6	287	357	310	431
EBIT		(123)	(251)	(18)	(195)
Financing expense	7	194	187	333	355
Financing income	7	(12)	(11)	(22)	(19)
EBT		(305)	(427)	(329)	(531)
Income taxes		(9)	63	(2)	97
Net loss		\$ (296)	\$ (490)	\$ (327)	\$ (628)
Attributable to					
Equity holders of Bombardier Inc.		\$ (289)	\$ (531)	\$ (317)	\$ (692)
NCI		(7)	41	(10)	64
		\$ (296)	\$ (490)	\$ (327)	\$ (628)
EPS (in dollars)	8				
Basic and diluted		\$ (0.13)	\$ (0.24)	\$ (0.15)	\$ (0.32)

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	
	2017	2016	2017	2016
Net loss	\$ (296)	\$ (490)	\$ (327)	\$ (628)
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges				
Foreign exchange re-evaluation	(1)	(1)	(5)	(7)
Net gain (loss) on derivative financial instruments	101	(3)	94	127
Reclassification to income or to the related non-financial asset	30	81	90	190
Income taxes	(17)	(19)	(29)	(75)
	113	58	150	235
AFS financial assets				
Net unrealized gain (loss)	(1)	1	1	5
CCTD				
Net investments in foreign operations	(48)	(46)	(15)	(121)
Items that are never reclassified to net income				
Retirement benefits				
Remeasurement of defined benefit plans	(18)	(562)	(79)	(1,171)
Income taxes	(23)	67	(24)	73
	(41)	(495)	(103)	(1,098)
Total OCI	23	(482)	33	(979)
Total comprehensive loss	\$ (273)	\$ (972)	\$ (294)	\$ (1,607)
Attributable to				
Equity holders of Bombardier Inc.	\$ (339)	\$ (1,002)	\$ (380)	\$ (1,661)
NCI	66	30	86	54
	\$ (273)	\$ (972)	\$ (294)	\$ (1,607)

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 2017	December 31 2016	January 1 2016
Assets				
Cash and cash equivalents		\$ 2,217	\$ 3,384	\$ 2,720
Trade and other receivables		1,340	1,291	1,473
Inventories	10	6,699	5,844	6,978
Other financial assets	11	416	336	450
Other assets	12	466	441	484
Current assets		11,138	11,296	12,105
PP&E		1,932	1,949	2,061
Aerospace program tooling		5,725	5,174	3,975
Goodwill		1,978	1,855	1,978
Deferred income taxes		687	705	761
Investments in joint ventures and associates		434	332	356
Other financial assets	11	954	915	870
Other assets	12	547	600	797
Non-current assets		12,257	11,530	10,798
		\$ 23,395	\$ 22,826	\$ 22,903
Liabilities				
Trade and other payables		\$ 3,926	\$ 3,239	\$ 4,040
Provisions	13	942	822	1,108
Advances and progress billings in excess of long-term contract inventories		1,612	1,539	1,408
Advances on aerospace programs		1,399	1,550	2,002
Other financial liabilities	14	475	608	991
Other liabilities	15	2,208	2,175	2,274
Current liabilities		10,562	9,933	11,823
Provisions	13	1,424	1,444	918
Advances on aerospace programs		1,486	1,535	1,534
Long-term debt		8,785	8,738	8,908
Retirement benefits		2,805	2,647	2,159
Other financial liabilities	14	1,148	999	619
Other liabilities	15	1,010	1,019	996
Non-current liabilities		16,658	16,382	15,134
		27,220	26,315	26,957
Equity (deficit)				
Attributable to equity holders of Bombardier Inc.		(5,739)	(5,243)	(4,067)
Attributable to NCI		1,914	1,754	13
		(3,825)	(3,489)	(4,054)
		\$ 23,395	\$ 22,826	\$ 22,903
Commitments and contingencies	20			

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 equity (deficit)
	Preferred shares	Common shares	Warrants	Other retained earnings (deficit)	Remeasurement losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	
As at March 31, 2017	\$ 347	\$ 2,152	\$ 73	\$ (5,019)	\$ (2,831)	\$ 137	\$ 8	\$ (86)	\$ (142)	\$ (5,361)	\$ 1,806	\$ (3,555)
Total comprehensive income												
Net loss	—	—	—	(289)	—	—	—	—	—	(289)	(7)	(296)
OCI	—	—	—	—	(32)	—	(1)	111	(128)	(50)	73	23
	—	—	—	(289)	(32)	—	(1)	111	(128)	(339)	66	(273)
Dividends	—	—	—	(6)	—	—	—	—	—	(6)	—	(6)
Share-based expense	—	—	—	—	—	9	—	—	—	9	—	9
Change in NCI	—	—	—	(42)	—	—	—	—	—	(42)	42	—
As at June 30, 2017	\$ 347	\$ 2,152	\$ 73	\$ (5,356)	\$ (2,863)	\$ 146	\$ 7	\$ 25	\$ (270)	\$ (5,739)	\$ 1,914	\$ (3,825)
As at March 31, 2016	\$ 347	\$ 2,195	\$ 10	\$ (4,385)	\$ (2,683)	\$ 109	\$ 11	\$ (198)	\$ (124)	\$ (4,718)	\$ 1,276	\$ (3,442)
Total comprehensive income												
Net income (loss)	—	—	—	(531)	—	—	—	—	—	(531)	41	(490)
OCI	—	—	—	—	(495)	—	1	58	(35)	(471)	(11)	(482)
	—	—	—	(531)	(495)	—	1	58	(35)	(1,002)	30	(972)
Issuance of warrants ⁽¹⁾	—	—	30	—	—	—	—	—	—	30	—	30
Issuance of NCI ⁽¹⁾	—	—	—	243	—	—	—	—	—	243	222	465
Dividends	—	—	—	(6)	—	—	—	—	—	(6)	—	(6)
Share-based expense	—	—	—	—	—	7	—	—	—	7	—	7
As at June 30, 2016	\$ 347	\$ 2,195	\$ 40	\$ (4,679)	\$ (3,178)	\$ 116	\$ 12	\$ (140)	\$ (159)	\$ (5,446)	\$ 1,528	\$ (3,918)

⁽¹⁾ Related to the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec on June 30, 2016.

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	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	
As at December 31, 2016	\$ 347	\$ 2,152	\$ 73	\$ (4,905)	\$ (2,772)	\$ 128	\$ 6	\$ (123)	\$ (149)	\$ (5,243)	\$ 1,754	\$ (3,489)
Total comprehensive income												
Net loss	—	—	—	(317)	—	—	—	—	—	(317)	(10)	(327)
OCI	—	—	—	—	(91)	—	1	148	(121)	(63)	96	33
	—	—	—	(317)	(91)	—	1	148	(121)	(380)	86	(294)
Dividends	—	—	—	(12)	—	—	—	—	—	(12)	—	(12)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(48)	(48)
Share-based expense	—	—	—	—	—	18	—	—	—	18	—	18
Change in NCI	—	—	—	(122)	—	—	—	—	—	(122)	122	—
As at June 30, 2017	\$ 347	\$ 2,152	\$ 73	\$ (5,356)	\$ (2,863)	\$ 146	\$ 7	\$ 25	\$ (270)	\$ (5,739)	\$ 1,914	\$ (3,825)
As at January 1, 2016	\$ 347	\$ 2,195	\$ —	\$ (4,219)	\$ (2,080)	\$ 106	\$ 7	\$ (375)	\$ (48)	\$ (4,067)	\$ 13	\$ (4,054)
Total comprehensive income												
Net income (loss)	—	—	—	(692)	—	—	—	—	—	(692)	64	(628)
OCI	—	—	—	—	(1,098)	—	5	235	(111)	(969)	(10)	(979)
	—	—	—	(692)	(1,098)	—	5	235	(111)	(1,661)	54	(1,607)
Issuance of warrants ⁽¹⁾	—	—	40	—	—	—	—	—	—	40	—	40
Issuance of NCI ⁽¹⁾	—	—	—	243	—	—	—	—	—	243	1,503	1,746
Dividends	—	—	—	(11)	—	—	—	—	—	(11)	—	(11)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(42)	(42)
Share-based expense	—	—	—	—	—	10	—	—	—	10	—	10
As at June 30, 2016	\$ 347	\$ 2,195	\$ 40	\$ (4,679)	\$ (3,178)	\$ 116	\$ 12	\$ (140)	\$ (159)	\$ (5,446)	\$ 1,528	\$ (3,918)

⁽¹⁾ Related to the convertible shares issued to the CDPQ on February 11, 2016 in relation to the sale of a minority stake in Transportation and the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec on June 30, 2016.

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	
		2017	2016	2017	2016
Operating activities					
Net loss		\$ (296)	\$ (490)	\$ (327)	\$ (628)
Non-cash items					
Amortization		78	98	156	187
Impairment charges on PP&E and intangible assets	5, 6	43	—	43	—
Deferred income taxes		8	(52)	5	(56)
Gains on disposals of PP&E	5	(28)	(4)	(30)	(11)
Share of income of joint ventures and associates		(55)	(18)	(87)	(32)
Share-based expense	16	9	7	18	10
Dividends received from joint ventures and associates		1	34	3	80
Net change in non-cash balances	17	59	267	(279)	(164)
Cash flows from operating activities		(181)	(158)	(498)	(614)
Investing activities					
Additions to PP&E and intangible assets		(443)	(341)	(724)	(649)
Proceeds from disposals of PP&E and intangible assets		54	9	59	23
Other		(6)	4	22	1
Cash flows from investing activities		(395)	(328)	(643)	(625)
Financing activities					
Net proceeds from issuance of long-term debt		—	1	—	1
Repayments of long-term debt		(8)	(39)	(17)	(47)
Net change in short-term borrowings	14	(53)	111	54	111
Dividends paid ⁽¹⁾		(4)	(4)	(8)	(8)
Issuance of NCI, net of transaction costs ⁽²⁾		—	466	—	1,932
Dividends to NCI		—	—	(48)	(42)
Other		(38)	(12)	(28)	(23)
Cash flows from financing activities		(103)	523	(47)	1,924
Effect of exchange rates on cash and cash equivalents		9	(60)	21	(69)
Net increase (decrease) in cash and cash equivalents		(670)	(23)	(1,167)	616
Cash and cash equivalents at beginning of period		2,887	3,359	3,384	2,720
Cash and cash equivalents at end of period		\$ 2,217	\$ 3,336	\$ 2,217	\$ 3,336
Supplemental information⁽³⁾⁽⁴⁾					
Cash paid for					
Interest		\$ 161	\$ 99	\$ 297	\$ 274
Income taxes		\$ 19	\$ 22	\$ 32	\$ 57
Cash received for					
Interest		\$ 5	\$ 5	\$ 11	\$ 10
Income taxes		\$ 11	\$ 2	\$ 13	\$ 4

⁽¹⁾ Related to preferred shares.

⁽²⁾ Related to the convertible shares issued to the CDPQ on February 11, 2016 in relation to the sale of a minority stake in Transportation and the minority stake in the C Series Aircraft Limited Partnership issued to the Government of Québec on June 30, 2016.

⁽³⁾ Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.

⁽⁴⁾ Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivables after the effect of hedges and the interest portion related to the settlement of an interest-rate swap, if any.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2017

(Unaudited)

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

1. BASIS OF PREPARATION

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

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IAS 34, *Interim financial reporting*, as issued by the IASB. The interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s Financial Report for the fiscal year ended December 31, 2016.

These interim consolidated financial statements for the three- and six-month periods ended June 30, 2017 were authorized for issuance by the Board of Directors on July 27, 2017.

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, 2017	December 31, 2016	January 1, 2016
Euro	1.1413	1.0541	1.0887
Canadian dollar	0.7677	0.7430	0.7202
Pound sterling	1.2971	1.2312	1.4833

	Average exchange rates for the three-month periods ended		Average exchange rates for the six-month periods ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Euro	1.0981	1.1300	1.0813	1.1157
Canadian dollar	0.7424	0.7758	0.7490	0.7511
Pound sterling	1.2789	1.4372	1.2583	1.4344

2. FUTURE CHANGES IN ACCOUNTING POLICIES

Financial instruments

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

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

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

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

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

Revenue Recognition

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

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

The Corporation is continuing to assess the impact of the new standard on its consolidated financial statements.

The majority of long-term manufacturing and service contracts at Transportation currently accounted for under the percentage-of-completion method are expected to meet the requirements for revenue recognition over time. The Corporation anticipates its accounting for customer options will change, in particular with respect to when the options are considered in estimated revenues at completion. This change will result in the deferral of revenue and margin and a reduction of equity at transition. The Corporation is currently assessing whether the new standard will result in the deferral of revenue recognition in respect of certain variable consideration such as estimated price escalation.

Revenues from the sale of new aircraft will continue to be recognized when the aircraft have been delivered.

The Corporation will need to account for a significant financing component on orders where timing of cash receipts and revenue recognition differ substantially.

IFRS 15 indicates IAS 37, *Provisions, Contingent liabilities and Contingent Assets*, should be applied to onerous contracts but contains no other requirements as to their measurement. When the new revenue standard is adopted all loss provisions for contracts with customers will need to follow the same policy for the definition of unavoidable costs of fulfilling the contract. The Corporation expects to define 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 is currently used for long-term contracts, however it would represent a change in accounting policy for other contracts and would increase the amount of onerous contract provisions and result in a reduction of equity at transition.

While these changes will impact the timing of revenue and margin recognition, and will result in a reduction of equity at transition, there will be no changes to the treatment of cash flows and cash will still be collected in line with contractual terms.

The Corporation will provide further updates during the course of fiscal year 2017 as it advances in its assessment.

Leases

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

IFRS 16 will be effective for the Corporation's fiscal year beginning on January 1, 2019. The Corporation is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

Where the Corporation is a lessee, the Corporation 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.

3. SEGMENT DISCLOSURE

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

Business Aircraft

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

Commercial Aircraft

Commercial Aircraft designs and manufactures a broad portfolio of commercial aircraft in the 60- to 150-seat categories, including the *Q400* turboprops, the *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, 2016.

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, 2017							
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total	
Results of operations							
External revenues	\$ 1,973	\$ 1,386	\$ 641	\$ 90	\$ 2	\$ 4,092	
Intersegment revenues	2	—	(1)	336	(337)	—	
Total revenues	1,975	1,386	640	426	(335)	4,092	
EBIT before special items	161	123	(86)	33	(67)	164	
Special items ⁽¹⁾	213	28	1	—	45	287	
EBIT	\$ (52)	\$ 95	\$ (87)	\$ 33	\$ (112)	(123)	
Financing expense						194	
Financing income						(12)	
EBT						(305)	
Income taxes						(9)	
Net loss						\$ (296)	
Other information							
R&D ⁽²⁾	\$ 30	\$ 16	\$ 10	\$ —	\$ 6	\$ 62	
Net additions to PP&E and intangible assets ⁽³⁾	\$ 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 ⁽¹⁾	\$ 32	\$ —	\$ —	\$ —	\$ 6	\$ 38	

Three-month period ended June 30, 2016							
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total	
Results of operations							
External revenues	\$ 1,962	\$ 1,472	\$ 764	\$ 109	\$ 2	\$ 4,309	
Intersegment revenues	2	1	—	316	(319)	—	
Total revenues	1,964	1,473	764	425	(317)	4,309	
EBIT before special items	124	98	(103)	30	(43)	106	
Special items ⁽¹⁾	37	(114)	483	(39)	(10)	357	
EBIT	\$ 87	\$ 212	\$ (586)	\$ 69	\$ (33)	(251)	
Financing expense						187	
Financing income						(11)	
EBT						(427)	
Income taxes						63	
Net loss						\$ (490)	
Other information							
R&D ⁽²⁾	\$ 27	\$ 34	\$ 6	\$ 2	\$ 5	\$ 74	
Net additions to PP&E and intangible assets ⁽³⁾	\$ 29	\$ 162	\$ 137	\$ 4	\$ —	\$ 332	
Amortization	\$ 25	\$ 48	\$ 13	\$ 12	\$ —	\$ 98	

⁽¹⁾ See Note 6 – Special items for more details.

⁽²⁾ Includes tooling amortization. See Note 4 – Research and development for more details.

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

Six-month period ended June 30, 2017							
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total	
Results of operations							
External revenues	\$ 3,895	\$ 2,393	\$ 1,180	\$ 197	\$ 3	\$ 7,668	
Intersegment revenues	3	—	—	617	(620)	—	
Total revenues	3,898	2,393	1,180	814	(617)	7,668	
EBIT before special items	314	200	(141)	62	(143)	292	
Special items ⁽¹⁾	232	31	2	—	45	310	
EBIT	\$ 82	\$ 169	\$ (143)	\$ 62	\$ (188)	(18)	
Financing expense						333	
Financing income						(22)	
EBT						(329)	
Income taxes						(2)	
Net loss						\$ (327)	
Other information							
R&D ⁽²⁾	\$ 49	\$ 27	\$ 19	\$ 1	\$ 10	\$ 106	
Net additions to PP&E and intangible assets ⁽³⁾	\$ 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 ⁽¹⁾	\$ 32	\$ —	\$ —	\$ —	\$ 6	\$ 38	

Six-month period ended June 30, 2016							
	Transportation	Business Aircraft	Commercial Aircraft	Aerostructures and Engineering Services	Corporate and Elimination	Total	
Results of operations							
External revenues	\$ 3,841	\$ 2,775	\$ 1,380	\$ 224	\$ 3	\$ 8,223	
Intersegment revenues	3	1	—	669	(673)	—	
Total revenues	3,844	2,776	1,380	893	(670)	8,223	
EBIT before special items	239	185	(169)	65	(84)	236	
Special items ⁽¹⁾	129	(109)	483	(19)	(53)	431	
EBIT	\$ 110	\$ 294	\$ (652)	\$ 84	\$ (31)	(195)	
Financing expense						355	
Financing income						(19)	
EBT						(531)	
Income taxes						97	
Net loss						\$ (628)	
Other information							
R&D ⁽²⁾	\$ 50	\$ 60	\$ 12	\$ 4	\$ 8	\$ 134	
Net additions to PP&E and intangible assets ⁽³⁾	\$ 52	\$ 315	\$ 250	\$ 8	\$ 1	\$ 626	
Amortization	\$ 49	\$ 73	\$ 39	\$ 26	\$ —	\$ 187	

⁽¹⁾ See Note 6 – Special items for more details.

⁽²⁾ Includes tooling amortization. See Note 4 – Research and development for more details.

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

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

	June 30, 2017	December 31, 2016	January 1, 2016
Assets			
Total assets	\$ 23,395	\$ 22,826	\$ 22,903
Assets not allocated to segments			
Cash and cash equivalents	2,217	3,384	2,720
Income tax receivable ⁽¹⁾	49	41	56
Deferred income taxes	687	705	761
Segmented assets	20,442	18,696	19,366
Liabilities			
Total liabilities	27,220	26,315	26,957
Liabilities not allocated to segments			
Interest payable ⁽²⁾	138	141	154
Income taxes payable ⁽³⁾	214	222	224
Long-term debt ⁽⁴⁾	8,807	8,769	8,979
Segmented liabilities	\$ 18,061	\$ 17,183	\$ 17,600
Net segmented assets			
Transportation	\$ 223	\$ (33)	\$ 354
Business Aircraft	\$ 2,005	\$ 1,448	\$ 395
Commercial Aircraft	\$ 560	\$ 434	\$ 467
Aerostructures and Engineering Services	\$ 158	\$ 142	\$ 434
Corporate and Elimination	\$ (565)	\$ (478)	\$ 116

⁽¹⁾ Included in other assets.

⁽²⁾ Included in trade and other payables.

⁽³⁾ Included in other liabilities.

⁽⁴⁾ The current portion of long-term debt is included in other financial liabilities.

4. RESEARCH AND DEVELOPMENT

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
R&D expenditures	\$ 419	\$ 665	\$ 662	\$ 952
Less: development expenditures capitalized to aerospace program tooling	(379)	(630)	(595)	(888)
	40	35	67	64
Add: amortization of aerospace program tooling	22	39	39	70
	\$ 62	\$ 74	\$ 106	\$ 134

5. OTHER EXPENSE (INCOME)

Other expense (income) was as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Gains on disposals of PP&E	\$ (28)	\$ (4)	\$ (30)	\$ (11)
Impairment of intangible assets ⁽¹⁾	5	—	5	—
Changes in estimates and fair value ⁽²⁾	(14)	13	(4)	5
Severance and other involuntary termination costs (including changes in estimates) ⁽¹⁾	2	(3)	3	(2)
Other	(3)	—	(3)	—
	\$ (38)	\$ 6	\$ (29)	\$ (8)

⁽¹⁾ Excludes those presented in special items.

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

6. SPECIAL ITEMS

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

Special items were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Restructuring charges ⁽¹⁾	\$ 218	\$ 44	\$ 241	\$ 156
<i>Primove</i> impairment and other costs ⁽²⁾	45	—	45	—
Re-negotiation of a commercial agreement ⁽³⁾	35	—	35	—
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions ⁽⁴⁾	(11)	(54)	(11)	(54)
Onerous contracts provision - <i>C Series</i> aircraft program ⁽⁵⁾	—	492	—	492
Pension obligation ⁽⁶⁾	—	(139)	—	(139)
Tax litigation ⁽⁷⁾	—	40	—	40
Foreign exchange gains related to the sale of a minority stake in Transportation ⁽⁸⁾	—	—	—	(38)
Transaction costs ⁽⁹⁾	—	—	—	8
Tax impacts of special items	(8)	(3)	(9)	(13)
	\$ 279	\$ 380	\$ 301	\$ 452
Of which is presented in				
Special items in EBIT	\$ 287	\$ 357	\$ 310	\$ 431
Financing expense - interests related to tax litigation ⁽⁷⁾	—	26	—	26
Financing expense - transaction costs ⁽⁹⁾	—	—	—	8
Income taxes - effect of special items	(8)	(3)	(9)	(13)
	\$ 279	\$ 380	\$ 301	\$ 452

⁽¹⁾ 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. For the three- and six-month periods ended June 30, 2016, represents restructuring charges of \$48 million and \$173 million and curtailment gains of \$4 million and \$17 million related to previously-announced restructuring actions, respectively.

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by \$11 million in the three-month period ended June 30, 2017 (\$54 million in the three-month period ended June 30, 2016). The reduction in provisions is treated as a special item since the original provisions were also recorded as special charges in 2014 and 2015.

⁽⁵⁾ Represents provision for onerous contracts in conjunction with the closing of *C Series* aircraft firm orders in the second quarter of 2016.

⁽⁶⁾ The Corporation had a constructive obligation for discretionary ad hoc indexation increases to certain pension plans. Following a communication to plan members that the Corporation does not expect to grant such increases in the foreseeable future in line with the Corporation's current practice, the constructive obligation amounting to \$139 million was reversed.

⁽⁷⁾ Represents a change in the estimates used to determine the provision related to tax litigation.

⁽⁸⁾ Represents foreign exchange gains related to the reorganization of Transportation under one holding entity necessary to facilitate the placement of a minority stake in Transportation.

⁽⁹⁾ Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco.

7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
Financing expense				
Accretion on net retirement benefit obligations	\$ 19	\$ 17	\$ 38	\$ 34
Accretion on other financial liabilities	15	13	28	27
Net loss on certain financial instruments ⁽¹⁾	41	7	28	13
Accretion on provisions	5	2	10	5
Amortization of letter of credit facility costs	4	11	8	16
Changes in discount rates of provisions	—	3	3	12
Tax litigation ⁽²⁾	—	26	—	26
Transaction costs ⁽³⁾	—	—	—	8
Other	19	19	32	31
	103	98	147	172
Interest on long-term debt, after effect of hedges	91	89	186	183
	\$ 194	\$ 187	\$ 333	\$ 355
Financing income				
Changes in discount rates of provisions	\$ (2)	\$ —	\$ —	\$ —
Other	(3)	—	(5)	(4)
	(5)	—	(5)	(4)
Income from investment in securities	(2)	(5)	(7)	(5)
Interest on cash and cash equivalents	(3)	(3)	(6)	(5)
Interest on loans and lease receivables, after effect of hedges	(2)	(3)	(4)	(5)
	(7)	(11)	(17)	(15)
	\$ (12)	\$ (11)	\$ (22)	\$ (19)

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

⁽²⁾ Represents a change in the estimates used to determine the provision related to tax litigation. See Note 6 – Special items for more details.

⁽³⁾ Represents transaction costs attributable to the conversion option embedded in the CDPQ investment in BT Holdco. See Note 6 – Special items for more details.

Borrowing costs capitalized to PP&E and intangible assets totalled \$44 million and \$82 million for the three- and six-month periods ended June 30, 2017, using an average capitalization rate of 6.20% and 6.08%, respectively (\$33 million and \$59 million and 5.57% and 5.35% for the three- and six-month periods ended June 30, 2016, respectively). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

8. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

	Three-month periods ended June 30		Six-month periods ended June 30	
	2017	2016	2017	2016
(Number of shares, stock options, PSUs, DSUs, RSUs and warrants, in thousands)				
Net loss attributable to equity holders of Bombardier Inc.	\$ (289)	\$ (531)	\$ (317)	\$ (692)
Preferred share dividends, including taxes	(6)	(6)	(12)	(11)
Net loss attributable to common equity holders of Bombardier Inc.	\$ (295)	\$ (537)	\$ (329)	\$ (703)
Weighted-average number of common shares outstanding	2,194,862	2,222,874	2,194,854	2,222,942
Net effect of stock options, PSUs, DSUs, RSUs, warrants and conversion option	—	—	—	—
Weighted-average diluted number of common shares	2,194,862	2,222,874	2,194,854	2,222,942
EPS (in dollars)				
Basic and diluted	\$ (0.13)	\$ (0.24)	\$ (0.15)	\$ (0.32)

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 352,112,125 and 352,692,200 for the three- and six-month periods ended June 30, 2017, respectively (224,809,781 and 189,228,287 for the three- and six-month periods ended June 30, 2016, 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 since the minimum return entitlement was greater than CDPQ's shares of the BT Holdco net income on an as converted basis assuming Transportation does not achieve its performance targets. The Corporation's obligation to fund the CSALP through issuance of additional units is not dilutive since the subscription price approximates the fair value of the equity to be acquired.

9. FINANCIAL INSTRUMENTS

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

	FVTP&L		AFS	Amortized cost ⁽¹⁾	DDHR	Total carrying value	Fair value
	HFT	Designated					
June 30, 2017							
Financial assets							
Cash and cash equivalents	\$ 2,217	\$ —	\$ —	\$ —	\$ —	\$ 2,217	\$ 2,217
Trade and other receivables	—	—	—	1,340	—	1,340	1,340
Other financial assets	223	211	349	318	269	1,370	1,408
	\$ 2,440	\$ 211	\$ 349	\$ 1,658	\$ 269	\$ 4,927	\$ 4,965
Financial liabilities							
Trade and other payables	\$ —	\$ 9	n/a	\$ 3,917	\$ —	\$ 3,926	\$ 3,926
Long-term debt ⁽²⁾	—	—	n/a	8,807	—	8,807	9,064
Other financial liabilities	287	130	n/a	953	231	1,601	1,643
	\$ 287	\$ 139	n/a	\$ 13,677	\$ 231	\$ 14,334	\$ 14,633
December 31, 2016							
Financial assets							
Cash and cash equivalents	\$ 3,384	\$ —	\$ —	\$ —	\$ —	\$ 3,384	\$ 3,384
Trade and other receivables	—	—	—	1,291	—	1,291	1,291
Other financial assets	144	227	374	310	196	1,251	1,272
	\$ 3,528	\$ 227	\$ 374	\$ 1,601	\$ 196	\$ 5,926	\$ 5,947
Financial liabilities							
Trade and other payables	\$ —	\$ 6	n/a	\$ 3,233	\$ —	\$ 3,239	\$ 3,239
Long-term debt ⁽²⁾	—	—	n/a	8,769	—	8,769	8,624
Other financial liabilities	259	141	n/a	808	368	1,576	1,616
	\$ 259	\$ 147	n/a	\$ 12,810	\$ 368	\$ 13,584	\$ 13,479
January 1, 2016							
Financial assets							
Cash and cash equivalents	\$ 2,720	\$ —	\$ —	\$ —	\$ —	\$ 2,720	\$ 2,720
Trade and other receivables	—	—	—	1,473	—	1,473	1,473
Other financial assets	13	230	348	380	349	1,320	1,326
	\$ 2,733	\$ 230	\$ 348	\$ 1,853	\$ 349	\$ 5,513	\$ 5,519
Financial liabilities							
Trade and other payables	\$ —	\$ 1	n/a	\$ 4,039	\$ —	\$ 4,040	\$ 4,040
Long-term debt ⁽²⁾	—	—	n/a	8,979	—	8,979	6,767
Other financial liabilities	41	135	n/a	702	661	1,539	1,426
	\$ 41	\$ 136	n/a	\$ 13,720	\$ 661	\$ 14,558	\$ 12,233

⁽¹⁾ Financial assets are classified as L&R and financial liabilities as other than HFT.

⁽²⁾ Includes the current portion of long-term debt.

n/a: Not applicable

10. INVENTORIES

Inventories were as follows, as at:

	June 30, 2017	December 31, 2016	January 1, 2016
Aerospace programs	\$ 3,200	\$ 3,187	\$ 4,215
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	8,115	6,995	7,064
Less: advances and progress billings	(6,067)	(5,457)	(5,490)
	2,048	1,538	1,574
Service contracts			
Cost incurred and recorded margins	488	221	223
Less: advances and progress billings	(55)	(6)	(17)
	433	215	206
Finished products ⁽¹⁾	1,018	904	983
	\$ 6,699	\$ 5,844	\$ 6,978

⁽¹⁾ Finished products include 8 new aircraft not associated with a firm order and 12 pre-owned aircraft, totaling \$245 million as at June 30, 2017 (1 new aircraft and 12 pre-owned aircraft, totaling \$67 million as at December 31, 2016 and 4 new aircraft and 54 pre-owned aircraft, totaling \$279 million as at January 1, 2016).

Finished products as at June 30, 2017 include nil of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities (\$19 million as at December 31, 2016 and \$81 million as at January 1, 2016). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled \$3,496 million and \$6,442 million for the three- and six-month periods ended June 30, 2017, respectively (\$3,473 million and \$6,796 million for the three- and six-month periods ended June 30, 2016, respectively). These amounts include \$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 (\$82 million and \$111 million of write-downs and nil of reversal of write-downs for the three- and six-month periods ended June 30, 2016, respectively).

For the three- and six-month periods ended June 30, 2017, an amount of inventories of \$22 million has been recognized as a special item following the impairment of *Primove* assets. See Note 6 – Special items 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) inventories and amounted to €515 million (\$588 million) as at June 30, 2017 (€471 million (\$496 million) as at December 31, 2016 and (€334 million (\$364 million) as at January 1, 2016). 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.

11. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	June 30, 2017	December 31, 2016	January 1, 2016
Derivative financial instruments	\$ 492	\$ 340	\$ 362
Investments in securities ⁽¹⁾⁽²⁾	352	380	359
Long-term contract receivables	243	231	298
Investments in financing structures ⁽¹⁾	212	211	197
Aircraft loans and lease receivables ⁽¹⁾	49	64	81
Restricted cash	7	10	11
Other	15	15	12
	\$ 1,370	\$ 1,251	\$ 1,320
Of which current	\$ 416	\$ 336	\$ 450
Of which non-current	954	915	870
	\$ 1,370	\$ 1,251	\$ 1,320

⁽¹⁾ Carried at fair value, except for \$2 million of aircraft loans and lease receivables, \$3 million of investments in securities and \$48 million of investment in financing structures carried at amortized cost as at June 30, 2017 (\$2 million, \$6 million and \$46 million, respectively, as at December 31, 2016 and \$2 million, \$11 million and \$46 million, respectively, as at January 1, 2016).

⁽²⁾ Includes \$51 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, 2017 (\$78 million as at December 31, 2016, and \$80 million as at January 1, 2016).

12. OTHER ASSETS

Other assets were as follows, as at:

	June 30, 2017	December 31, 2016	January 1, 2016
Prepaid sales concessions and deferred contract costs	\$ 272	\$ 300	\$ 341
Sales tax and other taxes	233	238	244
Prepaid expenses	151	145	174
Retirement benefits	122	124	251
Intangible assets other than aerospace program tooling and goodwill	99	112	114
Deferred financing charges	50	51	72
Income taxes receivable	49	41	56
Other	37	30	29
	\$ 1,013	\$ 1,041	\$ 1,281
Of which current	\$ 466	\$ 441	\$ 484
Of which non-current	547	600	797
	\$ 1,013	\$ 1,041	\$ 1,281

13. PROVISIONS

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

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other ⁽¹⁾	Total
Balance as at December 31, 2016	\$ 670	\$ 562	\$ 111	\$ 923	\$ 2,266
Additions	53	2	24 ⁽²⁾	28	107
Utilization	(44)	(11)	(42)	(115)	(212)
Reversals	(14)	—	(2)	(1)	(17)
Accretion expense	—	2	—	3	5
Effect of changes in discount rates	—	—	—	5	5
Effect of foreign currency exchange rate changes	9	—	3	1	13
Balance as at March 31, 2017	\$ 674	\$ 555	\$ 94	\$ 844	\$ 2,167
Additions	50	—	188 ⁽²⁾	72 ⁽³⁾	310
Utilization	(33)	(6)	(25)	(36)	(100)
Reversals	(22)	(3)	—	(29) ⁽⁴⁾	(54)
Accretion expense	1	2	—	2	5
Effect of changes in discount rates	—	(2)	—	—	(2)
Effect of foreign currency exchange rate changes	21	—	14	5	40
Balance as at June 30, 2017	\$ 691	\$ 546	\$ 271	\$ 858	\$ 2,366
Of which current	\$ 536	\$ 68	\$ 192	\$ 146	\$ 942
Of which non-current	155	478	79	712	1,424
	\$ 691	\$ 546	\$ 271	\$ 858	\$ 2,366

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other ⁽¹⁾	Total
Balance as at January 1, 2016	\$ 725	\$ 670	\$ 66	\$ 565	\$ 2,026
Additions	53	—	126 ⁽²⁾	10	189
Utilization	(51)	(3)	(15)	(1)	(70)
Reversals	(10)	(22)	(2)	(56)	(90)
Accretion expense	—	3	—	—	3
Effect of changes in discount rates	1	8	—	—	9
Effect of foreign currency exchange rate changes	15	—	2	1	18
Balance as at March 31, 2016	\$ 733	\$ 656	\$ 177	\$ 519	\$ 2,085
Additions	56	2	49 ⁽²⁾	545 ⁽⁵⁾	652
Utilization	(55)	(7)	(25)	(34)	(121)
Reversals	(43)	—	(4)	(56) ⁽⁴⁾	(103)
Accretion expense	1	1	—	—	2
Effect of changes in discount rates	—	3	—	—	3
Effect of foreign currency exchange rate changes	(12)	—	(6)	(1)	(19)
Balance as at June 30, 2016	\$ 680	\$ 655	\$ 191	\$ 973	\$ 2,499
Of which current	\$ 531	\$ 75	\$ 190	\$ 277	\$ 1,073
Of which non-current	149	580	1	696	1,426
	\$ 680	\$ 655	\$ 191	\$ 973	\$ 2,499

⁽¹⁾ Mainly comprised of onerous contract provisions, claims and litigations.

⁽²⁾ See Note 6 – Special items for more details on additions related to restructuring charges.

⁽³⁾ See Note 6 – 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.

⁽⁴⁾ See Note 6 – Special items for more details on the reversal of *Learjet 85* aircraft program cancellation provisions.

⁽⁵⁾ See Note 6 – Special items for more details on the addition related to the *C Series* aircraft program onerous contracts provision and on the addition related to the tax litigation provision.

14. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	June 30, 2017	December 31, 2016	January 1, 2016
Derivative financial instruments	\$ 518	\$ 627	\$ 702
Government refundable advances	491	395	411
Vendor non-recurring costs	346	351	20
Lease subsidies	130	141	135
Short-term borrowings ⁽¹⁾	57	—	—
Current portion of long-term debt	22	31	71
Sale and leaseback obligations	—	25	133
Other	59	37	138
	\$ 1,623	\$ 1,607	\$ 1,610
Of which current	\$ 475	\$ 608	\$ 991
Of which non-current	1,148	999	619
	\$ 1,623	\$ 1,607	\$ 1,610

⁽¹⁾ Relates to amounts drawn under Transportation's €640-million (\$730-million) unsecured revolving credit facility. Also see Note 18 – Credit facilities.

15. OTHER LIABILITIES

Other liabilities were as follows, as at:

	June 30, 2017	December 31, 2016	January 1, 2016
Accruals for long-term contract costs	\$ 688	\$ 579	\$ 606
Supplier contributions to aerospace programs	647	650	606
Employee benefits	629	652	647
Deferred revenues	479	422	397
Income taxes payable	214	222	224
Other taxes payable	97	163	212
Other	464	506	578
	\$ 3,218	\$ 3,194	\$ 3,270
Of which current	\$ 2,208	\$ 2,175	\$ 2,274
Of which non-current	1,010	1,019	996
	\$ 3,218	\$ 3,194	\$ 3,270

16. 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					
	2017			2016		
	PSU	DSU	RSU	PSU	DSU	RSU
Balance at beginning of period	39,121,351	2,677,843	21,709,319	15,299,251	4,654,619	22,492,023
Granted	1,545,263	—	—	—	—	1,071,165
Exercised	—	—	—	(65,790)	(161,880)	—
Forfeited	(602,984)	—	(353,138)	(150,153)	(466,140)	(360,077)
Balance at end of period	40,063,630	2,677,843 ⁽¹⁾	21,356,181	15,083,308	4,026,599 ⁽¹⁾	23,203,111

	Six-month periods ended June 30					
	2017			2016		
	PSU	DSU	RSU	PSU	DSU	RSU
Balance at beginning of period	39,324,712	2,677,843	22,058,924	15,627,217	4,883,829	22,332,682
Granted	2,182,285	—	—	—	—	1,659,631
Exercised	—	—	—	(65,790)	(248,883)	—
Forfeited	(1,443,367)	—	(702,743)	(478,119)	(608,347)	(789,202)
Balance at end of period	40,063,630	2,677,843 ⁽¹⁾	21,356,181	15,083,308	4,026,599 ⁽¹⁾	23,203,111

⁽¹⁾ Of which 1,260,639 DSUs are vested as at June 30, 2017 (1,362,817 as at June 30, 2016).

The compensation expense, with respect to the PSU, DSU and RSU plans, amounted to \$5 million and \$11 million during the three- and six-month periods ended June 30, 2017 (\$4 million and \$6 million during the three- and six-month periods ended June 30, 2016).

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	
	2017	2016	2017	2016
	Balance at beginning of period	97,258,265	74,801,926	97,039,186
Granted	571,158	1,595,772	1,927,765	2,662,979
Forfeited	(1,465,802)	(1,829,657)	(2,472,600)	(2,442,144)
Expired	(2,548,000)	(996,000)	(2,678,730)	(996,000)
Balance at end of period	93,815,621	73,572,041	93,815,621	73,572,041

A compensation expense of \$4 million and \$7 million was recorded during the three- and six-month periods ended June 30, 2017, with respect to share option plans (\$3 million and \$4 million for the three- and six-month periods ended June 30, 2016).

17. 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	
	2017	2016	2017	2016
Trade and other receivables	\$ (123)	\$ 5	\$ (5)	\$ 225
Inventories	(209)	283	(791)	164
Other financial assets and liabilities, net	(22)	(154)	34	(165)
Other assets	25	129	30	190
Trade and other payables	311	(155)	620	(438)
Provisions	162	432	51	473
Advances and progress billings in excess of long-term contract inventories	200	(111)	10	(84)
Advances on aerospace programs	(238)	37	(200)	(112)
Retirement benefit liability	(19)	(148)	(6)	(241)
Other liabilities	(28)	(51)	(22)	(176)
	\$ 59	\$ 267	\$ (279)	\$ (164)

18. CREDIT FACILITIES

In March 2017, the availability periods of Transportation's €3,310-million (\$3,778-million using the exchange rate as at June 30, 2017) 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 2020 and June 2020, respectively. In addition, the maturity dates of Transportation's €658-million (\$750-million using the exchange rate as at June 30, 2017) 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 2020 and June 2020, respectively.

Also, in March 2017, Transportation's €658-million (\$750-million using the exchange rate as at June 30, 2017) unsecured revolving credit facility was decreased to €640 million (\$730 million using the exchange rate as at June 30, 2017). Short-term borrowings of €50 million (\$57 million) remain outstanding under Transportation's €640-million (\$730-million) unsecured revolving credit facility as at June 30, 2017 (nil as at December 31, 2016 and January 1, 2016).

Effective in March 2017, 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 between \$750 million and \$850 million depending on the level of the EBITDA to fixed charges ratio, calculated based on an adjusted consolidated basis (i.e. excluding Transportation) 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, all calculated based on an adjusted consolidated basis (i.e. excluding Transportation). In addition, the Transportation letter of credit and revolving credit facilities financial covenants continue to require a minimum equity, a maximum debt to EBITDA ratio as well as minimum liquidity of €600 million (\$685 million) at the end of each quarter, all calculated based on Transportation stand-alone financial data.

In May 2017, the committed amount under Transportation's €3,310-million (\$3,778-million using the exchange rate as at June 30, 2017) letter of credit facility was increased to €3,530 million (\$4,029 million using the exchange rate as at June 30, 2017).

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Methods and assumptions

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

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

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

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

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

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

The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of the conversion option embedded in the BT Holdco convertible shares. The fair value of the embedded conversion option is based on the difference in value between: the convertible shares' accrued liquidation preference based on the minimum return entitlement; and the fair value of the common shares on an as converted basis. This value is dependent on the Transportation segment meeting the performance incentives agreed upon with the CDPQ, the timing of exercise of the conversion rights and the applicable conversion rate. The simulation model generates

multiple Transportation performance scenarios over the expected term of the option. Fair value of the shares on an as converted basis is calculated using an EBIT multiple, which is based on market data, to determine the enterprise value. The discount rate used is also determined using market data. The Corporation uses internal assumptions to determine the term of the instrument and the future performance of the Transportation segment.

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

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

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

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

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

Fair value hierarchy

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

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows, as at June 30, 2017:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	\$ 47	\$ —	\$ —	\$ 47
Derivative financial instruments ⁽¹⁾	492	—	492	—
Investments in securities	335 ⁽²⁾	49	286	—
Investments in financing structures	164	—	—	164
	\$ 1,038	\$ 49	\$ 778	\$ 211
Financial liabilities				
Trade and other payables	\$ (9)	\$ —	\$ —	\$ (9)
Lease subsidies	(130)	—	—	(130)
Derivative financial instruments ⁽¹⁾	(518)	—	(287)	(231)
	\$ (657)	\$ —	\$ (287)	\$ (370)

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

⁽²⁾ Excludes \$14 million of AFS investments carried at cost.

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

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at December 31, 2016	\$ 62	\$ 165	\$ (6)	\$ (141)	\$ (170)
Net gains (losses) and interest included in net income ⁽¹⁾	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 ⁽¹⁾	—	—	—	(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)

	Aircraft loans and lease receivables	Investments in financing structures	Trade and other payables	Lease subsidies	Conversion option
Balance as at January 1, 2016	\$ 79	\$ 151	\$ (1)	\$ (135)	\$ —
Net gains (losses) and interest included in net income ⁽¹⁾	5	10	—	(12)	(2)
Issuances	—	—	(6)	—	(120)
Settlements	(5)	—	1	8	—
Balance as at March 31, 2016	\$ 79	\$ 161	\$ (6)	\$ (139)	\$ (122)
Net gains (losses) and interest included in net income ⁽¹⁾	(3)	14	—	(9)	(1)
Settlements	(3)	—	6	3	—
Balance as at June 30, 2016	\$ 73	\$ 175	\$ —	\$ (145)	\$ (123)

⁽¹⁾ Of which nil and \$1 million represents realized gains for the three- and six-month periods ended June 30, 2017, which are recorded in financing income (\$1 million and \$2 million represents realized gains for the three- and six-month periods ended June 30, 2016, which are recorded in financing income).

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, 2017:

Main assumptions (weighted average)	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Internally assigned credit rating	Between BB to CCC (B)	Between BB- to CCC+ (B+)	Between BB- to CCC (B+)
Discount rate adjustments for marketability	9.84%	Between 1.75% and 8.17% (6.33%)	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, 2017:

Impact on EBT			Change of assumptions		
Change in fair value recognized in EBT for the :					
Gain (loss)	Three-month period ended June 30, 2017	Six-month period ended June 30, 2017	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)	\$ (1)	\$ (1)	\$ (1)	\$ (2)
Investment in financing structures	\$ (3)	\$ (6)	\$ (4)	\$ (11)	\$ (9)
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, 2017 of \$16 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, 2017 of \$24 million.

20. COMMITMENTS AND CONTINGENCIES

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

	June 30, 2017	December 31, 2016	January 1, 2016
Aircraft sales			
Residual value	\$ 1,300	\$ 1,300	\$ 1,669
Credit	1,223	1,233	1,248
Mutually exclusive exposure ⁽¹⁾	(541)	(557)	(598)
Total credit and residual value exposure	\$ 1,982	\$ 1,976	\$ 2,319
Trade-in commitments	\$ 1,485	\$ 1,721	\$ 1,818
Conditional repurchase obligations	\$ 170	\$ 207	\$ 192
Other			
Credit	\$ 47	\$ 48	\$ 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 \$546 million as at June 30, 2017 (\$562 million as at December 31, 2016 and \$670 million as at January 1, 2016) 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 \$130 million as at June 30, 2017 (\$141 million as at December 31, 2016 and \$135 million as at January 1, 2016).

The Corporation has committed to invest additional capital contributions in CSALP up to a maximum amount of \$1.0 billion in case of any liquidity shortfall in CSALP, of which as at June 30, 2017, the Corporation has contributed \$535 million in CSALP.

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, 2017, 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, one of the Corporation's subsidiaries is cooperating with police authorities in relation to an on-going investigation alleging questionable actions in regard to a 2013 contract for the supply of signaling 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. To date, no charges have been laid against the subsidiary, or any of its employees, and the investigation and the internal review are still ongoing. The underlying contract in Transportation that has given rise to this matter is currently also being audited by the World Bank Group pursuant to its contractual audit rights. The audit is still ongoing and no results have been communicated to the Corporation or its subsidiary. The Corporation's policy is to comply with all applicable laws and it is fully cooperating with the investigation and the audit. Due to the nature of these proceedings, it is not possible at this time to identify the potential outcome of this investigation.

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.

Triumph litigation

Triumph Aerostructures LLC ("Triumph"), a supplier to the Corporation on the *Global 7000* and *Global 8000* aircraft program, filed a lawsuit against the Corporation with the Québec Superior Court, District of Montréal on December 22, 2016 seeking approximately \$340 million in compensation for alleged directed changes by the Corporation to the wing requirements that Triumph claims are outside the scope of the contract as well as for alleged delays and disruption in connection with the contract.

In May 2017, Triumph and the Corporation entered into a comprehensive settlement agreement that resolves all outstanding commercial disputes between them, including all pending litigation, related to the design, manufacture and supply of wing components for the *Global 7000* and *Global 8000* aircraft program. The settlement resets the commercial relationship between the companies and allows each company to better achieve its business objectives going forward. The settlement did not have a material impact on earnings.

Metrolinx

In July 2016, Bombardier Transportation Canada Inc. (BTCI), a subsidiary of Bombardier Inc., received a notice of default in respect of its contract to supply 182 Light vehicles to Metrolinx. The contract was entered into on June 14, 2010. The value of the contract is \$770 million CDN (\$591 million). The Corporation is actively opposing the notice of default utilizing the Dispute Resolution Process under the contract. On October 28, 2016, Metrolinx served BTCI with a Notice of Intention to Terminate the Contract on the basis of the notice of default. In order to prevent Metrolinx from serving a notice of termination until such time as the dispute resolution process is concluded including all adjudication by the Dispute Resolution Panel and any subsequent appeals, BTCI filed an application in Ontario Superior Court on February 10, 2017 seeking an order maintaining the status quo and declaring that Metrolinx is not permitted to terminate the contract. On April 19, 2017, the Superior Court of Ontario granted BTCI's application thereby preventing Metrolinx to terminate its contract with BTCI without first submitting the matter to the Dispute Resolution Board, as provided for in the contract. BTCI intends to fulfill its obligations under the contract. Metrolinx has appealed the order and BTCI is opposing this appeal.

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 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 petition was filed pursuant to sections 701 and 731 of the Tariff Act of 1930, 19 U.S.C. § 1671 and 1673. 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. The Corporation disagrees with the assertions in the petition and is responding to the petition in the U.S. Department of Commerce and the U.S. International Trade Commission proceedings. On June 9, 2017 the U.S. International Trade Commission made a preliminary affirmative determination, finding that there is a reasonable indication that an industry in the U.S. is threatened with material injury by reason of imports of 100- to 150-seat large civil aircraft from Canada that are allegedly sold in the U.S. at less than fair value and that are allegedly subsidized by the Governments of Canada, Québec and the United Kingdom. The Corporation is expecting the U.S. Department of Commerce to issue during the fall of 2017 its preliminary determinations on applicable duties, if any, and to issue its final determinations during the first half of 2018. The Corporation expects the U.S. International Trade Commission to issue in the first half of 2018 its final determination on the threat of injury. The Corporation is cooperating with the investigations and, at this time, is not able to predict the potential outcome of the proceedings, however if negative it could result in a material adverse impact on the program.