Bombardier Inc.

Annual Report

Year ended January 31, 1997

Growth through innovative products and services

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All amounts mentioned in this report
are in Canadian dollars, unless otherwise stated.

The cover page presents some of the products which, like several new services, illustrate the role of innovation in the growth of Bombardier.

Among them are the Bombardier Global Express business aircraft; the Talbot Talent self-propelled trainset; the Neighborhood Electric Vehicle (NEV); the monorail for the city of Jacksonville, in Florida; the Canadair Regional Jet Series 700 airliner; and the Sea-Doo Challenger 1800 jet boat.

Un exemplaire français
vous sera expédié
sur demande adressée
au Secrétaire de la Société
Bombardier Inc.
800, boul. René-Lévesque Ouest
Montréal (Québec)
H3B 1Y8

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Bombardier Inc. 1997

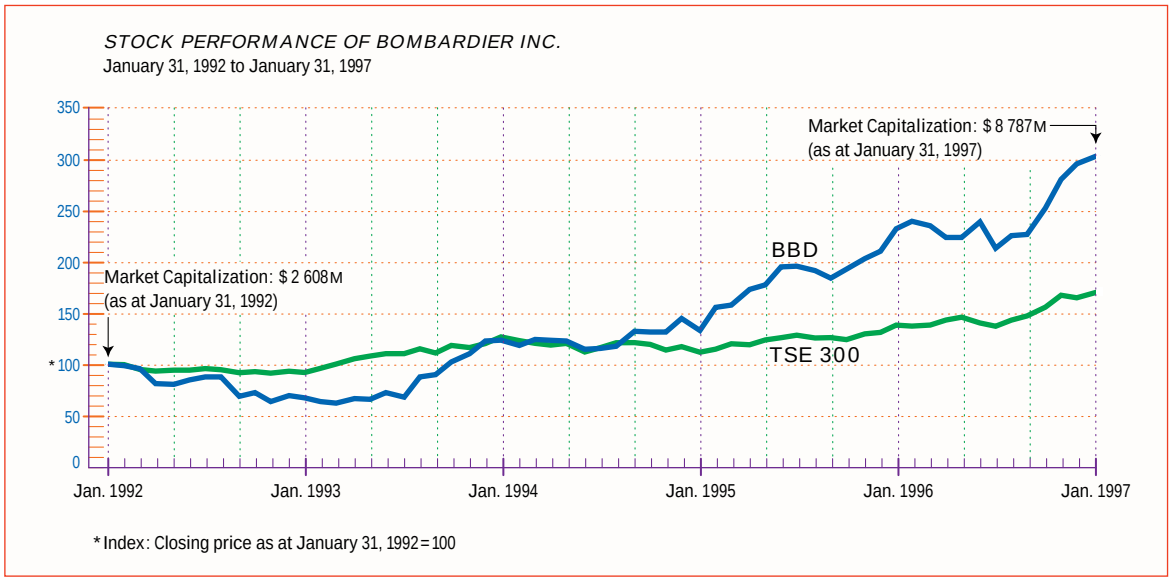
HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)

For the years ended January 31	1997	1996
		(restated)
Revenues	$ 7 975.7	$ 7 123.4
Income before write-down of investment in Eurotunnel share units and income taxes	$ 606.3	$ 467.2
Write-down of investment in Eurotunnel share units	$ —	$ 231.4
Income before income taxes	$ 606.3	$ 235.8
Income taxes	$ 200.1	$ 77.8
Net income	$ 406.2	$ 158.0[1]
Earnings per share	$ 1.18	$ 0.45[1]
Dividend per common share:		
Class A	$ 0.20000	$ 0.20000
Class B	$ 0.20625	$ 0.20625

As at January 31	1997	1996
		(restated)
Total assets	$ 7 950.3	$ 6 392.6
Shareholders' equity	$ 2 212.6	$ 1 818.9
Additions to fixed assets	$ 232.4	$ 297.8
Total backlog	$ 10 411.4	$ 10 356.3
Book value per common share	$ 6.01	$ 4.92
Number of common shares	337 638 037	335 036 511
Shareholders of record	11 541	9 873

[1] As at January 31, 1996 the effect of the write-down of investment in Eurotunnel share units on the net income amounts to $155.0 million ($0.47 per common share). Exclusive of this write-down, the net income would then be $313.0 million ($0.92 per common share).



Bombardier Inc.

Fields of Activity
- Transportation
- Motorized Consumer Products
- Aerospace
- Services
- Financial and Real Estate Services

Production Facilities
Canada
Mexico
United States
Austria
Belgium
Finland
France
Germany
United Kingdom

Number of Employees
41,000

Markets
- On the five continents, with high concentration in North America and Europe
- More than 85% of revenues generated in markets outside Canada

Corporate Office
800 René-Lévesque Blvd. West
Montréal, Québec
Canada H3B 1Y8
Telephone: 1 (514) 861-9481
Facsimile: 1 (514) 861-7053
Internet: http://www.bombardier.com

Divisions and subsidiaries addresses are available on pages 66 and 67.

* Trademark of Bombardier Inc. and/or its subsidiaries

Bombardier Transportation

Management offices:
Saint-Bruno (Québec)
Other offices: Hong-Kong

North American operations

Mass Transit Division (Canada)
Management offices: Saint-Bruno (Québec) •Production facilities: La Pocatière (Québec); Kingston and Thunder Bay (Ontario) •Main products: rapid transit cars; light rail vehicles; self-propelled electrical and diesel commuter cars; single and bi-level commuter cars; intercity train cars; intercity high speed trains; the LRC* trains; monorail cars

Auburn Technology, Inc. (United States)
Management offices: Auburn (New York) •Production facilities: Auburn (New York) •Main activities: engine block machining; component manufacturing for the Transportation Group and the Aerospace Group

Bombardier Transit Corporation (United States)
Management offices: New York (New York) •Other offices: Bensalem (Pennsylvania); Washington (DC); Sacramento (California); Orlando (Florida) •Production facilities: Barre (Vermont); Plattsburgh (New York) Activities: Component manufacturing, assembly and testing of mass transit vehicles

Transportation Systems Division (Canada)
Management offices: Kingston (Ontario) •Other offices: Orlando (Florida); Djakarta (Indonesia); Kuala Lumpur (Malaysia); Taipei (Taiwan); Bangkok (Thailand)
Main products: automated light rail transit systems; monorail and automated transportation systems

Bombardier-Concarril, S.A. de C.V. (Mexico)
Management offices: Mexico (D.F.)
Production facilities: Sahagún (Hidalgo) •Main products: rapid transit cars; light rail vehicles

European operations

Bombardier Transportation's European operations are carried out through Bombardier Eurorail, based in Brussels.

BN Division (Belgium)
Management offices: Bruges
Production facilities: Bruges; Manage
Main products: passenger rail cars; single and bi-level self-propelled rail cars; subway cars; light rail vehicles; trams; TGV† high-speed train equipment; electrical and diesel-electrical locomotives

Bombardier Prorail Limited (United Kingdom)
Management offices: Wakefield (England) •Production facilities: Wakefield (England) •Main products: light rail vehicles; complete refurbishment projects; bogies; body structures for locomotives and passenger rolling stock; railway wagons; road tankers

Bombardier-Wien Schienenfahrzeuge AG (Austria) Management offices: Vienna •Production facilities: Vienna
Main products: light rail vehicles (street-tramways, city-tramways, city-metros and tramway-trains)

Société ANF-Industrie S.A. (France)
Management offices: Crespin
Production facilities: Crespin
Main products: tramways; tramways on tires (GLT*); metros; automatic metros; light regional railcars; single and bi-level electric motorcoaches; turbotrains; TGV high-speed train equipment; bogies

Waggonfabrik Talbot GmbH & Co. KG (Germany)
Management offices: Aachen
Production facilities: Aachen •Main products: single and bi-level rail passenger coaches; diesel and electrical multiple units; bogies; freight wagons; self-propelled freight units

† Registered trademark of the Société Nationale des Chemins de fer Français

Bombardier Motorized Consumer Products

Management offices:
Montréal (Québec)

Snowmobile Division (Canada, Finland, United States)
Management offices: Valcourt (Québec) •Production facilities: Valcourt (Québec); Rovaniemi (Finland) •Main products: Ski-Doo* and Lynx* snowmobiles •Distribution services: Sherbrooke (Québec); Wausau (Wisconsin)

Marine Products Division (United States, Canada)
Management offices: Melbourne (Florida) •Production facilities: Saint-Antoine-de-Tilly and Valcourt (Québec); Benton (Illinois) •Main products: Sea-Doo* watercraft; Sea-Doo jet boats and Celebrity* boats. •Distribution services: Sherbrooke (Québec); Wausau (Wisconsin)

Bombardier-Rotax GmbH (Austria)
Management offices: Gunskirchen
Production facilities: Gunskirchen
Main products: Rotax* engines for Bombardier snowmobiles, watercraft and jet boats, and for motorcycles, scooters, small and ultra-light aircraft

NEV Division (Canada)
Management offices: Sherbrooke (Québec) •Production facilities: Sherbrooke (Québec)
Main product: neighborhood electric vehicle (NEV*)

Bombardier Aerospace

Management offices:
Dorval (Québec)

Canadair (Canada)
Management offices: Dorval (Québec) •Production facilities: Saint-Laurent and Dorval (Québec) Main products: widebody Challenger* and ultra long-range Bombardier Global Express* business aircraft; CL-415* amphibious aircraft; Canadair Regional Jet* airliner; airframe components; aircraft interior completion; commercial and corporate pilot and maintenance training

Learjet Inc. (United States)
Management offices: Wichita (Kansas) •Production facilities: Wichita (Kansas); Tucson (Arizona) Main products: the line of Learjet* business aircraft including the light Learjet 31A, the super-light Learjet 45 and the midsize Learjet 60 with transcontinental range; aircraft maintenance, painting and interior completion

de Havilland Inc. (Canada)
Management offices: Downsview (Ontario) •Production facilities: Downsview (Ontario) Main products: family of Dash 8* regional turboprop aircraft; airframe components; final assembly of Global Express business jet; aircraft painting and interior completion

Short Brothers plc (United Kingdom)
Management offices: Belfast (Northern Ireland) •Production facilities: in the Belfast area •Main products: aerostructures; engine nacelles and nacelle components

Shorts Missile Systems Limited (United Kingdom)
Management offices: Belfast (Northern Ireland) •Production facilities: Belfast (Northern Ireland) Main products: Starburst* and Starstreak* close-air defence missile systems; Samantha* and Clara* command and control systems; Aspic* automatic firing system

International Nacelle Systems EEIG (France, United Kingdom)
Management offices: Paris (France) Services: marketing of aircraft engine nacelles

Société Internationale de Nacelles (France)
Management offices: Toulouse Production facilities: Toulouse Activity: integration of nacelles with aircraft engines

Business JetSolutions Division (United States)
Management offices: Dallas (Texas) Tailor-made business transportation products and services through fractional ownership programs and executive charter operations

Bombardier Services

Management offices:
Montréal (Québec)

Defence Systems Division (Canada)
Management offices: Mirabel (Québec) •Main services and products: technical support for military and commercial aircraft; missionizing of aircraft; aviation training; CL-327* unmanned aerial surveillance system

Support Services Division (United Kingdom)
Management offices: Christchurch (Dorset) •Main services and products: facilities management, maintenance, flying training and logistic support services including turnkey operations for both civil and military customers; simulation and training equipment; aerial targets

West Virginia Air Center (United States)
Management offices: Bridgeport (West Virginia) •Main services: maintenance, modification, painting and refurbishing services for civil and military aircraft; logistic support for the C-23B+ aircraft fleet

Industrial Division (Canada)
Management offices: Granby (Québec) •Production facilities: Granby (Québec) •Main services and products: snowgrooming services; tracked vehicles for the maintenance of alpine ski hills and snowmobile and cross country ski trails; tracked vehicles for municipal work; tracked vehicles for specialized utility work and transportation on difficult terrain

Bombardier Capital

Management offices:
Colchester (Vermont)

Bombardier Capital Inc. (United States)
Management offices: Colchester (Vermont) •Services: dealer inventory financing/servicing in a broad range of industries; aircraft, commercial and industrial equipment financing and leasing; technology management, leasing, financing and manufacturer/dealer communication services for users of computer and telecommunications equipment •Sales offices: Atlanta (Georgia); Garden City (New York); Jacksonville (Florida)

Bombardier Credit Receivables Corporation (United States)
Management offices: Colchester (Vermont) •Services: dealer inventory financing in a broad range of industries

BCI Finance Inc. (United States)
Management offices: Colchester (Vermont) •Services: aircraft financing

Bombardier Capital Ltd. (Canada)
Management offices: Valcourt (Québec) •Services: dealer inventory financing/servicing in a broad range of industries; industrial equipment financing and leasing •Sales offices: Brossard (Québec)

Bombardier Finance Inc. (Canada)
Management offices: Calgary (Alberta) •Services: aircraft and industrial equipment leasing

Bombardier Inc., Real Estate Services (Canada) Management offices: Saint-Laurent (Québec) •Mandate: development of Bombardier's real estate assets earmarked for new uses

Bombardier Capital International B.V. (Finland)
Management offices: Rovaniemi Services: dealer inventory financing and other financing services in Europe

The results achieved in fiscal 1996-97 are satisfactory. Increased sales and a higher margin led to 30% growth in net income excluding the effect of the write-down of the investment in Eurotunnel share units while revenues amounted to $8.0 billion, 13% higher than in the previous fiscal year.

During the past five years, the Corporation's operating income has more than doubled and we have maintained a healthy financial position while making considerable investments.

The challenges arising from our rapid expansion have required regular adjustments to our organization and the way we manage.

Laurent Beaudoin,
Chairman and Chief Executive Officer

During the past fiscal year, we conducted an in-depth assessment which has resulted in major organizational changes from which concrete positive effects are already being felt.

Firstly, we have decided to bring together in the new Services Group a host of activities and resources, previously dispersed in various groups, in order to create an additional growth hub for the Corporation.

The pooling of our experience and competencies in this segment will reinforce our presence in the fast-growing market for support services, maintenance, training and operations management for both the public and private sectors. This Annual Report contains the initial operations review of this group.

Our aerospace activities and our transportation activities for which responsibility had been shared between the North American and European groups were then brought together into entities with broader mandates.

This regrouping of our activities takes into consideration the globalization of competition and new market opportunities for our products just about everywhere in the world. It will also promote the optimal allocation of our resources while facilitating the coordination and integration of critical functions such as engineering, manufacturing and purchasing.

Each of our five groups is now headed by a president and chief operating officer who has greater responsibility for the development of his business segment. Executive management committees have also been established for each group to monitor operating activities and to facilitate coordination with the Corporate Office.

At Corporate Office, we have created the position of executive vice president, strategy and corporate affairs, to enhance coordination of the strategic planning, human resources and organizational development, public affairs, treasury and financial engineering functions.

The organization is changing to adapt to new realities but the Corporation's objectives remain the same. In this regard, the results achieved during the past year testify to our determination to pursue growth, leadership in our markets and improvement in our profitability.

AEROSPACE

Activity in the aerospace segment was intense during the year, marked by a record number of aircraft deliveries and new orders, as well as by the progress achieved in our new aircraft development programs.

We delivered 90 regional aircraft during the fiscal year, 70 business aircraft and 8 amphibious aircraft for a total of 168, or 22 more than in the previous year.

Our leadership was confirmed in the 20- to 90-seat regional turboprop and jet aircraft segment. During the 1996 calendar year, we booked orders for 129 aircraft out of 312 in this segment, representing a market share of about 41% compared with 27% in 1995.

Among other highlights of the fiscal year, let us mention the 30 deliveries of Challenger 604 aircraft, a record number for this widebody business jet.

After its first full year of operations, the Business JetSolutions* Division, which sells fractional ownership of business jets, already had more than 100 clients.

The pace of all of our new aircraft development programs was satisfactory.

After the successful initial test flight on October 13, flight testing of the Global Express demonstrated the exceptional performance of this new ultra long-range business aircraft. The aircraft will be able to cover a direct distance of 6,500 nautical miles, or the distance between New York and Tokyo, at a speed of Mach 0.85 rather than Mach 0.80 as announced when the aircraft was launched. At a cruising speed of Mach 0.80, the Global Express will be able to cover 6,700 nautical miles, or 200 more than planned.

Another initial flight will occur in 1997, in this case the Dash 8 Series 400 aircraft, a 70-seat regional turboprop expected to begin commercial service in 1999.

Officially launched at the end of the fiscal year, the program for a 70-seat Canadair Regional Jet, Series 700 – a stretch version of the 50-seat CRJ, Series 100 and 200 – was greeted enthusiastically by potential clients. Deliveries of this aircraft will commence in the year 2000. As the first aerospace company to offer a 50-seat jet for regional airlines, Bombardier is once again demonstrating leadership, becoming the only manufacturer to offer a family of regional jets with all the advantages that commonality holds for operators.

Also of note, the 49% share in the capital stock of de Havilland held by the Government of Ontario was acquired during the year.

In order to offer full service to our clients, particularly for the Global Express, we also acquired the Dorval-based Innotech facilities for the interior completion of business aircraft. Given the expected volume of operations, we decided to add a new completion centre at a cost of $50 million, also in Dorval, fully dedicated to the Global Express.

Motorized Consumer Products

The motorized consumer products segment also posted excellent results due mainly to major increases in market share.

Although the North American watercraft market declined slightly due to poor weather, our sales increased significantly, raising the world market share held by Sea-Doo watercraft to 50% from 42%.

Sales of snowmobiles were affected throughout the industry by unfavourable early winter conditions in the northeastern regions of Canada and the United States. Ski-Doo snowmobiles recorded a noticeable increase in market share, advancing to 30% from 27%, as we experienced higher sales.

Buoyed by the success of our watercraft, jet boats and snowmobiles, we will continue to rely on innovation and the extension of our product lines to reinforce client loyalty and attract new consumers. We feel that the North American market continues to offer good potential for these products. High growth rates achieved in international markets also make these markets increasingly attractive.

Our development will also be based on greater product diversification. For example, we delivered in January the first NEV neighborhood electric vehicles designed primarily for driving in the residential areas of the southern United States.

Members of the senior management team at a meeting. From left to right: Laurent Beaudoin, Jean Rivard, Paul Larose, Jean-Louis Fontaine, Marie-Claire Simoneau and Yvan Allaire.

Transportation

The Transportation Group maintained a similar level of activity in 1996-97 as in the previous fiscal year. Its performance suffered, however, from unprofitable orders for tramways manufactured in our plants in Belgium and Austria.

The Group's efforts were nevertheless crowned with success as it obtained major orders. The largest was from Amtrak for the manufacture of cars and locomotives for the high-speed train linking Washington, New York and Boston. This contract opens interesting possibilities for the tilt technology developed by Bombardier.

In Europe, the self-propelled Talent* rail cars, an innovative product developed by Waggonfabrik Talbot, achieved a first major breakthrough with an order from the German national railways for 120 three-car trainsets, or 360 cars in total.

The Transportation Group continued to prospect new geographical markets very actively, especially in fast-growing countries of Asia. Offices were established in Bangkok, Beijing, Djakarta, Kuala Lumpur and Taipei to take advantage of the growth in turnkey urban transportation systems in that part of the world. The planned joint venture for manufacturing rolling stock in China reached a new milestone when the Chinese Government approved its terms.

Financial Services

A growing source of profitability for the Corporation, the Bombardier Capital Group intends to gradually deploy its activities in new market niches.

During the new fiscal year, the Group will establish offices in Jacksonville, Florida to serve the consumer loan market in the financing of products purchased from dealers whose inventory we already finance. The Group will also enter certain specialized niches of the mortgage lending market.

Outlook

Through exceptional growth, the Corporation has succeeded over recent years in building favourable competitive positions in each of its business segments.

During the fiscal year, progress was made in our operating activities as demonstrated by the substantial improvement in our profit margin. The pre-tax profit margin was 7.6% but we intend to renew our efforts to increase it in the coming years to reach our target of 9%.

To this end, we have implemented a series of measures, such as a variable compensation system tied to the achievement of high profitability objectives. Beginning with the aerospace segment, we are implementing a quality and costs improvement program called Six Sigma, which has produced results judged to be exceptional by the management of companies such as General Electric and AlliedSignal in the United States where it has been adopted. This major initiative illustrates our determination to achieve high performance levels.

The Corporation's management views the future with confidence and relies on the dedication of competent and motivated personnel to achieve its objectives. I thank all of our employees for their support during the year.

I also wish to thank the members of the Board of Directors for their support. I would like to especially acknowledge Mr. Pierre Côté whose term as director will not be renewed since he has reached the mandatory retirement age under the Corporation's policy. For more than 20 years, as a member of the board and on several committees, he has provided us with the benefit of his keen business sense, his vast experience and his great professional qualities.

On behalf of the Board of Directors,

Laurent Beaudoin, FCA

Chairman and
Chief Executive Officer

Montréal, Canada
May 15, 1997

Social responsibility is an integral part of Bombardier's mission. It stems from the Corporation's determination to establish roots in all of the communities where it is present and takes many forms, reflecting the diversity of both local needs and the initiatives of employees.

J. Armand Bombardier Foundation

The Foundation, which is managed by a Board of Governors chaired by Janine Bombardier, daughter of the founder, is a non-profit organization which receives funding each year from Bombardier Inc. equivalent to 3% of its income before income taxes. Revenues from the resulting endowment fund enabled the Foundation to distribute nearly $3 million this year to regional and national organizations active in education, health and the arts.

During the past fiscal year, the Foundation focused primarily on the needs of the education sector.

Among the Foundation's major contributions in 1996-97 was its funding towards the creation of a Chair in Digital Simulation at Université Laval in Québec City. Digital simulation enables the design and development of new products without having to carry out experiments until the final design phase.

The École de Technologie Supérieure de l'Université du Québec received a donation to set up an advanced computer laboratory for training qualified personnel and conducting high-level research projects on the design and operation of modern production systems.

Through a major donation from the Foundation, the Université de Sherbrooke will establish a new training program for mechanical engineers. McGill University and the University of Waterloo also benefited from the Foundation's programs to fund projects for training engineers.

The Foundation was also very active in social causes. Among the more significant contributions was its participation in funding the 1-2-3 GO program, which seeks to provide certain low-income Montréal communities with the capacity to offer new-born to three-year-old children with a quality social and economic environment.

J. Armand Bombardier Museum

The J. Armand Bombardier Museum in Valcourt, the only private science and technology museum in Québec, operates under the auspices of the Foundation. Through various means, it seeks to showcase its collection which is dedicated to the history of the snowmobile and to maintaining awareness of its contribution to our cultural and industrial heritage.

An investment of one million dollars in new quarters allows for centralized management of the collection. The numerous objects which must be restored before they are exhibited to the public are now stored under much more favourable conditions.

The Museum presented several temporary exhibitions during the year, one of which was Bombardier in Flight, the history of the Canadair, de Havilland, Learjet and Shorts aircraft manufacturers.

Yvonne L. Bombardier Cultural Centre

This Cultural Centre, established in 1972 and funded by the J. Armand Bombardier Foundation, houses a library of 40,000 books and periodicals. Approximately 1,000 children and adults from the Valcourt area subscribe to the Centre for a total of 13,000 visits annually. The Foundation completed the computerization of the library during the year.

Students receive leading-edge training in the advanced computer laboratory of the École de Technologie Supérieure de l'Université du Québec, which was established with financial support from the J. Armand Bombardier Foundation.

Employee Contribution

The employees of Bombardier also contribute their resources and imagination to the fulfillment of the Corporation's social responsibilities in their respective communities.

The Motorized Consumer Products Group organized a bold initiative last summer, aimed at supporting research into childhood diseases. It invited more than two dozen celebrities from the business community, the arts and the media to participate in a 250-kilometre trip on the St. Lawrence River between Québec City and Montréal.

Accompanied by several specialized Bombardier employees, nearly forty personal watercraft made the journey. This event attracted sponsorships which enabled the Group to donate $105,000 to the Foundation for research into children's diseases in conjunction with the J. Armand Bombardier Foundation.

The Transportation Group contributed to several local community initiatives and provided financial support to the special project by Chantiers Jeunesse to clean up flood debris from the banks of the Saguenay River before the onset of winter.

Building a play area for handicapped children was one of the community projects carried out by apprentices at Short Brothers in 1996, as part of their training program.

Through their Charity Fund, Canadair employees initiated a fund-raising campaign for the flood victims in the Saguenay region. Employees from various Bombardier facilities joined those from Canadair and managed, with the participation of the J. Armand Bombardier Foundation, to donate $200,000 to the Canadian Red Cross for the disaster victims.

For the third consecutive year, cyclists from de Havilland, supported by management, won the Golden Wheel Award while competing against teams five times larger. The company was thereby recognized for having raised the largest amount for the Canadian Heart Foundation during the "Ride for Heart" race.

In addition, de Havilland contributed financially to YMCA programs, as well as to arts education at a high school near the plant.

In Wichita, Kansas, Learjet supported a school for handicapped preschoolers and an organization dedicated to helping persons suffering from speech and hearing difficulties. Employees, for their part, contributed to the Kansas Food Bank, among other charities.

In Belfast, Short Brothers apprentices were recognized by the Employees in the Community Awards in the United Kingdom. This year their community work, which is part of the Short Brothers apprenticeship program, included contributions to the creation of a recreational park for children, a garden in a retirement home and the set for a Nativity play in a school for handicapped children.

Environmental Protection

With the publication of a definitive version of the ISO 14000 standard during the year, the Corporation was able to accelerate the implementation of an environmental management system which complies with the requirements of this norm.

The majority of officials responsible for environmental management at Bombardier plants have already defined or modified their program to take into account the requirements of the new standard. The efforts made by the plants in Bruges and La Pocatière lead us to believe that the implementation of this management system will be completed by the end of the next fiscal year.

The rate of reduction in solid waste and packaging use represents significant progress in the pursuit of the objectives which have been set. Measures have been taken to identify new parameters for environmental performance assessment. These indicators will enable the quantification of results from the use of the management system and facilitate its evaluation. Software for managing environmental information has been selected to complete the system which will eventually be used by all of the Corporation's facilities.

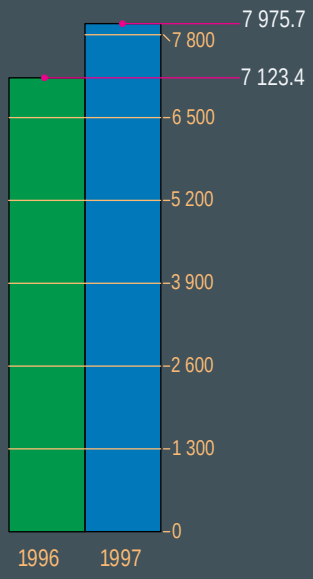
The Corporation abided by the environmental laws and regulations applicable to its manufacturing activities and completed the year without experiencing any negative impacts attributable to major environmental events.

Supported by its computerized environmental management tools, the Corporation will continue its efforts to integrate the ISO 14000 standard into its manufacturing operations over the course of the next fiscal year. The action plans already in place will be pursued and, if needed, adjusted to reflect and confirm the Corporation's environmental protection objectives.

OPERATIONS

CONSOLIDATED REVENUES
(millions of Canadian dollars)

Years ended January 31



The accounting methods used for Bombardier's activities are explained in the Summary of Significant Accounting Policies that accompanies the consolidated financial statements.

The consolidated financial statements of Bombardier Inc. include the detailed effects of adding the accounts of the financial services and real estate activities to those of the Corporation's industrial operations. In order to provide a better understanding of the various data presented in the annual report, the Summary of Significant Accounting Policies contains definitions of the terms used to designate the overall operations of Bombardier Inc. (Bombardier Inc. consolidated), the industrial operations (Bombardier), as well as the financial and real estate services that fall under the Bombardier Capital Group (BCG). The application of this consolidation method has no impact on net income and shareholders' equity.

The revenues of Bombardier, excluding BCG, for the year ended January 31, 1997 amounted to $7.8 billion, compared with revenues of $7.0 billion for the year ended January 31, 1996. This 11% increase is mainly attributable to significantly higher sales in the aerospace and motorized consumer products industry segments.

Reflecting the revenue increase as well as sustained good performance in most of the Corporation's industry segments, income before income taxes rose to $606.3 million, for a 30% increase over the $467.2 million income before income taxes which was recorded the previous year before a $231.4 million write-down on the investment in Eurotunnel share units.

The following analysis of operating results covers five industry segments which have been modified slightly to reflect Bombardier's new operating structure.

Bi-level cars for
the French national railways
self-propelled trainsets

Innovation
in passenger
rail transportation

Subway cars
for Mexico City

Monorail
for Jacksonville, Florida

Thanks to the Talent self-propelled diesel trainsets developed by Waggonfabrik Talbot to meet the needs of regional and commuter transit, Bombardier obtained a breakthrough order from the German national railways.

Jean-Yves Leblanc,
President and Chief Operating Officer,
Bombardier Transportation

Bombardier's operating results in this industry segment derive from the activities of the Transportation Group. The structure of the Group is described on page 2 of this report.

For fiscal year 1996-97, sales in the transportation industry segment remained at the same level as last year, totalling $1.6 billion.

Although performance on most contracts was good, income before income taxes dropped by 36%, chiefly because of the lack of profitability of some tramway orders at the Group's Belgian and Austrian facilities. Income before income taxes for the year therefore amounted to $63.8 million, compared with $100.3 million in 1995-96, bringing about a decline in profit margin. The causes of this decline in profit margin having been identified, corrective measures have now been implemented and should lead to improved profitability in fiscal 1997-98.

At January 31, 1997, the value of the order backlog in the transportation segment totalled $3.8 billion, compared with $3.9 billion at January 31, 1996. The backlog was split along virtually the same proportions, with the North American operations accounting for $1.7 billion and the European operations for $2.1 billion.

Activities

The Transportation Group develops, produces and markets a full range of vehicles for urban, suburban and intercity rail-passenger transportation, as well as integrated rail transit systems for turnkey projects.

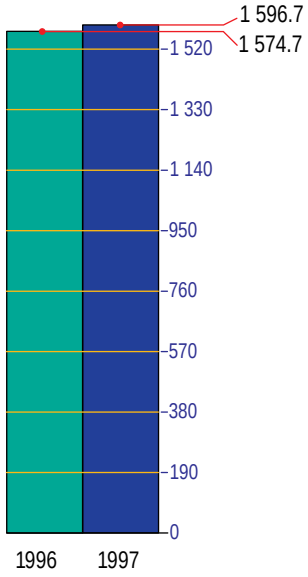
Deliveries and Work in Process (North America)

In 1996-97, the Group completed three orders with the delivery of 38 Superliner[††] II train coaches to the United States National Railroad Passenger Corporation (Amtrak), 11 bi-level commuter cars to BC Transit and five bi-level commuter cars to the Tri-County Commuter Rail Authority of Florida. Shipments also included the last 126 refurbished subway cars of a 234-unit order from Sistema de Transporte Colectivo de México.

Production continued on a 216-subway car order from the Toronto Transit Commission, and 18 vehicles were delivered for a cumulative total of 24 units.

The supply of push-pull commuter cars began on orders from Metro North of New York and New Jersey Transit, which took delivery of 34 and 46 vehicles, respectively. Engineering and pre-production work was carried out on a 78-car order for the Mexico City subway system as well as on several other orders.

Under contracts for turnkey transit systems, the Group delivered the last 66 of 108 subway cars ordered by the Municipality of Greater Ankara, Turkey, and is currently conducting tests for the commissioning of the system. In addition, the Group shipped the first 16 of 70 Mark II vehicles for a light rail transit system in Kuala Lumpur, Malaysia, and carried out engineering and pre-production work for the Jacksonville, Florida project.



SALES
(millions of Canadian dollars)

Transportation
Years ended January 31

[††] Registered trademark of the National Railroad Passenger Corporation

Deliveries and Work in Process (Europe)

In 1996-97, the Transportation Group continued work on a French national railways (SNCF) order for the completion and interior finishing of 90 cars for the bi-level TGV (Train à Grande Vitesse) high-speed train, shipping 15 cars for a cumulative total of 18. Work also progressed on the finishing of 85 coaches for the TGV PBKA (Paris – Brussels – Cologne – Amsterdam) and 43 vehicles were delivered, for a cumulative total of 48. Finally, with the delivery of six first-class coaches for the TGV Réseau, the Group completed a SNCF order which involved the finishing of 180 units.

For more than 15 years, Bombardier has been delivering push-pull commuter train cars to various transit operators in the Northeast United States such as Metro North of New York.

The GLT 2000 transportation system, which can operate alternately as a tramway or an articulated bus, is being marketed by Bombardier to a number of European municipalities.

In the suburban and intercity transportation equipment segment, the Group delivered 91 train coaches to the Belgian national railways (SNCB), for a cumulative total of 113 on a 163-unit order, 72 self-propelled trainset cars to the Indonesian railways, for a cumulative total of 92 on a 100-unit order, and 52 self-propelled diesel trainset cars to the Dutch railways, for a cumulative total of 70 on a 106-unit order. Shipments also included all of the 100 flat cars on order from HUPAC, a Swiss transportation company, as well as equipment produced for 55 self-propelled diesel trainset cars for the Dutch railways and undercarriages for various types of vehicles.

In addition, the Group continued with the supply of two series of 40 low-floor tramways on order from the Kölner Verkehrsbetriebe of Cologne, delivering 47 units for a cumulative total of 65, and shipped the first of 15 bi-modal double-articulated tramways which were ordered last year by the Stadtbahn Saar GmbH of Saarbrücken.

Deliveries on two other orders began with the shipment of the first nine of 360 cars for motorized triple trainsets being produced for the SNCB, and the first nine of 210 motorized cars being produced for the SNCF and the Parisian regional transit authority (RATP).

During the year, the Group also continued work on the refurbishing of 522 suburban cars for the London Underground, delivering 150 units for a cumulative total of 210. Finally, engineering and pre-production work was carried out on various vehicle orders received in 1995 and 1996.

Orders (North America)

The most significant order won by the Transportation Group in 1996-97 calls for the design and manufacture of 18 trainsets (108 cars and 36 powered cars) of the American Flyer††† high-speed train and 15 electric locomotives for Amtrak's service between Washington, New York and Boston. The order will be carried out in cooperation with the Franco-British group GEC Alsthom. In addition, Bombardier will undertake the construction of a maintenance centre for the rolling stock in these three cities.

The North San Diego County Transit District and the San Joaquin Regional Rail Commission, both of California, ordered five and eight bi-level commuter cars, respectively. Two other transit authorities exercised options for push-pull commuter train cars: New Jersey Transit for 19 vehicles and Metro North of New York for 15 vehicles.

In the vehicle refurbishing segment, Sistema de Transporte Colectivo de México awarded the Group a contract for the overhaul of 256 subway cars.

In addition, the Group enhanced its position in the rolling stock maintenance market when it signed a six-year agreement with GO Transit, an Ontario government agency, for the maintenance of the agency's entire commuter train fleet.

Orders (Europe)

In 1996-97, the Transportation Group's newest unit, Waggonfabrik Talbot, which has traditionally served markets outside of Germany, made a major breakthrough when it won an order for 120 Talent self-propelled diesel trainsets (360 cars) from the German national railways (Deutsche Bahn).

Other European orders awarded to the Group call for the design and production of 36 tramways for the Rotterdamse Elektrische Tram company of Rotterdam, the manufacture of the mechanical portions of 70 electric locomotives for the SNCB, the supply of 24 electric cars to the Bern Lötschberg Simplon regional railway of Switzerland, and the manufacture and maintenance of 24 low-floor tramways for a light rail transit system in the suburbs of London (South London Croydon Tramlink).

††† Registered trademark of Lionel Trains Inc., used under licence

In 1996, the Stadtbahn Saar transit authority of Saarbrücken, Germany, took delivery of the first of 15 bi-modal tramways it has ordered for its regional transportation system.

Also in England, the Group received an order for the refurbishing and overhaul of 381 intercity coaches from Eversholt Leasing, a rolling stock leasing company.

The low-floor tramways built by Bombardier for the City of Cologne are highly appreciated by the operator and users alike.

Market

Given the cyclical fluctuations which are characteristic of the rail transit equipment market, Bombardier's share is calculated on the basis of an average of three calendar years. In 1996, the market share achieved in Canada and the United States was 35%, up from 28% the previous year, while the share achieved in Europe remained stable at 7%, a percentage that takes into account a redefinition of the accessible market.

According to estimates made by the Transportation Group, the potential of markets served by Bombardier should cycle within a range of 23,000 new cars over the next five years. Of this total, the market in Canada and the United States should account for approximately 4,000 units, compared with the 3,000-unit trend of the past five years. This increase is mainly attributable to the major rolling stock renewal program being implemented by the Metropolitan Transportation Authority (MTA) of New York, and to an emerging demand for self-propelled diesel commuter trainsets. The European market, on the other hand, should decline from 20,000 to 17,000 units, mainly due to the fact that major high-speed train programs have been put on hold throughout Europe. Bombardier's estimates now group the Mexican and Latin American markets together and place the combined market potential at approximately 2,000 units over five years.

Prospects

In Canada and the United States, Bombardier is well positioned to increase its share of the new vehicle market. The high-speed and very-high-speed train market also offers good potential in the longer term. In addition to already being present in this market with a firm order for the American Flyer train, Bombardier is a participant in the FOX project which calls for the implementation of a TGV line in Florida, and is also conducting a pre-feasibility study for TGV rail service in Canada in partnership with GEC Alsthom and four engineering and construction firms.

In Europe, Bombardier is striving to strengthen its position in the German regional transportation market, which it has penetrated with a first order from the national railways. It is also monitoring the numerous opportunities arising from the privatization of British Rail in Great Britain.

In Mexico, where the economy is recovering slowly, Bombardier remains in a favourable position to win a share of orders which are awaiting decision or financing, and of the fleet modernization orders that are likely to result from the progressive privatization of the national railways. The Corporation is also assessing the opportunities in the Latin American market, where potential is good.

The turnkey urban transit systems segment continues to enjoy great vitality, particularly in Asia where Bombardier has set up marketing offices in Bangkok, Beijing, Djakarta, Kuala Lumpur and Taipei.

Bombardier, in association with Power Corporation of Canada and LORIC of China, continues in its efforts to form a joint venture in China for the manufacture of rail transit vehicles. In January 1997, a new milestone was reached when Bombardier and its partners received official recognition from the Chinese government to create a joint venture company and launch the feasibility study for this project.

Nova Bus

In 1994, Bombardier had acquired a 25% interest in the share capital of Nova Bus, a manufacturer of urban transit buses for the North American market. As this investment is not a fit with the current strategic focus of the Group, the Corporation announced in January 1997 its intention to divest its shares and, following an agreement with the other shareholders, find a buyer for all of the shares.

The Sea-Doo
Challenger 1800 jet boat

Innovation in leisure product design

The Ski-Doo
Grand Touring SE snowmobile

The Sea-Doo XP
personal watercraft

Introduced in Arizona last fall, the NEV (Neighborhood Electric Vehicle) can be used in a variety of sites: large residential developments, university campuses and shopping centres.

Pierre Beaudoin,
President and Chief Operating Officer,
Bombardier Motorized Consumer Products

The operating results recorded in this industry segment cover the activities of the Bombardier Motorized Consumer Products Group. The structure of the Group is described on page 2 of this report.

As a result of continued growth in unit sales of snowmobiles, personal watercraft, jet boats and Rotax engines, revenues in the motorized consumer products segment increased by 19% for the year ended January 31, 1997, totalling $1.9 billion compared with $1.6 billion in 1995-96.

This sales progression, combined with the Group's excellent performance in all areas of its activities, led to a 21% rise in profitability, with income before income taxes at $211.0 million as against $174.9 million last year. In addition, the Group continued to record a strong level of profit margin.

Snowmobiles

Bombardier's activities in the snowmobile industry involve the manufacture and marketing of the Ski-Doo product line as well as the Lynx line which is designed specifically for the European market.

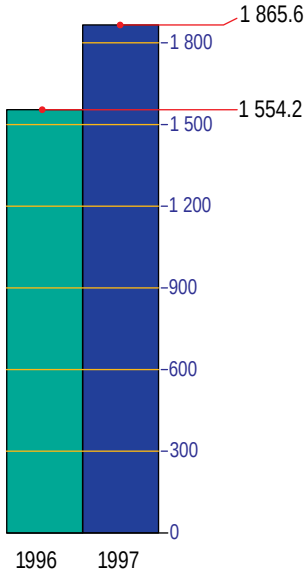
Sales and market (North America)

After five consecutive years of growth, the North American snowmobile market remained basically stable in 1996-97, with total industry sales reaching 238,500 units at the end of the selling season on March 31, 1997, compared with 235,000 units at March 31, 1996. Lack of snow at the beginning of winter in the eastern United States and eastern Canada was a factor of this no-growth situation.

Ski-Doo snowmobile unit sales increased substantially. Accordingly, the Ski-Doo market share rose to 30%, compared with 27% the previous season.

Sales and market (Europe)

Reflecting the improvement of economic conditions in the Nordic countries, the European snowmobile market continued to recover in 1996-97. It grew by about 24%, as industry retail unit sales reached close to 17,300 units, compared with 14,000 units in 1995-96. A significant increase was recorded in unit sales of Ski-Doo and Lynx snowmobiles, confirming Bombardier's market leadership with a share of nearly 50%.



SALES
(millions of Canadian dollars)

Motorized Consumer Products
Years ended January 31

Product development

Part of the sustained advance of the Ski-Doo snowmobile can be attributed to the technical and engineering efforts made by the Group over the past few years to renew and enhance the complete line-up. The resulting technological quality was once again acknowledged by trade publications in the 1996-97 season. The MX* Z 670 model was named "Best New Snowmobile" by Race & Rally magazine, while the Summit* 670 model was recognized as "Most Powerful Mountain Snowmobile" by Sno West magazine. The Summit 670 was also crowned "King of the Hill" at the Jackson Hole hillclimb in Wyoming, being the first stock snowmobile to successfully reach the top of the hill in the 25 years that this competition has been held. In addition, the 1996 Grand Touring* SE model, which incorporates a number of innovative features, enjoyed an outstanding market success.

In line with its strategy of continued investment in the development of increasingly sophisticated snowmobiles to meet consumer expectations, the Group is introducing five new models for the 1997-98 selling season: the Formula* III 700 in the high-performance sport category, the Formula Z 670 and Formula 583 De Luxe in the grand sport category, the MX Z 500 in the cross-country category, and the Grand Touring 700 in the touring category. Two of the year's models are equipped with an electronic reverse system, the first ever within the snowmobile industry, which allows the snowmobiler to reverse direction more conveniently than the current system. Finally, the introduction of a new chassis on all of the three-cylinder models, to provide better handling and stability, further consolidates Bombardier's technological leadership.

The Lynx Rave* 670 snowmobile is designed specifically for the European market and is manufactured at the Bombardier-Nordtrac facilities in Finland.

The Formula III 600 snowmobile which is part of the 1998 Ski-Doo line features a number of technical improvements, including an electronic reverse system which makes it easier to change direction.

Prospects

Bombardier believes that the North American snowmobile market will continue to hold positive prospects, given such factors as model enhancement through innovation, accelerated model replacement as well as new arrivals to the sport, notably in the more deluxe category. Even though competition remains fierce among the four manufacturers who cover this market, Bombardier can capitalize on its innovative capabilities and the recognized high quality and performance of its product line to increase its market share.

The European snowmobile market is expected to enjoy further growth as it becomes more leisure- than utility-oriented. As the only fully integrated European manufacturer and distributor of snowmobiles, Bombardier continues to be well positioned in this market.

WATERCRAFT

Bombardier's activities in the leisure watercraft industry encompass the manufacture and marketing of the Sea-Doo personal watercraft, the Sea-Doo jet boats and the Celebrity boats.

Fiscal year sales

Bombardier's unit sales for the 1996-97 fiscal year increased over those recorded in 1995-96 in all three product categories. Unit sales figures include 1996 models sold between February 1, 1996 and the end of the selling season on September 30, 1996, as well as 1997 models sold between October 1, 1996 and January 31, 1997.

Market and prospects (Personal Watercraft)

The North American personal watercraft market experienced a slight decrease in 1996 as industry sales totalled 199,600 units at September 30, 1996, compared with 206,792 units at September 30, 1995. Bombardier attributes this decline to the poor weather conditions of late spring and early summer 1996 which had a negative impact on all summer-related consumer products. The international market, however, grew by about 23%, with estimated industry sales of 28,990 units at September 30, 1996, compared with 23,642 units at the end of the previous season.

Bombardier's worldwide share of the personal watercraft market rose to 50% for the 1996 season from 42% the previous season. The award-winning XP* high-performance model was the top-selling unit, followed by the redesigned GTX†††† luxury three-passenger model.

With the higher season-end inventories caused by the sales decline in the North American retail network, the personal watercraft market will likely become more competitive in 1997. Indications are that the market will regain its momentum, and Bombardier expects to maintain its strong industry leadership.

Market and prospects (Boats)

The North American boat market followed the same downward pattern as the personal watercraft market in 1996, for the same weather-related reasons. Bombardier nevertheless enjoyed a successful third season in the jet boat segment. Progress was also made in the traditional power boat segment, where Bombardier offers the Celebrity line which was added to its motorized consumer products in 1995.

†††† Registered trademark of Castrol Limited, used under licence

Bombardier's leadership in the jet boat category was strengthened by the addition of a fifth product to the line, the Sea-Doo Challenger 1800 model. The 18-foot, seven-passenger Challenger 1800 is the largest jet boat currently available in the industry. A new line of Celebrity boats incorporating several innovative design features was developed during the year to enhance Bombardier's position in this segment.

Bombardier considers that the jet boat, which has created a new product category within the boat industry, and the type of boats it markets under the Celebrity brand fall within a market segment of approximately 150,000 units a year. Bombardier's share of this segment is estimated at 7.5% for the selling season ended September 30, 1996, compared with 3.5% for the previous season.

The 240 Cuddy Cabin is the flagship of the new line of Celebrity boats which incorporates several innovative design features.

Product development

Two new models introduced for the 1997 season, the GS* and GSi* models, are extensions of the GS category of two-passenger Sea-Doo personal watercraft designed for the economy, family fun market. Another addition to the GS family is the GSX* Limited, an enhanced version of the high-performance GSX model. In the high-performance category, Bombardier has also launched a totally revamped XP model which was named "1997 Boat of the Year" by Watercraft World magazine.

The success achieved by Bombardier in the personal watercraft market through sustained technological innovations was amply demonstrated on the 1996 racing circuit. Sea-Doo watercraft won practically every major North American and international watercraft racing series.

Rotax Engines

The Rotax engines are designed and built for Bombardier's Ski-Doo snowmobiles, Lynx snowmobiles, Sea-Doo personal watercraft and Sea-Doo jet boats, as well as for motorcycles, scooters and small and ultra-light aircraft.

Sales and market

Substantial growth was achieved in Rotax engine unit sales in 1996-97. This was provided in part by a higher supply of engines for Bombardier's snowmobiles, personal watercraft and jet boats. It was also the result of increased deliveries of motorcycle engines, spurred by the addition of the new 125cc 4-stroke engine which marked Bombardier-Rotax's entry into the scooter engine market segment.

Strengthening its solid position in the motorcycle engine market, Bombardier-Rotax has developed a new 4-stroke engine for Italian scooter manufacturer Aprilia.

Prospects

In addition to keeping Bombardier at the leading edge of engine technology for its snowmobiles, personal watercraft and jet boats, Bombardier-Rotax continues to invest in the development of more powerful engines to enhance its position in the motorcycle engine market, which offers interesting prospects for growth. Following the 1996 introduction of the scooter engine, a new motorcycle engine, the V-990, will be launched at the end of 1997 for the high-performance motorcycle segment.

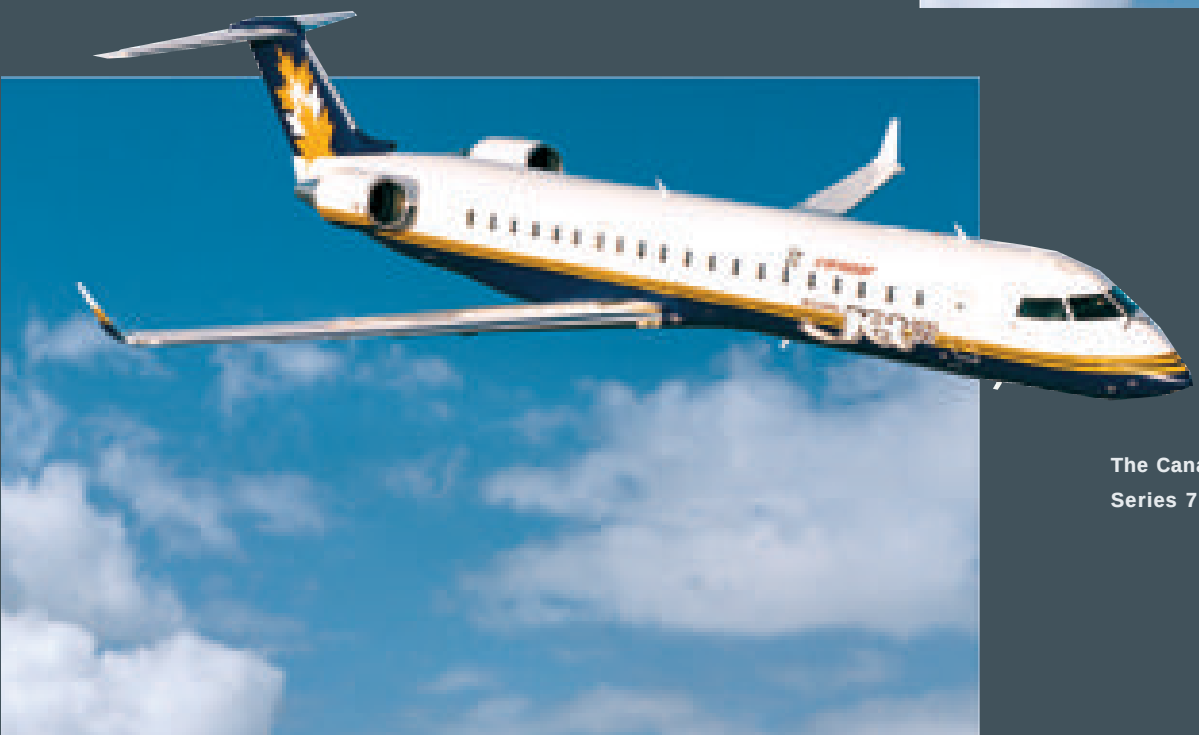
Neighborhood Electric Vehicle

In line with its corporate strategy of building on existing strengths to widen its markets in each business segment, Bombardier has completed the development of its first electric vehicle, called Neighborhood Electric Vehicle (NEV). The product was launched in Arizona on November 12, 1996 and Bombardier delivered its first units to customers in January 1997.

The de Havilland Dash 8
Series 400 regional aircraft

Innovation in business aircraft and regional airliners

The Learjet 45
business aircraft



The Canadair Regional Jet
Series 700 aircraft

The ultra long-range Bombardier Global Express business aircraft was officially unveiled last August and has since undertaken a flight test program towards its certification next year.

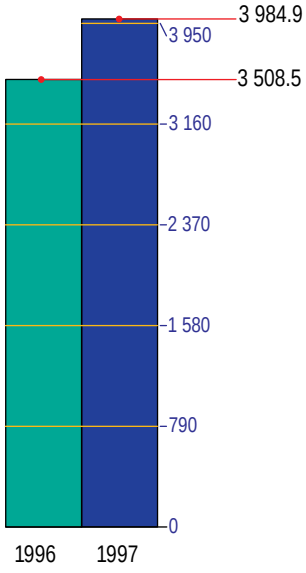
Robert E. Brown,
President and Chief Operating Officer,
Bombardier Aerospace

Operating results in this industry segment derive from the activities of the Bombardier Aerospace Group. The structure of the Group is described on page 3 of this report.

Due to a strong increase in aircraft deliveries, Bombardier's revenues in the aerospace segment rose by 14% in 1996-97. Sales thus totalled $4.0 billion compared with $3.5 billion in 1995-96.

Reflecting the revenue growth, income before income taxes reached $258.4 million, compared with $131.1 million in 1995-96. The profit margin also grew as an improved level of performance was achieved in the operations of Learjet and de Havilland.

At January 31, 1997, Bombardier's order backlog in this segment totalled $6.2 billion, compared with $6.0 billion at January 31, 1996.



SALES
(millions of Canadian dollars)

Aerospace
Years ended January 31

Business Aircraft

The line of business jets offered by Bombardier includes the light Learjet 31A aircraft, the super-light Learjet 45 aircraft, the midsize Learjet 60 aircraft, the large Canadair Challenger 604 aircraft and the ultra long-range Bombardier Global Express aircraft, along with the Canadair Corporate JetLiner* and Canadair Special Edition corporate variants of the Canadair Regional Jet.

Deliveries

In fiscal 1996-97, the Bombardier Aerospace Group delivered 30 Canadair Challenger 604 aircraft. This was the first full year of delivery for the new-generation Challenger 604 series which gained exceptionally good market acceptance. A total of 18 Challenger aircraft were delivered to customers in the United States and the 12 remaining deliveries were spread as follows: one aircraft each to operators in Brazil, Canada, Germany, Japan, South Africa, Switzerland, Turkey and Venezuela, and four to operators in Saudi Arabia. In addition to the Challenger 604, two Corporate JetLiner aircraft were delivered to United China Airlines of the People's Republic of China, while two Canadair Special Edition aircraft were delivered in the United States and one in the Middle East.

Learjet deliveries decreased in fiscal 1996-97, totalling 35 units compared with 45 in 1995-96. Learjet 31A aircraft deliveries declined from 21 to 12 units, while Learjet 60 aircraft deliveries went from 24 to 23 units. A total of 25 Learjet aircraft were delivered to customers in the United States, the remainder going to customers in Brazil, Canada, China, France, Italy, Mexico, the Philippines and South Africa.

In its first full year of operation, the Business JetSolutions Division, which was set up in May 1995 to market and sell Canadair Challenger and Learjet aircraft for fractional ownership, had a satisfactory level of activity, with 21 aircraft operating in the fleet at year end. Under the Division's FlexJet* program, owners purchase a fraction of a business jet with a yearly flight time entitlement. The program's 100th customer was signed on during the year. Operation and management of the aircraft are provided through a joint venture with the AMR Combs division of AMR Corporation.

The Business JetSolutions Division offers three aircraft under its FlexJet business aircraft fractional ownership program: the Canadair Challenger 604, the Learjet 60 and the Learjet 31A. The Learjet 45 will soon be added to this list.

Market shares

Assessment of market shares in the business jet industry is based on data provided for the calendar year and does not correspond to the number of deliveries recorded during Bombardier's fiscal year. Industry deliveries mentioned below include those made for fractional ownership. In addition, market shares and industry delivery figures for 1995 have been restated to reflect the reclassification of certain aircraft models into newly created market segments.

For the 1996 calendar year, the Canadair share of the large aircraft segment rose to 39% within a strong 92-unit market, from 31% within a 67-unit market in 1995. This upward trend can be attributed to the introduction of the Challenger 604 and the Canadair Special Edition, and to a growing market awareness of the capability of these two products.

The 1996 Learjet 31A market share in the light business jet segment declined from 18% to 13% within a shrinking market where total industry deliveries fell to 93 units from 105 in 1995.
The Learjet 60 market share in the midsize business jet segment reached 30% within total industry deliveries of 77 units, compared with 34% within a 70-unit market the previous year. Learjet aircraft market share in the combined light and midsize categories declined from 25% in 1995 to 21% in 1996.

Development programs

Two milestones were reached during the year in the Bombardier Global Express program: the official unveiling of the aircraft in August and first flight in October. The certification flight test program began on schedule in the third fiscal quarter and customer deliveries are scheduled to start in the first half of 1998.

The Learjet 45 certification program continued in 1996-97 and FAA certification is expected in the first half of 1997, with customer deliveries beginning thereafter.

New aircraft completion facility

In December 1996, Bombardier acquired the business jet aircraft completion business of Innotech Aviation Ltd., of Dorval, Québec. This purchase will enable the Bombardier Aerospace Group to increase its capacity for completion services for the Challenger 604 and the Global Express aircraft.

Market and prospects

Excluding airliners used for business travel, the world fleet of business jet aircraft stands at 8,468 units. The segments in which Bombardier is present account for the bulk of this fleet: light (4,283), midsize (2,196) and large (1,341). Products launched over the past five years have created two new market segments: the super-light and the ultra long-range segments which Bombardier covers with its new Learjet 45 and Bombardier Global Express aircraft.

Bombardier provides completion services for the Challenger 604 and the Global Express at its own facilities, thanks to the acquisition of the business jet aircraft completion centre of Innotech Aviation.

Seven aircraft manufacturers compete for share in the business jet industry. Although the market remains essentially mature, it should experience strong growth in deliveries over the next five years as manufacturers boost production to deplete their order backlogs for new aircraft and support the growth of fractional ownership.

Bombardier maintains a strong position in the business jet market. It has the most complete portfolio of aviation products and services in the industry, which grants it a significant competitive advantage. In addition, its newest products, the Learjet 45 and the Global Express, are positioned in the two fastest growing segments of the industry where the number of direct competitors is less than in the more mature light, midsize and large aircraft segments.

At the end of the fiscal year, Bombardier delivered the first of 16 Canadair Regional Jet aircraft ordered by Mesa Air of New Mexico.

Regional Aircraft

In the regional aircraft market, Bombardier offers the 50-passenger Canadair Regional Jet Series 100 and 200, the 70-passenger Canadair Regional Jet Series 700, and the de Havilland Dash 8 family of turboprops consisting of the 37-passenger Series 100 and 200 aircraft, the 50-passenger Series 300 aircraft, and the 70-passenger Series 400 aircraft.

Deliveries

Canadair Regional Jet deliveries increased substantially in fiscal 1996-97, reaching 56 aircraft compared with 42 in 1995-96. The largest volume of deliveries, with 19 aircraft, was made to Comair of the United States. The remaining shipments were spread as follows: nine to Lufthansa CityLine of Germany; seven to Air Canada; five to Tyrolean of Austria; four to Brit air of France; two each to Air Littoral of France and Southern Winds of Argentina; and one each to DAC Air of Romania, Lauda Air of Austria and Mesa Air of New Mexico. Five of the 56 aircraft were configured as corporate aircraft for delivery by the Bombardier Business Aircraft Division.

Deliveries of the de Havilland Dash 8 aircraft were also up, with a total of 39 units compared with 24 in 1995-96. The bulk of the shipments went to Mesa Air and USAir, in the United States, as these airlines received 11 and 10 Series 200 aircraft, respectively. Other aircraft from the Series 200 were shipped as follows: three to the Saudi Aramco Company, in Saudi Arabia; one each to Air Maldives of the Republic of Maldives and National Jet Systems of Australia; and four to undisclosed customers. Eight Series 300 aircraft were delivered as follows: three each to LIAT of Antigua and Tyrolean; and one each to Rheintalflug of Germany and DAC Air. One Series 100 aircraft was delivered to Ryukyu Air Commuter of Japan.

Orders and backlog

In fiscal 1996-97, orders for the Canadair Regional Jet totalled 61 aircraft for a marked increase over the 30 aircraft booked in fiscal 1995-96. With 16 units, Mesa Air placed the largest single order of the year, followed by Atlantic Coast Airlines of Virginia with 12 units. The remaining aircraft were ordered as follows: Air Littoral (8), Comair (5), Brit air (3), Lufthansa CityLine (3), Southern Winds (2), Air Canada (2), Tyrolean (2), and Lauda Air (1). In addition, the Bombardier Business Aircraft Division obtained orders for five Corporate JetLiner and two Canadair Special Edition aircraft, corporate versions of the Canadair Regional Jet.

In fiscal 1996-97, orders for de Havilland Dash 8 aircraft totalled 43 units (net of cancellations) compared with 56 units (net of cancellations) in fiscal 1995-96. The new Series 200 aircraft accounted for the bulk of the orders, with a major purchase of 25 units from Horizon Air of Washington. Series 200 aircraft were also booked by Tavaj of Brazil (4), Saudi Aramco (3), Abu Dhabi Aviation of the United Arab Emirates (2), Air Niuguini (2) and Milne Bay Air (MBA) (1), both of Papua New Guinea, Air Maldives (1), and LADS Corporation Limited of Australia (1). Orders were received for the Series 300 aircraft from LIAT (3), Rheintalflug (1) and Tyrolean (1) and for the Series 100 aircraft from Ryukyu Air Commuter (3). Finally, two carriers placed orders for the Dash 8 Series 400 aircraft, which is currently under development: Tyrolean (4) and Widerøe of Norway (1). Two orders for the Series 200 aircraft were reduced by a total of nine aircraft.

At January 31, 1997, Bombardier's order backlog for regional aircraft consisted of firm orders for 46 Canadair Regional Jet aircraft, with options for 89 more, and firm orders for 61 Dash 8 aircraft, with options for another 108.

Market shares

The market share for Bombardier's regional aircraft which the Corporation previously calculated in terms of calendar year deliveries is now assessed on the basis of order intake to conform with the method used throughout the industry. It does not correspond to Bombardier's fiscal year order intake.

In 1996, the Canadair Regional Jet's market share rose to 52% of the jet segment of the 20- to 90-seat market, accounting for 58 of 111 ordered units. This compares with 34%, or 38 of 112 ordered units, in 1995.

In 1996, the Dash 8's market share rose to 35% of the turboprop segment of the 20- to 90-seat market, accounting for 71 of 201 ordered units. This compares with 22%, or 42 of 189 ordered units, in 1995.

The combined order intake for Canadair Regional Jet and de Havilland Dash 8 aircraft earned Bombardier a 41% share of the overall 20- to 90-seat segment of the regional airliner market in 1996, against 27% in 1995.

Product development

The development program of the 70-passenger Dash 8 Series 400 aircraft, which was launched in June 1995, proceeded on schedule during the year. First flight of the Dash 8 Series 400 is scheduled for the last quarter of 1997 and first delivery is planned for the first quarter of 1999.

During the year, the Aerospace Group proceeded with the program launch of the Canadair Regional Jet Series 700 airliner, a 70-seat version of the 50-passenger Canadair Regional Jet. First delivery of the Series 700 aircraft is scheduled for the fourth quarter of 2000.

Market and prospects

The overall market for 20- to 90-seat regional aircraft continues to offer positive prospects as major airlines transfer routes to their regional subsidiaries or associates to offer enhanced service and frequency to their customers. Average annual demand for regional aircraft is expected to range from 300 to 350 aircraft over the next five years.

Three manufacturers are currently competing in the 20- to 90-seat jet segment of the regional aircraft market, which should enjoy further growth as a result of increasing demand for jet service on regional routes. Bombardier continues to hold a strong position in this segment and has absorbed a large share of the market within only a few years. The addition of the Canadair Regional Jet Series 700 aircraft will allow Bombardier to provide regional carriers with the only family of regional jet airliners from 50 to 70 seats, offering unmatched flexibility and operating economics.

The regional turboprop aircraft market, which remains highly competitive, is shared between five major manufacturers. With the addition of the 70-passenger Dash 8 Series 400 aircraft at the top of its product line, Bombardier now covers all key segments of this market with a complete family of aircraft.

Amphibious Aircraft

Bombardier manufactures and markets the new-generation CL-415 turboprop aircraft which is designed for firefighting but can be adapted to a variety of such specialized missions as search and rescue, coastal patrol and transport. The CL-415 offers a unique niche as the only purpose-built firefighting aircraft and the only new production amphibious turboprop in the world today.

Deliveries

The Group delivered a total of eight CL-415 amphibious aircraft in 1996-97, two fewer than in 1995-96. Four of these aircraft were shipped to the Québec government's Air Service. The remaining four aircraft were shipped as follows: one to the Ministry of the Interior of France, two to the Civilian Protection Agency of Italy and one to the Ministry of the Interior of the Republic of Croatia.

Market and prospects

At January 31, 1997, all aircraft except one in the CL-415 order backlog had been delivered. However, based on the very good performance of the aircraft in its first full year of firefighting operations in Québec, France and Italy, intensive marketing efforts are now being directed at obtaining repeat orders from existing clients and penetrating markets in new geographical areas. The market for the CL-415 amphibious aircraft is estimated at approximately 70 to 100 units over the next 10 years.

Component Manufacturing

Component manufacturing operations carried out by the Aerospace Group involve the design, development, manufacture and support of major airframe components as well as aircraft engine nacelles and nacelle components. The bulk of the airframe manufacturing activities takes place at the Canadair facilities, in Saint-Laurent, Québec, and at the Shorts facilities in Belfast, Northern Ireland. The latter are also the production site for engine nacelles and nacelle components.

The new-generation CL-415 amphibious aircraft was used in firefighting operations during last year's forest fire season in Canada, France and Italy.

Production and deliveries (Airframes)

In fiscal 1996-97, the Group increased its level of activity over last year's in most of its major sub-contract programs, which call for the supply of airframe components for the Airbus A330/A340 airliners and several current Boeing airliners.

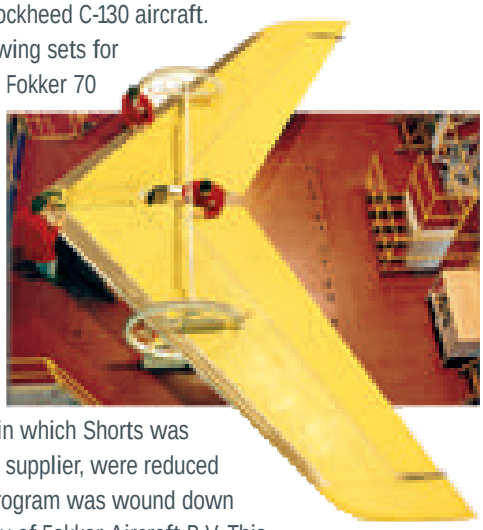
At the Canadair facilities, manufacturing work on fuselage components being supplied to Aerospatiale of France under the Airbus program proceeded at a higher pace as a result of increased requirements from the customer. Shipment picked up on two orders placed

by Boeing in 1994-95 for airframe components of the next-generation Boeing 737 airliner and for the wing-centre section of the Boeing 747-400 airliners. The level of activity also rose on the three-year order received in 1995 from the McDonnell Douglas Corporation for the supply of floor beams for the MD-11 aircraft.

Due to Boeing's program increases, deliveries from the Shorts facilities were higher than last year's on rudders for the Boeing 737-700, main landing gear doors for the Boeing 747, inboard trailing edge flaps for the Boeing 757 and nose landing gear doors for the Boeing 777. Production continued on the composite panels being manufactured at Shorts for the Lockheed C-130 aircraft.

Shorts supplies complete nacelle sets for the BMW-Rolls Royce BR710 engines.

Shipments of wing sets for the Fokker 100 and Fokker 70 airliners program, in which Shorts was the exclusive wing supplier, were reduced to 11 sets as the program was wound down with the bankruptcy of Fokker Aircraft B.V. This decline was compensated in part by the increase in work carried out at the Shorts facility for the supply of the centre-fuselage section and wing components for the Canadair Regional Jet aircraft, fuselage and tail assemblies for the Learjet 45 business jet, and forward fuselage, horizontal stabilizer and other composite components for the Bombardier Global Express.



The horizontal stabilizer of the Global Express business jet is one of several composite components being manufactured at the Shorts facilities.

Production and deliveries (Nacelles)

In fiscal 1996-97, the Group recorded higher deliveries of complete nacelle sets for the General Electric CF34, BMW-Rolls Royce BR710, International Aero Engines V2500, AlliedSignal LF507 and Allison 3007 engines. The increase in these programs helped to offset program reductions on other nacelle contracts.

New orders

A new order was received during the year for the supply of components for the Apache helicopter being built by GKN Westland Helicopters Ltd. and McDonnell Douglas Helicopter Systems for the United Kingdom's Ministry of Defence.

Market and prospects

The medium- and long-term outlook remains positive in the global market for aircraft components. Competition is increasing, however, as existing suppliers are facing new entrants, particularly in Asia. The Bombardier Aerospace Group remains well positioned to take advantage of new sub-contract opportunities with the major aircraft builders, while its own, highly active aircraft programs provide a solid guarantee of sustained manufacturing activity.

Close-air Defence Systems

Bombardier's operations in this segment are carried out by Shorts Missile Systems Limited (SMS), which is a 50-50 joint venture company between Bombardier subsidiary Short Brothers plc of Northern Ireland and Thomson-CSF of France in the area of very-short-range air defence systems.

Deliveries and orders

Deliveries of Starstreak missiles to the Ministry of Defence of the United Kingdom continued in 1996-97. Orders were received for Javelin, Starburst and Starstreak missile systems during the year.

Product development

The first phase of a joint U.S./U.K. evaluation of Starstreak as an air-to-air defence system for the Apache helicopter was successfully completed and a contract for the second phase was received in December 1996.

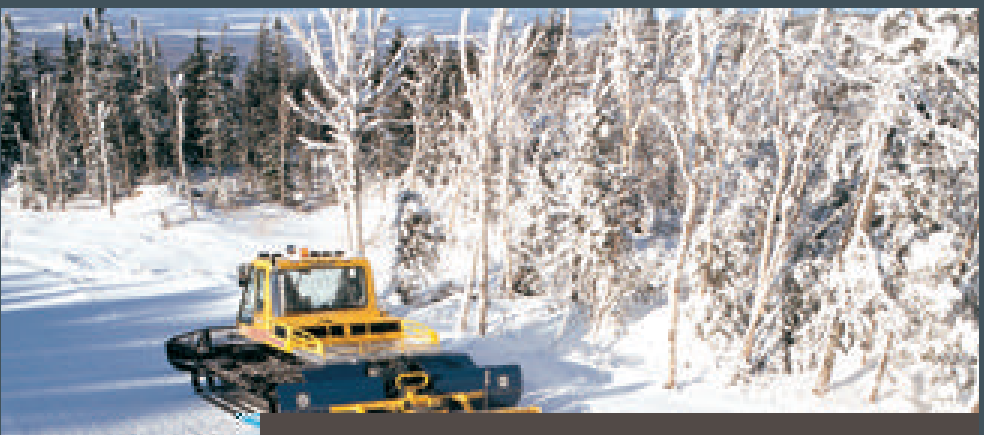
Market and prospects

Within a decreasing defence market, the close-air defence system segment is retaining its vitality, with opportunities to adapt land-based close-air defence systems for future air-to-air and naval applications.

Innovation in aviation services and specialized equipment

Technical support and aircraft maintenance

Flight training



The Plus* MP snowgroomer

Bombardier **CAPITAL**

Dealer inventory financing

Innovation in financial services

Complex structured financing

Retail financing for a variety of products

Pierre-André Roy, President and Chief Operating Officer, Bombardier Capital

Results in the financial and real estate services segment are those of the Bombardier Capital Group (BCG). The structure of the Group is described on page 3 of this report.

Financial Services

In the financial services area, Bombardier Capital is involved in the financing, on a secured basis, of dealer inventories purchased from manufacturers and distributors of recreational and consumer products in Canada, the United States and Europe. The clientele is made up of Ski-Doo and Sea-Doo dealers, as well as other retailers in a variety of industries, the largest segments of which are recreational boating, manufactured housing, and recreational and specialty vehicles. Bombardier Capital also provides a wide variety of domestic and international loan, leasing and asset management services for a broad range of business aircraft and commercial and industrial products, as well as factoring of accounts receivables for affiliated companies.

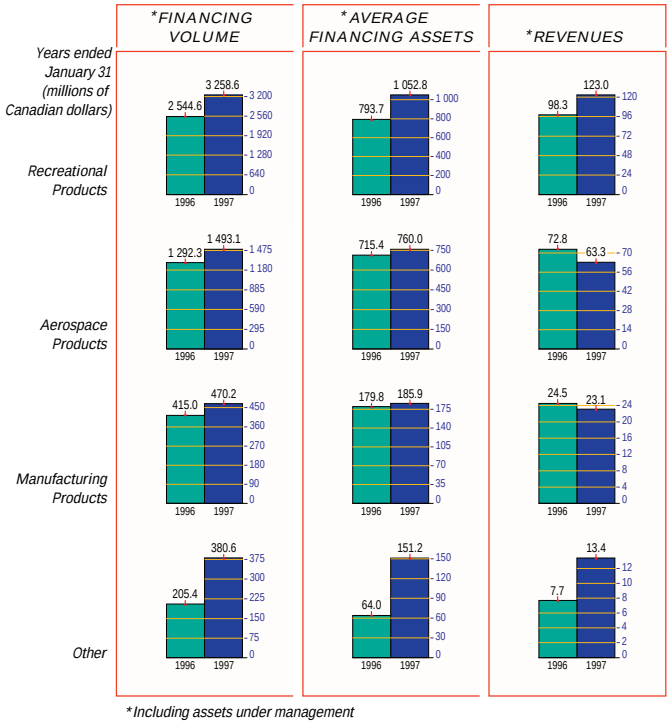
Results

Bombardier Capital's financing volume of assets under management increased from $4.5 billion in fiscal 1995-96 to $5.6 billion in fiscal 1996-97. For the year ended January 31, 1997, revenues from assets under management were $222.8 million, compared with $203.3 million for the year ended January 31, 1996, while income before income taxes reached $59.7 million, up from $42.1 million last year.

Markets and prospects

Capitalizing on its expertise in inventory financing, Bombardier Capital is entering a new market segment by launching its own retail and specialized mortgage financing operations. This initiative will protect and enhance Bombardier Capital's share in the inventory financing market. Bombardier's own dealer base for motorized consumer products as well as a variety of non-Bombardier products provide a substantial potential for retail financing. Similarly, the manufactured homes sector offers interesting outlets for Bombardier Capital's mortgage financing services, including conventional mortgages, land-and-home loans and land-in-lieu financing.

Another initiative, the acquisition of NorRail Inc. of Buffalo, Minnesota, in February 1997, will enable Bombardier Capital to expand its leasing activities and enter into the asset management of rail cars.



Real Estate Services

Through the Real Estate Division of Bombardier (previously Bombardier Real Estate Ltd.), the Group derives revenues from the development of Bombardier's real estate assets earmarked for new uses, and from activities aimed at meeting the real estate needs of Bombardier's groups, divisions and subsidiaries.

Other revenues are generated from the sale of land to real estate developers in the Bois-Franc project which involves the development of an urban residential community with integrated commercial and service infrastructures on land adjacent to the Canadair facilities, in Saint-Laurent, Québec.

Consolidated Statements of Income

As mentioned at the beginning of this analysis, due to increased revenues and continued satisfactory performance in most industry segments, income before income taxes for Bombardier Inc. and its subsidiaries amounted to $606.3 million for the year ended January 31, 1997, compared with $467.2 million for the preceding year excluding the write-down of the investment in Eurotunnel share units for an amount of $231.4 million.

Analysis of the Results per Industry Segment

During the first quarter, as part of the new operating structure, a new industry segment was created and classified under the caption services in the segmented information note. This new segment includes certain activities of the defence segment as defined previously as well as some activities of the aerospace and motorized consumer products segments. The preceding year figures have been reclassified to conform with this new presentation.

As indicated in note 22 to the Consolidated Financial Statements, the various industry segments of the Corporation had varied contributions to the $139.1 growth in income before write-down of the investment in Eurotunnel share units and income taxes.

Thus, in the transportation segment, income before income taxes amounted to $63.8 million, compared to $100.3 million last year. This decrease in income, both in terms of amount and margin, comes essentially from the lack of profitability of some tramway orders at the Group's Belgian and Austrian facilities. However, causes of this decrease have been identified and the corrective measures implemented should lead to improved profitability for the year 1997-98.

In the motorized consumer products segment, income before income taxes grew significantly from $174.9 million for the year ended January 31, 1996 to $211.0 million for the year ended January 31, 1997. This profit performance was due mainly to a substantial increase in sales and production volume of snowmobiles, personal watercraft, jet boats and Rotax engines. Due to volume increase, the profit margin, already quite strong, was maintained in 1996-97.

In the aerospace segment, income before income taxes amounted to $258.4 million for the year ended January 31, 1997, compared with $131.1 million in 1995-96, after reclassification to take into account modifications in the grouping of activities in this segment. During 1996-97, the profit margin reached 6.5%, reflecting the increased volume of aircraft deliveries while margins recorded on different aircraft programs and components manufacturing contracts conformed to expectations. However, during the year ended January 31, 1996, profit margin was significantly lowered due to four main factors. First, the level of selling prices obtained for Learjet aircraft deliveries combined with difficulties in meeting targeted costs prevented Learjet from achieving expected performance. Then, there was no margin on an important volume of sales at de Havilland. Also, the launch of the Business JetSolutions division required additional expenditures during the year. Finally there was a negative return in the conversion program of 28 Shorts SD-360 airliners into C-23B+ military transport aircraft for the United States Army National Guard.

The services segment groups under a single management a number of services formerly provided by other groups of the Corporation. Restated for comparison purposes, the income before income taxes recorded in 1996-97 was $13.4 million, compared with $18.8 million in 1995-96. This decrease was mostly due to lower profitability on service activities in the Middle East, late start-up on certain contracts, and product support costs related to the introduction of new snowgrooming equipment.

The BCG segment posted an increase in income before income taxes, reaching $59.7 million for the year ended January 31, 1997, as against $42.1 million last year. This favourable difference is attributable to an increase in revenues from operations, which rose from $220.0 million for 1995-96 to $244.6 million for the year ended January 31, 1997, as well as strict control over operating expenses and a reduction in bad debt expenses.

Investment in Eurotunnel Share Units

In the results for fiscal 1995-96, the Corporation deemed it prudent to reflect the permanent decline in value of the investment in Eurotunnel share units by a write-down of $231.4 million, or $155.0 million after income taxes, leaving a balance of $50.0 million in the Balance Sheet. This amount represents the $1.68 market value per share unit based on market price at January 31, 1996. As at January 31, 1997, the market value of this investment was essentially the same.

Income Taxes

In fiscal 1996-97, income taxes totalled $200.1 million, as against $77.8 million in 1995-96, with effective taxation rates of 33%. The income tax expense is explained in note 16 to the Consolidated Financial Statements.

Earnings per Share

Net income reached $406.2 million, or $1.18 per share on an average of 336.1 million shares outstanding, for the year ended January 31, 1997, compared with a net income of $158.0 million, or $0.45 per share on an average of 333.0 million shares outstanding, for the year ended January 31, 1996. Excluding the write-down of the investment in Eurotunnel share units for an amount of $155.0 million, basic earnings per share for the year ended January 31, 1996 amounted to $0.92 per share. Basic earnings per share give effect of the increase in the carrying amount of the equity component of the convertible notes. Fully diluted earnings per share give effect to the exercise of all dilutive elements including the convertible notes. The difference of $0.02 between the basic earnings per share and the fully diluted earnings per share is explained essentially by the variation during the year of the share market value used for this calculation. Last year, there was no difference.

Consolidated Balance Sheets and Consolidated Statements of Changes in Financial Position

Presentation and operating cycle

The Consolidated Balance Sheets and Consolidated Statements of Changes in Financial Position of Bombardier and BCG differ to such an extent that they cannot be simply added up or combined; this is particularly manifest with respect to assets, liabilities and changes in cash position resulting from operating, investing and financing activities. These basic differences between the Corporation's industrial and financial operations, which are highlighted in the ensuing analysis of consolidated results, are well understood and taken into account in financial analyses methods commonly used by investors, credit rating agencies and financial analysts.

Furthermore, the balance sheets are unclassified since the Corporation carries out operations in five distinct segments, each one characterized by a specific business and operating cycle.

The operating cycle in the aerospace segment is based on the length of each program. The cycle of each program is variable, but usually extends over many years. In the transportation and services segments, most manufacturing work performed relates to long-term contracts which typically extend for periods of one to three years. The operating cycle for the motorized consumer products segment is seasonal and based on cycles of less than one year. The operating cycle for the Bombardier Capital Group depends on the underlying operations. This group includes the real estate operations for which the operating cycle extends over many years, and the financing subsidiaries operations which, as is the case for most financial institutions, have operating cycles as short as a few months for short-term lending activities, and as long as several years for long-term financing and assets leasing activities.

Bombardier Balance Sheets

At January 31, 1997, Bombardier's total assets amounted to $6.5 billion, compared with $5.2 billion at January 31, 1996. Cash and term deposits moved from $532.0 million as at January 31, 1996 to $889.1 million as at January 31, 1997. The analysis of the Statement of Changes in Financial Position provides explanations for this increase.

Inventories, the most important asset on the Bombardier Balance Sheet, amounted to $3 455.2 million as at January 31, 1997, after deduction of advances received from customers and progress billings, compared with $2 594.9 million as at January 31, 1996. Note 5 to the Consolidated Financial Statements provides distribution per type and per industry segment. The variation is mainly attributable to the increased rate of production in the aerospace segment and to ongoing major investments in non-recurring costs pertaining to the Learjet 45, Global Express, Dash 8 Series 400 and Canadair Regional Jet Series 700 aircraft programs presently in progress. As mentioned in note 5 to the Consolidated Financial Statements, although management periodically revises estimates for each program, inventory valuation in the aerospace segment comprises numerous estimates which may vary from amounts eventually realized. Thus, this note to the Consolidated Financial Statements states the total amount of non-recurring costs, together with the total amount of excess over average costs planned to be recovered on future aircraft orders relative to programs for which the development phase is completed. Similar information relative to other aircraft programs under development will be provided as soon as the development phase has ended, financial data pertaining to these calculations then becoming available.

Other assets as indicated in note 7 to the Consolidated Financial Statements amounted to $183.6 million as at January 31, 1997, compared with $169.1 million last year. This increase results mainly from the goodwill recognized in the purchase equation of the business jet completion assets of Innotech Aviation Ltd., as described in note 2 b) to the Consolidated Financial Statements.

Advances and progress billings on contracts and programs are deducted from related costs in inventories, whereas advances and progress billings in excess of related costs are shown as liabilities. Advances and progress billings in excess of related costs amounted to $591.4 million as of January 31, 1997, compared with $295.7 million last year. This $295.7 million increase is explained mainly by advances received at signature, in December 1996, of European orders obtained by the Transportation Group.

On February 1, 1996, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants concerning financial instruments. Accordingly, the Corporation has changed retroactively its accounting policy regarding the presentation of convertible notes. Under this new accounting policy, the present value of interest payments on convertible notes is recorded

as long-term debt, whereas the present value of the principal is recorded in shareholders' equity. The equity component of convertible notes will increase until October 1999 as a result of charges against retained earnings to reach an amount equal to the nominal value of the convertible notes. Under the new accounting policy, only the interest on the long-term debt component of convertible notes is included in inventories, and it is recognized in the results under the program method of accounting. This change in accounting policy was applied retroactively and its effects on the financial statements are explained in note 1 to the Consolidated Financial Statements.

The ratio of debt, after deduction of cash and term deposits, to shareholders' equity was 19:81 as at January 31, 1997, compared with 22:78 as at January 31, 1996. It is Bombardier's intent not to exceed a ratio of 30:70 for this item.

Deferred translation adjustments included in shareholders' equity amounted to $65.1 million as at January 31, 1997, as against $42.6 million the previous year, representing the cumulative variation of the Canadian dollar compared with the currencies of the main countries in which the Corporation maintains self-sustaining foreign operations. All Balance Sheet items of self-sustaining foreign operations are translated at exchange rates in effect at year end, while revenues and expenses are translated at the average rates of exchange for the period. The resulting net gains or losses, including those related to long-term debt denominated in foreign currency and designated as a hedge of the net investment of the self-sustaining foreign operations, are shown under "Deferred Translation Adjustments" in shareholders' equity. The Corporation believes it to be efficient to present certain long-term debts denominated in foreign currency as a hedge of the self-sustaining foreign operations, because these debts are denominated in the same currency as the hedged self-sustaining investments. The Corporation also has the ability to refinance the debts in the same currencies at maturity if it wishes to retain the hedge.

BCG Balance Sheets

The portfolio of finance receivables and others, which represents the most important asset for BCG, amounted to $1.7 billion as at January 31, 1997, compared with $1.4 billion as at January 31, 1996. This increase results mainly from growth in BCG's activities. Note 4 to the Consolidated Financial Statements explains this portfolio, which is as diversified and secured as possible so as to maintain its risk at a low level in a changing economic environment.

BCG has concluded credit agreements with US and Canadian trusts, allowing for an ongoing transfer of eligible finance receivables, for which BCG remains the servicer. The amount of finance receivables sold was $984.0 million as of January 31, 1997, compared with $649.7 million as of January 31, 1996.

As is customary for financial companies, BCG's financial leverage, that is the ratio of debt and off-balance sheet debt to shareholders' equity and advances from related parties, is higher than for Bombardier's industrial operations. BCG's ratio for the year ended January 31, 1997 was 8.1, compared with 5.6 for the year ended January 31, 1996. This level of leverage is considered satisfactory for this type of business. Notes 8 and 9 to the Consolidated Financial Statements provide details of the short-term borrowings and long-term debt of the BCG Balance Sheets.

Bombardier Consolidated Statements of Changes in Financial Position

Cash provided by operating activities amounted to $359.3 million for the year ended January 31, 1997, a lower level than the $613.7 million posted for the preceding year. In this respect, the previously mentioned increases in inventories were partially compensated by a reduction in accounts receivable, and by increases in accounts payable, accrued liabilities and net income for the year, including related deferred income taxes.

Cash used in investing activities amounted to $327.1 million for the year ended January 31, 1997, compared with $593.7 million the previous year.

Additions to fixed assets totalled $229.9 million, as against $294.5 million in 1995-96, and note 22 to the Consolidated Financial Statements provides the distribution per industry segment. Thus, in the transportation segment, additions to fixed assets amounted to $44.7 million in 1996-97, as against $36.9 million the previous year. They were essentially allocated to the normal investment programs, with the exception of one major project which was completed in 1996-97 at ANF-Industrie and involved the rebuilding of the undercarriage production line. In the motorized consumer products segment, additions to fixed assets amounted to $43.7 million in 1996-97, compared with $95.6 million the previous year. Investments were essentially allocated to the normal investment program, whereas major investments the previous year were directed towards new painting facilities in Valcourt and increased production capacity for the Sea-Doo personal watercraft and Sea-Doo jet boats. In the aerospace segment, additions to fixed assets amounted to $135.8 million in 1996-97, as against $155.2 million the previous year. The main investments were allocated to the final phase of the modernization of the surface treatment facility and roof repairs at the Saint-Laurent plant, finalization of the reorganization of the de Havilland plant and offices, and expansion of the Flight Test Center on the site of Learjet Inc.'s facilities in Wichita.

The increase shown for the year under the caption of finance receivables and other for $90.1 million, compared with $54.0 million for the previous year, relates mainly to aircraft leased to customers under operating leases contracts.

Furthermore, the cost of the acquisition of de Havilland Inc. and of the business jet completion assets of Innotech Aviation Ltd. amounted respectively to $49.0 million and $33.8 million. Note 2 to the Consolidated Financial Statements provides details of these acquisitions.

An increase of $26.3 million was recorded for the variation in deferred translation adjustments in 1996-97, compared with a reduction of $42.7 million the preceding year. As mentioned in the Summary of Significant Accounting Policies under the heading "Translation of foreign currencies", balance sheet items of foreign self-sustaining operations are translated at exchange rates in effect at year end. The gain incurred during the year results from the decrease in value of the Canadian dollar against currencies of countries where the Corporation maintains activities, and it is shown as an investment activity.

In addition, an amount of $48.2 million was reimbursed by BCG, whereas investments of $51.7 million were required the previous year.

Cash provided by financing activities reached $324.9 million in 1996-97, compared with $92.3 million during 1995-96. The ensuing variation of $376.6 million results from an increase in long-term debt, net of repayments during the year. This increase results mainly from the issuance in December 1996 of $150.0 million 6.4% unsecured debentures due 2006, $150.0 million 7.35% unsecured debentures due 2026, and a $49.0 million 7% promissory note due 2012 for the acquisition of de Havilland Inc. Furthermore, issuance of shares under the share option plan and to employees for cash totalled $31.1 million in 1996-97, compared with $22.6 million the preceding year.

In 1996-97, the combined sources and uses of funds related to operating, investing and financing activities produced an increase in cash from $532.0 million at the beginning of the year to $889.1 million at year end.

BCG Consolidated Statements of Changes in Financial Position

Cash provided by operating activities amounted to $37.3 million for the year ended January 31, 1997, as against $52.7 million the preceding year.

Cash used in investing activities, amounting to $283.2 million for the year ended January 31, 1997, compared with $294.8 million last year, were used to support BCG's investments in finance receivables and other.

Cash provided by financing activities amounted to $247.9 million for the year ended January 31, 1997, compared with $241.3 million the previous year, and includes the amounts of short-term borrowings and long-term debt directed towards enhancing the future growth and financial health of BCG.

In 1996-97, the combination of cash related to operating, investing and financing activities increased the cash position from $4.6 million at the beginning of the year to $6.6 million at year end.

Future Prospects

Bombardier's policy regarding additions to fixed assets calls for reinvesting an amount equivalent to the sum of the depreciation of fixed assets plus 50% of consolidated net income.

Dividends paid on common shares and Series 1 Preferred Shares totalled $71.1 million in fiscal year 1996-97. Based on the rate of the quarterly dividend payable on May 31, 1997 for common shares and on the current annual dividend declared for Series 1 Preferred Shares, dividend payments are expected to be $105.2 million in 1997-98, which represents 26% of net income.

In view of the foregoing, the Corporation considers that its present cash resources, the expected cash flow and its other sources of financing will enable the Corporation to implement its investment program, develop new aircraft models, support the vigorous growth of the business, pay dividends and meet all of its financial obligations.

Risks and Uncertainties

The Corporation operates in different industry segments that involve various risk factors and uncertainties which are carefully considered in the Corporation's management policies.

The risks associated with the aerospace industry segment comprise, among others, risks related to developing new products in keeping with planned budget, the approval of new products by regulatory bodies and compliance with the contractual commitments for delivery, risks associated with product performance, the settling of disputes concerning collective agreements and their renewal, as well as risks related to the performance of certain key suppliers operating in Canada or abroad. The Corporation is also faced with a number of external risk factors, in particular, government policies related to the import and export restrictions imposed by certain countries on its products as well as other conditions which could affect demand for some of its products, such as gas prices, political instability and economic growth.

In addition to the above-mentioned risks, the transportation and services industry segments bear risks related to changing priorities and possible spending cuts by certain government agencies.

The motorized consumer products industry segment essentially bears risks associated with volatile demand for consumer products, weather conditions as well as legislation and policies on issues of safety and the environment.

Issues of currency fluctuations permeate the daily decisions of the Corporation, which presents its financial statements in Canadian dollars while generating more than 88% of its sales outside Canada in various foreign currencies. The Corporation protects itself against such currency fluctuations in a number of ways, including borrowing in foreign currencies and hedging against fluctuations on long-term contracts signed in foreign currencies. However, its motorized consumer goods, transportation equipment and aircraft produced in Canada and sold in export markets remain vulnerable to these fluctuations. Thus, in the normal course of business, the Corporation has entered into foreign currency forward contracts with expiry spread mainly until the year 2000, to manage its currency risk. Note 18 to the Consolidated Financial Statements provides details on these contracts.

An increasing proportion of the Corporation's worldwide revenues are denominated in US dollars. The Corporation estimates that a one cent change in the value of the Canadian dollar would have impacted income before income taxes by an approximate amount of $7.5 million before taking into account any effect of derivative instruments. For the year ended January 31, 1997, the US dollar traded at an average of $1.3620 Canadian, compared with $1.3686 Canadian during 1995-96, for an average appreciation of 0.48%.

While low interest rates in Canada are favourable to investments, they do not provide the Corporation with any international competitive advantage as its key competitors are located in countries where low interest rates also prevail. In order to benefit from the low short term interest rates prevailing in the Canadian market, subsequent to year end, the Corporation concluded for a period of two years interest rate swap agreements with two Canadian financial institutions, which cover long term debt amounting to $ 300.0 million. These agreements entail that the Corporation will receive a fixed interest rate of 4.55% every six months and will pay, at the same dates, interest amounts based on bankers acceptance rate which will be 3.13% for the period extending from February 10 to May 12, 1997.

A potential North American economic slowdown might create some difficulties for BCG's clients and, consequently, have a negative impact on BCG's portfolio. However, the diversity of BCG's portfolio offers reasonable protection as discussed in note 4 to the Consolidated Financial Statements.

Commitments and Contingencies

As described in note 20 to the Consolidated Financial Statements, in connection with the sale of aircraft, the Corporation occasionally provides financial support to its customers in various forms. The risks related to these guarantees depend on many factors such as the financial health of the customers and certain government agencies which jointly assume a portion of the risk, the leasing and resale value of aircraft and the existing market conditions for each model of aircraft. The Corporation's officers regularly conduct an in-depth review of the current economic conditions respecting each of these risks and carefully monitor any changes therein.

The Corporation is occasionally involved in legal proceedings, claims, investigations and other legal matters in connection with its products and contracts. It is the Corporation's opinion that the costs incurred to date and those it anticipates incurring in connection with these contingencies have not had, and will not have, a material impact on its financial position.

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OPERATIONS SUMMARY
(restated)
(millions of Canadian dollars, except per share amounts)

For the years ended January 31	1997	1996	1995
Revenues by continuing industry segments			
Transportation	$ 1 596.7	$ 1 574.7	$ 1 309.6
Motorized Consumer Products	1 865.6	1 554.2	1 048.6
Aerospace	3 984.9	3 508.5	3 157.3
Services	366.9	346.0	315.8
Bombardier Capital Group	161.6	140.0	111.7
Total	$ 7 975.7	$ 7 123.4	$ 5 943.0
Income (loss) by continuing industry segments			
Transportation	$ 63.8	$ 100.3	$ 66.1
Motorized Consumer Products	211.0	174.9	116.0
Aerospace	258.4	131.1	130.0
Services	13.4	18.8	19.3
Bombardier Capital Group	59.7	42.1	22.3
Total	606.3	467.2	353.7
Write-down of investment in Eurotunnel share units	—	231.4	—
Income from continuing operations before income taxes	606.3	235.8	353.7
Income taxes	200.1	77.8	106.4
Net income from continuing operations	406.2	158.0	247.3
Net loss from discontinued operations	—	—	—
Net income	$ 406.2	$ 158.0[1]	$ 247.3
Per common share			
Net income from continuing operations	$ 1.18	$ 0.45[1]	$ 0.73
Net income	$ 1.18	$ 0.45[1]	$ 0.73

[1] The effect of the write-down of investment in Eurotunnel share units on the net income amounts to $155.0 million ($0.47 per common share). Exclusive of this write-down, the net income would then be $313.0 million ($0.92 per common share).

1994	1993	1992	1991	1990	1989	1988
$ 1 311.5	$ 1 237.6	$ 725.6	$ 697.1	$ 639.5	$ 311.3	$ 459.8
729.5	506.4	352.9	362.2	355.7	274.3	240.7
2 384.8	2 419.7	1 698.0	1 578.7	886.0	630.7	554.7
245.7	224.6	225.9	198.3	212.6	179.9	133.9
97.3	59.7	56.2	56.0	49.5	29.8	16.7
$ 4 768.8	$ 4 448.0	$ 3 058.6	$ 2 892.3	$ 2 143.3	$ 1 426.0	$ 1 405.8
$ (23.9)	$ (72.6)	$ 3.5	$ 20.1	$ 16.5	$ 46.3	$ 49.7
75.8	28.3	(7.0)	(22.3)	10.6	13.9	12.3
133.7	185.0	134.7	132.6	75.2	34.8	39.7
10.4	4.2	2.4	1.6	11.9	8.1	(1.0)
13.8	7.4	(12.2)	(11.5)	3.0	5.7	2.1
209.8	152.3	121.4	120.5	117.2	108.8	102.8
—	—	—	—	—	—	—
209.8	152.3	121.4	120.5	117.2	108.8	102.8
32.5	18.6	13.7	20.4	25.7	19.9	23.8
177.3	133.7	107.7	100.1	91.5	88.9	79.0
—	—	—	—	—	(20.6)	(12.2)
$ 177.3	$ 133.7	$ 107.7	$ 100.1	$ 91.5	$ 68.3	$ 66.8
$ 0.56	$ 0.43	$ 0.36	$ 0.35	$ 0.34	$ 0.34	$ 0.30
$ 0.56	$ 0.43	$ 0.36	$ 0.35	$ 0.34	$ 0.26	$ 0.25

CONSOLIDATED BALANCE SHEETS
(restated)
(millions of Canadian dollars)

As at January 31	1997	1996	1995
BOMBARDIER INC. CONSOLIDATED			
Cash and term deposits	$ 895.7	$ 536.6	$ 425.1
Accounts receivable	358.4	449.0	667.4
Finance receivables and other	1 811.4	1 456.2	1 121.2
Inventories	3 455.2	2 594.9	1 914.4
Fixed assets	1 200.0	1 142.0	932.1
Other assets	229.6	213.9	401.6
Total assets	$ 7 950.3	$ 6 392.6	$ 5 461.8
Short-term borrowings	$ 1 402.4	$ 840.9	$ 764.3
Accounts payable and accrued liabilities	2 124.6	1 875.0	1 508.8
Income taxes payable	65.9	51.4	19.6
Advances and progress billings in excess of related costs	591.4	295.7	195.0
Long-term debt	1 354.9	1 282.7	1 043.2
Other long-term liabilities	198.5	228.0	164.5
Convertible notes – equity component	152.3	139.9	128.6
Preferred shares	30.9	30.9	31.5
Common shareholders' equity	2 029.4	1 648.1	1 606.3
Total liabilities and shareholders' equity	$ 7 950.3	$ 6 392.6	$ 5 461.8
BOMBARDIER			
Cash and term deposits	$ 889.1	$ 532.0	$ 419.7
Accounts receivable	358.4	449.0	667.4
Inventories	3 455.2	2 594.9	1 914.4
Fixed assets	1 138.8	1 079.1	868.2
Investment in BCG	288.7	307.0	239.5
Other assets	320.9	216.3	357.8
Total assets	$ 6 451.1	$ 5 178.3	$ 4 467.0
Short-term borrowings	$ 167.4	$ 38.7	$ 153.4
Accounts payable and accrued liabilities	1 993.0	1 746.7	1 401.8
Income taxes payable	55.7	24.5	8.5
Advances and progress billings in excess of related costs	591.4	295.7	195.0
Long-term debt	1 233.3	1 020.5	774.1
Other long-term liabilities	197.7	233.3	167.8
Convertible notes – equity component	152.3	139.9	128.6
Preferred shares	30.9	30.9	31.5
Common shareholders' equity	2 029.4	1 648.1	1 606.3
Total liabilities and shareholders' equity	$ 6 451.1	$ 5 178.3	$ 4 467.0
BOMBARDIER CAPITAL GROUP			
Cash and term deposits	$ 6.6	$ 4.6	$ 5.4
Finance receivables and other	1 674.1	1 409.0	1 121.2
Fixed assets	61.2	62.9	63.9
Other assets	46.0	50.1	47.1
Total assets	$ 1 787.9	$ 1 526.6	$ 1 237.6
Short-term borrowings	$ 1 235.0	$ 802.2	$ 610.9
Accounts payable and accrued liabilities	131.6	128.3	107.0
Income taxes payable	10.2	26.9	11.1
Advances from Bombardier	71.0	118.8	61.6
Long-term debt	121.6	262.2	269.1
Other long-term liabilities	0.8	—	—
Preferred shares	—	—	—
Common shareholders' equity	217.7	188.2	177.9
Total liabilities and shareholders' equity	$ 1 787.9	$ 1 526.6	$ 1 237.6

1994	1993	1992	1991	1990	1989	1988
$ 633.1	$ 235.1	$ 179.2	$ 87.5	$ 84.0	$ 150.0	$ 116.7
320.8	380.4	360.1	413.7	428.8	174.0	119.1
776.6	942.1	640.8	491.3	458.0	307.5	202.1
1 738.1	1 782.9	1 200.7	984.2	579.7	220.2	247.3
842.0	813.3	626.8	533.5	335.7	262.1	200.6
144.1	86.4	47.1	45.0	46.8	36.9	55.3
$ 4 454.7	$ 4 240.2	$ 3 054.7	$ 2 555.2	$ 1 933.0	$ 1 150.7	$ 941.1
$ 423.6	$ 884.9	$ 640.1	$ 558.2	$ 376.8	$ 153.2	$ 48.6
1 299.8	1 318.2	894.8	832.3	684.7	354.4	314.1
28.3	69.3	18.2	13.7	13.3	5.7	1.3
—	—	—	—	—	—	—
1 119.1	789.4	474.2	344.6	175.3	70.6	65.4
97.3	98.9	38.4	51.0	40.7	41.6	9.5
118.1	108.5	99.7	66.8	21.9	—	—
33.1	34.1	35.7	37.4	157.7	158.3	167.5
1 335.4	936.9	853.6	651.2	462.6	366.9	334.7
$ 4 454.7	$ 4 240.2	$ 3 054.7	$ 2 555.2	$ 1 933.0	$ 1 150.7	$ 941.1
$ 606.3	$ 233.2	$ 177.6	$ 87.2	$ 79.7	$ 150.0	$ 109.9
320.8	380.4	366.0	413.6	428.8	174.0	119.1
1 738.1	1 782.9	1 200.7	984.2	579.7	220.2	247.3
775.3	774.2	603.8	514.7	327.5	259.9	198.9
222.5	106.5	87.0	68.5	60.4	30.4	22.7
108.8	63.2	47.1	45.0	46.8	36.9	55.3
$ 3 771.8	$ 3 340.4	$ 2 482.2	$ 2 113.2	$ 1 522.9	$ 871.4	$ 753.2
$ 86.4	$ 288.9	$ 105.1	$ 135.6	$ 134.4	$ 5.4	$ 5.1
1 217.9	1 248.3	857.8	813.4	635.6	341.2	297.2
23.0	68.6	17.7	13.2	13.3	5.7	1.3
—	—	—	—	—	—	—
860.6	556.2	474.2	344.6	175.3	70.6	65.4
97.3	98.9	38.4	51.0	40.7	41.6	9.5
118.1	108.5	99.7	66.8	21.9	—	—
33.1	34.1	35.7	37.4	39.1	40.0	40.0
1 335.4	936.9	853.6	651.2	462.6	366.9	334.7
$ 3 771.8	$ 3 340.4	$ 2 482.2	$ 2 113.2	$ 1 522.9	$ 871.4	$ 753.2
$ 26.8	$ 1.9	$ 1.6	$ 0.3	$ 4.3	$ —	$ 6.8
764.9	942.1	640.8	491.4	458.0	307.5	202.1
66.7	39.1	4.1	5.0	8.2	2.2	1.7
47.0	23.2	18.9	13.8	—	—	—
$ 905.4	$ 1 006.3	$ 665.4	$ 510.5	$ 470.5	$ 309.7	$ 210.6
$ 337.2	$ 596.0	$ 535.0	$ 422.6	$ 242.4	$ 147.8	$ 43.5
81.9	69.9	42.9	18.9	49.1	13.2	16.9
5.3	0.7	0.5	0.5	—	—	—
62.0	22.5	31.3	23.9	14.6	7.0	2.7
258.5	233.2	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	118.6	118.3	127.5
160.5	84.0	55.7	44.6	45.8	23.4	20.0
$ 905.4	$ 1 006.3	$ 665.4	$ 510.5	$ 470.5	$ 309.7	$ 210.6

GENERAL INFORMATION
(restated)
(millions of Canadian dollars, except per share amounts)

January 31	1997	1996	1995
Export revenues from Canada	$ 4 532.7	$ 3 537.8	$ 2 960.3
Additions to fixed assets	$ 232.4	$ 297.8	$ 176.0
Depreciation and amortization	$ 165.8	$ 158.3	$ 131.6
Dividend rate per common share			
Class A	$ 0.20000	$ 0.20000	$ 0.15000
Class B	$ 0.20625	$ 0.20625	$ 0.15625
Number of common shares (millions)	337.6	335.0	331.4
Book value per common share	$ 6.01	$ 4.92	$ 4.85
Shareholders of record	11 541	9 873	8 776

MARKET PRICE RANGE
(Canadian dollars)

For the years ended January 31	1997	1996	1995
Class A			
High	$ 26.60	$ 20.38	$ 12.50
Low	17.75	11.44	9.00
Close	26.10	20.38	11.44
Class B			
High	$ 26.40	$ 20.13	$ 12.63
Low	17.50	11.31	8.88
Close	26.00	19.88	11.38

QUARTERLY DATA
(restated) (unaudited)
(millions of Canadian dollars, except per share amounts)

For the years ended January 31	1997	1996
	First quarter	First quarter
Revenues	$ 1 603.8	$ 1 356.4
Net income (net loss)	76.8	63.5
Per common share		
Net income (net loss)	$ 0.22	$ 0.19
Dividend – Class B Share	0.05625	0.05625
Market price range of Class B Share		
High	21.75	14.94
Low	18.90	11.31

(1) The effect of the write-down of investment in Eurotunnel share units on the net income amounts to $155.0 million ($0.47 per common share). Exclusive of this write-down, the net income would then be $105.1 million ($0.31 per common share).

1994	1993	1992	1991	1990	1989	1988
$ 2 252.1	$ 1 950.8	$ 1 084.5	$ 975.8	$ 1 245.3	$ 782.0	$ 998.0
$ 169.8	$ 227.8	$ 161.5	$ 162.2	$ 93.1	$ 52.7	$ 47.5
$ 124.6	$ 101.3	$ 75.3	$ 76.8	$ 43.6	$ 40.1	$ 24.4
$ 0.10000	$ 0.10000	$ 0.08000	$ 0.08000	$ 0.06250	$ 0.05500	$ 0.03750
$ 0.10625	$ 0.10625	$ 0.08625	$ 0.08625	$ 0.06875	$ 0.06125	$ 0.04375
329.9	308.6	304.7	282.9	262.8	251.3	252.2
$ 4.05	$ 3.04	$ 2.80	$ 2.30	$ 1.76	$ 1.46	$ 1.33
9 108	9 534	8 735	9 315	10 025	10 707	12 194

1994	1993	1992	1991	1990	1989	1988
$ 11.00	$ 8.69	$ 8.75	$ 5.16	$ 4.50	$ 3.38	$ 3.57
4.82	5.32	4.19	3.63	2.78	1.97	1.75
10.50	5.94	8.57	4.22	3.91	3.35	2.19
$ 10.94	$ 8.63	$ 8.63	$ 5.16	$ 4.50	$ 3.41	$ 3.57
4.82	5.19	3.88	3.22	2.78	1.97	1.63
10.57	5.82	8.57	3.94	3.82	3.35	2.16

1997	1996	1997	1996	1997	1996
Second quarter	Second quarter	Third quarter	Third quarter	Fourth quarter	Fourth quarter
$ 1 915.2	$ 1 476.6	$ 1 946.3	$ 1 580.5	$ 2 510.4	$ 2 709.9
90.3	69.5	91.8	74.9	147.3	(49.9)[1]
$ 0.26	$ 0.20	$ 0.27	$ 0.22	$ 0.43	$ (0.16)[1]
0.05000	0.05000	0.05000	0.05000	0.05000	0.05000
20.60	18.00	21.75	17.13	26.40	20.13
17.70	14.50	17.50	14.88	21.30	16.38

Management's Responsibility for Financial Reporting

The accompanying financial statements of Bombardier Inc. and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with generally accepted accounting principles. The financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Bombardier Inc.'s policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of a majority of outside Directors. The committee meets periodically with Management, as well as the internal auditors and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the financial statements and the external auditors' report. The committee reports its findings to the Board for consideration by the Board when it approves the financial statements for issuance to the shareholders.

The financial statements have been audited by Caron Bélanger Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Paul H. Larose, CA
Vice President, Finance

April 22, 1997

Auditors' Report

To the Shareholders of Bombardier Inc.

We have audited the consolidated balance sheets of Bombardier Inc. (a Canadian corporation) as at January 31, 1997 and 1996 and the consolidated statements of shareholders' equity, income and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Caron Bélanger Ernst & Young
Chartered Accountants
Montréal, Canada,
February 28, 1997

Consolidated Balance Sheets

As at January 31, 1997 and 1996 (millions of Canadian dollars)

	Notes	Bombardier Inc. consolidated 1997	Bombardier Inc. consolidated 1996 (restated – note 1)	Bombardier 1997	Bombardier 1996 (restated – note 1)	BCG 1997	BCG 1996
Assets							
Cash and term deposits		$ 895.7	$ 536.6	$ 889.1	$ 532.0	$ 6.6	$ 4.6
Accounts receivable	3	358.4	449.0	358.4	449.0	—	—
Finance receivables and other	4	1 811.4	1 456.2	137.3	47.2	1 674.1	1 409.0
Inventories	5	3 455.2	2 594.9	3 455.2	2 594.9	—	—
Fixed assets	6	1 200.0	1 142.0	1 138.8	1 079.1	61.2	62.9
Investment in BCG		—	—	288.7	307.0	—	—
Deferred income taxes		—	—	—	—	—	5.3
Other assets	7	229.6	213.9	183.6	169.1	46.0	44.8
		$ 7 950.3	$ 6 392.6	$ 6 451.1	$ 5 178.3	$ 1 787.9	$ 1 526.6
Liabilities							
Short-term borrowings	8	$ 1 402.4	$ 840.9	$ 167.4	$ 38.7	$ 1 235.0	$ 802.2
Accounts payable and accrued liabilities		2 124.6	1 875.0	1 993.0	1 746.7	131.6	128.3
Income taxes payable		65.9	51.4	55.7	24.5	10.2	26.9
Advances and progress billings in excess of related costs		591.4	295.7	591.4	295.7	—	—
Redeemable shares of a subsidiary	2	—	49.0	—	49.0	—	—
Advances from Bombardier		—	—	—	—	71.0	118.8
Long-term debt	9	1 354.9	1 282.7	1 233.3	1 020.5	121.6	262.2
Provision for pension costs		119.9	157.3	119.9	157.3	—	—
Deferred income taxes		78.6	21.7	77.8	27.0	0.8	—
		5 737.7	4 573.7	4 238.5	3 359.4	1 570.2	1 338.4
Shareholders' equity		2 212.6	1 818.9	2 212.6	1 818.9	217.7	188.2
		$ 7 950.3	$ 6 392.6	$ 6 451.1	$ 5 178.3	$ 1 787.9	$ 1 526.6

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements and discuss the financial statement presentation and the consolidation eliminations.

On behalf of the Board of Directors,

Laurent Beaudoin
Director

Pierre Legrand
Director

Consolidated Statements of Shareholders' Equity

For the years ended January 31, 1997 and 1996 (millions of Canadian dollars)

	Notes	1997 Number	1997 Amount	1996 Number	1996 Amount (restated – note 1)
Share capital	11				
Preferred shares, Series 1					
Balance at beginning of year		1 236 900	$ 30.9	1 258 300	$ 31.5
Purchased for cancellation		(1 000)	—	(21 400)	(0.6)
Balance at end of year – preferred shares		1 235 900	30.9	1 236 900	30.9
Common shares					
Class A Shares (multiple voting)					
Balance at beginning of year		88 759 138	49.4	89 173 576	49.6
Converted from Class A to Class B		(112 889)	(0.1)	(414 438)	(0.2)
Balance at end of year		88 646 249	49.3	88 759 138	49.4
Class B Subordinate Voting Shares					
Balance at beginning of year		246 277 373	682.7	242 253 220	659.9
Issued under the share option plan	12	1 508 454	7.1	2 657 300	7.0
Issued to employees for cash		1 093 072	24.0	952 415	15.6
Converted from Class A to Class B		112 889	0.1	414 438	0.2
Balance at end of year		248 991 788	713.9	246 277 373	682.7
Balance at end of year – common shares		337 638 037	763.2	335 036 511	732.1
Total – share capital			794.1		763.0
Retained earnings					
Balance at beginning of year			873.4		793.2
Net income			406.2		158.0
Interest on convertible notes – equity component			(7.4)		(7.3)
Dividends:					
Preferred shares			(2.3)		(2.3)
Common shares			(68.8)		(68.2)
Balance at end of year			1 201.1		873.4
Convertible notes – equity component	10		152.3		139.9
Deferred translation adjustments	13		65.1		42.6
Total – shareholders' equity			$ 2 212.6		$ 1 818.9

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

For the years ended January 31, 1997 and 1996 (millions of Canadian dollars except per share amounts)

	Notes	Bombardier Inc. consolidated 1997	Bombardier Inc. consolidated 1996 (restated – note 1)	Bombardier 1997	Bombardier 1996 (restated – note 1)	BCG 1997	BCG 1996
Revenues		$ 7 975.7	$ 7 123.4	$ 7 814.1	$ 6 983.4	$ 244.6	$ 220.0
Expenses							
Cost of sales and operating expenses	14	7 208.8	6 525.6	7 189.6	6 506.2	102.2	99.4
Interest on long-term debt		98.8	88.5	77.1	62.1	21.7	26.4
Interest expense (income)	15	61.8	42.1	0.8	(10.0)	61.0	52.1
Income from BCG		—	—	(59.7)	(42.1)	—	—
		7 369.4	6 656.2	7 207.8	6 516.2	184.9	177.9
Income before write-down of investment in Eurotunnel share units and income taxes		606.3	467.2	606.3	467.2	59.7	42.1
Write-down of investment in Eurotunnel share units	7	—	231.4	—	231.4	—	—
Income before income taxes		606.3	235.8	606.3	235.8	59.7	42.1
Income taxes	16	200.1	77.8	200.1	77.8	25.2	20.9
Net income		$ 406.2	$ 158.0	$ 406.2	$ 158.0	$ 34.5	$ 21.2
Earnings per share:							
Basic		$ 1.18	$ 0.45				
Fully diluted		$ 1.16	$ 0.45				
Average number of common shares outstanding during the year		336 082 947	333 020 668				

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements and discuss the financial statement presentation and the consolidation eliminations.

Consolidated Statements of Changes in Financial Position

For the years ended January 31, 1997 and 1996 (millions of Canadian dollars)

	Notes	Bombardier Inc. consolidated 1997	Bombardier Inc. consolidated 1996 (restated – note 1)	Bombardier 1997	Bombardier 1996 (restated – note 1)	BCG 1997	BCG 1996
Operating activities							
Net income		$ 406.2	$ 158.0	$ 406.2	$ 158.0	$ 34.5	$ 21.2
Non-cash items:							
Depreciation and amortization		165.8	158.3	161.7	154.1	4.1	4.2
Net income from BCG		—	—	(34.5)	(21.2)	—	—
Provision for credit losses – BCG		6.0	(7.7)	—	—	6.0	(7.7)
Provision for pension costs		(25.9)	33.9	(25.9)	33.9	—	—
Deferred income taxes		56.9	0.1	50.8	2.1	6.1	(2.0)
Write-down of investment in Eurotunnel share units		—	231.4	—	231.4	—	—
Net changes in non-cash balances related to operations	17	(212.4)	92.4	(199.0)	55.4	(13.4)	37.0
Cash provided by operating activities		396.6	666.4	359.3	613.7	37.3	52.7
Investing activities							
Additions to fixed assets		(232.4)	(297.8)	(229.9)	(294.5)	(2.5)	(3.3)
Investment in finance receivables and other		(361.2)	(334.1)	(90.1)	(54.0)	(271.1)	(280.1)
Deferred translation adjustments		17.9	(53.2)	26.3	(42.7)	(8.4)	(10.5)
Acquisitions of businesses	2	(82.8)	(125.9)	(82.8)	(125.9)	—	—
Investment in BCG		—	—	48.2	(51.7)	—	—
Other		—	(25.8)	1.2	(24.9)	(1.2)	(0.9)
Cash used in investing activities		(658.5)	(836.8)	(327.1)	(593.7)	(283.2)	(294.8)
Financing activities							
Net variation in short-term borrowings		420.9	190.2	(11.7)	(1.0)	432.6	191.2
Proceeds from long-term debt		489.4	286.9	422.0	286.9	67.4	—
Reduction of long-term debt		(249.3)	(146.7)	(45.4)	(145.1)	(203.9)	(1.6)
Share issues net of related costs		31.1	22.6	31.1	22.6	18.8	7.0
Purchase of shares for cancellation		—	(0.6)	—	(0.6)	(19.2)	(12.5)
Dividends		(71.1)	(70.5)	(71.1)	(70.5)	—	—
Advances from Bombardier		—	—	—	—	(47.8)	57.2
Cash provided by financing activities		621.0	281.9	324.9	92.3	247.9	241.3
Increase (decrease) in cash		359.1	111.5	357.1	112.3	2.0	(0.8)
Cash position at beginning of year		536.6	425.1	532.0	419.7	4.6	5.4
Cash position at end of year		$ 895.7	$ 536.6	$ 889.1	$ 532.0	$ 6.6	$ 4.6

Cash position represents cash and term deposits.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements and discuss the financial statement presentation and the consolidation eliminations.

For the years ended January 31, 1997 and 1996 (tabular figures in millions of Canadian dollars)

Consolidated financial statement presentation

The consolidated balance sheets are presented in an unclassified format because the activities of Bombardier Inc. and its subsidiaries (the "Corporation") are concentrated in five main segments, each having its own normal operating cycle. Financial services operations and real estate activities, being distinct in nature from Bombardier's manufacturing activities, are shown in a separate column (BCG) in the consolidated financial statements.

The descriptions of the columns shown in the financial statements are as follows:

Bombardier

This column represents the activities of the manufacturing group concentrated in four main segments, namely Transportation, Motorized Consumer Products, Aerospace and Services. This group is referred to as "Bombardier" and the intercompany transactions have been eliminated.

BCG

Bombardier Capital Group (BCG) represents the capital-intensive operations of the Corporation, namely the financial services operations and real estate activities. The intercompany transactions have been eliminated.

Bombardier Inc. consolidated

This column represents all the activities of the Corporation. The eliminations of balances and transactions between Bombardier and BCG are summarized below:

Eliminations

	1997	1996
i) Consolidated balance sheets		
Investment in BCG	$ (288.7)	$ (307.0)
Deferred income taxes	—	(5.3)
Total assets	$ (288.7)	$ (312.3)
Advances from Bombardier	$ (71.0)	$ (118.8)
Deferred income taxes	—	(5.3)
BCG equity	(217.7)	(188.2)
Total liabilities and shareholders' equity	$ (288.7)	$ (312.3)
ii) Consolidated statements of income		
BCG revenues	$ 83.0	$ 80.0
Cost of sales and operating expenses	(83.0)	(80.0)
Income from BCG	59.7	42.1
Income taxes	(25.2)	(20.9)
Net income	$ 34.5	$ 21.2
iii) Consolidated statements of changes in financial position		
Investing activities		
Investment in BCG	$ (48.2)	$ 51.7
Total investing activities	$ (48.2)	$ 51.7
Financing activities		
Share issues net of related costs	$ (18.8)	$ (7.0)
Purchase of shares for cancellation	19.2	12.5
Advances from Bombardier	47.8	(57.2)
Total financing activities	$ 48.2	$ (51.7)

BOMBARDIER INC. CONSOLIDATED – SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly owned. They also include the Corporation's proportionate share of its joint ventures.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Translation of foreign currencies

Foreign operations are classified as integrated or self-sustaining. All significant foreign investees are classified as self-sustaining entities.

a) Self-sustaining foreign operations

All assets and liabilities are translated at exchange rates in effect at year-end. Revenues and expenses are translated at the average rates of exchange for the period. The resulting net gains or losses, including those related to long-term debt denominated in foreign currency and designated since February 1, 1994 as a hedge of net investments in self-sustaining foreign operations, are shown under "Deferred translation adjustments" in shareholders' equity.

b) Integrated foreign operations and accounts in foreign currencies

Integrated foreign operations and accounts in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, monetary balance sheet items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenues and expenses (other than depreciation, which is translated at the same rates as the related fixed assets) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the period. Translation gains or losses are included in the statement of income, except those related to the translation of long-term debt which are deferred and amortized over the remaining life of the debt on a straight-line basis or shown under "Deferred translation adjustments" in shareholders' equity (see a) above).

Fixed assets

Fixed assets are recorded at cost. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Equipment	2 to 15 years
Other	3 to 15 years

Income taxes

The Corporation follows the tax allocation method in providing for income taxes. Under this method, timing differences between income for accounting purposes and income for tax purposes give rise to deferred income taxes.

The undistributed earnings of foreign investees are considered to be permanently invested for their continuing operations; accordingly, no provisions are made for taxes which would become payable upon the distribution of such earnings to the parent company.

Earnings per share

Basic and fully diluted earnings per share are calculated using the weighted average number of Class A Shares (multiple voting) and Class B Subordinate Voting Shares outstanding during the year. Fully diluted earnings per share give effect to the exercise of all dilutive elements.

Pension costs and obligations

The Corporation maintains pension plans for the benefit of substantially all employees.

The pension obligations of the defined benefit pension plans are valued using an accrued benefit actuarial method and Management's best estimate assumptions. The assets of these pension plans are valued on the basis of market-related values. Current service costs are expensed in the year. Adjustments arising from past service benefits and experience gains and losses are amortized on a straight-line basis over the average remaining service lives of the employee groups covered by the plans.

Costs related to postretirement benefits other than pension costs offered to certain employees are recognized when incurred by retirees and paid by the Corporation.

Derivative financial instruments

The Corporation is party to a number of derivative financial instrument contracts, mainly foreign exchange contracts and interest-rate swap contracts used to manage risks. Gains and losses on foreign exchange contracts entered into to hedge future transactions are charged to income on a basis that corresponds with recognition of the related future foreign currencies transactions. Payments and receipts under interest-rate swap contracts are recognized as adjustments to interest expense on a basis that matches them with the related fluctuations in the interest receipts and payments under floating rate financial assets and liabilities.

BOMBARDIER INC. CONSOLIDATED – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Environmental obligations

Liabilities are recorded when environmental claims or remedial efforts are probable, and the costs can be reasonably estimated. Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed.

Goodwill

Goodwill is stated at cost and is amortized under the straight-line method over its useful life for periods not exceeding 10 years. At each reporting date, the Corporation evaluates whether there has been a permanent impairment in the value of unamortized goodwill. In doing so, the Corporation estimates the recoverability of the goodwill based on an estimate of the undiscounted cash flows over the remaining period of amortization of each business to which the goodwill relates.

Convertible notes

The Corporation's obligation to make future interest payments on its convertible notes is reflected as a long-term debt and is carried at the present value of interest payments. Interest costs on the debt component are included in inventories of programs and recognized in income under the program accounting method and those on the equity component are charged to retained earnings, net of income taxes. The present value of the principal is recorded in shareholders' equity.

BOMBARDIER – SIGNIFICANT ACCOUNTING POLICIES

Inventory valuation and revenue recognition

a) Raw materials, work in process and finished products

Raw materials, work in process and finished products are valued at the lower of cost (specific cost, average cost or first-in, first-out depending on the segment) and replacement cost (raw materials) or net realizable value. The cost of work in process and finished products includes the cost of raw materials, direct labour and related overhead.

b) Long-term contracts and program accounting

A significant portion of the Corporation's revenues is related to long-term contracts and programs.

- Long-term contracts

  Revenues and income from long-term contracts are recognized in accordance with the percentage-of-completion method of accounting. The degree of completion is generally determined by comparing the costs incurred to date to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Estimated revenues from long-term contracts include future revenues from claims, when it is reasonably assured that such claims, resulting from work performed for customers in addition to the work contemplated in the original contracts, will result in additional revenues in an amount that can be reliably estimated.

  The effect of changes to total estimated income for each contract is recognized in the period in which the determination is made and losses, if any, are fully recognized when anticipated.

- Programs (Aerospace)

  Inventory costs include material, labour and certain general and administrative costs and comprise non-recurring costs (development, pre-production and tooling costs), production costs and excess over average production costs (production costs incurred, in the early stages of a program, in excess of the average estimated unit cost for the entire program).

  Non-recurring costs related to the early stages of the design of a modified or new aircraft are expensed until the results from the technical feasibility study and the market analysis of the program justify the deferral of these costs. Subsequent non-recurring costs are capitalized to the related program to the extent that their recovery can be regarded as reasonably assured.

  Sales of aircraft are recognized in relation to units delivered, and income from those sales is determined under the program accounting method. Under this method, the cost of sales of the aircraft is recorded at the estimated average unit cost computed as a percentage of the sale price of the aircraft. The estimated average unit cost is calculated by applying, to the sale price of each aircraft, the ratio of total estimated production costs for the entire program over the estimated sale price of all aircraft in the program, increased by the amortization of the non-recurring costs over a predetermined number of aircraft, generally less than the estimated number of aircraft to be sold under the corresponding program. In the early stages of a program, a constant gross margin is achieved by deferring a portion of the actual cost incurred for each unit delivered, such excess being amortized against sales of aircraft anticipated to be produced later at lower-than-average costs.

  Commercial and business aircraft programs are based on long-term delivery forecasts, normally for quantities in excess of contractually firm orders. For new programs, the program quantity is initially based on an established number of units representing what is believed to be a conservative projection of the units to be sold.

  Estimates of revenues, cost of sales and delivery periods associated with forecasted orders are an integral component of program accounting, and the ability to reasonably estimate those amounts is a requirement for the use of program accounting. Revenues, costs and earnings are determined, in part, based on estimates. Adjustments of such estimates are accounted for prospectively with the exception of anticipated losses on specific programs which are recognized in the period when losses are reasonably assured.

BOMBARDIER – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Corporation periodically reviews its assumptions as to the size of the various programs, the estimated period over which the units will be delivered, the estimated future costs and revenues associated with the programs and, when required, revises the gross margin for the remaining term of the programs.

- Advances and progress billings
  Advances and progress billings received on contracts and programs, including proceeds received from the sale of rights arising from work performed under certain manufacturing contracts, are deducted from related costs in inventories. Advances and progress billings in excess of related costs are shown as liabilities.
- Financing costs
  The program for which specific financing is provided includes the related interest and financing costs.

Investment in BCG

The investment in BCG is equity accounted.

Investment in Eurotunnel share units

The investment in Eurotunnel share units has been recorded at cost, net of a write-down for an other than temporary impairment in value. Gains or losses realized on sales of the share units, and any write-down to reflect a decline in value, are included in the statement of income in the year in which they occur.

BCG – SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

a) Interest income

Interest income related to finance receivables is recognized on an accrual basis computed on the average daily finance receivables balance outstanding. Accrual of interest income is suspended when collection of an account becomes doubtful, generally after the account becomes 90 days overdue.

b) Sales of land held for development

Revenues related to sales of land held for development are recognized when significant cash payments have been received and all material conditions related to the sale contract have been satisfied including reasonable assurance of the collection of the sale proceeds.

c) Sales of finance receivables

A sale of finance receivables is recognized when the significant risks and rewards of ownership have been transferred to the purchaser. BCG's interests in securitized finance receivables are included in finance receivables, when the significant risks and rewards of ownership have not been transferred to the purchaser.

Aircraft under operating leases

Aircraft under operating leases are recorded at cost. Depreciation is computed under the straight-line method over periods representing their estimated useful lives not exceeding 20 years.

Provision for credit losses

BCG maintains a provision for credit losses at an amount that it believes to be sufficient to provide adequate protection against future losses in the portfolio of finance receivables and other. The provision for credit losses is determined principally on the basis of actual experience and further provisions are also provided to reflect Management's judgment of potential losses, including specific provisions for delinquent accounts.

Land held for development

Land held for development is stated at the lower of cost and net realizable value. Direct carrying costs and other expenditures related to projects which are expected to be commercialized are capitalized.

Office buildings leased to Bombardier

Office buildings leased to Bombardier are stated at cost and depreciation is computed under the straight-line method over their estimated useful life of 40 years.

For the years ended January 31, 1997 and 1996 (tabular figures in millions of Canadian dollars, except share capital and share option plan)

1. CHANGE IN ACCOUNTING POLICY – FINANCIAL INSTRUMENTS

On February 1, 1996, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants concerning financial instruments. Accordingly, the Corporation changed retroactively its accounting policy regarding the presentation of the convertible notes. Under this new accounting policy, the present value of interest payments on the convertible notes is recorded as long-term debt whereas the present value of the principal is recorded in shareholders' equity. The equity component of the convertible notes increases until October 1999 as a result of charges against retained earnings to reach an amount equal to the nominal value of the convertible notes. The interest on the debt component of the convertible notes is included in inventories in accordance with the Corporation's accounting policies.

The 1996 consolidated financial statements have been restated. The effect of the new accounting policy on the consolidated financial statements is as follows:

	1997	1996
• Retained earnings	$ (16.0)	$ (17.8)
• Deferred translation adjustments	7.5	8.9
• Long-term debt	45.7	61.2
• Convertible notes	(222.3)	(226.8)
• Convertible notes – equity component	152.3	139.9
• Inventories	(26.7)	(28.7)
• Net balance of other assets and liabilities	(6.1)	(5.9)

The effect of this change was to increase net income by $9.0 million for the year ended January 31, 1997 ($4.2 million for 1996). The impact of the change in accounting policy on earnings per share for the years ended January 31, 1997 and 1996 is not significant.

2. ACQUISITIONS OF BUSINESSES

a) de Havilland Inc.

On January 28, 1997, the Corporation has purchased the 49% interest in de Havilland Inc. owned by the Province of Ontario at the carrying value of $49.0 million. As consideration, the Corporation issued a 15-year promissory note to the Province of Ontario (note 9).

b) Business jet completion assets

On December 9, 1996, the Corporation acquired for a cash consideration of $33.8 million the net assets of the business jet completion division of Innotech Aviation Ltd. located in Dorval (Québec). The allocation of the purchase price to the fair value of the net assets acquired resulted in $30.4 million attributed to goodwill.

c) Waggonfabrik Talbot GmbH & Co. KG

On April 3, 1995, the Corporation acquired, for a cash consideration of $117.7 million, including acquisition costs, all of the share capital of Waggonfabrik Talbot GmbH & Co. KG, a German manufacturer of Transportation. This acquisition has been accounted for by the purchase method and the accounts have been consolidated from April 3, 1995.

Net tangible assets acquired at fair value	
Cash	$ 23.5
Other assets net of other liabilities	22.1
Fixed assets	64.1
	109.7
Provision for pension costs	(32.1)
	77.6
Acquisition cost	117.7
Goodwill	$ 40.1

d) Aircraft maintenance centres

On February 1, 1995, the Corporation acquired for a cash consideration of $31.7 million the net assets of some aircraft maintenance centres located in the United States.

3. ACCOUNTS RECEIVABLE

The accounts receivable are mainly concentrated in the Aerospace and Transportation segments (44% and 38% respectively, as at January 31, 1997; 44% and 46% respectively, as at January 31, 1996) and are located in Europe and in North America (66% and 34% respectively, as at January 31, 1997; 70% and 30% respectively, as at January 31, 1996).

4. FINANCE RECEIVABLES AND OTHER

	1997	1996
Bombardier		
Aircraft under operating leases	$ 116.6	$ 33.9
Loans receivable on sale of aircraft	30.8	20.1
Provision for credit losses	(10.1)	(6.8)
	137.3	47.2
BCG		
Finance receivables	1 013.0	857.7
Loans receivable	307.3	329.8
Aircraft under operating leases	233.8	161.6
Other	149.1	83.0
Provision for credit losses	(29.1)	(23.1)
	1 674.1	1 409.0
Total	$ 1 811.4	$ 1 456.2

Finance receivables

BCG has concluded credit agreements with US and Canadian trusts, allowing for an ongoing transfer of eligible finance receivables, for which BCG remains the servicer. The maximum amounts that can be sold under these credit agreements are US $656.1 million and $100.0 million as at January 31, 1997 (US $400.0 million and $100.0 million as at January 31, 1996). The outstanding balances are as follows:

	Finance receivables transferred as at January 31		Finance receivables sold as at January 31		Maturity
	1997	1996	1997	1996	
United States agreements	$ 1 310.8	$ 1 049.9	$ 884.0	$ 549.7	2003
Canadian agreement	142.0	126.9	100.0	100.0	1998

The excess of the finance receivables transferred to the trusts over the amounts considered to be sold, amounting to $468.8 million as at January 31, 1997 ($527.1 million as at January 31, 1996), is included in finance receivables.

The total recourse against the Corporation relating to the finance receivables sold amounts to 7% as at January 31, 1997 (8% as at January 31, 1996) under the United States agreements and 7.6% as at January 31, 1997 and 1996 under the Canadian agreement, plus an adjustment in certain circumstances for concentrations of finance receivables in excess of preset limits.

The portfolio of finance receivables under management, including those sold to the trusts, are concentrated as follows:

	1997					
	Canada		United States		Total	
	$	%	$	%	$	%
Recreational products	226.7	54	1 061.6	67	1 288.3	65
Aerospace products	126.9	30	57.5	4	184.4	9
Manufacturing products	—	—	193.9	12	193.9	10
Other	66.6	16	263.8	17	330.4	16
	420.2	100	1 576.8	100	1 997.0	100

4. FINANCE RECEIVABLES AND OTHER (cont'd)

	1996					
	Canada		United States		Total	
	$	%	$	%	$	%
Recreational products	143.6	46	762.8	64	906.4	60
Aerospace products	119.3	38	55.6	5	174.9	12
Manufacturing products	—	—	164.2	14	164.2	11
Other	52.5	16	209.4	17	261.9	17
	315.4	100	1 192.0	100	1 507.4	100

The finance receivables include $239.0 million as at January 31, 1997 ($227.5 million as at January 31, 1996) acquired from Bombardier.

The financing terms of the finance receivables under management generally range from 3 to 20 months. BCG has lines of credit outstanding with its customers related to the finance receivables under management totalling approximately $574.7 million and US $1 535.1 million as at January 31, 1997 ($502.0 million and US $1 250.0 million as at January 31, 1996), which may be reduced or revoked at any time depending on the dealers' and manufacturers' credit status. The portfolio bears interest at an average floating rate of 10.4% in Canada and 11.6% in the United States as at January 31, 1997 (12.9% and 12.2% respectively, as at January 31, 1996). The finance receivables purchased from Bombardier bear interest at market-related rates.

Finance receivables, arising from the financing of sales of equipment by manufacturers and distributors to dealers, are collateralized by the related inventory and secured by repurchase agreements. Under such agreements, BCG may repossess the equipment from a dealer within a time period specified in the agreement and may require the distributors or manufacturers to repurchase it for a cash consideration equal to the unpaid balance.

Loans receivable

Loans receivable represent the progress payments and other amounts advanced to third parties mainly to finance the sale and leasing of aircraft manufactured by Bombardier. They mature in different periods up to 2006 and are located as follows:

	1997			1996		
	$	%	Weighted average rate	$	%	Weighted average rate
Canada	60.2	20	8.9%	48.3	15	9.4%
United States	247.1	80	9.0%	281.5	85	8.8%
Total	307.3	100		329.8	100	

5. INVENTORIES

	1997				
	Transportation	Motorized Consumer Products	Aerospace	Services	Total
Raw materials and work in process	$ —	$ 190.1	$ —	$ 7.2	$ 197.3
Contracts and programs	981.3	—	3 758.6	38.7	4 778.6
Finished products	6.8	107.0	328.4	31.0	473.2
	988.1	297.1	4 087.0	76.9	5 449.1
Advances and progress billings	(955.7)	(0.8)	(1 036.4)	(1.0)	(1 993.9)
Total net	$ 32.4	$ 296.3	$ 3 050.6	$ 75.9	$ 3 455.2

5. INVENTORIES (cont'd)

	1996 (restated – note 1)				
	Transportation	Motorized Consumer Products	Aerospace	Services	Total
Raw materials and work in process	$ —	$ 160.5	$ —	$ 6.2	$ 166.7
Contracts and programs	1 038.0	—	3 031.0	36.6	4 105.6
Finished products	8.0	64.6	234.8	21.4	328.8
	1 046.0	225.1	3 265.8	64.2	4 601.1
Advances and progress billings	(1 002.9)	(0.9)	(997.7)	(4.7)	(2 006.2)
Total net	$ 43.1	$ 224.2	$ 2 268.1	$ 59.5	$ 2 594.9

For programs under commercial production (Challenger 604, Canadair Regional Jet Series 100 and 200, CL-415 amphibious aircraft, Learjet 60 and Dash 8 Series 300), non-recurring and excess over average costs accumulated in programs of $736.8 million as at January 31, 1997 ($977.1 million as at January 31, 1996) have yet to be recovered from future customers' orders.

For programs under development (Global Express, Dash 8 Series 400, Canadair Regional Jet Series 700 and Learjet 45), non-recurring and excess over average costs as at January 31, 1997 amount to $799.9 million ($404.2 million as at January 31, 1996). The total amount of non-recurring and excess over average costs to be recovered from orders yet to be obtained from customers will be determined only upon completion of the development phase of the programs.

Anticipated proceeds from future sales of aircraft for each program exceed the related costs in inventory as at January 31, 1997 and 1996, plus the estimated additional non-recurring and production costs still to be incurred for each program. However, substantial amounts of unrecoverable costs may eventually be charged to expense in subsequent years, if fewer than the program quantity of aircraft are sold, the proceeds from future sales of aircraft are lower than those currently estimated, or the costs to be incurred to complete the programs exceed current estimates.

Under various agreements in the Aerospace segment, rights resulting from work performed under certain manufacturing contracts are sold, subject to certain conditions, on an ongoing basis to unrelated entities. The amounts received from the sale of rights, totalling $506.9 million as at January 31, 1997 ($453.5 million as at January 31, 1996), are accounted for as advances received and deducted from inventories until delivery of the underlying units. However, in accordance with industry practice, the Corporation remains liable to the purchasers of the rights for the usual contractor's obligations relating to contract completion in accordance with pre-determined specifications, delivery on schedule and product performance. The Corporation has also provided recourse to one purchaser for certain losses that could be incurred with respect to the rights sold, up to an amount equal to the lesser of 10% of the purchase price paid with respect to the outstanding rights (US $19.7 million as at January 31, 1997 and US $14.2 million as at January 31, 1996), and US $23.6 million as at January 31, 1997 and 1996.

Under certain contracts, title to inventories is vested in the customer as the work is performed in accordance with contractual arrangements and industry practice. In addition, in the normal conduct of its operations, the Corporation provides bank guarantees and other forms of guarantees to customers, mainly in the Transportation segment, as security for advances received from customers, and for its performance under certain contracts, amounting to $2 819.5 million as at January 31, 1997 and maturing in different periods up to 2003.

6. FIXED ASSETS

1997	Cost	Accumulated depreciation	Net book value
Bombardier			
Land	$ 39.1	$ —	$ 39.1
Buildings	763.6	299.6	464.0
Equipment	1 318.2	733.7	584.5
Other	79.4	28.2	51.2
	2 200.3	1 061.5	1 138.8
BCG			
Office buildings leased to Bombardier	61.7	6.1	55.6
Equipment	11.2	5.6	5.6
	72.9	11.7	61.2
Total	$ 2 273.2	$ 1 073.2	$ 1 200.0

1996	Cost	Accumulated depreciation	Net book value
Bombardier			
Land	$ 39.0	$ —	$ 39.0
Buildings	727.0	290.3	436.7
Equipment	1 254.0	689.6	564.4
Other	68.2	29.2	39.0
	2 088.2	1 009.1	1 079.1
BCG			
Office buildings leased to Bombardier	61.8	4.4	57.4
Equipment	14.5	9.0	5.5
	76.3	13.4	62.9
Total	$ 2 164.5	$ 1 022.5	$ 1 142.0

The Corporation leases buildings and equipment under long-term operating leases for which the total minimum lease payments amount to $282.2 million. The annual minimum lease payments for the next five years are as follows: 1998 – $59.5 million; 1999 – $47.1 million; 2000 – $34.3 million; 2001 – $21.7 million and 2002 – $15.6 million.

7. OTHER ASSETS

	1997	1996 (restated – note 1)
Bombardier		
Investment in Eurotunnel share units	$ 50.0	$ 50.0
Industrial designs and other intangible assets	34.9	30.6
Deferred loss on translation of long-term debt	4.9	16.2
Prepaid expenses	26.2	30.9
Goodwill	67.6	41.4
	183.6	169.1
BCG		
Prepaid expenses	1.4	0.9
Land held for development	44.6	43.9
	46.0	44.8
Total	$ 229.6	$ 213.9

As part of a claim settlement under the TransManche-Link contract, the Corporation received, in July 1994, 25 million Eurotunnel share units based on their fair value at the date of settlement of 38 French francs ($9.70) per share unit. The Corporation could not dispose of these share units until all tourist-shuttle trains were commissioned and tested, which occurred in June 1995. Subsequently, the Corporation acquired an additional 4 785 129 share units at an average cost of $5.91. In Management's opinion, the market value of these share units and other financial circumstances prevailing as at January 31, 1996 indicated an other than temporary impairment in value. Consequently, the investment in Eurotunnel share units was reduced to its quoted market price of $50.0 million ($1.68 per share unit) on January 31, 1996 and a write-down of $231.4 million was recorded.

8. SHORT-TERM BORROWINGS

	1997	1996
Bombardier		
Bank loans	$ —	$ 11.7
Current portion of long-term debt	167.4	27.0
	167.4	38.7
BCG		
Bank loans	1 233.1	800.5
Current portion of long-term debt	1.9	1.7
	1 235.0	802.2
Total	$ 1 402.4	$ 840.9

Bombardier

Bombardier has entered into credit agreements in various currencies totalling $772.6 million as at January 31, 1997 ($762.7 million as at January 31, 1996) with financial institutions in most countries where it maintains operations. The weighted average floating interest rate on bank loans as at January 31, 1996 is 5%.

BCG

BCG has entered into credit agreements totalling $334.0 million and US $780.0 million as at January 31, 1997 ($185.0 million and US $472.0 million as at January 31, 1996).

8. SHORT-TERM BORROWINGS (cont'd)

The bank loans and related floating weighted average interest rates as at January 31, 1997 and 1996 were as follows:

	Bank loans		Weighted average rate	
	1997	1996	1997	1996
CAN $	$ 278.9	$ 169.2	3.5%	6.0%
US $	954.2 (US $708.2)	631.3 (US $459.4)	5.6%	6.4%
Total	$ 1 233.1	$ 800.5		

Under banking syndicate agreements, the Corporation and certain of its subsidiaries must maintain certain financial ratios which were met as at January 31, 1997 and 1996.

9. LONG-TERM DEBT

	1997	1996 (restated – note 1)
Bombardier		
Bombardier Inc.		
Debentures, 6.4%, maturing in December 2006, with a nominal value of $150.0 million (note 18)	$ 150.0	$ —
Debentures, 7.35%, maturing in December 2026, with a nominal value of $150.0 million (note 18)	150.0	—
Promissory note, 7%, repayable with annual principal repayments of $4.9 million from 2003 to 2012, reimbursable in anticipation under certain conditions	49.0	—
Notes, 6.58%, maturing in January 2006, with a nominal value of US $150.0 million	202.1	206.2
Debentures, 8.3%, maturing in July 2003, with a nominal value of $150.0 million	150.0	150.0
Notes subject to a sinking fund, maturing in September 2003, with a nominal value of US $56.1 million as at January 31, 1997 (US $60.4 million as at January 31, 1996) at 6.08%, and a nominal value of US $31.0 million at 6.32%	117.4	125.6
Debentures, 11.1%, maturing in May 2001, with a nominal value of $100.0 million	100.0	100.0
Notes, 6%, maturing in April 1998, with a nominal value of 30.3 million Swiss francs	28.7	34.3
Term loan, LIBOR plus 0.5%, maturing in August 1997, with a nominal value of US $75.0 million, 6.06% as at January 31, 1997 (6% as at January 31, 1996)	101.0	103.1
Convertible notes – debt component, representing the contractual interest payment, discounted at an average rate of 8.57% (note 10)	45.7	61.2
Bombardier-Rotax GmbH		
Loans, 3.25% to 7.75% as at January 31, 1997 (3.75% to 7.75% as at January 31, 1996), payable in Austrian schillings, maturing from 1998 to 2005	35.8	34.3
Learjet Inc.		
Notes, 6.94%, maturing in June 2000, with a nominal value of US $50.0 million	67.4	68.7
Loan, 9.02%, maturing in May 1998, with a nominal value of US $25.0 million	33.7	34.3
Balance to carry forward	$ 1 230.8	$ 917.7

9. LONG-TERM DEBT (cont'd)

	1997	1996 (restated – note 1)
Balance carried forward	$ 1 230.8	$ 917.7
Bombardier-Concarril, S.A. de C.V.		
Loan, LIBOR plus 0.35%, payable in US dollars, maturing in April 2000, with a nominal value of US $20.0 million at 5.94% as at January 31, 1997 (6.63% as at January 31, 1996)	26.9	28.8
Bombardier-Nordtrac Oy		
Loans, 3.7% to 5.5% as at January 31, 1997 (5% to 7.65% as at January 31, 1996), payable in Finnish marks, maturing from 1998 to 2004	12.3	16.4
Other		
Bearing interest at a weighted average rate of 6.9% as at January 31, 1997 (5.2% as at January 31, 1996), payable in various currencies, maturing from 1998 to 2009	130.7	84.6
	1 400.7	1 047.5
Amounts due within one year	167.4	27.0
Total Bombardier	1 233.3	1 020.5
BCG		
Bombardier Capital Inc.		
Loan, 7.41%, maturing in July 2001, with a nominal value of US $50.0 million (note 18)	67.4	—
Notes, 8.14%, with a nominal value of US $50.0 million. Further to a swap agreement with a financial institution, the effective interest rate was LIBOR plus 1.14%, 6.89% as at January 31, 1996, repaid in 1997	—	68.7
Notes, 8.51%, with a nominal value of US $100.0 million. Further to a swap agreement with a financial institution, the effective interest rate was LIBOR plus 1.04%, 6.79% as at January 31, 1996, repaid in 1997	—	137.4
Bombardier Real Estate Ltd.		
Mortgage bonds, 7.54% to 11%, maturing from 2001 to 2016	56.1	57.8
	123.5	263.9
Amounts due within one year	1.9	1.7
Total BCG	121.6	262.2
Total	$ 1 354.9	$ 1 282.7

The repayment requirements on the long-term debt during the next five years are as follows:

	Bombardier Inc. consolidated	Bombardier	BCG
1998	$ 169.3	$ 167.4	$ 1.9
1999	88.4	86.4	2.0
2000	66.5	64.2	2.3
2001	137.0	134.6	2.4
2002	192.3	123.6	68.7

As at January 31, 1997 and 1996, the Corporation has complied with the restrictive convenants contained in the various financing agreements.

10. CONVERTIBLE NOTES

The convertible notes amounting to US $165.0 million and maturing in October 2004, are unsecured and bear interest at LIBOR plus 0.85% to October 1999 and thereafter at LIBOR plus 1.25% (6.48% as at January 31, 1997 and 6.82% as at January 31, 1996).

In October 1999, these notes are redeemable at their nominal value at the option of the Corporation or of the holders. The Corporation may, at its option, repay the convertible notes in 1999 and 2004 in cash or with Class B Subordinate Voting Shares of the Corporation at market value.

These convertible notes are presented as follows:

	1997	1996 (restated – note 1)
Convertible notes – debt component	$ 45.7	$ 61.2
Convertible notes – equity component	152.3	139.9

11. SHARE CAPITAL

On July 7, 1995, the share capital of the Corporation was modified by the subdivision of the Class A Shares (multiple voting) and the Class B Subordinate Voting Shares on a two-for-one basis and a change of the non-cumulative preferential dividend rate on the Class B Subordinate Voting Shares from $0.0125 to $0.00625 per share per annum. The following information has been adjusted to give effect to the stock split.

The authorized share capital of the Corporation is as follows:

Preferred shares

An unlimited number of preferred shares, without nominal or par value, non-voting, redeemable at the Corporation's option at $25.00 per share, issuable in series, of which one series consisting of 1 235 900 (1 236 900 as at January 31, 1996) Series 1 Cumulative Redeemable Preferred Shares is authorized. The quarterly dividend rate is equal to the greater of [i] 1.875% and [ii] one-quarter of 75% of the average of the prime rates of three designated major Canadian banks for specified three-month periods. The Corporation is required to make all reasonable efforts to purchase for cancellation 16 000 preferred shares in each calendar quarter, at a price not exceeding $25.00 per share; such requirement extinguishes on a yearly basis.

Common shares

448 000 000 Class A Shares (multiple voting), without nominal or par value, ten votes each, convertible at the option of the holder into one Class B Subordinate Voting Share; and

448 000 000 Class B Subordinate Voting Shares, without nominal or par value, one vote each, with an annual non-cumulative preferential dividend of $0.00625 per share, and convertible, at the option of the holder, into one Class A Share (multiple voting), after the occurrence of one of the following events: [i] an offer made to Class A Shares (multiple voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); [ii] such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (multiple voting) of the Corporation.

12. SHARE OPTION PLAN

Under a share option plan, options are granted to key employees to purchase Class B Subordinate Voting Shares. The exercise price is equal to the average of the closing prices on the stock exchanges during the five trading days preceding the date on which the option was granted. The right to exercise these options, which vest at 25% per year during a period commencing two years following the date of granting, terminates not later than ten years after such date. As at January 31, 1997, 5 172 948 options were vested (4 867 900 options as at January 31, 1996). The number of options issued and outstanding at year-end is as follows:

Granting period	Exercise price (dollars)	1997	1996
1987	1.24 to 2.07	—	228 000
1988	2.43 to 3.10	40 000	250 000
1990	3.06 to 3.94	2 550 000	2 760 000
1991	3.54 to 3.83	268 000	416 000
1992	6.23 to 7.63	95 000	140 000
1993	5.59 to 8.25	1 848 000	2 145 200
1994	5.05 to 8.50	1 002 500	1 412 500
1995	10.24 to 12.29	1 330 793	1 497 630
1996	12.69 to 17.28	290 000	340 000
1997	18.72 to 20.53	3 161 000	—
		10 585 293	9 189 330

12. SHARE OPTION PLAN (cont'd)

The number of options has varied as follows:

	1997	1996
Balance at beginning of year	9 189 330	11 694 740
Granted	3 386 000	340 000
Exercised	(1 508 454)	(2 657 300)
Cancelled	(481 583)	(188 110)
Balance at end of year	10 585 293	9 189 330

13. DEFERRED TRANSLATION ADJUSTMENTS

	1997	1996 (restated – note 1)
Balance at beginning of year	$ 42.6	$ 103.5
Translation adjustments	5.3	(69.6)
Translation adjustments on long-term debt denominated in foreign currency and designated as a hedge of self-sustaining foreign operations	17.2	8.7
Balance at end of year	$ 65.1	$ 42.6

14. COST OF SALES AND OPERATING EXPENSES

Cost of sales and operating expenses include research expenses, excluding those incurred under contract, amounting to $131.2 million ($112.2 million in 1996), net of various participative programs and related income tax credits.

In connection with the acquisition of de Havilland Inc. on March 9, 1992, the government of Canada and the Province of Ontario agreed to provide the Corporation with various financial assistance programs. The last portion of this financial assistance applicable against cost of sales and operating expenses, amounting to $155.4 million during 1996, has been deducted from cost of sales and operating expenses.

15. INTEREST EXPENSE (INCOME)

	1997	1996
Bombardier		
Interest expense	$ 24.4	$ 26.8
Interest income	(23.6)	(36.8)
	0.8	(10.0)
BCG		
Interest expense	61.0	52.1
Total	$ 61.8	$ 42.1

16. INCOME TAXES

The effective income tax rate differs from the Canadian statutory rates for the following reasons:

	1997		1996 (restated – note 1)	
	$	%	$	%
Income taxes calculated at statutory rates	234.8	38.7	91.3	38.7
Increase (decrease) resulting from:				
Manufacturing and processing credit	(31.2)	(5.1)	(13.5)	(5.7)
Net income taxes of foreign investees	0.6	—	0.8	0.3
Non-recognition of tax benefits related to foreign investees' losses	22.7	3.7	26.6	11.3
Recovery of income taxes arising from the use of unrecorded tax benefits	(19.1)	(3.1)	(21.3)	(9.0)
Tax-exempt items	(7.8)	(1.2)	(12.8)	(5.4)
Other	0.1	—	6.7	2.8
Total	200.1	33.0	77.8	33.0
Current income taxes	124.8		75.1	
Deferred income taxes	75.3		2.7	
Total	200.1		77.8	

Losses carried forward and other deductions for which no tax benefits have been recorded in the accounts, which are available to reduce future taxable income of certain European subsidiaries, amount to $615.0 million as at January 31, 1997 ($623.0 million as at January 31, 1996), with no specified expiry date.

17. NET CHANGES IN NON-CASH BALANCES RELATED TO OPERATIONS

The net changes in non-cash balances related to operations are as follows:

	1997	1996 (restated – note 1)
Bombardier		
Accounts receivable	$ 90.6	$ 351.8
Inventories	(861.1)	(666.3)
Accounts payable and accrued liabilities	244.6	256.4
Income taxes payable	31.2	12.8
Advances and progress billings in excess of related costs	295.7	100.7
	(199.0)	55.4
BCG		
Accounts payable and accrued liabilities	3.3	21.2
Income taxes payable	(16.7)	15.8
	(13.4)	37.0
Total	$ (212.4)	$ 92.4

18. FINANCIAL INSTRUMENTS

a) Derivative financial instruments

The Corporation uses derivative financial instruments to manage foreign exchange risk and to reduce the impact of interest-rate fluctuations on certain financing instruments. The Corporation does not trade in derivatives for speculative purposes.

Foreign exchange contracts

The Corporation enters into foreign exchange contracts to hedge future net cash flows in US dollars by fixing the US dollar value relative to the Canadian dollar and pound sterling (for the benefit of a United Kingdom subsidiary). Under these contracts, the Corporation is obliged to sell mainly specific amounts of US dollars for Canadian dollars and pounds sterling at predetermined dates and exchange rates. These contracts are matched with anticipated US dollar net cash flows. The amounts of anticipated future net cash flows in US dollars are projected in light of current conditions in the Corporation's markets, existing orders from customers and the Corporation's past experience.

18. FINANCIAL INSTRUMENTS (cont'd)

The following table sets out the Canadian dollar and pound sterling amounts to be received pursuant to the principal foreign exchange contracts, the average contractual exchange rates and the settlement periods of these sales contracts:

	Average exchange rate	
	1997	1996
Less than one year		
US $1 676.5 million (1996 – US $1 530.6 million) for Canadian dollars	$ 1.36	$ 1.36
US $139.5 million (1996 – US $256.5 million) for pounds sterling	£ 0.64	£ 0.65
One to two years		
US $694.5 million (1996 – US $792.7 million) for Canadian dollars	$ 1.35	$ 1.38
US $45.5 million (1996 – US $185.0 million) for pounds sterling	£ 0.67	£ 0.66
Two to three years		
US $194.8 million (1996 – US $84.8 million) for Canadian dollars	$ 1.37	$ 1.40
US $42.5 million (1996 – US $121.1 million) for pounds sterling	£ 0.66	£ 0.69
More than three years		
US $57.1 million (1996 – US $103.5 million) for Canadian dollars	$ 1.32	$ 1.42
US $7.5 million (1996 – US $150.1 million) for pounds sterling	£ 0.69	£ 0.68

Interest-rate swap agreements

Bombardier

Effective February 10, 1997, the Corporation has entered into interest-rate swap agreements with two different financial institutions for a total nominal value of $300.0 million, whereby the Corporation will receive a fixed interest rate of 4.55% semi-annually for a period of 2 years ending February 10, 1999, and will pay semi-annually variable interest rate established at bankers' acceptance rates (3.13% for the period extending from February 10, 1997 to May 12, 1997).

BCG

BCG has entered into an interest-rate swap agreement for a nominal value of $53.9 million (US $40.0 million), whereby BCG will receive a fixed interest rate of 7.04% through July 2001 and will pay a variable interest rate established at LIBOR (5.56% as at January 31, 1997). In addition, BCG has interest-rate swap agreements to convert $116.4 million (US $86.4 million) of fixed rate loans receivable into floating rate loans receivable, with terms expiring through 2003.

b) Fair value of financial instruments

The carrying amounts and fair values of financial instruments, other than those disclosed elsewhere in these consolidated financial statements, are as follows:

	1997		1996	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Bombardier Inc. consolidated				
Financial assets				
Cash and term deposits	895.7	895.7	536.6	536.6
Accounts receivable	358.4	358.4	449.0	449.0
Loans receivable on sale of aircraft and loans receivable	338.1	340.2	349.9	350.8
Finance receivables	1 013.0	1 013.0	857.7	857.7
Investment in Eurotunnel share units	50.0	50.5	50.0	50.0
Financial liabilities				
Short-term borrowings	1 402.4	1 402.4	840.9	840.9
Accounts payable and accrued liabilities	2 124.6	2 124.6	1 875.0	1 875.0
Redeemable shares of a subsidiary	—	—	49.0	49.0
Long-term debt	1 354.9	1 367.4	1 282.7	1 335.5
Off-balance-sheet [favourable (unfavourable)]				
Foreign exchange contracts	—	60.5	—	(41.2)
Interest-rate swap agreements	—	(1.2)	—	(1.1)

18. FINANCIAL INSTRUMENTS (cont'd)

The following methods and assumptions were used in estimating the fair value of financial instruments.

Cash and term deposits, accounts receivable, short-term borrowings, accounts payable and accrued liabilities and redeemable shares of a subsidiary: The carrying amounts reported in the balance sheet approximate their fair value due to the short-term nature of these items.

Finance receivables, loans receivable on sale of aircraft and loans receivable: The fair values for floating rate finance receivables, loans receivable on sale of aircraft and loans receivable that reprice frequently and with no significant change in credit risk approximate the carrying values. The fair values of fixed rate loans receivable on sale of aircraft and loans receivable are estimated using discounted cash flow analyses, using interest rates offered for loans with similar terms to borrowers of similar credit quality.

Investment in Eurotunnel share units: The fair value for the investment in Eurotunnel share units is estimated using the quoted market price.

Long-term debt: The fair values of long-term debt are estimated using public quotations or discounted cash flow analyses, based on current corresponding borrowing rates for similar types of borrowing arrangements.

Foreign exchange contracts and interest-rate swap agreements: The fair value generally reflects the estimated amounts that the Corporation would receive on settlement of favourable contracts or be required to pay to terminate unfavourable contracts at the reporting dates, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from the Corporation's bankers are available for substantially all of the Corporation's foreign exchange contracts and interest-rate swap agreements.

Bank guarantees and other forms of guarantees: The determination of fair value of these guarantees is not practicable within constraints of timeliness and cost but they usually decrease in relation to the percentage of completion of the related contracts and usually expire without being exercised.

c) Credit risk

In addition to the credit risk described elsewhere in these financial statements, the Corporation is subject to risk related to the off-balance-sheet nature of derivative financial instruments, whereby counterparty failure would result in economic losses on favourable contracts for which the accumulated gains amount to $100.2 million as at January 31, 1997 ($27.1 million as at January 31, 1996). However, the counterparties to these derivative financial instruments are major financial institutions which the Corporation anticipates will satisfy their obligations under the contracts.

19. PENSION PLANS

The Corporation maintains defined benefit pension plans which provide pension benefits based on length of service and final pensionable earnings.

Pension assets consist principally of equities, government and corporate bonds and real estate of countries where the Corporation operates. Pension expense is based on Management's best estimate of the long-term rate of return on the pension asset portfolio (8% to 9%). Pension benefit obligations are determined based on Management's best estimate of long-term salary escalation rates (4.5% to 6.5%) and are discounted based on Management's best estimate of long-term interest rates (7.5% to 9.25%). Variances between such estimates and actual experience, which may be material, are amortized over the employee group's average remaining service life (10 to 18 years).

The Corporation bears the risk of experience loss against the above long-term assumptions. The maximum risk of loss is equal to the difference between the fair value of the pension benefit obligation and the amount of the pension benefit obligation accrued in the financial statements. Should actual experience differ from the experience assumed, future contributions will be adjusted to make up for any variances. Risk is managed by placing plan assets in trust and through the pension plan investment policy which defines the funds' allowable investments. The Corporation's ability to withdraw surplus amounts is uncertain. Therefore, the excess, if any, of plan assets over the fair value of accrued benefits may not be immediately available to the Corporation.

The present value of accrued pension benefits attributed to services rendered up to the balance sheets dates and the net assets available to provide for these benefits, at market-related values, are as follows:

	1997	1996
Pension fund assets	$ 1 702.9	$ 1 548.0
Accrued pension benefits	1 431.1	1 297.7

20. COMMITMENTS AND CONTINGENCIES

In addition to the commitments and contingencies described elsewhere in these financial statements, the Corporation is subject to the following:

a) In connection with the sale of aircraft, the Corporation occasionally provides financial support to its customers in the form of guarantees of financing, lease payments as well as services related to the remarketing of aircraft. The off-balance-sheet risk from these guarantees related to aircraft sold maturing in different periods up to 2014 is as follows as at January 31, 1997 and 1996:

	1997	1996
Maximum credit risk related to guarantees provided	$ 404.0	$ 343.7
Less: provisions recorded	115.0	92.1
Off-balance-sheet risk	289.0	251.6
Less: Corporation's share of estimated net resale value of aircraft	215.0	156.3
Net credit risk	$ 74.0	$ 95.3

The net credit risk represents the unrecorded portion of the Corporation's estimated exposure to losses from defaults of third party purchasers to meet their financial obligations under legally binding agreements.

As at January 31, 1997, the Corporation is also committed in relation to guarantees on future sales of aircraft for an amount of $109.2 million net of the Corporation's share of estimated net resale value of aircraft amounting to $42.2 million ($74.8 million net of the Corporation's share of estimated net resale value of aircraft amounting to $13.7 million as at January 31, 1996). The provision in relation with these guarantees, if any, will be recorded at the delivery date of corresponding aircraft.

Substantially all financial support involving potential credit risk is with commercial airline customers. No single commercial airline customer is associated with more than 10% of all financial support relating to customer financing as at January 31, 1997 and 1996.

At the expiry date of certain financing and lease agreements, the Corporation has provided guarantees of the residual value of aircraft. The guarantees can only be called upon in the event that the above guarantees of financing and lease payments have not been executed. However, in the event that such guarantees would be executed, it is Management's opinion that the net resale value of the underlying aircraft will be sufficient to cover the Corporation's exposure under these guarantees.

In addition, the Corporation concluded sale and leaseback transactions in respect of aircraft under which it is obligated to pay annual rents and most of these aircraft were simultaneously leased to operators. Details of these transactions are as follows:

	Minimum lease payments		Expected payments		Provision recorded	
	1997 $	1996 $	1997 $	1996 $	1997 $	1996 $
1997	—	69.8	—	66.0	—	3.8
1998	207.1	17.9	206.3	17.2	0.8	0.7
1999	84.9	52.2	77.9	51.5	7.0	0.7
2000	51.2	115.4	44.2	90.5	7.0	24.9
2001	13.2	1.6	11.2	1.1	2.0	0.5
2002	13.2	—	12.7	—	0.5	—
Thereafter	85.9	1.4	66.1	1.1	19.8	0.3
	455.5	258.3	418.4	227.4	37.1	30.9

Expected payments include expected minimum sub-lease payments from operators and the Corporation's share of estimated net resale value of aircraft. Expected minimum sub-lease payments from operators include the amounts from contracted and anticipated sub-leases. The amounts for anticipated sub-leases ($125.7 million in 1997 and $13.8 million in 1996) have been calculated taking into account current and expected future market conditions for each type of aircraft. The total amount of the Corporation's share of estimated net resale value of aircraft included in the expected payments is $247.9 million in 1997 and $155.4 million in 1996.

20. COMMITMENTS AND CONTINGENCIES (cont'd)

The Corporation's share of estimated net resale value of aircraft, used in the calculation of the net credit risk related to the guarantees provided on sales of aircraft and in the expected payments in relation to sale and leaseback transactions of aircraft, represents the anticipated fair values based upon analyses done by third parties.

b) The Corporation is the defendant in certain legal cases presently pending before various courts in relation to product liability. The Corporation is also party to several actions associated with waste disposal sites. These actions include possible obligations to remove or mitigate the negative effects on the environment of wastes deposited at various sites. There are also some asbestos-related claims to compensate railway workers for various diseases which allegedly result from their workplace exposure to asbestos materials relating to past businesses involving locomotives.

   The Corporation intends to vigorously defend its position in these matters. Management believes the Corporation has set up adequate provisions to cover potential losses and amounts recoverable under insurance coverage, if any, in relation with these legal actions.

21. RECLASSIFICATION

Certain of the 1996 figures have been reclassified to conform to the presentation adopted in 1997.

22. SEGMENTED INFORMATION

The Corporation operates in different industry segments that involve various risk factors and uncertainties which are carefully considered in the Corporation's management policies.

On February 1, 1996, as part of a corporate reorganization, a new segment was created; it is classified as Services in the segmented information. This new segment includes some operations of the Defence segment as defined in previous years, as well as some operations of the Aerospace and Motorized Consumer Products segments.

See charts on following page.

(millions of Canadian dollars)

	Bombardier Inc. consolidated	
	1997	1996 (restated – note 1)
INDUSTRY SEGMENTS		
Revenues		
Canada	$ 949.4	$ 1 004.1
United States and Mexico	3 757.0	2 973.7
Europe	2 489.5	2 365.0
Other	779.8	780.6
Total	$ 7 975.7	$ 7 123.4
Income before write-down of investment in Eurotunnel share units and income taxes	$ 606.3	$ 467.2
Write-down of investment in Eurotunnel share units	—	231.4
Income before income taxes	$ 606.3	$ 235.8
Identifiable assets	$ 7 898.4	$ 6 326.4
Corporate assets	51.9	66.2
Total assets	$ 7 950.3	$ 6 392.6
Additions to fixed assets	$ 232.4	$ 297.8
Depreciation of fixed assets	$ 160.8	$ 148.9
Export revenues from Canada	$ 4 532.7	$ 3 537.8
Revenues of foreign investees outside Canada	2 493.6	2 581.5
Total revenues outside Canada	$ 7 026.3	$ 6 119.3

	Consolidated	
	1997	1996
GEOGRAPHIC SEGMENTS		
Total revenues	$ 8 968.6	$ 7 822.9
Intercompany transfers between geographic segments	992.9	699.5
Revenues from third parties	$ 7 975.7	$ 7 123.4
Income (loss) before write-down of investment in Eurotunnel share units and income taxes	$ 606.3	$ 460.9
Write-down of investment in Eurotunnel share units	—	231.4
Income (loss) before income taxes	$ 606.3	$ 229.5
Identifiable assets	$ 8 093.8	$ 6 463.5
Intersegment accounts receivable	(195.4)	(137.1)
Corporate assets	51.9	66.2
Total assets	$ 7 950.3	$ 6 392.6
Additions to fixed assets	$ 232.4	$ 297.8
Depreciation of fixed assets	$ 160.8	$ 148.9
Export revenues		

	Transportation		Motorized Consumer Products		Aerospace		Services		BCG	
	1997	1996	1997	1996 (restated – note 1)	1997	1996 (restated – note 1)	1997	1996 (restated – note 1)	1997	1996
	$ 100.1	$ 140.5	$ 273.6	$ 251.4	$ 426.8	$ 459.2	$ 135.7	$ 136.0	$ 13.2	$ 17.0
	397.4	363.3	1 233.4	1 033.1	1 912.0	1 385.9	83.4	80.9	130.8	110.5
	876.0	914.4	248.1	194.9	1 277.2	1 157.2	81.5	89.8	6.7	8.7
	223.2	156.5	110.5	74.8	368.9	506.2	66.3	39.3	10.9	3.8
	$ 1 596.7	$ 1 574.7	$ 1 865.6	$ 1 554.2	$ 3 984.9	$ 3 508.5	$ 366.9	$ 346.0	$ 161.6	$ 140.0
	$ 63.8	$ 100.3	$ 211.0	$ 174.9	$ 258.4	$ 131.1	$ 13.4	$ 18.8	$ 59.7	$ 42.1
	—	—	—	—	—	—	—	—	—	—
	$ 63.8	$ 100.3	$ 211.0	$ 174.9	$ 258.4	$ 131.1	$ 13.4	$ 18.8	$ 59.7	$ 42.1
	$ 848.1	$ 806.2	$ 594.1	$ 484.5	$ 4 527.6	$ 3 390.2	$ 140.7	$ 124.2	$ 1 787.9	$ 1 521.3
	$ 44.7	$ 36.9	$ 43.7	$ 95.6	$ 135.8	$ 155.2	$ 5.7	$ 6.8	$ 2.5	$ 3.3
	$ 44.4	$ 48.2	$ 34.1	$ 27.0	$ 73.0	$ 63.6	$ 5.2	$ 5.9	$ 4.1	$ 4.2
	$ 461.8	$ 438.3	$ 1 378.5	$ 1 124.1	$ 2 628.1	$ 1 901.8	$ 62.4	$ 72.5	$ 1.9	$ 1.1
	1 034.8	995.9	213.5	178.7	930.0	1 147.5	168.8	137.5	146.5	121.9
	$ 1 496.6	$ 1 434.2	$ 1 592.0	$ 1 302.8	$ 3 558.1	$ 3 049.3	$ 231.2	$ 210.0	$ 148.4	$ 123.0

	Canada		United States and Mexico		Europe	
	1997	1996	1997	1996	1997	1996
	$ 5 534.0	$ 4 647.1	$ 1 188.1	$ 941.7	$ 2 246.5	$ 2 234.1
	147.2	143.5	238.9	101.2	606.8	454.8
	$ 5 386.8	$ 4 503.6	$ 949.2	$ 840.5	$ 1 639.7	$ 1 779.3
	$ 526.3	$ 404.5	$ 21.2	$ (22.0)	$ 58.8	$ 78.4
	—	—	—	—	—	—
	$ 526.3	$ 404.5	$ 21.2	$ (22.0)	$ 58.8	$ 78.4
	$ 4 055.8	$ 2 706.1	$ 2 220.5	$ 2 108.7	$ 1 817.5	$ 1 648.7
	$ 119.2	$ 187.2	$ 39.4	$ 25.8	$ 73.8	$ 84.8
	$ 73.7	$ 62.4	$ 19.7	$ 19.7	$ 67.4	$ 66.8
	$ 4 532.7	$ 3 537.8				

Bombardier Inc.

Corporate Office
Bombardier Inc.
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Bombardier Transportation
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MASS TRANSIT DIVISION
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Facsimile: 1 (613) 384-5244

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Col. Cuauhtémoc
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BN
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Facsimile: (32-50) 40 18 40

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Facsimile: (33-327) 35 16 24

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A-1211 Wien
Austria
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Facsimile: (43-1) 259 4610-7

BOMBARDIER PRORAIL LIMITED
Horbury
Wakefield
West Yorkshire WF4 5QH
England
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Facsimile: (44-1-924) 274 650

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SNOWMOBILE DIVISION
MARINE PRODUCTS DIVISION
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BOMBARDIER MOTOR CORPORATION OF AMERICA
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SNOWMOBILE DIVISION
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DE HAVILLAND INC.
123 Garratt Boulevard
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SHORT BROTHERS PLC
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Facsimile: (44-1232) 732 974

Bombardier Services

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DEFENCE SYSTEMS DIVISION
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Airport, Mirabel
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BOMBARDIER INC.
SUPPORT SERVICES DIVISION
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Christchurch, Dorset BH23 6EB
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CORPORATION
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INDUSTRIAL DIVISION
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BOMBARDIER CAPITAL INC.
1600 Mountain View Drive
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Facsimile: 1 (802) 654-8435

BOMBARDIER CREDIT RECEIVABLES
CORPORATION
1600 Mountain View Drive
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BCI FINANCE INC.
1600 Mountain View Drive
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Facsimile: 1 (802) 654-8435

BOMBARDIER CAPITAL LTD.
5571 Saint-Joseph Street
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BOMBARDIER FINANCE INC.
6815A 40th Street S.E.
Calgary, Alberta
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Telephone: 1 (403) 279-7271
Facsimile: 1 (403) 279-3909

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Facsimile: (358 16) 311 059

BOARD OF DIRECTORS AND CORPORATE OFFICERS

Board of Directors

Philippe de Gaspé Beaubien, O.C.
Chairman and Chief Executive Officer
Télémédia Corporation

Laurent Beaudoin, C.C., FCA
President, Chairman and
Chief Executive Officer
Bombardier Inc.

J.R. André Bombardier
Vice Chairman
Bombardier Inc.

Janine Bombardier
President and Governor
J. Armand Bombardier Foundation

Pierre Côté, C.M.
Chairman
Celanese Canada Inc.

André Desmarais
President and Co-Chief Executive Officer
Power Corporation of Canada

Jean-Louis Fontaine
Vice Chairman
Bombardier Inc.

Hon. Jean-Pierre Goyer, P.C., Q.C.
Lawyer and Corporate Director

Pierre Legrand, Q.C.
Senior Partner
Ogilvy Renault

Hon. Peter Lougheed, P.C., C.C., Q.C.
Senior Partner
Bennett Jones Verchere

Donald C. Lowe
Chairman
Sedgwick Limited

J. Michael G. Scott
President
JM Scott Investments Inc.

William I.M. Turner, Jr., C.M.
Chairman and Chief Executive Officer
Exsultate Inc.

Hugo Uyterhoeven
Timken Professor of
Business Administration
Graduate School of
Business Administration
Harvard University

Committees of the Board
Executive Committee
Laurent Beaudoin, C.C., FCA
J.R. André Bombardier
Pierre Côté, C.M.
Jean-Louis Fontaine
William I.M. Turner, Jr., C.M.

Compensation Committee
Laurent Beaudoin, C.C., FCA
J.R. André Bombardier
Pierre Côté, C.M.
Pierre Legrand, Q.C.
William I.M. Turner, Jr., C.M.

Audit Committee
Jean-Louis Fontaine
Hon. Jean-Pierre Goyer, P.C., Q.C.
Pierre Legrand, Q.C.
J. Michael G. Scott

Pension Fund Committees
The Corporation has eight Pension Fund Committees. Directors who are members of some of these committees are:
Jean-Louis Fontaine
Hon. Jean-Pierre Goyer, P.C., Q.C.
Pierre Legrand, Q.C.

Corporate Officers

Corporate Office
Laurent Beaudoin
President, Chairman and
Chief Executive Officer
Bombardier Inc.

J.R. André Bombardier
Vice Chairman

Jean-Louis Fontaine
Vice Chairman

Yvan Allaire
Executive Vice President, Strategy and Corporate Affairs

Yvon Beauregard
Vice President, Environment

Robert Greenhill
Vice President, Strategic Planning

Paul H. Larose
Vice President, Finance

François Lemarchand
Vice President and Treasurer

Michel Lord
Vice President, Communications and Public Relations

Michael P. Tinker
Vice President, Human Resources and Organizational Development

Michael P. O'Bree
Vice President, Internal Audit

Barry J. Olivella
Vice President, Acquisitions and Strategic Alliances

Jean Rivard
Vice President, Legal Services and Assistant Secretary

Roger Carle
Director, Legal Services and Corporate Secretary

Marie-Claire Simoneau
Executive Assistant to the Chief Executive Officer

Bombardier Transportation
Jean-Yves Leblanc
President and Chief Operating Officer

Bombardier Motorized Consumer Products
Pierre Beaudoin
President and Chief Operating Officer

Bombardier Aerospace
Robert E. Brown
President and Chief Operating Officer

Bombardier Services
Anthony I. Kalhok
President and Chief Operating Officer

Bombardier Capital
Pierre-André Roy
President and Chief Operating Officer

SHAREHOLDER INFORMATION

Bombardier Inc.

Share Capital Authorized and Issued as at January 31, 1997

	Authorized	Issued
Class A shares	448 000 000	88 646 249
Class B shares	448 000 000	248 991 788
Preferred shares, Series 1	unlimited	1 235 900

Stock Exchange Listings

Classes A and B shares	Montréal and Toronto (Canada)
Preferred shares, Series 1	Montréal and Toronto (Canada)
Class B shares	Brussels and Antwerp (Belgium)
Stock listing code	BBD

Incorporation

The Corporation was incorporated in 1902 by letters patent and prorogated June 23, 1978 under the Canadian Business Corporations Act.

Transfer Agent and Registrar

Montréal Trust Company
Halifax, Saint John (N.B.), Montréal, Toronto, Winnipeg, Regina, Calgary, Vancouver

Auditors

Caron Bélanger Ernst & Young
1 Place Ville-Marie
Montréal, Québec
Canada H3B 3M9

Annual Meeting

The annual shareholders' meeting will be held at the Montréal Sheraton Centre, on Thursday, June 26, 1997 at 11:00 a.m.

Annual Information Form and Other Information

A copy of the annual information form filed with the securities commissions of certain provinces of Canada, as well as information and documentation on the Corporation, may be obtained by written request to the:

Corporate Secretary

Bombardier Inc.
800 René-Lévesque Blvd. West
Montréal, Québec
Canada H3B 1Y8

Press releases of Bombardier Inc. are available on Internet at the following address:
http://www.bombardier.com

The cover page and the editorial section of this Annual Report are printed on chlorine-free paper. The financial section is printed on paper containing 50% recycled fibres, of which 20% is made of post-consumer fibres.