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LISTING PARTICULARS

**CIRCULATION IN THE UNITED STATES
IS RESTRICTED**

€1,900,000,000
(equivalent)

BOMBARDIER

€800,000,000 Floating Rate Senior Notes due 2013
US$385,000,000 8% Senior Notes due 2014
€800,000,000 7¼% Senior Notes due 2016

This document consists of the listing particulars (the "Listing Particulars") in connection with the application to have the €800,000,000 aggregate principal amount of its floating rate senior notes due 2013 (the "Floating Rate Notes"), US$385,000,000 aggregate principal amount of its 8% senior notes due 2014 (the "2014 Notes") and €800,000,000 aggregate principal amount of its 7¼% senior notes due 2016 (the "2016 Notes" and, collectively with the Floating Rate Notes and the 2014 Notes, the "Notes") issued by Bombardier Inc. (the "Issuer") listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of the Luxembourg Stock Exchange. These Listing Particulars supplement the Offering Memorandum dated November 10, 2006 (the "Offering Memorandum") attached as Appendix 1.

The section of the Offering Memorandum on page 230 entitled "Clearing Information" is replaced by the following:

Clearing Information

The notes sold pursuant to Regulation S and Rule 144A under the Securities Act have been accepted for clearance through the facilities of Euroclear and Clearstream Banking. The Common Code and ISIN numbers for these Notes are as follows:

	Reg. S. ISIN	Reg. S Common Code	144A ISIN	144A Common Code
Floating Rate Notes	XS0273978592	027397859	XS0273978915	027397891
2014 Notes	USC10602AK32	027398081	US097751AM35	027525865
2016 Notes	XS0273988393	027398839	XS0273989102	027398910

In addition, the Reg. S CUSIP for the 2014 Notes is C10602 AK3 and the 144A CUSIP for the 2014 Notes is 097751 AM3.

These Listing Particulars are provided only for the purpose of obtaining approval of admission of the Notes to the Official List of the Luxembourg Stock Exchange and admission for trading on the Euro MTF Market of the Luxembourg Stock Exchange and shall not be used for or distributed for any other purpose. These Listing Particulars do not constitute an offer to sell, or a solicitation of an offer to buy, any of the Notes.

The Issuer accepts responsibility for the information contained in these Listing Particulars. To the best of its knowledge (having taken reasonable care to ensure that such is the case), the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the impact of such information. These Listing Particulars may only be used for the purpose for which they have been published.

The notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any state securities laws. Accordingly, the notes are being offered and sold in the United States only to “qualified institutional buyers” in compliance with Rule 144A under the Securities Act and to non-U.S. persons in offshore transactions in compliance

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with Regulation S under the Securities Act. Each purchaser of the notes offered hereby in making its purchase will be deemed to have made certain acknowledgements, representations and agreements with respect to its purchase of the notes as described herein. The notes are subject to transfer and selling restrictions in certain countries, including the United States and Canada. You should read the restrictions described under "Notice to Investors."

The date of these Listing Particulars is November 10, 2006.

APPENDIX 1

Offering Memorandum dated November 10, 2006

OFFERING MEMORANDUM **CIRCULATION IN THE UNITED STATES IS RESTRICTED**

€1,900,000,000
(equivalent)

BOMBARDIER

€800,000,000 Floating Rate Senior Notes due 2013
US$385,000,000 8% Senior Notes due 2014
€800,000,000 7¼% Senior Notes due 2016

Bombardier Inc. ("Bombardier") is offering €800,000,000 aggregate principal amount of its floating rate senior notes due 2013 (the "Floating Rate Notes"), US$385,000,000 aggregate principal amount of its 8% senior notes due 2014 (the "2014 Notes") and €800,000,000 aggregate principal amount of its 7¼% senior notes due 2016 (the "2016 Notes" and, collectively with the 2014 Notes, the "Fixed Rate Notes" and, collectively with the 2014 Notes and the Floating Rate Notes, the "notes"). Bombardier will pay interest on the Floating Rate Notes on February 15, May 15, August 15 and November 15 of each year, beginning on February 15, 2007, and it will pay interest on the Fixed Rate Notes on May 15 and November 15 of each year, beginning on May 15, 2007. The Floating Rate Notes will mature on November 15, 2013. The 2014 Notes will mature on November 15, 2014. The 2016 Notes will mature on November 15, 2016. Prior to specified dates, Bombardier may redeem some or all of the notes of a series by paying a "make-whole" premium. At any time on or prior to November 15, 2009, Bombardier may, at its option, from time to time redeem up to 35% of the notes of any series of Fixed Rate Notes with the proceeds of one or more equity offerings. The redemption prices are discussed under the caption "Description of the Notes—Optional Redemption."

Bombardier may also redeem each series of notes at 100% of its principal amount plus accrued and unpaid interest, if any, if at any time Bombardier becomes obligated to pay withholding tax as a result of a change in law. See "Description of the Notes—Redemption for Changes in Withholding Taxes." If Bombardier experiences certain change of control events, Bombardier will be required to make an offer to purchase the notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase. See "Description of the Notes—Purchase of Notes Upon a Change of Control."

The notes will be direct, unsecured senior obligations of Bombardier and will rank equal in right of payment ("*pari passu*") with all other unsecured and unsubordinated indebtedness and other obligations of Bombardier. The notes in each series will rank among themselves equally without preference or priority. The notes are not obligations of any of Bombardier's subsidiaries.

This offering memorandum includes additional information on the terms of the notes, including redemption and repurchase prices, covenants and transfer restrictions. See "Description of the Notes."

Bombardier has applied to have the notes listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of the Luxembourg Stock Exchange.

Investing in the notes involves risks. See "Risk Factors" beginning on page 16 of this offering memorandum.

The notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any state securities laws. Accordingly, the notes are being offered and sold in the United States only to "qualified institutional buyers" in compliance with Rule 144A under the Securities Act and to non-U.S. persons in offshore transactions in compliance with Regulation S under the Securities Act. Each purchaser of the notes offered hereby in making its purchase will be deemed to have made certain acknowledgements, representations and agreements with respect to its purchase of the notes as described herein. The notes are subject to transfer and selling restrictions in certain countries, including the United States and Canada. You should read the restrictions described under "Notice to Investors."

Offering price for the Floating Rate Notes: 100%.
Offering price for the 2014 Notes: 100%.
Offering price for the 2016 Notes: 100%.

Bombardier expects that the delivery of the notes will be made on or about November 16, 2006.

Joint Lead and Joint Book-Running Managers

Deutsche Bank **JPMorgan** **BNP PARIBAS**

Co-Managers

ABN AMRO **BayernLB** **Calyon**

Commerzbank Corporates & Markets **Dresdner Kleinwort**

NBF Securities (USA) Corp. **Natexis Banques Populaires** **UBS Investment Bank**

Citigroup **RBC Capital Markets**

The date of this offering memorandum is November 10, 2006.

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IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

In this offering memorandum, unless otherwise specified, the terms “we,” “our,” “us” and the “Bombardier Group” refer to Bombardier Inc., a company incorporated under the laws of Canada, and its consolidated subsidiaries, collectively and the term “Bombardier” refers only to Bombardier Inc. Unless otherwise specified, all information presented is as at and for the year ended January 31, 2006.

“Bombardier,” “CRJ,” “Global Express,” “Global 5000,” “Challenger,” “Learjet,” “Q Series,” and various other words, numbers and configurations used in this offering memorandum are trademarks and/or tradenames of various products of Bombardier and/or its affiliates and are registered and/or otherwise protected under applicable law.

No dealer, salesperson or any other individual has been authorized to give any information or to make any representations other than those contained in this offering memorandum in connection with the offer made by this offering memorandum and, if given or made, such information or representations must not be relied upon as having been authorized by us or the initial purchasers or any of their respective agents. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances create any implication that there has been no change in our affairs or the affairs of any of our subsidiaries, or with respect to any other matter discussed herein, since the date hereof.

This offering memorandum has been prepared solely in connection with an offering in compliance with an exemption under the Securities Act for the benefit of prospective investors interested in the notes and qualified to purchase the notes in transactions exempt from registration under, or not otherwise subject to, the Securities Act. This offering memorandum is personal to the offeree to whom it has been delivered and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the notes. Distribution of this offering memorandum to any person other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized, and any disclosure of any of its contents without our prior written consent is prohibited. Each offeree, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no copies of (and not to transmit electronically) this offering memorandum or any documents referred to herein.

This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy any notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

The notes have not been registered with, or recommended or approved by, the United States Securities and Exchange Commission (the “SEC”) or any other federal, state or foreign securities commission or regulatory authority, and neither the SEC nor any such other securities commission or regulatory authority has passed upon the accuracy or adequacy of this offering memorandum. Any representation to the contrary may be a criminal offense in the United States.

There is no undertaking to register the notes under United States federal or state securities laws, and the notes cannot be resold unless they are subsequently registered or an exemption from registration is available or they are resold in a transaction not subject to the registration requirements under the Securities Act or any applicable state securities laws. In connection therewith, the notes will be subject to certain restrictions on transfer. See “Notice to Investors.” Investors should be aware that they may be required to bear the financial risks of an investment in the notes for an indefinite period of time.

Prospective investors are hereby notified that the seller of any note may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The enforcement by investors of civil liabilities under U.S. securities laws may be affected adversely by the fact that Bombardier is incorporated or organized under the laws of Canada, that some or all of its officers and directors may be residents of Canada, that some or all of the experts named in this offering memorandum may be residents of Canada and that all or a substantial portion of the assets of Bombardier and said persons may be located outside the United States.

The offering is being made on a private placement or exempt distribution basis in one or more provinces of Canada through the initial purchasers or their affiliates who are permitted under applicable Canadian securities laws or available exemptions therefrom to offer and sell the notes in such provinces. The notes have not been and will not be qualified for sale to the public under applicable Canadian securities laws and, accordingly, any offer and sale of the notes in Canada will be made on a basis which is exempt from the prospectus and dealer registration requirements of such securities laws. See "Notice to Investors—Canada."

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. We have furnished the information contained in this offering memorandum. The initial purchasers have not independently verified any of the information contained herein (financial, legal or otherwise) and assume no responsibility for the accuracy or completeness of any such information.

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure (as such terms are defined in U.S. Treasury Regulation section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) notes are legal investments for it, (ii) notes can be used as collateral for various types of borrowings and (iii) other restrictions apply to its purchase or pledge of any notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of notes under any applicable risk-based capital or similar rules.

You should contact the initial purchasers with any questions about this offering or if you require additional information to verify the information contained in this offering memorandum.

We reserve the right to withdraw this offering of the notes at any time before closing and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective purchaser less than the full amount of notes sought by such purchaser. The initial purchasers and certain related entities may acquire for their own account a portion of the notes. See also the section in this offering memorandum entitled "Plan of Distribution."

This offering memorandum contains summaries believed to be accurate with respect to the indentures covering the securities and other documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by this reference. Copies of documents referred to in this offering memorandum will be made available to prospective investors upon request to us or the initial purchasers. See also the section in this offering memorandum entitled "Available Information."

In connection with the offering of the notes, Deutsche Bank AG, London Branch (or persons acting on its behalf) (the "Stabilizing Manager") may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on its behalf) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made and, if begun, may be ended at any time, but it must end no later than 30 days after the date on which Bombardier received the proceeds of the issue, or no later than 60 days after the date of allotment of the notes.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This offering memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. As described further in "Notice to European Economic Area Investors" below, the notes are being offered solely to "qualified investors" as defined in Directive 2003/71/EC (the "Prospectus Directive") and accordingly the offer of notes is not subject to the obligation to publish a prospectus within the meaning of the Prospectus Directive.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than at any time:

(1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(2) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000 as shown in its last annual or consolidated accounts;

(3) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd. or BNP Paribas, London Branch, for any such offer; or

(4) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall result in a requirement for the publication by us or any manager of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this restriction, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State. Accordingly, this offering memorandum are for distribution only to persons falling within the categories described in (1), (2) and (3) above.

NOTICE TO FRENCH INVESTORS

Prospective investors are informed that:

(1) this offering memorandum has not been submitted for clearance to the French financial market authority (Autorité des marchés financiers);

(2) the direct and indirect distribution or sale to the public of the notes acquired by them may only be made in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 of the French *Code monétaire et financier*; and

(3) in compliance with articles D.411-1 and following of the French *Code monétaire et financier*, any investors subscribing for the notes should be acting for their own account.

NOTICE TO ITALIAN INVESTORS

The offering of the notes in the Republic of Italy ("Italy") has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation and, accordingly:

(1) the notes cannot be offered, sold or delivered in Italy in a solicitation to the public at large (sollecitazione all'investimento) within the meaning of Article 1, paragraph 1, letter (t) of Legislation Decree no. 58 of February 24, 1998 (the "Financial Services Act"), nor may any copy of this offering memorandum or any other document relating to the notes be distributed in Italy;

(2) the notes cannot be offered, sold and/or delivered, nor may any copy of this offering memorandum or any other document relating to the notes be distributed, either in the primary or in the secondary market, to individuals resident in Italy; and

(3) sales of the notes in Italy shall only be: (i) negotiated with "Professional Investors" (operatori qualificati), as defined under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of July 1, 1998, as amended ("CONSOB Regulation 11522") provided that such Professional Investors will act in such capacity and not as depositaries or nominees for other holders, (ii) effected in compliance with Article 129 of the Legislative Decree no. 385

of September 1, 1993 (the "Italian Banking Act") and the implementing instructions of the Bank of Italy, (iii) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Banking Act, the Financial Services Act, CONSOB Regulation 11522 and all the other relevant provisions of Italian law, and (iv) effected in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

NOTICE TO GERMAN INVESTORS

The offering of the notes is not a public offering in the Federal Republic of Germany.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO U.S. INVESTORS

Each purchaser of the notes will be deemed to have made the representations, warranties and acknowledgements that are described in this offering memorandum under the "Notice to Investors" section in this offering memorandum.

The notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and are subject to certain restrictions on transfer. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of any note may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the notes, see "Notice to Investors."

NOTICE TO CANADIAN INVESTORS

The offering is being made on a private placement or exempt distribution basis in one or more provinces of Canada through the initial purchasers or their affiliates who are permitted under applicable Canadian securities laws or available exemptions therefrom to offer and sell the notes in such provinces. The notes have not been and will not be qualified for sale to the public under applicable Canadian securities laws and, accordingly, any offer and sale of the notes in Canada will be made on a basis which is exempt from the prospectus and dealer registration requirements of such securities laws. Any resale of the notes in Canada must be made through an appropriately registered dealer or in accordance with an exemption from the registration requirements of applicable securities laws, and in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws, which vary depending on the province. These resale restrictions may in some circumstances apply to resales made outside of Canada. Canadian purchasers are advised to seek legal advice prior to any resale of the notes.

This offering memorandum constitutes an offering of the notes only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the notes. This offering memorandum is not, and should not under any circumstances be construed as, an advertisement or a public offering of the notes in Canada. No securities commission or similar securities regulatory authority in Canada has reviewed or in any way passed upon this offering memorandum or the merits of the notes and any representation to the contrary is an offence under applicable Canadian securities laws.

The offering is being made exclusively through this offering memorandum and not through any advertisement of the notes in any printed media of general and regular paid circulation, radio or television, electronic media or any other form of advertising. No person has been authorized to give any information or to make any representation other than those contained in this offering memorandum and any decision to purchase notes should be made solely based on the information contained in this offering memorandum.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in Canada, or "GAAP," which differ in certain respects from generally accepted accounting principles in certain other countries. We prepare our financial statements in U.S. dollars. In this offering memorandum, references to United States dollars, US$ or $ are to the currency of the United States, and references to Canadian dollars or Cdn$ are to the currency of Canada, and references to "Euros" or ''€" are to the currency of the European Union.

The financial information included in this offering memorandum is not intended to, and does not, comply with all of the reporting requirements of the SEC. Compliance with such requirements would require the presentation of U.S. GAAP financial information, the modification or exclusion of certain financial measures, and the presentation of certain other information not included herein or the exclusion of certain information included herein. In addition, the financial information included in this offering memorandum is not intended to comply with all of the reporting and disclosure requirements that would be applicable to a Canadian public company.

USE OF NON-GAAP FINANCIAL MEASURES

As indicated under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," our "Management's Discussion and Analysis" for the six-month period ended July 31, 2006 and for the year ended January 31, 2006, which we filed with the Canadian securities regulatory authorities on August 30, 2006 and March 29, 2006, respectively, are reproduced in this offering memorandum. Our Management's Discussion and Analysis is based on reported earnings in accordance with GAAP and on the following non-GAAP financial measures: (i) EBITDA before special items (earnings (loss) before financing income, financing expense, income taxes, depreciation and amortization and special items), (ii) EBIT before special items (earnings (loss) before financing income, financing expense, income taxes and special items), (iii) EBT before special items (earnings (loss) before income taxes and special items), (iv) EPS from continuing operations before special items (earnings (loss) per share from continuing operations before special items) and (v) free cash flow (cash flow from operating activities less net additions to property, plant and equipment).

These non-GAAP measures are directly derived from our consolidated financial statements but do not have a standardized meaning prescribed by GAAP. Therefore, others using these terms may calculate these financial measures differently. We believe that a significant portion of the users of our consolidated financial statements and Management's Discussion and Analysis analyze our results based on these non-GAAP performance measures and that this presentation is consistent with industry practice. Special items are mainly related to the restructuring activities in Bombardier Transportation. We view these items as potentially distorting the analysis of trends.

INDUSTRY AND MARKET DATA

Market data and certain industry statistics used throughout this offering memorandum were obtained from internal surveys, market research, publicly available information and industry publications. External industry sources and publications generally state that the information contained therein has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys and industry and market data, while believed to be reliable, have not been independently verified, and neither we nor any of the initial purchasers make any representation as to the accuracy or completeness of such information. While we are not aware of any misstatements regarding any industry or similar data presented herein, such data involve risks and uncertainties and are subject to change based on various factors, including those discussed under the "Risk Factors" section elsewhere in this offering memorandum.

EXCHANGE RATE DATA

We prepare our financial statements in U.S. dollars. The following table sets forth, for the periods and dates indicated, the average, high, low and end of period noon buying rates in New York City for cable transfers in foreign currencies as published by the Federal Reserve Bank of New York, or the noon buying rate. Such rates are set forth as Euros per US$1.00. On October 24, 2006, the noon buying rate was US$1.00 equals €0.7959. You should note that the rates set forth below may differ from the actual rates used in our accounting processes and in the preparation of our consolidated financial statements. Our inclusion of these exchange rates is not meant to suggest that the U.S. amounts actually represent such Euro amounts or that such amounts could have been converted into Euros at any particular rate, if at all.

	Average (1)	High	Low	Period End
		(Euros per US$1.00)		
Year Ended January 31,				
2007 (through October 24, 2006)	0.7957	0.8432	0.7720	0.7959
2006	0.8113	0.8571	0.7427	0.8225
2005	0.7983	0.8474	0.7339	0.7663
2004	0.8655	0.9485	0.7780	0.8031
2003	1.0337	1.1610	0.9207	0.9312
2002	1.1300	1.1947	1.0644	1.1636
Month				
October 2006 (through October 24, 2006)	—	0.7999	0.7847	0.7959
September 2006	—	0.7906	0.7792	0.7882
August 2006	—	0.7852	0.7744	0.7817
July 2006	—	0.8000	0.7799	0.7835
June 2006	—	0.7986	0.7720	0.7825
May 2006	—	0.7932	0.7759	0.7792
April 2006	—	0.8271	0.7921	0.7921

(1) The average of the exchange rates on the last business day of each month during the applicable period.

TAX CONSIDERATIONS

Prospective purchasers of the notes are advised to consult their own tax advisors as to the consequences of purchasing, holding and disposing of the notes, including, without limitation, the application of Canadian federal tax laws to their particular situations, as well as any consequences to them under the laws of any other taxing jurisdiction and the consequences of purchasing the notes at a price other than the initial issue price in the offering. See "Tax Considerations."

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. By their nature, forward-looking statements require us to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. While we consider our assumptions to be reasonable and appropriate based on current information available, there is a risk that they may not be accurate.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, include risks associated with general economic conditions, risks associated with our business environment (such as the financial condition of the airline industry and other customers and suppliers, government policies and priorities and competition from other businesses), operational risks (such as regulatory risks and dependence on key personnel, risks associated with doing business with partners, risks involved with developing new products and services, warranty and casualty claim losses, legal risks from legal proceedings, risks relating to our dependence on certain key customers and key suppliers, risks resulting from fixed term commitments, human resource risk and environmental risk), financing risks (such as risks resulting from reliance on government support, risks relating to financing support provided on behalf of certain customers, risks relating to liquidity and access to capital markets, risks relating to the terms of certain restrictive debt covenants and market risks, including currency, interest rate and commodity pricing risk). These and other factors are discussed in further detail elsewhere in this offering memorandum, including under the section "Risk Factors." Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this offering memorandum and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed by us with the various securities commissions or other securities regulatory authorities in the provinces of Canada, are specifically incorporated by reference in and form an integral part of this offering memorandum:

(1) the Annual Information Form of Bombardier dated April 13, 2006, including the documents incorporated by reference therein (including "Management's Discussion and Analysis" for the year ended January 31, 2006), filed by Bombardier on April 13, 2006;

(2) the audited comparative consolidated financial statements of Bombardier, including the notes thereto, as at and for the year ended January 31, 2006 and the report of the auditors thereon, filed by Bombardier on March 29, 2006;

(3) the unaudited interim consolidated financial statements of Bombardier, including the notes thereto and the "Management's Discussion and Analysis" for the corresponding periods, for the three-month period ended April 30, 2006 and the six-month period ended July 31, 2006, filed by Bombardier on May 30, 2006 and August 30, 2006, respectively; and

(4) the Management Information Circular of Bombardier dated April 13, 2006 with respect to the annual meeting of shareholders of Bombardier held on May 30, 2006.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this offering memorandum to the extent that a statement contained herein or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or replaces such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modified or superseded. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering memorandum.

As used herein, the terms "offering memorandum" and "herein" mean this offering memorandum, including the documents annexed herein and the documents incorporated or deemed to be incorporated herein by reference, as the same may be amended, supplemented or otherwise modified from time to time. We will provide without charge to any person to whom this offering memorandum is delivered, on the written request of such person, a copy of any or all of the foregoing documents incorporated by reference herein (other than exhibits not specifically incorporated by reference, into the texts of such documents). Requests for such documents should be directed to Bombardier Inc., 800 René-Lévesque Boulevard West, Montreal, Québec, Canada H3B 1Y8, Telephone: (514) 861-9481, Attention: Corporate Secretary. Copies of all documents incorporated by reference are also available free of charge at the office of our Luxembourg paying agent set forth on the last page hereof.

SUMMARY

The following summary highlights information contained elsewhere in this offering memorandum to help you understand us and the notes. This summary does not contain all of the information that you should consider before investing in these notes. Before investing in the notes, you should read this entire offering memorandum carefully, including the "Risk Factors" section and our financial statements and accompanying notes incorporated by reference herein.

Our Company

We are a world-leading manufacturer of innovative transportation solutions, including regional aircraft, business jets and rail transportation equipment. We are the third largest manufacturer of commercial aircraft in the world. We have held the number one global market position in the rail equipment and servicing industry since 2003, based on worldwide orders in markets accessible to open bid competition. As of July 31, 2006, we had a total of approximately 56,400 employees and 49 manufacturing facilities in 21 countries. For the twelve-month period ended July 31, 2006, we generated revenues of $14.4 billion and EBITDA before special items of $1,004 million. We operate in two segments: (i) Bombardier Aerospace and (ii) Bombardier Transportation.

Bombardier Aerospace is a world leader in the design and manufacture of aviation products and services for the business, regional and amphibious aircraft markets. Our legacy of innovation consolidates more than 250 years of aviation industry experience and has led to the launch by Bombardier of 15 new aircraft programs in the past 15 years.

Bombardier Transportation is the global leader in the rail equipment manufacturing and servicing industry. We offer a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. We also provide electrical propulsion and control equipment as well as complete system and signalling solutions and maintenance services.

Our Businesses

Bombardier Aerospace

Bombardier Aerospace's product portfolio includes the broadest offering of business aircraft and lines of regional jets, turboprops and amphibious aircraft. Bombardier Aerospace also provides hourly flight time entitlement programs, parts logistics, technical services, aircraft maintenance and pilot training and offers fractional ownership programs and charter services. During the twelve-month period ended July 31, 2006, Bombardier Aerospace generated revenues of $8.0 billion and EBITDA of $668 million and had a backlog of $10.9 billion as of July 31, 2006.

Bombardier Aerospace Products and Services

Business Aircraft

Narrow-body business jets
- Learjet 40/40 XR
- Learjet 45/45 XR
- Learjet 60/60 XR

Wide-body business jets
- Challenger 300
- Challenger 605
- Challenger 800 Series
- Bombardier Global 5000
- Global Express/Global Express XRS

Regional Aircraft

Regional jets
- CRJ200 (50 seat)
- CRJ700 (70 seat)
- CRJ705 (75 seat)
- CRJ900 (86 seat)

Turboprops
- Q200 (37 seat)
- Q300 (50 seat)
- Q400 (68-78 seat)

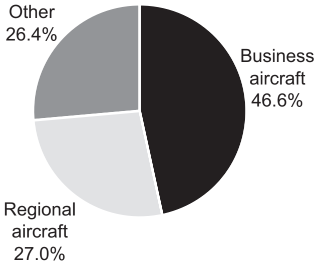
Other

Flexjet and Skyjet
- Aircraft fractional ownership
- Hourly flight entitlement programs

Aircraft services
- Parts logistics
- Aircraft maintenance
- Customer training
- Military aviation training

Amphibious/Missionized
- Amphibious aircraft
- Government and missionized aircraft

% of Total Bombardier Aerospace Revenues, for the Twelve-Month Period Ended July 31, 2006



Business Aircraft. Bombardier Aerospace markets, sells and provides customer support for its three families of business jets: (1) the Global family, (2) the Challenger family and (3) the Learjet family. Aircraft ordered by customers are produced by the manufacturing facilities of Bombardier Aerospace. Business aircraft manufacturing revenues contributed 46.6% to Bombardier Aerospace's revenues for the twelve-month period ended July 31, 2006.

Regional Aircraft. Bombardier Aerospace markets and sells the CRJ family of regional jets and the Q-Series family of turboprops to airline companies and also provides maintenance and modification services to its customers. Regional aircraft manufacturing revenues contributed 27.0% to Bombardier Aerospace's revenues for the twelve-month period ended July 31, 2006.

Other Operations. Bombardier Aerospace offers fractional ownership program and charter services, provides a broad range of aircraft services, as well as manufactures, markets and sells amphibious aircraft. Other operations contributed 26.4% to Bombardier Aerospace's revenues for the twelve-month period ended July 31, 2006.

Fractional Ownership and Charter: Through our North American Flexjet program, owners purchase shares of an aircraft with operations and support, including flight crew, maintenance, hangar fees and insurance. The North American Flexjet program has partnered with Delta AirElite Business Jets, a subsidiary of Delta Airlines, to market and sell the Flexjet membership card program (25-hour block of flight time entitlement on the Flexjet fleet). The Flexjet program included 84 aircraft in service in North America as of January 31, 2006. Our North American Skyjet program offers both on-demand and flight time entitlement charter services.

Aircraft Services: Bombardier Aerospace provides a broad range of services to customers, including parts logistics, customer and military aviation training and aircraft maintenance. Bombardier Aerospace provides worldwide spare parts support, including regular parts shipments, aircraft on ground service, lease programs, rotable management programs, surplus sales and customer-owned repair. Customers are served from two main distribution centres, one in Chicago, Illinois, in the United States, and the other in Frankfurt, Germany, and from depots in Montréal, Canada, Dubai in the United Arab Emirates, Singapore, Sydney, Australia and Beijing in the People's Republic of China.

Amphibious Aircraft: Bombardier Aerospace markets and manufactures the Bombardier 415 turboprop amphibious aircraft, a purpose-built firefighting aircraft. This aircraft can also be adapted to a multi-purpose version which can be used in a variety of specialized missions such as search and rescue, environmental protection, coastal patrol and transport. Bombardier Aerospace continues to identify and provide special mission aircraft sales solutions to governments and special interest organizations worldwide.

Bombardier Aerospace—Financial Results Overview

	For the Years Ended January 31,			For the Twelve-Month Period Ended July 31,
	2004	2005	2006	2006
Deliveries				
Business [1]	89	128	197	214
Regional	232	200	138	111
Amphibious	3	1	2	2
Total deliveries	324	329	337	327
(US$ in millions, except as noted below)				
Revenues				
Business	$1,687	$2,063	$3,330	$3,738
Regional	4,256	3,604	2,690	2,162
Other	2,318	2,313	2,067	2,120
Total revenues	$8,261	$7,980	$8,087	$8,020
EBIT before special items	$ 419	$ 203	$ 266	$ 259
EBITDA before special items	$ 821	$ 614	$ 672	$ 668
Backlog (US$ in billions)	$ 10.9	$ 10.2	$ 10.7	$ 10.9

[1] Includes deliveries of the fractional ownership program.

The core operation of Bombardier Capital consisting of commercial aircraft financing is now managed by Bombardier Aerospace, and therefore these operations are part of Bombardier Aerospace's results.

We have substantially completed our strategy of reducing Bombardier Capital's operations. Several portfolios were put up for sale and all were subsequently sold. The sale of Bombardier Capital's inventory finance operations was completed in May 2005 for $1.3 billion, with a pre-tax gain of $191 million. This transaction yielded $732 million, after repayment of bank-sponsored securitized floorplan conduits. We also sold our on-balance sheet manufactured housing portfolio in July 2005 for $119 million, and our off-balance sheet manufactured housing servicing operations in March 2006 for $26 million. The Consumer Finance operations were sold in May 2006 for cash proceeds of $67 million. Bombardier Capital's freight railcar leasing operations were sold in October 2006 for cash proceeds of $94 million.

Bombardier Transportation

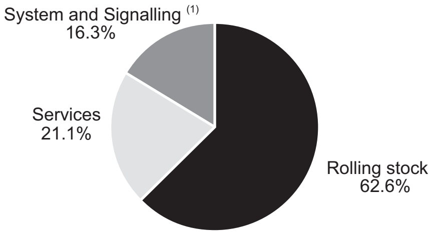
Bombardier Transportation's product portfolio includes a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. Bombardier Transportation also provides electrical propulsion and control equipment as well as complete system and signalling solutions. It also provides maintenance services. During the twelve-month period ended July 31, 2006, Bombardier Transportation generated revenues of $6.4 billion and EBITDA before special items of $336 million and had a backlog of $22.2 billion as of July 31, 2006.

Bombardier Transportation markets and sells a broad range of rolling stock products, offers a full range of railway services and develops, designs, builds and maintains complete transportation systems.

Bombardier Transportation Products and Services

Rolling Stock			**Services**	**System and Signalling**	
Rolling stock	*Propulsion and controls*	*Bogies*	*Services*	*System*	*Signalling*
• Locomotives • High-speed trains • Intercity trains • Regional trains • Commuter trains • Metro cars • Light rail vehicles	• Traction converters • Auxiliary converters • Traction drivers • Control and communication	• Portfolio of products which match the entire range of rail vehicles	• Fleet management • Spare parts and logistics management • Vehicle refurbishment and overhaul • Component refurbishment and overhaul • Technical support	• Automated people movers • Advanced rapid transit • Light rapid transit • Turnkey systems • Automated monorail • Operations and maintenance related to systems	• Integrated control systems • Onboard computer systems • Automatic train protection and operation • Wayside interlocking and equipment

% of Total Bombardier Transportation Revenues, for the Twelve-Month Period Ended July 31, 2006



[1] Excludes the rolling stock portion of system orders manufactured by other divisions within Bombardier Transportation.

Bombardier Transportation—Financial Results Overview

	For the Years Ended January 31,			For the Twelve-Month Period Ended July 31,
	2004	2005	2006	2006
(US$ in millions, except as noted below)				
Rolling stock	$4,956	$5,622	$4,356	$3,977
Services	1,189	1,270	1,329	1,340
System and signalling [1]	795	674	954	1,040
Total revenues	$6,940	$7,566	$6,639	$6,357
EBIT before special items	$ 43	$ 33	$ 179	$ 199
EBITDA before special items	201	171	318	336
New orders (US$ in billions)	$ 11.4 [2]	$ 4.4	$ 7.3	$ 7.7
Backlog (US$ in billions)	23.7	21.3	20.9	22.2
Book to bill ratio [3]	1.6x	0.6x	1.1x	1.2x

[1] Excludes the rolling stock portion of system orders manufactured by other divisions within Bombardier Transportation.

[2] Includes the London Underground contract, which is worth approximately $5.7 billion over 15 years.

[3] Firm orders received divided by revenues recorded in an applicable period.

Our Industries

Our principal operations are in the business and regional aircraft and rail transportation markets.

Business Aircraft

The business aircraft market consists primarily of customers in the corporate sector and high net worth individuals.

The United States continues to be the dominant market; however, the international markets have gained significant momentum in recent years, supported by emerging eastern European economies and the strengthening of the Euro compared to the U.S. dollar.

The demand for business aircraft is primarily driven by economic growth, increasing acceptance of fractional ownership and growing demand for business jets from the emerging economies of Eastern Europe, Asia, Africa and the Middle-East. Business aircraft deliveries in the industry have increased at a compounded annual growth rate of approximately 6% in 1985-2005, while the business aircraft fleet in the industry has grown at a compounded annual growth rate of approximately 4% over the same period of time according to the Honeywell Business Aviation Outlook NBAA 2006 Report dated October 16, 2006 (“Honeywell NBAA Report”). Business aircraft deliveries in the industry are expected to increase at a compounded annual growth rate of approximately 5% through 2015, according to the Honeywell NBAA Report.

Bombardier Aerospace’s main competitors in the wide-body business jet category are Gulfstream Aerospace Corporation (“Gulfstream”), a subsidiary of General Dynamics, and Dassault Aviation (“Dassault”). Bombardier Aerospace’s major competitors in the narrow-body business jet category are Cessna Aircraft Company (“Cessna”), a subsidiary of Textron Inc., Raytheon Aircraft (“Raytheon”), a subsidiary of the Raytheon Company, and Embraer Executive Jets (“Embraer Jets”), a subsidiary of Embraer-Empresa Brasileira de Aeronáutica S.A. (“Embraer”).

Regional Aircraft

Regional airlines generally operate regional aircraft (jets and turboprops) up to 90 seats in a domestic route network. Mainline airlines generally operate narrow-body and wide-body jet aircraft over 90 seats in a network consisting of both domestic and international routes. Pilot scope clauses continue to loosen, thus permitting larger numbers of 70- to 90-passenger regional jets to be flown by the pilots of regional airlines affiliated with mainline airlines through a code-sharing agreement.

Over the past five years, regional aircraft operated by regional airlines and low cost carriers have continued to replace mainline service offered by major network carriers. Also, the turboprop market has recently experienced a turnaround. Due to increasing fuel prices, regional aircraft demand has recently shifted from smaller to larger regional aircraft, which offer lower unit operating costs. This trend resulted in a demand shift from Bombardier Aerospace's 50-passenger CRJ200 aircraft to the 70-passenger CRJ700 and 86-passenger CRJ900 aircraft. The regional aircraft fleet over 40 seats in the industry is estimated to increase by an average annual growth rate of 4% through 2017, according to the Federal Aviation Administration ("FAA").

The U.S. airline industry continues to face financial challenges and has undergone some major restructurings. Bombardier Aerospace continues to work with its regional customers to support their efforts to emerge from bankruptcy protection.

Bombardier Aerospace's main competitors are Embraer in the regional jet category and the European consortium of Avions de Transport Régional ("ATR") in the turboprop category.

Transportation

The rail market consists primarily of customers in the public or quasi-public sectors, such as large national railways, regional railways and municipal transit authorities. Trends toward deregulation in some markets are driving an emergence of private operators. Public-sector entities still dominate the market, however, and most contracts include some form of public involvement related to financing of operations or funding of infrastructure. In many countries, investment in rail infrastructure is viewed as a public-sector obligation.

Rail contracts tend to be large in size and relatively complex in design. While common platforms are generally preferred by suppliers, contracts often require, particularly those in rolling stock, product customization to satisfy customer requirements and to fit the unique characteristics of individual rail systems. Projects often demand extensive engineering and design work up front before production can begin, resulting in significant lead times before delivery.

The supplier field serving the rail market is concentrated, with the largest three competitors accounting for approximately 50% of the accessible world market as at the end of calendar year 2005 .

Our Competitive Strengths

Leading Market Position. We have grown to become a world-leading manufacturer of innovative transportation solutions, including regional aircraft, business jets and rail transportation equipment. We are the third largest manufacturer of commercial aircraft in the world and are a leading manufacturer in the regional jet, turboprop and business aircraft markets. We hold the number one global market position in the rail equipment industry, and we are a leader in the rail servicing industry, based on worldwide orders in markets accessible to open bid competition.

Diversified Revenue Base. Our revenues are diversified by global region, by products and by customers.

Major Restructuring Initiatives. In recent years, we have implemented significant restructuring initiatives. We have right sized our business and improved productivity, and we continue to focus on cost reductions and margin improvement.

Our restructuring program announced in 2004 in Bombardier Transportation is complete. Seven production sites were closed in Bombardier Transportation. Through April 30, 2006, net personnel positions in Bombardier Transportation were reduced by 7,700.

Other restructuring initiatives included the following:

- Between January 31, 2005 and July 31, 2006, we reduced our long-term debt by over US$3 billion.
- We completed the sale of the non-core businesses of Bombardier Capital.
- We adjusted production rates in Bombardier Aerospace.

Industry Leading Design and New Product Development. We are committed to innovation and product development. Bombardier Aerospace has launched 15 new aircraft programs in the past 15 years. With regard to product development, Bombardier Transportation emphasizes innovative product families featuring common platforms, proven technologies and increased standardization and modularization.

Strong Entrepreneurial Management Team. In December 2004, the Board of Directors announced the creation of the Office of the President which includes the CEO and the presidents of Bombardier Aerospace and Bombardier Transportation. The group presidents are directly accountable to the Board and are responsible for the achievement of their group’s full profit potential. Our management team is united by strong values and a shared corporate culture that is committed to spurring Bombardier’s growth.

Recent Developments

Refinancing Plan

This offering of notes is part of a refinancing plan to provide us with increased financial and operating flexibility. Our refinancing plan is comprised of: (i) entering into a new €4.3 billion syndicated letter of credit facility maturing in 2011 (the “New LC Facility”) to replace our existing letter of credit facilities prior to their maturity, (ii) the issuance of the notes offered hereby, (iii) our invitations to eligible holders (which exclude, among others, U.S. persons or persons located or resident in the U.S.), which invitations we refer to in this offering memorandum as the ”repurchase invitations,” to offer to sell to us (A) any or all of the outstanding €500 million aggregate principal amount 6.125% Notes due 2007 issued by our affiliate Bombardier Capital Funding Limited Partnership (“BCF LP”) and (B) a principal amount to be determined (currently estimated to be €225 million principal amount) of the outstanding €500 million aggregate principal amount 5.75% Notes due 2008 issued by Bombardier, which notes (under (A) and (B)) we refer to collectively as our “Refinance Notes” and (iv) retiring all the outstanding $220 million 7.09% Notes due 2007 issued by Bombardier Capital Inc. (“BCI”). The exact principal amount of Refinance Notes to be repurchased will be announced on November 14, 2006, the business day following the expiration of the repurchase invitations.

In this offering memorandum, we refer to all these transactions and the application of the proceeds as set forth under “Use of Proceeds,” collectively, as our “Refinancing Plan.” With respect to the repurchase invitations referred to above, the defined term “Refinancing Plan” assumes that we will repurchase all Refinance Notes.

Bombardier has mandated BNP Paribas, Calyon, Commerzbank AG, Deutsche Bank AG, Dresdner Bank AG, JP Morgan Chase N.A., BayernLB, KfW and ABN-AMRO to arrange the New LC Facility designed to replace existing credit facilities comprised of a $1.1 billion North American credit facility, a €3.15 billion European credit facility and two other smaller facilities (collectively the "Existing Facilities") in advance of their renewal in 2007 and 2008.

The obligations of Bombardier to the banks issuing letters of credit from time to time under the New LC Facility are expected to be secured by (i) a fixed security interest granted by Bombardier on €860 million of cash and cash equivalent accounts and (ii) for any excess claims, the unsecured counter guarantee from a syndicate of banks providing Bombardier with a €3.44 billion facility for that purpose. Bombardier will also be the guarantor of the obligations of its subsidiaries which will be party to the New LC Facility from time to time. The New LC Facility is expected to be available to Bombardier on or about December 15, 2006.

Ile-de-France Commuter Train

On October 25, 2006, Bombardier Transportation announced that it has been selected by SNCF, French National Railways, to supply the future Ile-de-France commuter train, after a call for tenders launched in February 2004. The contract is for the delivery of a total of 372 trains that will operate on the Greater Paris/Ile-de-France suburban network and includes an initial order of 172 trains valued at an estimated €1.35 billion ($1.7 billion). The total value of the contract is estimated at €2.7 billion ($3.4 billion). Contract signing is expected to take place in the near future. On October 31, 2006, Bombardier became aware that Alstom S.A. initiated proceedings with a French administrative court against the selection of Bombardier Transportation as supplier of the Ile-de-France commuter train. In response to such proceedings, Bombardier Transportation announced on November 2, 2006, that it is reviewing all its legal options and will vigorously defend its interests in this matter.

Alignment of Regional Aircraft Production Rates with Current Market Demand

On October 24, 2006, Bombardier Aerospace announced that it is adjusting its regional aircraft production rates to reflect current market demand. As a result, the production rate for its CRJ700 and CRJ900 regional jets will be reduced. This is expected to be partly offset by an increase in the Q400 turboprop production level in response to the growing need for this type of cost-efficient regional airliner, which is ideally suited to short-haul routes. Our workforce level will be adjusted accordingly.

Our total aircraft deliveries for the current fiscal year ended January 31, 2007 are expected to remain at a similar level to that of our last fiscal year ended January 31, 2006, but with a different product mix.

Rapid Rail System in South Africa

In September 2006, the Bombela Consortium, of which Bombardier Transportation is a member, finalized the terms of a concession agreement for a rapid rail transit system with the Gauteng Provincial Government of South Africa. The contract for the 54-month design-build portion of the contract is valued at approximately $3.3 billion. Bombardier Transportation's share of the design-build contract is approximately $950 million. Bombardier Transportation's share of the separate 15-year maintenance contract carries a value of approximately $700 million. The 80-km Gautrain Rail Rapid Link will connect Johannesburg, Tshwane (Pretoria) and the Johannesburg International Airport.

Other Information

Bombardier was incorporated by letters patent under the laws of Canada on June 19, 1902 and was continued under the Canada Business Corporation Act by a certificate of continuance dated June 23, 1978, which was subsequently the subject of certain amendments.

Bombardier's registered office is located at 800 René-Lévesque Boulevard West, Montreal, Québec H3B 1Y8. Bombardier's telephone number is (514) 861-9481, and its website is www.bombardier.com.

The Offering

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of the Notes" section of this offering memorandum contains a more detailed description of the terms and conditions of the notes. You should carefully read the entire offering memorandum, including the section entitled "Risk Factors" and our consolidated financial statements and the notes relating to those statements included elsewhere in this offering memorandum.

Issuer . . . . Bombardier Inc.

Notes Offered . . . . €800,000,000 aggregate principal amount of Floating Rate Senior Notes due 2013.

US$385,000,000 aggregate principal amount of 8% Senior Notes due 2014.

€800,000,000 aggregate principal amount of 7¼% Senior Notes due 2016.

Offering Price . . . . Floating Rate Notes: 100%.

2014 Notes: 100%.

2016 Notes: 100%.

Maturity Date . . . . The Floating Rate Notes will mature on November 15, 2013.

The 2014 Notes will mature on November 15, 2014.

The 2016 Notes will mature on November 15, 2016.

Interest . . . . The Floating Rate Notes will bear interest at a rate per annum, reset quarterly, equal to EURIBOR plus 3.125%.

8% for the 2014 Notes.

7¼% for the 2016 Notes.

Interest Payment Dates . . . . Interest on the Floating Rate Notes will be payable quarterly in arrears on February 15, May 15, August 15 and November 15, commencing on February 15, 2007 to holders of record on the February 1 , May 1, August 1 and November 1 immediately preceding the related interest payment date. Interest will accrue from the issue date.

Interest on each series of Fixed Rate Notes will be payable semi-annually in arrears on May 15 and November 15, commencing on May 15, 2007 to holders of record on the May 1 and November 1 immediately preceding the related interest payment date. Interest will accrue from the issue date.

Ranking . . . . The notes will be direct, unsecured senior obligations of Bombardier and will rank equal in right of payment ("*pari passu*") with all other unsecured and unsubordinated indebtedness and other obligations of Bombardier. The notes in each series will rank among themselves equally without preference or priority. The notes are not obligations of any of Bombardier's subsidiaries.

Sinking Fund .... None.

Optional Redemption .... *Floating Rate Notes.* At any time on or after November 15, 2008, Bombardier may from time to time redeem all or any portion of the Floating Rate Notes at the redemption prices specified in this offering memorandum under "Description of the Notes—Optional Redemption," plus accrued and unpaid interest, if any.

2014 Notes. At any time prior to November 15, 2010, Bombardier may redeem some or all of the 2014 Notes by paying a "make-whole" premium, plus accrued and unpaid interest, if any, as described in this offering memorandum under "Description of the Notes—Optional Redemption."

At any time on or after November 15, 2010, Bombardier may from time to time redeem all or any portion of the 2014 Notes at the redemption prices specified in this offering memorandum under "Description of the Notes—Optional Redemption," plus accrued and unpaid interest, if any.

2016 Notes. At any time prior to November 15, 2011, Bombardier may redeem some or all of the 2016 Notes by paying a "make-whole" premium, plus accrued and unpaid interest, if any, as described in this offering memorandum under "Description of the Notes—Optional Redemption."

At any time on or after November 15, 2011, Bombardier may from time to time redeem all or any portion of the 2016 Notes at the redemption prices specified in this offering memorandum under "Description of the Notes—Optional Redemption," plus accrued and unpaid interest, if any.

Equity Offering Optional Redemption .... At any time on or prior to November 15, 2009, Bombardier may, at its option, from time to time redeem up to 35% of the original aggregate principal amount of any series of Fixed Rate Notes with the proceeds of one or more equity offerings, at a redemption price equal to (1) in the case of the 2014 Notes,108.000% of the principal amount thereof, and (2) in the case of the 2016 Notes, 107.250% of the principal amount thereof, plus, in each case, accrued and unpaid interest thereon, if any, to the redemption date, provided that at least 65% of the aggregate principal amount of each series of Fixed Rate Notes originally issued remains outstanding after such redemption. See "Description of the Notes—Optional Redemption—Fixed Rate Notes—Equity Offering Redemption."

Tax Redemption If Bombardier is, or there is a more than insubstantial risk that Bombardier will be, required to pay additional amounts as a result of changes in laws applicable to tax-related withholdings or deductions in respect of payments on the notes, Bombardier will have the option to redeem each series of notes, in whole but not in part, at a redemption price equal to 100% of the aggregate principal amount of the notes, plus any accrued and unpaid interest, if any, to the date of redemption and any additional amounts that may then be payable. See "Description of the Notes—Redemption for Changes in Withholding Taxes."

Additional Amounts Any payments made by Bombardier with respect to the notes will be made without withholding or deduction, unless required by law. If Bombardier is required by law to withhold or deduct for taxes with respect to a payment to the holders of notes, Bombardier will, subject to certain exceptions, pay the additional amount necessary so that the net amount received by holders of notes (other than certain excluded holders) after the withholding is not less than the amount they would have received in the absence of the withholding. See "Description of the Notes—Payment of Additional Amounts."

Change of Control If Bombardier experiences certain change of control events, it will be required to offer to purchase all of the notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase. See "Description of the Notes—Purchase of Notes Upon a Change of Control."

Covenants Each series of notes offered hereby will be issued under a separate indenture. The respective indentures governing each series of notes will contain covenants that, among other things, will limit Bombardier's ability, and in some cases the ability of its subsidiaries, to:

- incur additional debt and provide guarantees;
- create or permit certain liens;
- use the proceeds from the sales of assets and subsidiary stock;
- pay dividends and make certain other restricted payments;
- create or permit restrictions on the ability of its subsidiaries to pay dividends or make other payments;
- engage in certain transactions with affiliates; and
- enter into certain consolidations, mergers or transfers of all or substantially all of our assets.

These covenants are subject to important exceptions and limitations which are described under the heading "Description of the Notes."

If at any time both Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc., and Moody’s Investors Service, Inc. have assigned an investment grade credit rating to Bombardier’s senior unsecured debt, most of the covenants will terminate and no longer be applicable with respect to the notes, regardless of any subsequent changes in the rating of Bombardier’s senior unsecured debt. See “Description of the Notes—Certain Covenants—Covenant Termination.”

Use of Proceeds . . . . For information regarding the use of proceeds from this offering of notes, see “Use of Proceeds.”

Transfer Restrictions . . . . The notes have not been and will not be registered under the Securities Act, under any state securities laws or under the laws of any other jurisdiction, and have not been qualified for sale under the securities laws of any province or territory of Canada. The notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. See “Notice to Investors.”

The notes may not be sold or transferred directly or indirectly in Canada except in accordance with applicable securities laws of any province or territory of Canada.

No Established Market for the Notes. . . . . The notes are a new issue of notes, and currently there is no market for them. Application has been made to have the notes admitted to the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market, the alternative market of the Luxembourg Stock Exchange. We cannot assure you that a liquid market for the notes will develop or be maintained.

Joint Trustee, U.S. Registrar, U.S. Paying Agent and U.S. Transfer Agent . . . . Deutsche Bank Trust Company Americas.

Joint Trustee, Canadian Registrar and Canadian Transfer Agent . . . . Computershare Trust Company of Canada.

London Paying Agent, London Transfer Agent and Calculation Agent . . . . Deutsche Bank AG, London Branch.

European Registrar, Luxembourg Paying Agent, Luxembourg Transfer Agent and Luxembourg Listing Agent. . . . . Deutsche Bank Luxembourg SA.

Governing Law . . . . New York.

Summary Selected Consolidated Financial Information

You should read the following summary selected consolidated financial information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited comparative consolidated financial statements for the year ended January 31, 2006 and our unaudited interim consolidated financial statements for the six-month period ended July 31, 2006 and the accompanying notes, which are included elsewhere in this offering memorandum.

We derived the summary selected consolidated financial information for the years ended January 31, 2006, 2005 and 2004 and as of January 31, 2006, 2005 and 2004 from our audited comparative consolidated financial statements for the year ended January 31, 2006, which are included elsewhere in this offering memorandum. We derived the summary selected information for the six-month periods ended July 31, 2006 and 2005 and as of July 31, 2006 and 2005 from our unaudited interim consolidated financial statements for the six-month period ended July 31, 2006, which are included elsewhere in this offering memorandum. We derived the summary selected information for the twelve-month period ended July 31, 2006 and as of July 31, 2006 from our historical consolidated financial statements. The historical results do not necessarily indicate results expected for any future period.

	For the Years Ended and as of January 31,			For the Six-Month Periods Ended and as of July 31,		For the Twelve-Month Period Ended and as of
	2004	2005	2006	2005	2006	July 31, 2006
	(millions of U.S. dollars, except per share amounts)					
Consolidated Statement of Income Information:						
Revenues	$15,201	$15,546	$14,726	$ 7,390	$ 7,041	$14,377
Income from continuing operations before special items and income taxes	231	12	238	102	130	266
Special items	(330)	(172)	(88)	(26)	(24)	(86)
Income (loss) from continuing operations before income taxes	$ (99)	$ (160)	$ 150	$ 76	$ 106	$ 180
Income tax expense (recovery)	121	(38)	15	25	28	18
Income (loss) from continuing operations	$ (220)	$ (122)	$ 135	$ 51	$ 78	$ 162
Income (loss) from discontinued operations—net of tax	135	37	114	121	4	(3)
Net income (loss)	$ (85)	$ (85)	$ 249	$ 172	$ 82	$ 159
Earnings (loss) per share—Basic and diluted						
From continuing operations	$ (0.15)	$ (0.08)	$ 0.06	$ 0.02	$ 0.04	$ 0.08
From discontinued operations	0.08	0.02	0.07	0.07	0.00	0.00
Net income (loss)	(0.07)	(0.06)	0.13	0.09	0.04	0.08
Consolidated Balance Sheet Information:						
Total assets	$19,277	$20,130	$17,482	$17,749	$16,476	$16,476
Shareholders' equity	$ 2,450	$ 2,298	$ 2,425	$ 2,381	$ 2,575	$ 2,575
Liabilities						
Accounts payable and accrued liabilities	6,710	7,085	6,866	6,852	6,565	6,565
Advances and progress billings in excess of related costs	2,686	2,359	2,191	2,169	2,182	2,182
Fractional ownership deferred revenues	0	163	325	258	339	339
Deferred income taxes	104	41	9	39	10	10
Long-term debt	5,125	5,716	4,747	5,173	3,867	3,867
Accrued benefit liabilities	932	897	877	868	919	919
Liabilities related to assets held for sale	1,270	1,571	42	9	19	19
Total liabilities	$16,827	$17,832	$15,057	$15,368	$13,901	$13,901

	For the Years Ended and as of January 31,			For the Six-Month Periods Ended and as of July 31,		For the Twelve-Month Period Ended and as of
	2004	2005	2006	2005	2006	July 31, 2006
	(millions of U.S. dollars, except per share amounts)					
Other Financial Information:						
EBITDA before special items	$ 1,022	$ 785	$ 990	$ 475	$ 489	$ 1,004
Earnings per share—from continuing operations before special items	0.03	0.00	0.11	0.03	0.05	0.12
Additions to property, plant and equipment	300	305	329	139	164	354

For the six-month periods ended July 31, 2006 and 2005, Bombardier's consolidated cash flows from operating activities, investing activities and financing activities were $(233) million, $(80) million and $(981) million, and $(356) million, $1,385 million and $(408) million, respectively. For the years ended January 31, 2006 and 2005, Bombardier's consolidated cash flows from operating activities, investing activities and financing activities were $754 million, $1,334 million and $(907) million, and $480 million, $214 million and $51 million, respectively.

RISK FACTORS

An investment in the notes involves risks. You should consider carefully the risks described below as well as other information appearing elsewhere in this offering memorandum before you decide to purchase the notes. The risks described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also materially and adversely affect our business, financial condition or results of operations. Any of the following risks and other risks could materially and adversely affect our business, financial condition or results of operations. In such case, you may lose all or part of your original investment.

Risks Relating to Our Business

We are subject to the cyclicality and long-term trends of the economy and the business environment in which we compete.

Unfavourable economic conditions, such as a macroeconomic downturn in important markets or an increase in commodity prices, may result in lower order intake, which would adversely affect our business. In addition, we could incur significant costs associated with temporary layoffs or termination of employees in the event of a curtailment of our production activities due to unfavourable economic conditions.

We face a number of external risk factors, more specifically the financial condition of the airline industry and major rail operators, government policies related to import and export restrictions, changing priorities and possible spending cuts by government agencies, government support to export sales, world trade policies, competition from other businesses, as well as scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates. In addition, acts of terrorism, political instability or the outbreak of war or continued hostilities in certain regions of the world, and global health risks, may result in lower orders, rescheduling or the cancellation of part of the existing order backlog for certain of our products.

Airline industry profitability and viability influence demand for our commercial aircraft. Continued cost pressure in the airline industry places pressure on the price of our products. We are faced with the challenge of finding ways to reduce costs and improve productivity to sustain a favourable market position at acceptable profit margins. Several of our U.S. commercial airline customers are operating under the protection of Chapter 11. The loss of any major commercial airline as a customer or the termination of a contract could significantly reduce our revenues.

The success of certain of our partnerships depends on the satisfactory performance of our business partners, exposing us to certain risks.

In certain of the projects carried out through consortia or other partnership vehicles in Bombardier Transportation, all partners are jointly and severally liable to the customer. The success of these partnerships is dependent on the satisfactory performance of our business partners. Although, in these situations, partners generally exchange counter indemnity obligations, often partially or totally backed by guarantee instruments, the failure of the business partners to fulfill their contractual obligations could subject us to additional financial and performance obligations that could result in increased costs and unforeseen delays. In addition, in Bombardier Transportation's systems business, the loss of potential order intake may result from a partner withdrawing from a consortium during the bid phase.

To remain competitive in certain markets in which we operate, we must continuously design new and update existing products and services and invest in and develop new technologies. We may not be successful with our new or improved products, services and technologies, exposing us to certain risks.

The principal markets in which we operate experience changes due to the introduction of new technologies. To meet our customers' needs in these businesses, we must continuously design new and update existing products and services and invest in and develop new technologies, which may require significant capital investments. Introducing new products requires a significant commitment to research and development, which may not be successful. Our sales may be impacted if we invest in products that are not accepted in the marketplace, if customer demand or preference for aircraft models changes, if the products are not approved by regulatory authorities, or if the products are not brought to market in a timely manner or become obsolete. Bombardier Aerospace and Bombardier Transportation are both subject to stringent certification or approval requirements, which may delay the certification of our products. Non-compliance with regulatory requirements, such as those currently or in the future imposed by Transport Canada, the U.S. Federal Aviation Administration, the European Aviation Safety Agency, national rail regulatory bodies or other regulatory authorities, could result in the grounding of our products, which could materially and adversely affect our business, financial condition or results of operations.

We may be subject to product liability, warranty or other types of claims, which could materially and adversely affect our business, financial condition or results of operations.

The products we manufacture are highly complex and sophisticated and may contain defects that are difficult to detect and correct. Defects may be found in our products after they are delivered to the customer. If discovered, we may not be able to correct them in a timely manner, or at all. The occurrence of defects and failures in our products could result in warranty claims or the loss of customers. Correcting such defects could require significant capital investments. Any claims, defects or failures could materially and adversely affect our business, financial condition or results of operations. In addition, due to the nature of our business, we may be subject to liability claims arising from accidents or disasters involving our products, or products for which we provided services, including claims for serious personal injuries or death, and these accidents may include accidents caused by climatic factors (such as snow and icy weather) or by pilot or driver error. We cannot be certain that our insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that we will be able to obtain insurance coverage at acceptable levels and cost in the future.

We are subject to certain legal risks, which could materially and adversely affect our business, financial condition or results of operations.

We are subject to numerous risks relating to legal proceedings to which we are currently a party or that could develop in the future. In the ordinary course of our business, we become party to lawsuits, including suits involving allegations of improper delivery of goods or services, product liability, product defects, quality problems and intellectual property infringement. There can be no assurance that the results of these or other legal proceedings will not materially and adversely affect our business, financial condition or results of operations. We maintain liability insurance for certain legal risks at levels our management believes are appropriate and consistent with industry practice. We may incur losses relating to litigation beyond the limits, or outside the coverage, of such insurance and such losses may materially and adversely affect our business, financial condition or results of operations, and our provisions for litigation-related losses may not be sufficient to cover our ultimate loss or expenditure.

We depend on a limited number of key customers and key suppliers, the loss of any of which could materially and adversely affect our business, financial condition or results of operations.

Our manufacturing operations are dependent upon a limited number of customers. As at July 31, 2006, 6% of Bombardier Aerospace's backlog related to aircraft programs was attributable to one customer. For Bombardier Transportation, three customers represented 42% of the order backlog as at July 31, 2006. We believe that we will continue to depend on a limited number of customers; accordingly, the loss of any such customer could result in lower sales and/or market share. Since the majority of Bombardier Transportation's customers are public companies or operate under public contract, Bombardier Transportation's order intake is dependent on public budgets and spending policies. Please also refer to "We and certain of our customers depend, from time to time, on various types of government support, the loss or substantial reduction of which could have a negative impact on our cost competitiveness or market share" below for additional information.

Our manufacturing operations are dependent upon a limited number of key suppliers for the delivery of materials, services and major systems, such as aluminum, titanium, power plants, wings, nacelles and fuselages to Bombardier Aerospace, and brakes to Bombardier Transportation. A failure by one or more key suppliers to meet performance specifications, quality standards and delivery schedules could adversely affect our ability to meet our commitments to customers. If one or more key suppliers are unable to meet their contractual obligations towards us, this could materially and adversely affect our business, financial condition or results of operations. Certain of these suppliers participate in the development of products, such as aircraft or rolling stock platforms and the subsequent delivery of materials and major components, and own some of the intellectual property regarding the key components they develop. Therefore, our contracts with these key suppliers are on a long-term basis. Although alternative supplier sources generally exist for the procurement of material and major components, the replacement of certain key suppliers could be costly and could take a significant amount of time.

We enter into fixed-term contracts in advance of ultimate production, which could expose us to losses if we have costs overruns, technological problems or other difficulties.

We have historically offered, and will continue to offer, a significant portion of our products on fixed-term contracts, rather than contracts in which payment is determined solely on a time-and-material basis. Generally, we may not terminate these contracts unilaterally. Although we often rely on tools, methodologies and past experience to reduce the risks associated with estimating, planning and performing these projects, in most cases, we are exposed to risks associated with these projects, including unexpected technological problems, difficulties with our partners and subcontractors and logistic difficulties that could lead to cost overruns and late delivery penalties.

Our inability to recruit, retain and motivate highly-skilled employees or renew existing collective agreements could materially and adversely affect our business, financial condition or results of operations.

Human resource risk is the risk that we are unable to recruit, retain, and motivate highly skilled employees to assist in our business, including research and development activities that are essential to our success. Failure to recruit and retain highly-skilled personnel could materially and adversely affect our business, financial condition or results of operations.

In addition, we are party to several collective agreements throughout our business segments, which are subject to expiration at various times in the future. If we are unable to renew these collective agreements as they become subject to renegotiation from time to time, this could result in work stoppages and other labour disturbances, and materially and adversely affect our business, financial condition or results of operations.

Environmental laws and regulations could have an adverse effect on our business, our financial condition or results of operations.

We are subject to environmental laws and regulations in each of the jurisdictions in which we operate, governing, among other things, product performance and/or content, air and water pollution, the use, disposal, storage, transportation, labeling and release of hazardous substances, human health risks arising from the exposure to hazardous or toxic materials and the remediation of soil and/or groundwater contamination on or under our properties (whether or not caused by us) or on or under other properties and caused by our current or past operations. Environmental regulatory requirements, or enforcement thereof, may become more stringent in the future and additional costs may be incurred by us to be compliant with such future requirements or enforcement. In addition, we may have contractual or other liability for environmental matters relating to businesses, products or properties that we have in the past closed, sold or otherwise disposed of, or that we close, sell or dispose of in the future. There can be no assurance that limitations imposed by, or costs of compliance with, current or future environmental laws, or liabilities arising from a failure to comply with environmental laws or obligations to perform environmental investigations or remediation or other environmental problems, will not materially and adversely affect our business, financial condition or results of operations.

We and certain of our customers depend, from time to time, on various types of government support, the loss or substantial reduction of which could have a negative impact on our cost competitiveness and market share.

From time to time, we or our customers receive various types of government support. The level of government support reflects government policy and depends on budgets and other political and economic developments. We cannot predict if future government-sponsored support will be available. The loss of any substantial reduction in the availability of government support could negatively impact our cost competitiveness and market share. In addition, any future government support received by our competitors may have a negative impact on our competitiveness, product development, sales and market share.

We provide financing support to certain customers, which could expose us to certain risks.

We provide, from time to time, aircraft financing support to our regional aircraft customers. We provide interim financing, which includes loans made to customers and the leasing of aircraft to customers. We face the risk that certain customers, mainly regional aircraft customers, may not be able to obtain permanent financing. This, in turn, would have a negative impact on our financial condition.

We also provide support, directly or indirectly, with respect to credit and/or residual value guarantees to airlines or to support financings for airlines or to support financings by certain special purpose entities created solely (i) to purchase regional aircraft from us and to lease these aircraft to airlines, and (ii) to purchase financial assets related to regional aircraft manufactured by us. Under these arrangements, we are obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make lease or loan payments or if the market or resale value of the aircraft is below the guaranteed residual value amount at the end of the lease. A substantial portion of these guarantees has been extended to support original debtors or lessees with less than investment-grade credit. Recent financial weakness in certain airlines further exposes us to loss under credit guarantees. Significant claims under these guarantees could materially and adversely affect our business, financial condition and results of operations.

We are currently negotiating with a government agency to finalize the details of our indirect financial support to them in connection with RASPRO Trust 2005 (“RASPRO”) and other financing structures related to the sale of regional aircraft. As a result, an assessment of whether or not consolidation of RASPRO and other variable interest entities (“VIEs”) benefiting from the financial support of this government agency may be required. The outcome of these negotiations may result in the consolidation on our financial statements of significant additional assets and liabilities of VIEs.

We may be limited in our ability to access financing for future capital requirements, which could materially and adversely affect our business, financial condition and results of operations.

We require continued access to the capital markets to support our activities. To satisfy our financing needs, we rely on cash resources, debt and cash flow generated from operations. Any impediments to our ability to access the capital markets, including a decline in credit ratings, a significant reduction of the surety market global capacity, significant changes in market interest rates, general economic conditions or an adverse perception in the capital markets of our financial condition or prospects, could materially and adversely affect our business, financial condition and results of operations. Credit ratings may be impacted by many external factors beyond our control and accordingly, no assurance can be given that our credit ratings will not be reduced in the future.

We are exposed to fluctuations in relative currency values, which could materially and adversely affect our business, financial condition and results of operations.

Our financial results are reported in U.S. dollars and a portion of our sales and operating costs are realized in currencies other than U.S. dollars, in particular Euros, Canadian dollars and pounds sterling. Our results of operations are therefore affected by movements of these currencies against the U.S. dollar. Significant long-term fluctuations in relative currency values, such as a significant change in the relative value of the Euro, Canadian dollar or pound sterling, could have an adverse effect on our future profitability. Although our foreign currency policy is to use derivative financial instruments to manage these foreign currency exposures, given the volatility of currency exchange rates, we cannot assure you that we will be able to manage these risks effectively. Volatility in currency exchange rates may generate losses, which could have an adverse effect on our financial condition or results of operations. For more detailed information on our hedging policies, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We are exposed to risks from fluctuating interest rates, which could materially and adversely affect our business, financial condition and results of operations.

We are exposed to risks from fluctuating interest rates as described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Year ended January 31, 2006 — Off-Balance Sheet Arrangements and Variable Interest Entities — Derivative Financial Instruments,” which could materially and adversely affect our business, financial condition and results of operations. We use derivative financial instruments or asset/liability management techniques to manage the impact of fluctuating interest rates, arising mainly on existing assets and liabilities and financial commitments.

We are subject to increases in the cost or disruptions in the availability of materials, which could materially and adversely affect our business, financial condition and results of operations.

We are subject to commodity price risk relating principally to fluctuations in material prices, such as aluminium and titanium used in the supply chain, which could materially and adversely affect our business, financial condition and results of operations. In an effort to mitigate these risks, we seek to enter into long-term arrangements with the supplier base.

Risks Relating to the Notes

We have, and following the consummation of our Refinancing Plan will continue to have, substantial debt and significant interest payment requirements which could adversely affect our financial condition and therefore make it more difficult to fulfill Bombardier's obligations under the notes.

We currently have, and following the consummation of our Refinancing Plan will continue to have, a substantial amount of debt and significant interest payment requirements. As at July 31, 2006, on a pro forma basis after giving effect to the Refinancing Plan, we would have had $5,104 million of consolidated total debt (excluding long-term debt of consolidated VIEs, which totalled $57 million as of July 31, 2006), provided that this amount may change based upon the actual principal amount of the 5.75% Notes due 2008 that are offered for repurchase pursuant to the repurchase invitations and Bombardier's determination of the principal amount of the 5.75% Notes due 2008 that it will repurchase. Our level of indebtedness could have significant consequences, including the following:

- making it more difficult for Bombardier to satisfy its obligations with respect to the notes and our other indebtedness;
- increasing our vulnerability to general adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flows from operations to make interest and principal payments on our indebtedness, reducing the availability of our cash flows to fund capital expenditures, working capital, acquisitions and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- placing us at a disadvantage compared to our competitors that have less debt or greater financial resources; and
- limiting our ability to obtain additional funds for capital expenditures, general corporate purposes or acquisitions.

The covenants in the New LC Facility and the indentures governing the notes and certain of our other indebtedness impose operating and financial restrictions on us. If we default under these covenants or governing documents, Bombardier may not be able to make payments on the notes.

The indentures governing the notes and certain of our other indebtedness and the documentation governing the New LC Facility contain covenants that, among other things, restrict our ability, and in some cases the ability of our subsidiaries, to:

- incur additional debt and provide guarantees;
- create or permit certain liens;

- use the proceeds from the sale of assets and subsidiary stock;
- pay dividends and make certain other restricted payments;
- create or permit restrictions on the ability of our subsidiaries to pay dividends or make other payments;
- engage in certain transactions with affiliates; and
- enter into certain consolidations, mergers or transfers of all or substantially all of our assets.

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

Our ability to comply with these covenants may be affected by events beyond our control. A breach of any of these agreements or our inability to comply with these covenants could also result in a default under the New LC Facility, which would permit our lenders to request the immediate cash collateralization of all outstanding letters of credit and our note holders and other lenders to declare amounts owed to them immediately payable. If our indebtedness is accelerated, we may not be able to repay our indebtedness or borrow sufficient funds to refinance it. In addition, if we incur additional debt in the future, we may be subject to additional covenants, which may be more restrictive than those that we are subject to now.

The notes are unsecured and will be effectively subordinated to Bombardier's secured indebtedness.

The notes are unsecured and therefore are effectively subordinated to any secured indebtedness that Bombardier has incurred, or may in the future incur, to the extent of the value of the assets securing such indebtedness. The notes are therefore effectively subordinated to certain obligations under the New LC Facility, to the extent of the value of the assets securing such obligations. In the event of a bankruptcy or similar proceeding, the assets that serve as collateral for our secured indebtedness will be available to satisfy the obligations under the secured indebtedness before any payments are made on the notes. Holders of the notes will participate ratably in Bombardier's remaining assets with all holders of Bombardier's unsecured indebtedness that is deemed to rank equally with the notes, and potentially with all other general creditors (including trade creditors), based upon the respective amounts owed to each holder. In any of the foregoing events, there may be insufficient assets to pay amounts due on the notes. As a result, holders of the notes may receive less from Bombardier's assets, ratably, than holders of Bombardier's secured indebtedness.

Your right to receive payments on the notes is structurally subordinated to all existing and future liabilities of Bombardier's subsidiaries.

The notes are not guaranteed by Bombardier's subsidiaries. In the event of a bankruptcy, liquidation or reorganization of any of Bombardier's subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to Bombardier.

Bombardier depends to a certain extent on its subsidiaries to generate sufficient cash flow to meet its debt service obligations, including payments on the notes.

A certain portion of Bombardier's assets are the capital stock of its subsidiaries and Bombardier conducts an important portion of its business through its subsidiaries. Consequently, Bombardier's cash flow and ability to service its debt obligations, including the notes, are dependent to a certain extent upon the earnings of its subsidiaries and the distribution of those earnings to Bombardier, or upon loans, advances or other payments made by these entities to Bombardier. The ability of these entities to pay dividends or make other loans, advances or payments to Bombardier will depend upon their operating results and will be subject to applicable laws and contractual restrictions contained in the instruments governing their debt.

The ability of Bombardier's subsidiaries to generate sufficient cash flow from operations to allow Bombardier to make scheduled payments on Bombardier's debt obligations, including the notes, will depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, including those discussed above, many of which are outside of Bombardier's or their control. The cash flow and earnings of Bombardier's operating subsidiaries and the amount that they are able to distribute to Bombardier as dividends or otherwise may not generate sufficient cash flow from operations to satisfy Bombardier's debt obligations, including payments on the notes. Accordingly, Bombardier may have to undertake alternative financing plans, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any such alternatives would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, that additional financing could be obtained on acceptable terms, if at all, or that additional financing would be permitted under the terms of the indentures governing the notes or of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations on the notes.

Bombardier may not be able to finance an offer to purchase the notes required by the indentures following a change of control because it may not have sufficient funds at the time of the change of control or the New LC Facility (or other future agreements) may not allow the repurchases.

If Bombardier experiences a change of control, as that term is defined under "Description of the Notes—Certain Definitions," Bombardier may be required to make an offer to repurchase all of your notes prior to maturity. Bombardier cannot assure you that it will have sufficient funds or be able to arrange for additional financing to repurchase the notes following such a change of control. There is no sinking fund with respect to the notes.

Certain changes of control under the notes would also be an event of termination under the New LC Facility. In addition, the New LC Facility may restrict Bombardier's ability to repurchase the notes following a change of control. Any future credit agreement or other agreements relating to our senior indebtedness to which we become a party may contain similar provisions. Bombardier's failure to purchase the notes tendered pursuant to a repurchase offer made in the event of a change of control would, pursuant to the indentures, constitute an event of default under the indentures. Any such event of default could in turn constitute an event of default under future senior indebtedness, any of which may cause the related debt to be accelerated after the expiry of any applicable notice or grace periods. If debt were to be accelerated, Bombardier may not have sufficient funds to repurchase the notes and repay the debt.

Canadian bankruptcy and insolvency laws may impair the trustees' ability to enforce remedies under the notes.

Bombardier is organized under the laws of Canada and a portion of its assets are located in Canada. The rights of the trustees who represent the holders of the notes to enforce remedies could be delayed by the restructuring provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to Bombardier. For example, both the Bankruptcy and Insolvency Act

(Canada) and the Companies' Creditors Arrangement Act (Canada) contain provisions enabling an insolvent person to obtain a stay of proceedings against its creditors and to file a proposal or plan of compromise or arrangement to be voted on by the various classes of its affected creditors. A restructuring proposal, compromise or arrangement if accepted by the requisite majorities of each affected class of creditors, and if approved by the relevant Canadian court, would be binding on all creditors within each affected class, including those creditors that did not vote to accept the proposal, compromise or arrangement. Moreover, this legislation, in certain instances, permits the insolvent debtor to retain possession and administration of its property, subject to court oversight, even though it may be in default under the applicable debt instrument, during the period that the stay against proceedings remains in place.

The powers of the court under the Bankruptcy and Insolvency Act (Canada) and particularly under the Companies' Creditors Arrangement Act (Canada) have been interpreted and exercised broadly so as to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, we cannot predict whether payments under the notes would be made during any proceedings in bankruptcy, insolvency or other restructuring, whether or when the trustees could exercise its rights under the indentures governing the notes or whether and to what extent holders of the notes would be compensated for any delays in payment, if any, of principal, interest and costs, including the fees and disbursements of the trustees.

Investors in the notes located outside of Canada may have difficulties enforcing civil liabilities.

Bombardier is incorporated under the laws of Canada. Moreover, the majority of Bombardier's directors, controlling persons and officers are residents of Canada. As a result, it may be difficult for holders of the notes to effect service of process upon Bombardier or such persons outside of Canada or to enforce against Bombardier or them in jurisdictions outside of Canada judgments of courts of jurisdictions outside of Canada predicated upon the civil liability provisions or securities laws or other laws of such jurisdictions. In addition, there is doubt as to the enforceability in Canada of liabilities predicated solely upon U.S. federal or state securities law against Bombardier and its directors, controlling persons and officers who are not residents of the United States, in original actions or in actions for enforcement of judgments of U.S. courts. See "Description of the Notes—Enforceability of Judgments".

There is no public market for the notes and an active trading market may not develop for the notes which may reduce their market price.

There is currently no established trading market for the notes. Application has been made for the notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of the Luxembourg Stock Exchange. We have been advised by the initial purchasers that they presently intend to make a market in the notes, but they are under no obligation to do so, and any such market-making may be discontinued at any time without notice, at the sole discretion of the initial purchasers. Accordingly, no assurance can be given as to the prices or liquidity of, or trading markets for, the notes. The liquidity of any market for the notes will depend upon the number of holders of the notes, the interest of securities dealers in making a market in the notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions, our business, financial condition and results of operations. The absence of an active market for the notes could adversely affect the market price and liquidity of the notes.

In addition, the market for non-investment grade debt has historically been subject to disruptions that caused volatility in prices. It is possible that the market for the notes will be subject to disruptions. Any such disruptions may have a negative effect on your ability to sell the notes regardless of our prospects and financial performance.

Resale of the notes is restricted, which may impact your ability to sell the notes.

We are relying upon an exemption from the registration requirement of the Securities Act and other applicable securities laws to offer and sell the notes. The notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. The notes are subject to restrictions on transfer as described under "Notice to Investors." We have no obligation, and we do not intend, to register the notes in an exchange offer under the Securities Act. Further, the notes may not be sold or transferred directly or indirectly in Canada except in accordance with applicable securities laws of any province or territory of Canada. It is your obligation to ensure that your offers and sales of the notes within the United States, Canada, the European Economic Area or other countries comply with both the transfer restrictions contained in this offering memorandum and the indentures and the laws of those jurisdictions.

Changes in our credit ratings or the financial and credit markets could adversely affect the market prices of the notes.

The future market prices of the notes will be affected by a number of factors, including the following among others:

- our ratings with major credit rating agencies;
- the prevailing interest rates being paid by companies similar to us; and
- the overall condition of the financial and credit markets.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. These fluctuations could have an adverse effect on the prices of the notes. In addition, credit rating agencies continually revise their ratings for companies that they follow, including us. We cannot assure you that credit rating agencies will continue to rate our debt or that they will maintain their ratings on our debt. A negative change in our rating could have an adverse effect on the market prices of the notes.

USE OF PROCEEDS

The following table sets out the sources and estimated uses of funds in connection with this issuance of notes based on the Federal Reserve Bank of New York's noon buying rate for Euros on November 9, 2006 (US$1.00=€0.7791).

Sources	(€ in millions)	Uses	
Notes offered hereby	€1,900	Retirement of 6.125% Notes due 2007 [1]	€ 509
		Retirement of 5.75% Notes due 2008 [2]	€ 229
		Retirement of 7.09% Notes due 2007 [3]	€ 173
		Payment of fees and expenses [4]	€ 30
		General corporate purposes [5]	€ 959
Total sources	€1,900	**Total uses**	€1,900

[1] Assumes the repurchase pursuant to the repurchase invitations of all outstanding 6.125% Notes due 2007 at a price of €1,010.74 per €1,000.00 principal amount and includes costs to unwind swaps related to these notes. Bombardier Capital Funding Limited Partnership will redeem any 6.125% Notes due 2007 that are outstanding after expiration of the repurchase invitations, in accordance with the terms and conditions of such notes.

[2] Assumes the repurchase pursuant to the repurchase invitations of €225 million principal amount of the outstanding 5.75% Notes due 2008 at a price of €1,018.04 per €1,000.00 principal amount. We do not currently intend to redeem any 5.75% Notes due 2008 that are not offered for repurchase pursuant to the repurchase invitations.

[3] Assumes the repurchase of all outstanding 7.09% Notes due 2007 at a price of US$1,004.34 per US$1,000.00 principal amount and includes costs to unwind swaps related to these notes.

[4] Reflects Bombardier's fees and expenses relating to this issuance of notes, the initial purchasers' commissions in respect of this issuance of notes, the dealer-manager's fees and expenses in respect of the repurchase invitations and legal and accounting fees related thereto.

[5] Includes the payment of a portion of the €860 million cash deposit to secure Bombardier's obligations to the banks issuing letters of credit under our new syndicated letter of credit facility. See "Description of Other Indebtedness and Letter of Credit Facility—New Syndicated Letter of Credit Facility—Security and Guarantee" for further details on the cash deposit.

For information regarding the terms of our outstanding Refinance Notes and $220 million 7.09% Notes due 2007, see "Description of Other Indebtedness and Letter of Credit Facility."

CAPITALIZATION

The following table sets forth our cash and cash equivalents and total capitalization as of July 31, 2006: (i) on an actual basis, and (ii) as adjusted to reflect this offering of the notes and the application of the aggregate net proceeds to be received from this offering.

This table should be read together with the sections entitled "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our interim consolidated financial statements as of and for the six-month period ended July 31, 2006, including the related notes thereto, included elsewhere in this offering memorandum.

There have been no material changes to our share capital and long-term debt[1] since July 31, 2006.

	As of July 31, 2006	
	Actual	**As Adjusted** [2]
	(millions of U.S. dollars)	
Cash and cash equivalents[3]	$1,794	$3,025
Long-term debt[1] [3]	$3,810	$5,104
Shareholders' equity:		
Equity Shares [4]:		
1,892,000,000 Class A shares (multiple voting) (the "Class A Shares"), without nominal or par value, authorized; 317,178,736 Class A Shares issued and outstanding	29	29
1,892,000,000 Class B shares (subordinate voting) (the ''Class B Shares"), without nominal or par value, authorized; 1,427,854,232 Class B Shares issued and outstanding	1,399	1,399
Preferred shares: unlimited preferred shares authorized:		
Series 2 Preferred Shares: 12,000,000 shares authorized; 2,597,907 issued and outstanding	51	51
Series 3 Preferred Shares: 12,000,000 shares authorized; 9,402,093 issued and outstanding	148	148
Series 4 Preferred Shares: 9,400,000 shares authorized; 9,400,000 issued and outstanding	148	148
Contributed surplus	27	27
Retained earnings[3]	593	585
Cumulative translation adjustment	180	180
Total shareholders' equity[3]	$2,575	$2,567
Total capitalization[3]	$6,385	$7,671

[1] Excludes long-term debt of consolidated VIEs, which totalled $57 million as of July 31, 2006. See "Description of Other Indebtedness and Letter of Credit Facility—Variable Interest Entities."

[2] The aggregate net proceeds from this offering of notes of €1.9 billion are currently estimated to amount to approximately $2.4 billion, assuming total fees and expenses of $39 million in respect of this offering of the notes and the repurchase invitations, and will be used as set forth under "Use of Proceeds." In this capitalization table, such net proceeds are presented assuming they have been applied as set forth under "Use of Proceeds." The amounts in this footnote (2) presented in U.S. dollars have been converted from Euros, if applicable, at the rate of $1.00 to €0.7791, the Federal Reserve Bank of New York's noon buying rate on November 9, 2006.

[3] These amounts may change based upon the actual principal amount of the 5.75% Notes due 2008 that are offered for repurchase pursuant to the repurchase invitations and Bombardier's determination of the principal amount of the 5.75% Notes due 2008 that it will repurchase.

[4] All shares are fully paid up, as required by the Canada Business Corporations Act.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

You should read the following selected consolidated financial information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited comparative consolidated financial statements for the year ended January 31, 2006 and our unaudited interim consolidated financial statements for the six-month period ended July 31, 2006 and the accompanying notes, which are included elsewhere in this offering memorandum.

We derived the selected consolidated financial information for the years ended January 31, 2006 and 2005 and as of January 31, 2006 and 2005 from our audited comparative consolidated financial statements for the year ended January 31, 2006, which are included elsewhere in this offering memorandum. We derived the selected information for the six-month periods ended July 31, 2006 and 2005 and as of July 31, 2006 and 2005 from our unaudited interim consolidated financial statements for the six-month period ended July 31, 2006, which are included elsewhere in this offering memorandum. The historical results do not necessarily indicate results expected for any future period.

	For the Years Ended and as of January 31,					For the Six-Month Periods Ended and as of July 31,	
	2002	2003	2004	2005	2006	2005	2006
	(millions of U.S. dollars, except per share amounts)						
Consolidated Statement of Income Information:							
Revenues	$12,427	$13,277	$15,201	$15,546	$14,726	$ 7,390	$ 7,041
Income from continuing operations before special items and income taxes	637	189	231	12	238	102	130
Special items	(702)	(837)	(330)	(172)	(88)	(26)	(24)
Income (loss) from continuing operations before income taxes	$ (65)	$ (648)	$ (99)	$ (160)	$ 150	$ 76	$ 106
Income tax expense (recovery)	(22)	(159)	121	(38)	15	25	28
Income (loss) from continuing operations	$ (43)	$ (489)	$ (220)	$ (122)	$ 135	$ 51	$ 78
Income from discontinued operations—net of tax	66	96	135	37	114	121	4
Net income (loss)	$ 23	$ (393)	$ (85)	$ (85)	$ 249	$ 172	$ 82
Earnings (loss) per share—Basic and diluted							
From continuing operations	$ (0.04)	$ (0.37)	$ (0.15)	$ (0.08)	$ 0.06	$ 0.02	$ 0.04
From discontinued operations	0.05	0.07	0.08	0.02	0.07	0.07	0.00
Net income (loss)	0.01	(0.30)	(0.07)	(0.06)	0.13	0.09	0.04
Consolidated Balance Sheet Information:							
Total assets	$17,108	$19,049	$19,277	$20,130	$17,482	$17,749	$16,476
Shareholders' equity	$ 2,095	$ 1,793	$ 2,450	$ 2,298	$ 2,425	$ 2,381	$ 2,575
Liabilities							
Short-term borrowings	$ 1,814	$ 816	$ 0	$ 0	$ 0	$ 0	$ 0
Accounts payable and accrued liabilities	4,626	5,772	6,710	7,085	6,866	6,852	6,565
Advances and progress billings in excess of related costs	2,067	2,496	2,686	2,359	2,191	2,169	2,182
Fractional ownership deferred revenues	0	0	0	163	325	258	339
Deferred income taxes	399	122	104	41	9	39	10
Long-term debt	4,480	5,331	5,125	5,716	4,747	5,173	3,867
Accrued benefit liabilities	624	753	932	897	877	868	919
Liabilities related to assets held for sale	1,003	1,966	1,270	1,571	42	9	19
Total liabilities	$15,013	$17,256	$16,827	$17,832	$15,057	$15,368	$13,901
Other Financial Information:							
EBITDA before special items	$ 1,281	$ 929	$ 1,022	$ 785	$ 990	$ 475	$ 489
Earnings per share—from continuing operations before special items	0.29	0.08	0.03	0.00	0.11	0.03	0.05
Additions to property, plant and equipment	723	461	300	305	329	139	164

For the six-month periods ended July 31, 2006 and 2005, Bombardier's consolidated cash flows from operating activities, investing activities and financing activities were $(233) million, $(80) million and $(981) million, and $(356) million, $1,385 million and $(408) million, respectively. For the years ended January 31, 2006 and 2005, Bombardier's consolidated cash flows from operating activities, investing activities and financing activities were $754 million, $1,334 million and $(907) million, and $480 million, $214 million and $51 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Six-month period ended July 31, 2006

Set forth below is a reproduction of our "Management's Discussion and Analysis" for the six-month period ended July 31, 2006, which we filed with the Canadian securities regulatory authorities on August 30, 2006. The information set forth below is as of August 30, 2006 and has not been updated for purposes of this offering memorandum.

Management's Discussion and Analysis

All amounts in this report are in U.S. dollars and tabular figures are in millions of U.S. dollars, unless otherwise indicated.

Forward-Looking Statements

This Management's Discussion and Analysis ("MD&A") includes forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. By their nature, forward-looking statements require Bombardier Inc. (the "Corporation") to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause the Corporation's actual results in future periods to differ materially from forecasted results. While the Corporation considers its assumptions to be reasonable and appropriate based on current information available, there is a risk that they may not be accurate. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, please refer to the respective MD&A sections of the Corporation's aerospace segment ("Aerospace") and the Corporation's transportation segment ("Transportation") in the Corporation's annual report for fiscal year 2006.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with the Corporation's business environment (such as the financial condition of the airline industry, government policies and priorities and competition from other businesses), operational risks (such as regulatory risks and dependence on key personnel, risks associated with doing business with partners, risks involved with developing new products and services, warranty and casualty claim losses, risks from legal proceedings, risks relating to the Corporation's dependence on certain key customers and key suppliers, risks resulting from fixed-term commitments, human resource risks and environmental risks), financing risks (such as risks resulting from reliance on government support, risks relating to financing support provided on behalf of certain customers, risks relating to liquidity and access to capital markets, risks relating to the terms of certain restrictive debt covenants and market risks, including currency, interest rate and commodity pricing risk). See Risks and Uncertainties in the MD&A section of Bombardier Inc.'s annual report for fiscal year 2006 for further information. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect the Corporation's expectations as at the date of this MD&A and are subject to change after such date. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

I *Overview*

This MD&A is based on reported earnings in accordance with Canadian generally accepted accounting principles ("GAAP") and on the following non-GAAP financial measures:

EBITDA before special items:. . . . . Earnings before financing income, financing expense, income taxes, depreciation and amortization and special items

EBIT before special items:. . . . . Earnings before financing income, financing expense, income taxes and special items

EBT before special items: . . . . Earnings before income taxes and special items

EPS from continuing operations before special items: . . . . Earnings per share from continuing operations before special items

Free cash flow: . . . . Cash flows from operating activities less net additions to property, plant and equipment

These non-GAAP measures are directly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by GAAP; therefore, others using these terms may calculate them differently. The reconciliation to the most comparable GAAP measures is provided in the following sections of the MD&A:

- Reconciliation of EBITDA and EBIT, before special items, to EBIT—see the analysis of results tables in the Aerospace and Transportation sections.
- Reconciliation of EBIT and EBT, before special items, to EBT—see the selected financial information table in the Consolidated results section.
- Reconciliation of earnings per share from continuing operations before special items to earnings per share—see the reconciliation of earnings per share from continuing operations table following the tables of selected financial information in the Consolidated results section.
- Reconciliation of free cash flow to cash flows from operating activities—see the first table in the Cash flows section.

Management believes that a significant portion of the users of its interim consolidated financial statements and MD&A analyze the Corporation's results based on these performance measures and that this presentation is consistent with industry practice. Special items are related to the restructuring activities in Transportation. Management views these items as potentially distorting the analysis of trends.

Highlights of the Quarter

- EBT from continuing operations of $77 million, compared to an EBT from continuing operations before special items of $60 million ($26 million after special items) for the same period last fiscal year.
- EPS from continuing operations of $0.03, compared to an EPS from continuing operations before special items of $0.02 (nil after special items) for the same period last fiscal year.
- Repayment of $646 million of long-term debt.
- Free cash flow of $146 million, an improvement of $401 million compared to the same period last fiscal year.
- Cash and cash equivalents of $1.8 billion as at July 31, 2006.
- Strong order backlog of $33.1 billion as at July 31, 2006.

Consolidated Results

Selected financial information was as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Revenues	$3,515	$3,633	$7,041	$7,390
EBIT from continuing operations before special items	126	119	228	215
Financing income	(39)	(32)	(78)	(65)
Financing expense	88	91	176	178
EBT from continuing operations before special items	77	60	130	102
Special items	—	34	24	26
EBT from continuing operations	77	26	106	76
Income taxes	20	16	28	25
Income from continuing operations	57	10	78	51
Income from discontinued operations, net of tax [1]	1	107	4	121
Net income	$ 58	$ 117	$ 82	$ 172
Basic and diluted earnings per share (in dollars)				
From continuing operations before special items	$ 0.03	$ 0.02	$ 0.05	$ 0.03
Net income	$ 0.03	$ 0.06	$ 0.04	$ 0.09
Free cash flow [2]	$ 146	$ (255)	$ (393)	$ (458)
(as a percentage of revenues)				
EBIT from continuing operations before special items	3.6%	3.3%	3.2%	2.9%
EBT from continuing operations before special items	2.2%	1.7%	1.8%	1.4%

[1] Related to Bombardier Capital's ("BC") inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations (see note 4—Discontinued operations and assets held for sale to the interim consolidated financial statements).

[2] A detailed analysis of changes in free cash flow is contained in the Cash flows section of this MD&A.

Selected financial information was as follows as at:

	July 31, 2006	January 31, 2006
Order backlog (in billions of dollars)	$ 33.1	$ 31.6
Cash and cash equivalents [1]	$1,794	$2,917
Available short-term capital resources [1]	$3,286	$3,950

[1] An analysis of changes in cash and cash equivalents and available short-term capital resources is contained in the Cash flows and Capital resources sections of this MD&A.

Reconciliation of earnings per share from continuing operations before and after special items was as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Income from continuing operations before special items, net of tax	$ 57	$ 42	$ 100	$ 70
Special items, net of tax	—	32	22	19
Income from continuing operations	$ 57	$ 10	$ 78	$ 51
Basic and diluted earnings (loss) per share (in dollars):				
From continuing operations before special items, net of tax	$0.03	$ 0.02	$ 0.05	$ 0.03
Special items, net of tax	—	(0.02)	(0.01)	(0.01)
From continuing operations	$0.03	$ —	$ 0.04	$ 0.02

Revenues—The $118-million and $349-million decreases for the three- and six-month periods mainly reflect:

- lower deliveries of regional jets; and
- decreased mainline revenues in the United Kingdom (“U.K.”) and Germany in Transportation.

Partially offset by:

- increased deliveries of, and improved selling prices for business aircraft.

EBIT Margin from Continuing Operations Before Special Items—The 0.3 percentage-point increases for the three- and six-month periods reflect a higher EBIT margin in Transportation, mainly due to improvements in contract execution and the positive impact of restructuring initiatives.

Financing Income and Financing Expense—Net financing expense amounted to $49 million and $98 million for the three- and six-month periods ($59 million and $113 million for the same periods last fiscal year).

The $10-million and $15-million decreases for the three- and six-month periods are mainly due to:

- higher interest income on cash and cash equivalents; and
- dividend income in connection with the Corporation’s investment in the preferred shares of the Corporation’s former recreational products segment.

Partially offset by:

- lower financing income from loans and lease receivables related to aircraft financing, consistent with the reduction of the average balance in this portfolio.

Special Items—Special items are related to the restructuring plan in Transportation. The final charge related to this plan was recorded in the three-month period ended April 30, 2006.

Income Taxes—For the three-month period ended July 31, 2006, the effective income tax rate was 26.0%, compared to the statutory income tax rate of 32.7%. The lower effective tax rate compared to the statutory income tax rate is mainly due to lower effective income tax rates of foreign investees. For the three-month period ended July 31, 2005, the effective income tax rate was 61.5%, compared to the statutory income tax rate of 31.9%. The higher effective tax rate compared to the statutory income tax rate is mainly due to the non-recognition of income tax benefits related to the restructuring plan in Transportation.

For the six-month period ended July 31, 2006, the effective income tax rate was 26.4%, compared to the statutory income tax rate of 32.7%. The lower effective tax rate compared to the statutory income tax rate is mainly due to lower effective income tax rates of foreign investees, partially offset by the non-recognition of income tax benefits related to the restructuring plan in Transportation. For the six-month period ended July 31, 2005, the effective income tax rate was 32.9%, compared to the statutory income tax rate of 31.9%. The non-taxable gains on the sale of land and buildings, included in special items in Transportation, were offset by the non-recognition of income tax benefits related to the restructuring plan in Transportation.

Income from Discontinued Operations, Net of Tax—This item includes a gain of $121 million recorded in the three-month period ended July 31, 2005 on the sale of the inventory finance operations.

Order Backlog—The $1.5-billion increase is mainly due to:

- the positive currency impact on the order backlog of Transportation, mainly arising from the strengthening of the euro and the pound sterling compared to the U.S. dollar, amounting to approximately $800 million; and
- the higher order intake compared to revenues recorded for Transportation and business aircraft.

Partially offset by:

- a declining order backlog for regional jets.

II Aerospace

Overview

Effective the first quarter of fiscal year 2007, orders, deliveries and revenues of the corporate airliner category, represented by the *Challenger 800* Series aircraft, are now included in business aircraft. Previously, orders, deliveries and revenues for this category were presented in regional aircraft. As a result, two deliveries of the corporate airliner category were classified in business aircraft for the three-month period ended July 31, 2006 (no deliveries for the same period last fiscal year). For the six-month period ended July 31, 2006, seven deliveries were classified in business aircraft (two deliveries for the same period last fiscal year were reclassified from regional aircraft to business aircraft).

Highlights of the Quarter

- EBIT margin of 3.5%, compared to 3.9% for the same period last fiscal year.
- Free cash flow of $293 million, an improvement of $247 million compared to the same period last fiscal year.
- 48 deliveries and 67 net orders for business aircraft, compared to 41 and 51, respectively, for the same period last fiscal year.
- 26 deliveries and 9 net orders for regional aircraft, compared to 39 and 11, respectively, for the same period last fiscal year.

Aircraft Deliveries

Total aircraft deliveries were as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Business aircraft (including those of the fractional ownership program)	48	41	101	84
Regional aircraft	26	39	50	77
Amphibious aircraft	1	1	1	1
	75	81	152	162

The increases in business aircraft deliveries for the three- and six-month periods are mainly due to the continued strength of the business aircraft market in both the narrow body and wide body business jet segments. There have also been increased deliveries of *Challenger 800* Series aircraft through the recently launched Bombardier Corporate Shuttle Solutions.

The decreases in regional aircraft deliveries for the three- and six-month periods are due to:

- lower deliveries of the 50-seat *CRJ200* aircraft; and
- lower deliveries, in aggregate, of the larger regional jets.

Partially offset by:

- higher deliveries of turboprops.

Analysis of Results

Aerospace's results were as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Revenues				
Manufacturing				
Business aircraft	$ 871	$ 717	$1,827	$1,419
Regional aircraft	488	755	948	1,476
Other	103	80	186	144
Total manufacturing revenues	1,462	1,552	2,961	3,039
Services [(1)]	322	276	624	569
Other [(2)]	107	134	246	290
Total revenues	1,891	1,962	3,831	3,898
Cost of sales	1,596	1,661	3,256	3,326
Margin	295	301	575	572

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Operating expenses [3]	123	123	245	238
EBITDA	172	178	330	334
Amortization	106	102	209	206
EBIT	$ 66	$ 76	$ 121	$ 128
(as a percentage of total revenues)				
Margin	15.6%	15.3%	15.0%	14.7%
EBITDA	9.1%	9.1%	8.6%	8.6%
EBIT	3.5%	3.9%	3.2%	3.3%

[1] Includes revenues from parts logistics, fractional ownership and hourly flight entitlement programs' service activities, aircraft maintenance, customer training and military aviation training.

[2] Includes mainly sales of pre-owned aircraft.

[3] Comprised of selling, general and administrative and research and development expenses.

Manufacturing Revenues—The $90-million and $78-million decreases for the three- and six-month periods are mainly due to:

- lower deliveries of regional jets, mainly *CRJ200* aircraft; and
- lower selling prices for regional aircraft.

Partially offset by:

- increased deliveries of, and improved selling prices for business aircraft;
- increased deliveries of turboprops;
- increased deliveries of wide body business aircraft interiors; and
- additional fractional share revenues.

Services Revenues—The $46-million and $55-million increases for the three- and six-month periods are mainly due to higher revenues from the sale of spare parts and higher fractional ownership and hourly flight entitlement programs' service activities.

Other Revenues—The $27-million and $44-million decreases for the three- and six-month periods are mainly due to a lower volume and to the mix of pre-owned business aircraft sold.

Margin Percentage—The 0.3 percentage-point increases for the three- and six-month periods are mainly due to:

- increased deliveries of, and improved selling prices for business aircraft;
- the positive impact of cost revision estimates for the *CRJ* Series family of aircraft; and
- increased deliveries of turboprops.

Partially offset by:

- lower deliveries of regional jets, mainly *CRJ200* aircraft;
- lower margins on the sale of regional aircraft;
- lower margins on wide body business aircraft interiors deliveries; and
- lower net margin on spare parts sales.

The margin percentages for the three- and six-month periods ended July 31, 2006 were also positively impacted by a net amount of $10 million due to the following non-recurring items:

- a gain arising from the settlement with a supplier of regional aircraft components; and
- a charge arising from the alignment of the *CRJ700* and *CRJ900* aircraft program accounting ending dates.

See the Regional aircraft section hereafter for further information.

In addition, the margin percentage for the six-month period ended July 31, 2006 was positively impacted by a reduction in previously recorded severance and other involuntary termination cost provision (see Workforce and labour relations section hereafter).

Amortization—Amortization of program tooling amounted to $68 million and $137 million for the three- and six-month periods ended July 31, 2006, compared to $66 million and $130 million, respectively, for the same periods last fiscal year.

Order Backlog

Aerospace's order backlog was as follows as at:

(in billions of dollars)	**July 31, 2006**	**January 31, 2006**
Aircraft programs	$ 9.9	$ 9.6
Military aviation training	1.0	1.1
	$10.9	$10.7

The increase in the order backlog is mainly due to order intake higher than revenues recorded for business aircraft, partially offset by a declining order backlog for regional jets.

Workforce and Labour Relations

- On June 23, 2006, the Corporation reached an agreement for a new three-year collective agreement with the Canadian Auto Workers, covering approximately 2,900 employees in Toronto. This agreement is effective June 23, 2006 and expires June 22, 2009.
- On May 13, 2006, the Corporation reached an agreement for a new three-year collective agreement with the International Association of Machinists and Aerospace Workers, Aerospace's largest union covering approximately 5,500 employees in Montréal. This agreement is effective December 1, 2005 and expires November 20, 2008.
- As a result of the repatriation of certain work packages to Belfast related to the *Q400* turboprop from one of Aerospace's external suppliers, the remainder of the previously announced lay-offs at this location will not occur. Consequently, the severance provision related to the remaining lay-offs was reversed in the three-month period ended April 30, 2006.

Business Aircraft

During the six-month period ended July 31, 2006:

- The 300th *Learjet 45* aircraft was delivered.
- The next generation *Learjet 40 XR* premium light jet entered into service.
- The Japan Civil Aviation Bureau awarded type certification to the *Learjet 45* aircraft.
- The *Learjet 60 XR* aircraft had a successful first flight.

According to data from the General Aviation Manufacturers Association ("GAMA"), the second quarter of calendar year 2006 was a strong one in terms of deliveries and billings of business aircraft, indicating that the market for business aircraft remains robust. GAMA's latest report, dated July 27, 2006, confirms that the Corporation is the business aircraft industry leader in terms of revenue.

Aircraft Deliveries

Business aircraft deliveries were as follows for the three-month periods ended July 31:

	2006			2005		
	Flexjet		Total	*Flexjet*		Total
Narrow body business jets						
Learjet 40/40 XR	4	1	5	3	—	3
Learjet 45/45 XR	9	—	9	8	—	8
Learjet 60	4	—	4	5	—	5
Wide body business jets						
Challenger 300	12	1	13	9	—	9
Challenger 604	7	—	7	10	—	10
Challenger 800 Series	2	—	2	—	—	—
Bombardier Global 5000	3	—	3	3	—	3
Global Express/Global Express XRS	5	—	5	3	—	3
	46	2	48	41	—	41

Business aircraft deliveries were as follows for the six-month periods ended July 31:

	2006			2005		
	Flexjet		Total	*Flexjet*		Total
Narrow body business jets						
Learjet 40/40 XR	8	1	9	8	1	9
Learjet 45/45 XR	17	—	17	13	—	13
Learjet 60	8	1	9	7	—	7
Wide body business jets						
Challenger 300	26	1	27	20	3	23
Challenger 604	15	—	15	17	—	17
Challenger 800 Series	7	—	7	2	—	2
Bombardier Global 5000	6	—	6	7	—	7
Global Express/Global Express XRS	11	—	11	6	—	6
	98	3	101	80	4	84

The 17% and 20% increases in aircraft deliveries for the three- and six-month periods reflect strong order intake in fiscal year 2006 as the level of net orders received for business aircraft in fiscal year 2006 was at its highest level since fiscal year 2000.

Net Orders

Aerospace received 67 and 100 net orders during the three- and six-month periods ended July 31, 2006, compared to 51 and 90 net orders, respectively, during the same periods last fiscal year. The order intake remains strong and is consistent with the continued strength of the business aircraft market.

Regional Aircraft

During the second quarter of fiscal year 2007, the Corporation reached an agreement with Mitsubishi Heavy Industries of Japan ("MHI"), a supplier of aircraft components, to transfer the production of certain components for the *Q400* turboprop program to the Corporation's manufacturing facilities in Belfast, Montréal and Mexico and to China's Shenyang Aircraft Corporation. In connection with this agreement, the parties agreed to a payment of $84 million to be made by MHI to the Corporation in connection with the production transfer.

Also during the second quarter of fiscal year 2007, due to increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* programs as a result of changing scope clauses in the U.S., the Corporation decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a cumulative catch-up adjustment of $74 million was recorded. The outstanding balance of excess-over-average production costs ("EOAPC") for these two programs, amounting to $13 million as at July 31, 2006, is expected to be recovered over the next 91 units.

As a result of the above, the Corporation recorded a net gain of $10 million in cost of sales during the second quarter of fiscal year 2007.

Economic Environment

As previously disclosed, the U.S. airline industry continues to face financial challenges and has undergone some major restructuring. The Corporation continues to work with its regional airline customers to support their efforts to emerge from bankruptcy protection. On June 5, 2006, the Corporation reached an agreement with Delta Air Lines, Inc. ("Delta") in connection with the U.S. bankruptcy-court-approved restructuring arrangement for Delta and Comair, Inc. ("Comair"). As a result of this agreement, payments due to Delta and Comair pursuant to sales incentive agreements were offset against interim financing loans, amounting to $171 million, made by the Corporation to these entities. The agreement reached with Delta had a neutral impact on the results of operations of the Corporation for the six-month period ended July 31, 2006.

Aerospace is increasing its presence internationally and developing secondary markets for the 50-seat regional jet. Some *CRJ200* aircraft are being marketed as cargo freighters while others are being marketed as corporate jets. Aerospace has started to expand its operator base in areas outside North America, particularly in Japan, China, India, Latin America and Russia.

Aircraft Deliveries

Regional aircraft deliveries were as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Regional jets				
CRJ200	—	12	1	29
CRJ700	—	9	10	20
CRJ705	—	9	—	9
CRJ900	16	3	20	10
Turboprops				
Q200	—	1	—	1
Q300	3	1	6	1
Q400	7	4	13	7
	26	39	50	77

The 33% and 35% decreases for the three- and six-month periods are due to lower deliveries of regional jets, mainly *CRJ200* aircraft, partially offset by higher deliveries of turboprops.

Orders and Backlog

Regional aircraft orders received by aircraft type were as follows for the three-month periods ended July 31:

	2006				2005
	Orders	Swaps	Cancellations/ Removals	Net Orders	Net Orders
Regional jets					
CRJ200	—	(7)	—	(7)	—
CRJ700	—	—	—	—	—
CRJ900	—	7	—	7	—
Turboprops					
Q200	—	—	—	—	1
Q300	1	—	—	1	1
Q400	8	—	—	8	9
	9	—	—	9	11

- Air Nostrum exercised its conversion rights to swap seven *CRJ200* aircraft for *CRJ900* aircraft.

Regional aircraft orders received by aircraft type were as follows for the six-month periods ended July 31:

	2006				2005
	Orders	Swaps	Cancellations/ Removals	Net Orders	Net Orders
Regional jets					
CRJ200	—	(15)	—	(15)	8
CRJ700	5	(17)	—	(12)	34
CRJ900	9	32	(1)	40	—
Turboprops					
Q200	2	—	—	2	1
Q300	4	—	—	4	2
Q400	9	—	—	9	9
	29	—	(1)	28	54

- SkyWest, Inc. and Air Nostrum exercised their conversion rights to swap 17 *CRJ700* and 15 *CRJ200* aircraft, respectively, for *CRJ900* aircraft.

- As a result of Styrian Spirit declaring bankruptcy, Aerospace removed one *CRJ900* aircraft from the order backlog.

Aerospace received 28 net orders during the six-month period ended July 31, 2006, including the following:

Customer	Aircraft	Number
Air One	*CRJ900*	6
GE Commercial Aviation Services (GoJet Airlines)	*CRJ700*	5
Arik Air	*CRJ900*	2
National Air Support	*Q300*	3
Tassili Airlines	*Q400*	4
Luxair	*Q400*	3

The order backlog as well as options and conditional orders for regional aircraft consisted of the following as at July 31, 2006:

	Aircraft on Firm Order (1)	Options and Conditional Orders
Regional jets		
CRJ200	1	275
CRJ700	29	242
CRJ900	43	88
Turboprops		
Q200	4	—
Q300	18	11
Q400	60	81
	155	697

(1) There are no firm orders in the order backlog with conversion rights to other regional aircraft.

Flexjet and Skyjet

The number of customers owning or leasing shares of aircraft, or with an hourly flight time entitlement, was as follows as at:

	July 31, 2006	January 31, 2006
Flexjet	630	612
Skyjet	291	288
	921	900

Flexjet—The net increase of 18 customers is mainly due to the increasing popularity of certain business aircraft models and *Flexjet* program innovations designed to increase owner value and establish a competitive advantage in the fractional share market.

Other Activities

Since the start of operations in May 2006, the Querétaro, Mexico, manufacturing facility has created 150 jobs and delivered its first wire harness. By the end of calendar year 2007, the facility will be manufacturing other aircraft components and the number of employees should reach approximately 600.

III Transportation

Overview

Highlights of the Quarter

- EBIT margin improved to 3.7%, compared to 2.6% before special items for the same period last fiscal year.
- $1.9 billion in new orders (book-to-bill ratio of 1.2).
- Free cash flow use of $9 million, an improvement of $173 million compared to the same period last fiscal year.
- Order backlog increased to $22.2 billion.

Analysis of Results

The results of operations of Transportation using functional currencies other than the U.S. dollar, mainly the euro, the pound sterling and other western European currencies are translated into U.S. dollars using the average exchange rates for the relevant periods. See the Foreign exchange rates section of this MD&A for the average exchange rates used to translate revenues and expenses.

Transportation's results were as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Revenues				
Rolling stock [(1)]	$ 992	$1,076	$2,009	$2,388
Services [(2)]	341	324	666	655
System and signalling [(3)(4)]	291	271	535	449
Total revenues	1,624	1,671	3,210	3,492
Cost of sales	1,404	1,464	2,787	3,076
Margin	220	207	423	416

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Operating expenses [5]	133	138	264	275
EBITDA before special items	87	69	159	141
Amortization	27	26	52	54
EBIT before special items	60	43	107	87
Special items	—	34	24	26
EBIT	$ 60	$ 9	$ 83	$ 61
(as a percentage of total revenues)				
Margin	13.5%	12.4%	13.2%	11.9%
EBITDA before special items	5.4%	4.1%	5.0%	4.0%
EBITDA	5.4%	2.1%	4.2%	3.3%
EBIT before special items	3.7%	2.6%	3.3%	2.5%
EBIT	3.7%	0.5%	2.6%	1.7%

[1] Comprised of locomotives, mainline (including high-speed, intercity, regional and commuter trains), metros, light rail vehicles, propulsion and controls, and bogies revenues.

[2] Comprised of fleet management, spare parts and logistics management, vehicle refurbishment and overhaul, component refurbishment and overhaul, and technical support revenues.

[3] The revenues of system and signalling are presented in Other revenues in the consolidated statements of income.

[4] Excluding the rolling stock portion of system orders manufactured by other divisions within Transportation.

[5] Comprised of selling, general and administrative and research and development expenses.

Revenues by Geographic Region

	Three-Month Periods Ended July 31,				Six-Month Periods Ended July 31,			
	2006		2005		2006		2005	
Europe	$1,116	69%	$1,267	76%	$2,199	68%	$2,647	76%
North America	266	16%	254	15%	583	18%	562	16%
Asia-Pacific	202	12%	110	7%	344	11%	220	6%
Other	40	3%	40	2%	84	3%	63	2%
	$1,624		$1,671		$3,210		$3,492	

Rolling Stock Revenues—The $84-million decrease for the three-month period is mainly due to:

- decreased mainline revenues in the U.K. and Germany, due to a lower level of activities in these markets; and
- decreased revenues in North America, due to the completion of two large contracts.

Partially offset by:

- increased activity in China; and
- a positive currency impact, amounting to approximately $20 million.

The $379-million decrease for the six-month period is mainly due to:

- decreased mainline revenues in the U.K. and Germany, due to a lower level of activities in these markets; and
- a negative currency impact, amounting to approximately $35 million.

Partially offset by:

- higher activity in the growing light rail vehicles segment; and
- increased activity in China.

Services Revenues—The $17-million increase for the three-month period is mainly due to:

- additional revenues from component refurbishment and overhaul as well as from spare parts and logistics management in North America; and
- a positive currency impact, amounting to approximately $10 million.

The $11-million increase for the six-month period is mainly due to:

- a higher level of activities in North America and Europe.

Partially offset by:

- a negative currency impact, amounting to approximately $15 million.

System and Signalling Revenues—The $20-million increase for the three-month period is mainly due to:

- a higher level of activities related to the London Underground contract;
- a higher level of activities in Asia (Taiwan, Korea and China); and
- a positive currency impact, amounting to approximately $5 million.

The $86-million increase for the six-month period is mainly due to:

- a higher level of activities related to the London Underground contract; and
- a higher level of activities in Asia (Taiwan, Korea and China) and Spain.

Partially offset by:

- a negative currency impact, amounting to approximately $5 million.

Margin Percentage—The 1.1 and 1.3 percentage-point increases for the three- and six-month periods are mainly due to improvements in contract execution and the positive impact of restructuring initiatives.

Operating Expenses—The $5-million decrease for the three-month period is mainly due to lower bid costs in mainline, partially offset by a negative currency impact, amounting to $3 million.

The $11-million decrease for the six-month period is mainly due to a positive currency impact, amounting to approximately $5 million, as well as lower bid costs in mainline and system.

Orders and Backlog

Transportation received the following major orders during the first and the second quarters of fiscal year 2007:

Customer	Product/Service	Number of Cars	Rolling Stock	Services
Chicago Transit Authority, U.S.	Rapid Transit Vehicles	406	$577	$ —
Verkehrsgesellschaft Frankfurt am Main (VGF), Germany	*FLEXITY* Swift high-floor trams	146	361	—
First Great Western (FGW), U.K.	Bogie overhaul of high speed trains and technical development work	—	—	160
CBRail (Euro) Limited, U.K.	*TRAXX* locomotives, type F140 MS/DE	35	156	—
Metro do Porto, S.A., Portugal	Bi-directional *FLEXITY* Swift low-floor trams	30 (1)	105	9
FGW, U.K.	Vehicle renovation of high speed train trailer cars	405	—	100

(1) Total number of contracted cars, Bombardier and consortium partner combined. Total contract value is $148 million.

During the six-month period ended July 31, 2006:

- The order received for *FLEXITY* Swift high-floor trams is the largest light rail vehicle order of the post-war era in Germany.
- Transportation continued its strong order intake in the light rail segment with orders from the U.K., Portugal, Italy, Sweden and Poland.
- Transportation received a five-year fleet maintenance contract for locomotives from the Italian state railway, Trenitalia. This is the first time that Trenitalia has contracted out full fleet maintenance.
- Transportation received an order from First ScotRail in the U.K. for fleet maintenance, including technical support and innovative remote monitoring and diagnostic systems. Transportation expects to roll out this new technology to additional customers.
- Transportation received an order for 40 advanced rapid transit MK II cars for the Beijing Capital International Airport link, to be fully operational for the 2008 Summer Olympics.

Transportation's order intake was as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
(in billions of dollars)				
Rolling stock	$1.2	$1.0	$2.2	$2.1
Services	0.5	0.4	1.0	0.7
System and signalling	0.2	0.2	0.4	0.4
	$1.9	$1.6	$3.6	$3.2

The increases in total order intake for the three- and six-month periods are mainly due to:

- higher order intake in mainline (U.S.), light rail vehicles (Europe) and services (Europe).

Partially offset by:

- lower order intake in locomotives (Europe) and mainline (Europe).

Transportation's order backlog was as follows as at:

(in billions of dollars)	July 31, 2006	January 31, 2006
Rolling stock	$12.3	$11.6
Services	4.9	4.4
System and signalling	5.0	4.9
	$22.2	$20.9

The increase in the value of the order backlog reflects the net positive currency adjustment, amounting to approximately $800 million, and higher order intake compared to revenue recorded. The net positive currency adjustment results mainly from the strengthening of the euro and the pound sterling compared to the U.S. dollar as at July 31, 2006 compared to January 31, 2006.

Restructuring

The restructuring plan to reduce the cost structure in Transportation is essentially completed. All charges related to the restructuring plan, amounting to $633 million, were recorded as of April 30, 2006. Net cash outflows are expected to amount to $467 million, of which $374 million had been disbursed as of July 31, 2006. For the three-and six-month periods ended July 31, 2006, net cash outflows amounted to $16 million and $57 million ($37 million and $40 million for the same periods last fiscal year).

Other

In June 2006, Transportation delivered the 1,000th metro car to operators in the People's Republic of China. In addition, the 1,000th M-7 car for the Long Island Rail Road/Metro-North Railroad contract was delivered in June 2006.

The Transportation-built Nottingham Express Transit light rail system won the "Best Operational Transport Project" in the U.K. at the Public Private Finance Award ceremony held in May 2006.

Transportation's double-deck coaches rank as the most reliable vehicles in daily operation by Deutsche Bahn, resulting in a high level of satisfaction both with the passengers and the customer.

IV Financial Position

Total assets amounted to $16.5 billion as at July 31, 2006, compared to $17.5 billion as at January 31, 2006.

Receivables

Receivables amounted to $2.0 billion as at July 31, 2006, compared to $1.7 billion as at January 31, 2006. This increase is mainly due to a higher level of receivables in Aerospace.

Aircraft Financing

Aircraft financing amounted to $1.1 billion as at July 31, 2006, compared to $1.5 billion as at January 31, 2006. This decrease is mainly due to a reduction in commercial aircraft interim financing, as a result of the permanent financing of aircraft. The decrease in interim financing is also due to an agreement reached with Delta (see Regional aircraft section above).

Inventories

Inventories are presented net of the related payments and progress billings on contracts and programs. However, advances and progress billings in excess of related costs, determined on a contract-by-contract basis, are reported as liabilities.

Gross inventories were $6.7 billion ($4.0 billion net of payments and progress billings) as at July 31, 2006, compared to $6.5 billion ($3.8 billion net of payments and progress billings) as at January 31, 2006. This increase in gross inventories is mainly due to higher Aerospace work-in process inventory and finished products (mainly as a result of undelivered regional aircraft in inventories), partially offset by the reduction of EOAPC recorded in connection with the revision of program accounting quantities for the *CRJ* Series family. Transportation's gross inventories remained essentially unchanged as the increase due to the translation adjustment arising mainly from the strengthening of the euro and pound sterling compared to the U.S. dollar ("the currency impact"), amounting to approximately $100 million, was offset by deliveries related to the completion of two large contracts in North America.

Total payments, advances and progress billings amounted to $4.9 billion as at July 31, 2006 and January 31, 2006, $2.2 billion of advances and progress billings are shown as liabilities as at July 31, 2006 and January 31, 2006. Higher payments and advances from customers in Aerospace offset lower payments and advances in Transportation. The positive currency impact of $120 million in Transportation was more than offset by lower payments and advances from customers.

Goodwill

Goodwill amounted to $2.2 billion as at July 31, 2006, compared to $2.1 billion as at January 31, 2006. This increase is due to the currency impact, amounting to $105 million.

Assets Held for Sale and Liabilities Related to Assets Held for Sale

Assets held for sale amounted to $101 million as at July 31, 2006, compared to $237 million as at January 31, 2006. Liabilities related to assets held for sale amounted to $19 million as at July 31, 2006, compared to $42 million as at January 31, 2006. These decreases result from the sale of the consumer finance operations during the three-month period ended July 31, 2006 (see note 4—Discontinued operations and assets held for sale to the interim consolidated financial statements).

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities amounted to $6.6 billion as at July 31, 2006, compared to $6.9 billion as at January 31, 2006. This decrease is mainly due a lower level of accounts payable and accrued liabilities in Transportation, partially offset by the currency impact, amounting to approximately $120 million. The decrease is also due to the reduction in sales incentive liabilities as a result of the agreement reached with Delta (see Regional aircraft section above).

Long-term Debt

Long-term debt amounted to $3.9 billion as at July 31, 2006, compared to $4.7 billion as at January 31, 2006. This decrease is mainly due to:

- the repayments of $450 million and $200 million Cdn ($176 million) of BC's medium-term notes in June and July 2006, respectively; and
- the repayment of £175 million ($305 million) of debentures in February 2006.

Partially offset by:

- the currency impact, amounting to $87 million.

V Cash Flows

The following summarizes the cash flows as reported in the consolidated statements of cash flows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Income from continuing operations	$ 57	$ 10	$ 78	$ 51
Non-cash items	133	141	274	284
Net change in non-cash balances related to operations	7	(367)	(585)	(691)
Cash flows from operating activities	197	(216)	(233)	(356)
Net additions to property, plant and equipment	(51)	(39)	(160)	(102)
Free cash flow	146	(255)	(393)	(458)
Cash flows from investing activities (excluding net additions to property, plant and equipment)	91	1,458	80	1,487
Cash flows from financing activities	(653)	(379)	(981)	(408)
Effect of exchange rate changes on cash and cash equivalents	50	(169)	116	(189)
Cash flows from continuing operations	(366)	655	(1,178)	432
Cash flows from discontinued operations	6	(492)	50	(481)
Net increase (decrease) in cash and cash equivalents	$(360)	$ 163	$(1,128)	$ (49)

Cash Flows from Operating Activities

The $413-million increase for the three-month period is mainly due to the positive variation in non-cash balances related to the operations of Aerospace and Transportation. The $123-million increase for the six-month period is mainly due to the positive variation in non-cash balances related to the operations of Aerospace.

Segmented Free Cash Flow

The free cash flow by segment was as follows for the three-month periods ended July 31:

	2006			2005		
	BA	BT	Total	BA	BT	Total
EBIT	$ 66	$ 60	$ 126	$ 76	$ 9	$ 85
Non-cash items						
Amortization						
Program tooling	68	—	68	66	—	66
Other	38	27	65	36	26	62
Provision for credit losses	14	—	14	1	—	1
Loss (gain) on disposals of property, plant and equipment	—	(1)	(1)	(1)	1	—
Stock-based compensation	2	2	4	2	1	3
Special items	—	—	—	—	34	34
Net change in non-cash balances related to operations	141	(82)	59	(102)	(246)	(348)
Net additions to property, plant and equipment	(36)	(15)	(51)	(32)	(7)	(39)
Segmented free cash flow	$293	$ (9)	284	$ 46	$(182)	(136)
Income taxes and net financing expense [(1)]			(138)			(119)
Free cash flow			$ 146			$(255)

BA: Aerospace; BT: Transportation.

(1) Income taxes and net financing expense are not allocated to segments.

The free cash flow by segment was as follows for the six-month periods ended July 31:

	2006			2005		
	BA	BT	Total	BA	BT	Total
EBIT	$ 121	$ 83	$ 204	$ 128	$ 61	$ 189
Non-cash items						
Amortization						
Program tooling	137	—	137	130	—	130
Other	72	52	124	76	54	130
Provision for credit losses	14	—	14	3	—	3
Gain on disposals of property, plant and equipment	—	(1)	(1)	(1)	—	(1)
Stock-based compensation	4	3	7	3	2	5
Special items	—	24	24	—	26	26
Net change in non-cash balances related to operations	(185)	(345)	(530)	(295)	(354)	(649)
Net additions to property, plant and equipment	(138)	(22)	(160)	(84)	(18)	(102)
Segmented free cash flow	$ 25	$(206)	(181)	$ (40)	$(229)	(269)
Income taxes and net financing expense [(1)]			(212)			(189)
Free cash flow			$(393)			$(458)

BA: Aerospace; BT: Transportation.

(1) Income taxes and net financing expense are not allocated to segments.

- *Aerospace*—The $247-million and $65-million increases in segmented free cash flow for the three- and six-month periods are mainly due to positive variations in aircraft financing, mainly due to lower interim financing related to regional aircraft, and higher advances compared to the same periods last fiscal year, partially offset by negative variations in accounts payable and accrued liabilities as well as inventories compared to the same periods last fiscal year.
- *Transportation*—The $173-million increase in segmented free cash flow for the three-month period is mainly due to a positive variation in advances compared to the same period last fiscal year, partially offset by higher inventories compared to the same period last fiscal year. For the six-month period, free cash flow improved by $23 million.

Cash Flows From Investing Activities (Excluding Net Additions to Property, Plant and Equipment)

Cash flows for the three- and six-month periods ended July 31, 2006 and 2005 mainly reflect the disposal of discontinued operations, net of cash disposed (see note 4—Discontinued operations and assets held for sale to the interim consolidated financial statements).

Cash Flows From Financing Activities

Cash flows used for the three-month period ended July 31, 2006 mainly reflect the repayments of $450 million and $200 million Cdn ($176 million) of BC's medium-term notes in June and July 2006, respectively. The cash flows used for the three-month period ended July 31, 2005 mainly reflect the repayment of long-term debt of $374 million.

Cash flows used for the six-month period ended July 31, 2006 mainly reflect the above-mentioned repayments of BC's medium-term notes and the repayment of £175 million ($305 million) of debentures in February 2006. The cash flows used for the six-month period ended July 31, 2005 mainly reflect the repayment of long-term debt of $403 million.

Cash Flows From Discontinued Operations

Cash flows used for the three-month period ended July 31, 2005 mainly reflect:

- cash flows used in financing activities of $578 million.

Partially offset by:

- cash flows from investing activities of $109 million.

Cash flows for the six-month period ended July 31, 2006 mainly reflect cash flows from operating activities.

The cash flows for the six-month period ended July 31, 2005 reflect:

- cash flows used in financing activities of $588 million.

Partially offset by:

- cash flows from investing and operating activities totalling $107 million.

As a result of the items discussed above, cash and cash equivalents amounted to $1.8 billion as at July 31, 2006, compared to $2.9 billion as at January 31, 2006.

VI Capital Resources

The details of the available and outstanding amounts under the bank credit facilities as at July 31, 2006 and January 31, 2006 are provided in note 6—Short-term borrowings to the interim consolidated financial statements.

The Corporation considers that its current cash position as well as its current credit facilities and expected capital resources will enable the implementation of investment programs, the development of new products, the pursued growth of its activities, the payment of dividends on preferred shares and allow it to meet other expected financial requirements.

The available short-term capital resources were as follows as at:

	Credit Facilities		Cash and Cash	Available Short-term
	Committed	Amounts Available	Equivalents [1]	Capital Resources
July 31, 2006	$5,490	$1,492	$1,794	$3,286
January 31, 2006	$5,282	$1,033	$2,917	$3,950

[1] Including $1.0 billion of cash and cash equivalents required to meet the minimum liquidity requirement (under banking syndicate agreements) at the end of each quarter.

The variation in available short-term capital resources was as follows for the six-month period ended July 31, 2006:

Balance as at January 31, 2006	$3,950
Repayment of long-term debt	(967)
Free cash flow	(393)
Reduction in letters of credit drawn (net of exchange rate changes)	251
Translation adjustment on committed credit facilities arising from the strengthening of the euro compared to the U.S. dollar	208
Effect of exchange rate changes on cash and cash equivalents	116
Disposal of discontinued operations, net of cash disposed	67
Cash flows from discontinued operations	50
Other	4
Balance as at July 31, 2006	$3,286

VII Financial Arrangements

Interim Financing Support

In connection with the sale of commercial aircraft, a government agency has provided customers with $135 million of financing, expiring at various dates, up to August 31, 2006. This financing funded a percentage of the sale price of aircraft. The balance of the sale price, amounting to $16 million, financed by the Corporation on a subordinated basis, is included in Aircraft financing (commercial aircraft interim financing portfolio) as at July 31, 2006. The Corporation has committed to provide permanent financing to these customers in the event that alternative permanent financing cannot be obtained from third parties. This commitment is included in the $1.9-billion financing commitments referred to in note 15d) to the interim consolidated financial statements.

RASPRO

As previously disclosed in the Corporation's annual report for fiscal year 2006, it was discovered, during the last fiscal year, that the cash flows of the RASPRO structure would be different from those anticipated. On July 13, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, agreed on certain actions to be taken to adjust the cash flows of RASPRO. These actions consist mainly of additional payments that were made or will be made to the RASPRO structure by various parties (including parties not affiliated with the Corporation). The Corporation's participation in these additional payments consisted of the purchase on July 13, 2006 of $23 million of rights to a portion of the residual value proceeds of certain aircraft financed by the RASPRO structure.

RASPRO is subject to the consolidation rules applicable to variable interest entities ("VIEs"), which require variable interest holders to reassess the appropriateness of consolidation when certain events take place. The events described above create a reconsideration event under the VIE rules. In addition, the Corporation is finalizing the details of its indirect financial support to RASPRO through a government agency, which should be completed before the end of the current fiscal year. As a result, an assessment of whether or not RASPRO should be consolidated under the VIE rules will be performed when the details of the financial support to the government agency are finalized. The Corporation does not expect to consolidate RASPRO as a result of the events described above.

The impact of the above did not have a material effect on the provision for contingencies for the three- and six-month periods ended July 31, 2006.

VIII Foreign Exchange Rates

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

The period-end exchange rates used to translate assets and liabilities were as follows as at:

	July 31, 2006	January 31, 2006	Increase
Euro	1.2763	1.2157	5%
Canadian dollar	0.8843	0.8742	1%
Pound sterling	1.8684	1.7814	5%

The average exchange rates used to translate revenues and expenses were as follows for the three-month periods ended July 31:

	2006	2005	Increase
Euro	1.2704	1.2322	3%
Canadian dollar	0.8950	0.8057	11%
Pound sterling	1.8526	1.8137	2%

The average exchange rates used to translate revenues and expenses were as follows for the six-month periods ended July 31:

	2006	2005	Increase (Decrease)
Euro	1.2393	1.2693	(2)%
Canadian dollar	0.8824	0.8094	9%
Pound sterling	1.8031	1.8554	(3%)

IX Share Data

The following table provides authorized and issued and outstanding share data as at July 31, 2006.

	Authorized	Issued and Outstanding
Class A Shares (Multiple Voting) [(1)]	1,892,000,000	317,178,736
Class B Shares (Subordinate Voting) [(2)]	1,892,000,000	1,433,288,232
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	2,597,907
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	9,402,093
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

(1) 10 votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).

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

The following table provides share option and performance share units ("PSU") data as at July 31, 2006.

Options issued and outstanding under share option plans	48,090,900
PSUs issued and outstanding under PSU plan	8,127,029

X Selected Quarterly Information

The following table provides selected quarterly information for the last eight quarters.

	2007	2006			2005			
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Revenues	$3,515	$3,526	$4,035	$3,301	$3,633	$3,757	$4,725	$3,558
Income (loss) from continuing operations, net of tax	$ 57	$ 21	$ 85	$ (1)	$ 10	$ 41	$ 47	$ 3
Income (loss) from discontinued operations, net of tax	1	3	1	(8)	107	14	9	7
Net income (loss)	$ 58	$ 24	$ 86	$ (9)	$ 117	$ 55	$ 56	$ 10
Earnings (loss) per share:								
Basic and diluted								
From continuing operations	$ 0.03	$ 0.01	$ 0.05	$ —	$ —	$ 0.02	$ 0.02	$ —
Net income (loss)	$ 0.03	$ 0.01	$ 0.05	$ (0.01)	$ 0.06	$ 0.03	$ 0.03	$ —

August 29, 2006

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

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Un exemplaire en français est disponible sur demande adressée auprès du Service des affaires publiques ou sur le site Internet à l'adresse www.bombardier.com sous Relations avec les investisseurs.

Year ended January 31, 2006

Set forth below is a reproduction of our "Management's Discussion and Analysis" for the year ended January 31, 2006, which we filed with the Canadian securities regulatory authorities on March 29, 2006. The information set forth below is as of March 29, 2006 and has not been updated for purposes of this offering memorandum.

Management's Discussion and Analysis

All amounts in this report are in millions of U.S. dollars, unless otherwise indicated.

Forward-Looking Statements

This Management's Discussion and Analysis ("MD&A") includes forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. By their nature, forward-looking statements require Bombardier Inc. (the "Corporation") to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause the Corporation's actual results in future periods to differ materially from forecasted results. While the Corporation considers its assumptions to be reasonable and appropriate based on current information available, there is a risk that they may not be accurate. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A please refer to the respective sections of the Corporation's aerospace segment ("Aerospace") and the Corporation's transportation segment ("Transportation") in this MD&A.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, include risks associated with general economic conditions, risk associated with the Corporation's business environment (such as the financial condition of the airline industry, government policies and priorities and competition from other businesses), operational risks (such as regulatory risks and dependence on key personnel, risks associated with doing business with partners, risks involved with developing new products and services, warranty and casualty claim losses, legal risks from legal proceedings, risks relating to the Corporation's dependence on certain key customers and key suppliers, risks resulting from fixed term commitments, human resource risk and environmental risk), financing risks (such as risks resulting from reliance on government support, risks relating to financing support provided on behalf of certain customers, risks relating to liquidity and access to capital markets, risks relating to the terms of certain restrictive debt covenants and market risks, including currency, interest rate and commodity pricing risk) see the Risks and Uncertainties section in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect the Corporation's expectations as at the date of this MD&A and are subject to change after such date. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The MD&A is structured as follows:

Overview	**Aerospace**	**Transportation**	**Liquidity and Capital Resources**	**Off-balance Sheet Arrangements and Variable Interest Entities**	**Other**
BASIS OF PRESENTATION	OVERVIEW	OVERVIEW	FINANCIAL POSITION	FINANCIAL ARRANGEMENTS	PENSION
NON-GAAP FINANCIAL MEASURES	BUSINESS AIRCRAFT	ROLLING STOCK	CASH FLOWS	DERIVATIVE FINANCIAL INSTRUMENTS	CONTROLS AND PROCEDURES
HIGHLIGHTS	REGIONAL AIRCRAFT	SERVICES	CAPITAL RESOURCES	COMMITMENTS AND CONTINGENCIES	RISKS AND UNCERTAINTIES
CONSOLIDATED RESULTS	AIRCRAFT SERVICES AND NEW COMMERCIAL AIRCRAFT PROGRAM	SYSTEM AND SIGNALLING	LIQUIDITY	VARIABLE INTEREST ENTITIES	CRITICAL ACCOUNTING ESTIMATES
FOURTH QUARTER RESULTS	*FLEXJET* AND *SKYJET*		CREDIT SUPPORT		ACCOUNTING AND REPORTING DEVELOPMENTS
	OTHER				ENVIRONMENT
					FOREIGN EXCHANGE RATES
					SELECTED FINANCIAL DATA

OVERVIEW

I Basis of Presentation

During fiscal year 2006, the Corporation continued with its strategy of reducing Bombardier Capital's ("BC") operations and several portfolios have been sold or put up for sale. The remaining portfolios are essentially related to Aerospace. As a result, they are now included in Aerospace and BC ceased to be reported as a separate segment, effective the fourth quarter of fiscal year 2006 (see note 25—Segment disclosure to the Consolidated Financial Statements). Significant additional changes in the basis of presentation of the Corporation's Consolidated Financial Statements have been made as a consequence of the above, with retroactive effect for all periods presented. These changes had no impact on the legal structure and on the consolidated shareholders' equity of the Corporation. The most significant changes include the following:

- *Discontinued Operations and Assets Held for Sale*—BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows, and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets (see note 1—Discontinued operations and assets held for sale to the Consolidated Financial Statements).
- *Aircraft Financing*—BC's core operations consisting of commercial aircraft financing, and business aircraft lending operations, are now managed by Aerospace and therefore, these operations are part of the aerospace segment's results. BC's portfolios related to aircraft financing operations are included in a new balance sheet caption, Aircraft financing, together with other assets related to aircraft financing of Aerospace. The remainder of BC's operations are not significant and the related assets are included in Other assets in the consolidated balance sheets.
- *Presentation of BC*—The financial position, results of operations and cash flows of BC are no longer presented in separate columns in the consolidated balance sheets, statements of income and statements of cash flows.
- *Financing Income and Financing Expense*—Interest income, including interest income generated from the portfolios of the former BC segment, is now classified in Financing income, a new caption in the consolidated statements of income. BC's interest income was previously included in Financing revenues and other interest income was included in Interest expense, net. The interest expense on the long-term debt of the former BC segment, previously included in Cost of sales, is now classified in Financing expense, a new caption in the consolidated statements of income. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense.

The impact on the consolidated statements of income of the reallocation of BC's portfolios to Aerospace, as well as certain other reclassifications referred to above under Financing income and Financing expense are as follows for fiscal years:

	2006 [(1)]	2005 [(1)]
Revenues		
Financing	$ (79)	$ (91)
Other	10	36
	(69)	(55)
Cost of sales	(106)	(126)
	37	71
Interest expense, net	(170)	(153)
Financing income	156	104
Financing expense	363	328
Income from continuing operations before income taxes	$ —	$ —

(1) Parenthesis represent a decrease of the related income statement item.

As a result of these changes, the Corporation has now two reportable segments: Aerospace and Transportation. Each reportable segment offers different products and services and requires different technology and marketing strategies. Management assesses segment performance based on earnings (loss) before financing income, financing expense, income taxes and special items, consistent with its current centralized debt management strategies. Corporate charges are allocated to segments mostly based on each segment's revenues.

II Non-GAAP Financial Measures

This MD&A is based on reported earnings in accordance with Canadian generally accepted accounting principles ("GAAP") and on the following non-GAAP financial measures:

EBITDA before special items:	Earnings (loss) before financing income, financing expense, income taxes, depreciation and amortization and special items
EBIT before special items:	Earnings (loss) before financing income, financing expense, income taxes and special items
EBT before special items:	Earnings (loss) before income taxes and special items
EPS from continuing operations before special items:	Earnings (loss) per share from continuing operations before special items
Free cash flow:	Cash flows from operating activities less net additions to property, plant and equipment

These non-GAAP measures are directly derived from the Consolidated Financial Statements, but do not have a standardized meaning prescribed by GAAP; therefore, others using these terms may calculate them differently. The reconciliation to the most comparable GAAP measures is provided in the following sections of this MD&A:

- Reconciliation of EBITDA and EBIT, before special items, to EBIT—see the tables of analysis of results in the Aerospace and Transportation sections.
- Reconciliation of EBIT and EBT before special items to EBT—see the tables of selected financial information in the overview section.

- Reconciliation of earnings (loss) per share from continuing operations before special items to earnings (loss) per share—see the reconciliation of earnings (loss) per share from continuing operations table following the table of selected financial information in the overview section.
- Reconciliation of free cash flow to cash flows from operating activities—see the first table in the cash flows section.

Management believes that a significant portion of the users of its Consolidated Financial Statements and MD&A analyze the Corporation's results based on these performance measures and that this presentation is consistent with industry practice. Special items are viewed by Management as items that do not arise as part of the normal day-to-day business operations or that could potentially distort the analysis of trends.

III Highlights

- Net income of $249 million, compared to a net loss of $85 million last fiscal year.
- EBT from continuing operations before special items of $238 million ($150 million after special items), compared to $12 million ($160 million loss after special items) last fiscal year.
- EPS of $0.13, compared to a loss of $0.06 last fiscal year. EPS from continuing operations before special items of $0.11, compared to an EPS from continuing operations before special items of nil last fiscal year.
- BC's non-core portfolios (i.e. excluding commercial aircraft financing) have been essentially wound down or sold.
- Free cash flow of $532 million, an improvement of $326 million.
- Reduction of debt, amounting to $2.5 billion in fiscal year 2006.
- Cash and cash equivalents of $2.9 billion as at January 31, 2006.

IV Consolidated Results

Selected Financial Information

The following table presents selected financial information for fiscal years:

	2006	2005
Revenues	$14,726	$15,546
EBIT from continuing operations before special items	445	236
Financing income	156	104
Financing expense	(363)	(328)
EBT from continuing operations before special items	238	12
Special items	(88)	(172)
EBT from continuing operations	150	(160)
Income tax expense (recovery)	15	(38)
Income (loss) from continuing operations	135	(122)
Income from discontinued operations, net of tax [1]	114	37
Net income (loss)	$ 249	$ (85)
Basic and diluted earnings (loss) per share (in dollars):		
From continuing operations	$ 0.06	$ (0.08)
Net income (loss)	$ 0.13	$ (0.06)
(as a percentage of revenues)		
EBIT from continuing operations before special items	3.0%	1.5%
EBT from continuing operations before special items	1.6%	0.1%
EBT from continuing operations	1.0%	(1.0)%
Order backlog (in billions of dollars)	$ 31.6	$ 31.5
Cash and cash equivalents [2]	$ 2,917	$ 2,344
Free cash flow [2]	$ 532	$ 206
Available short-term capital resources [2]	$ 3,950	$ 5,143

[1] Related to BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations.

[2] A detailed analysis of changes in cash and cash equivalents, free cash flow and available short-term capital resources is contained in the Liquidity and capital resources section of this MD&A.

Reconciliation of earnings (loss) per share from continuing operations before and after special items was as follows for fiscal years:

	2006	2005
Income from continuing operations before special items, net of tax	$ 212	$ 32
Special items, net of tax	(77)	(154)
Income (loss) from continuing operations	$ 135	$ (122)
Basic and diluted earnings (loss) per share (in dollars):		
From continuing operations before special items, net of tax	$ 0.11	$ —
Special items, net of tax	(0.04)	(0.08)
From continuing operations	$ 0.06	$(0.08)

A detailed analysis of the segmented EBIT is provided in the Aerospace and Transportation sections of this MD&A.

Revenues

The $820-million decrease mainly reflects:

- lower rolling stock revenues resulting from decreased mainline revenues in the United Kingdom ("U.K.") and Germany, due to a lower level of activities in these markets;
- lower deliveries of *CRJ200* aircraft; and
- lower volume of pre-owned business aircraft sales.

Partially offset by:

- increased deliveries and improved selling prices of business aircraft; and
- increased deliveries of *Q300* turboprops.

EBIT Margin From Continuing Operations Before Special Items

The 1.5 percentage-point increase is mainly due to:

- a higher EBIT margin in Transportation, mainly as a result of improvements in contract execution (significantly lower negative contract adjustments were recorded in fiscal year 2006), the positive impact of procurement initiatives and restructuring activities, as well as lower operating expenses; and
- a higher EBIT margin in Aerospace, mainly as a result of increased deliveries and improved selling prices of business aircraft, partially offset by lower deliveries of *CRJ200* aircraft and higher operating expenses.

Financing Income/Financing Expense

Net financing expense amounted to $207 million, compared to $224 million last fiscal year. Fiscal year 2005 financing expense was negatively impacted by the payment of $19 million in connection with the repurchase of call options related to BC's Putable/Callable notes due in fiscal year 2013. In addition, higher interest expense was mostly offset by higher interest income on cash balances and loans and lease receivables.

Special Items

Special items are related to the restructuring plan in Transportation.

Income Taxes

For fiscal year 2006, the effective income tax rate was 10.0%, compared to the statutory income tax rate of 32.0%. The lower effective income tax rate compared to the statutory income tax rate is mainly due to lower income tax rates of foreign investees and the impact of the strengthening of the Canadian dollar compared to the U.S. dollar on the Canadian dollar denominated deferred income tax asset, partially offset by the net changes in the recognition of operating losses carried forward.

For fiscal year 2005, the effective income tax recovery rate was 23.8%, compared to the statutory income tax recovery rate of 31.9%. The lower effective income tax recovery rate compared to the statutory income tax recovery rate is mainly explained by the non-recognition of income tax benefits related to operating losses in certain jurisdictions in Transportation, partially offset by lower income tax rates of foreign investees.

The details of the components of the income tax expense (recovery) are provided in note 16—Income taxes to the Consolidated Financial Statements.

Discontinued Operations

Income from discontinued operations was as follows for fiscal years:

	2006	2005
Income from discontinued operations, net of tax, before the following:	$ 24	$37
Gain (loss), net of tax, on sale of:		
Inventory finance operations	121	—
On-balance sheet manufactured housing operations	(18)	—
Loss, net of tax, related to planned disposal of:		
Off-balance sheet manufactured housing operations	(10)	—
Consumer finance and on- and off-balance sheet freight car operations [1]	(3)	—
	$114	$37

[1] Represents estimated severance costs related to these operations, which are expected to be disposed of in fiscal year 2007.

Order Backlog

The order backlog remained essentially unchanged. Higher order intake compared to revenues recorded in both segments was offset by the negative impact of the weakening of the euro and the sterling pound compared to the U.S. dollar on the order backlog of Transportation, amounting to approximately $1.0 billion.

V Fourth Quarter Results

Selected Financial Information

Selected financial information were as follows:

	Three-Month Periods Ended January 31	
	2006	2005
Revenues	$4,035	$4,725
EBIT from continuing operations before special items	160	146
Financing income	52	35
Financing expense	(98)	(102)
EBT from continuing operations before special items	114	79
Special items	(37)	(38)
EBT from continuing operations	77	41
Income tax recovery	(8)	(6)
Income from continuing operations	85	47
Income from discontinued operations, net of tax [1]	1	9
Net income	$ 86	$ 56
Basic and diluted earnings per share (in dollars):		
From continuing operations	$ 0.05	$ 0.02
Net income	$ 0.05	$ 0.03
(as a percentage of revenues)		
EBIT from continuing operations before special items	4.0%	3.1%
EBT from continuing operations before special items	2.8%	1.7%
EBT from continuing operations	1.9%	0.9%

[1] Related to BC's off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations.

Revenues

The $690-million decrease is mainly due to:

- decreased mainline revenues in the U.K. and Germany;
- lower deliveries of regional aircraft; and
- lower volume of pre-owned business aircraft sales.

Partially offset by:

- higher deliveries and improved selling prices of business aircraft.

EBIT Margin from Continuing Operations Before Special Items

The 0.9 percentage-point increase is mainly due to:

- a higher EBIT margin in Transportation, mainly as a result of improvements in contract execution, the positive impact of procurement initiatives and restructuring activities, as well as lower operating expenses; and
- a higher EBIT margin in Aerospace, mainly as a result of increased deliveries and improved selling prices for business aircraft, and a lower level of sales incentives for regional aircraft, partially offset by lower deliveries of *CRJ200* aircraft.

Financing Income/Financing Expense

Net financing expense amounted to $46 million, compared to $67 million last fiscal year. This decrease is due to higher interest income on cash balances and loans and lease receivables, mostly offset by higher interest expense. In addition, fiscal year 2005 financing expense was negatively impacted by the payment of $19 million in connection with the repurchase of call options related to BC's Putable/Callable notes due in fiscal year 2013.

Special Items

Special items are related to the restructuring plan in Transportation.

Income Taxes

As a result of the impact of the increase in enacted tax rates in Quebec on the deferred income tax asset and the strengthening of the Canadian dollar compared to the U.S. dollar, the Corporation recorded an income tax recovery of $8 million on an EBT from continuing operations of $77 million in fiscal year 2006. In fiscal year 2005, the Corporation recorded an income tax recovery of $6 million on an EBT from continuing operations of $41 million due to the recognition of previously unrecorded tax benefits.

Earnings per Share

Earnings per share from continuing operations before special items was $0.07 ($0.05 after special items), compared to $0.04 ($0.02 after special items) for the same period last fiscal year.

Free Cash Flow

Free cash flow of $669 million, an improvement of $222 million compared to last fiscal year. The increase is mainly due to higher free cash flow in Aerospace, partially offset by lower free cash flow in Transportation.

AEROSPACE

I Overview

Aerospace is a world leader in the design and manufacture of innovative aviation products and services for the business, regional, missionized and amphibious aircraft markets. Aerospace's product portfolio includes the industry's most comprehensive line-up of business aircraft, regional jets, turboprops and amphibious aircraft. With its extensive product line-up, Aerospace is well positioned to capitalize on the growth of the business aircraft market as well as on the airline industry's shift towards larger regional jets and turboprops.

The Aerospace section of the MD&A is structured by business unit. The table below presents the business units' main products and services:

Business Aircraft	Regional Aircraft	Aircraft Services and New Commercial Aircraft Program	Flexjet and Skyjet
Narrow-body business jets • *Learjet 40/40 XR* • *Learjet 45/45 XR* • *Learjet 60/60 XR*	**Regional jets** • *CRJ200* • *CRJ700* • *CRJ705* • *CRJ900*	• Parts logistics • Aircraft maintenance • Customer training • Military aviation training • *CSeries* • Amphibious aircraft • Government and missionized aircraft	• Aircraft fractional ownership • Hourly flight entitlement programs
Wide-body business jets • *Challenger 300* • *Challenger 604* • *Challenger 605* • *Challenger 800* Series [(1)] • *Bombardier Global 5000* • *Global Express/ Global Express XRS*	**Turboprops** • *Q200* • *Q300* • *Q400*		

[(1)] The orders, deliveries and market share of the corporate airliner category represented by the *Challenger 800* Series, are shown in the regional aircraft section of this MD&A.

Forward-Looking Statements

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

- current backlog and estimated future order intake based on:
  - similar levels of business aircraft demand from the United States ("U.S.") market and increased demand from emerging markets;
  - increased demand from regional airlines in the U.S. following their restructuring, as well as an increased demand for turboprops; and
  - expected growth in after-market services.
- continued deployment of strategic initiatives related to cost reductions.

Business Environment

Business Aircraft

There was continued strong demand in the business aircraft market during fiscal year 2006. The underlying economic conditions that influence business aircraft demand in the U.S., namely U.S. real gross domestic product (adjusted for inflation) ("GDP") growth and corporate profits, remained healthy during calendar year 2005. There is an increasingly competitive environment demonstrated by the introduction in the market of five derivatives and two new products at the National Business Aviation Association ("NBAA") show in calendar year 2005.

The U.S. continues to be the dominant market; however, the international markets have gained significant momentum in recent years, supported by emerging eastern European economies and the strengthening of the euro compared to the U.S. dollar. The pricing for new business aircraft is firming up due to the increase in business aircraft demand combined with the lower inventory level of pre-owned business jets. The increase in demand for business aircraft has had a positive effect on the aircraft fractional ownership and hourly flight time entitlement markets.

Regional Aircraft

Over the last several years, the U.S. airline industry has experienced year-over-year downward pressure on yields (defined as revenue per passenger mile) and rising costs, particularly as a result of higher fuel prices. The U.S. airline industry continues to be in a period of restructuring (see Market drivers section for regional aircraft in this MD&A). Regional airlines generally operate regional aircraft (jets and turboprops) up to 90 seats in a domestic route network. Mainline airlines generally operate narrow-body and wide-body jet aircraft over 90 seats in a network consisting of both domestic and international routes. Pilot scope clauses continue to loosen, thus permitting larger numbers of 70- to 90-passenger regional jets to be flown by the pilots of regional airlines affiliated with mainline airlines through a code-sharing agreement. In the regional jet sector, new aircraft demand has shifted from smaller to larger regional aircraft (such as the shift from the 50-passenger CRJ200 aircraft to the 70-passenger CRJ700 and 86-passenger CRJ900 aircraft). The appeal of the larger CRJ Series aircraft models is greater seating capacity and lower unit (seat-mile) costs. Due to the superior economics offered by the lower fuel-burning turboprops, this sector experienced a significant increase in worldwide orders.

Goals/Strategy

The primary goal is to improve EBIT margin to 8% over the next two to four years. Improved and sustained profitability will be achieved through focusing all employees on three priorities and targeted revenue growth.

Priorities

Engaging All Employees and Providing a Safe and Rewarding Workplace

- An "Achieving excellence" program has been established, providing a process whereby Aerospace employees can benchmark their team's performance against the highest industry standards and develop plans to achieve these levels.

- Focusing on talent management through the annual leadership review with the purpose of ensuring that key management positions can be filled internally.

Providing an Amazing Customer Experience

- By improving customer satisfaction and generating operating synergies through the consolidation of all after-market services including training, *CSeries*, amphibious and missionized programs into one business unit called Aircraft Services and New Commercial Aircraft Program;
- by investing in after-market support initiatives;
- by providing product commonality in both regional jets and turboprops; and
- by continually upgrading Aerospace's product offerings to meet evolving customer needs.

Reducing Operating Costs Through Waste Elimination

- By optimizing Aerospace's supplier base strategy to reduce waste in the supply chain and to reduce the total acquisition cost of procured products;
- by continuing to optimize Aerospace's industrial strategy and developing low-cost manufacturing capacity and capability; and
- by pursuing outsourcing initiatives.

Targeted Revenue Growth

In addition to the three priorities discussed above, Aerospace will achieve its goal of an increased EBIT margin by growing revenue through the following:

- leveraging existing aircraft platforms;
- investing in key product improvements;
- building on Aerospace's strong presence in key emerging markets such as China, eastern Europe, India and Latin America;
- leveraging the strong business aircraft order backlog and continued strength in business aircraft demand to improve pricing for business aircraft; and
- improving market share for regional aircraft by continuing to focus on the operating economics of the current platforms versus the competition, exploring opportunities for the *CRJ200* aircraft in the cargo market and considering potential options for proven *CRJ* Series and *Q-Series* platforms in the 80- to 100-seat aircraft market.

Highlights

- EBIT of $266 million, compared to $203 million last fiscal year, an increase of 31%.
- Free cash flow of $900 million, an improvement of $518 million.
- 186 deliveries and 210 net orders for business aircraft, an increase of 45% and 36%, respectively.
- 149 deliveries and 90 net orders for regional aircraft, a decrease of 26% and 32%, respectively.
- Third consecutive year of increase in total deliveries.
- Total permanent financing arranged by the Corporation in connection with the sale of regional aircraft amounted to $2.9 billion in fiscal year 2006.

- Launched the *Challenger 605* and *Learjet 60 XR* aircraft derivative products. Aerospace also launched Bombardier Corporate Shuttle Solutions, a complete family of corporate shuttle jets comprised of the *Challenger 850, 870* and *890* aircraft.
- On January 31, 2006, the Corporation announced that present market conditions, especially given the financial instability of many U.S. airlines, did not justify the launch of the *C-Series* program at this time.

Aircraft Deliveries

Total aircraft deliveries were as follows for fiscal years:

	2006	**2005**
Business aircraft (including those of the fractional ownership program)	186	128
Regional aircraft	149	200
Amphibious aircraft	2	1
	337	329

The increase in total deliveries is mainly due to higher deliveries of all business aircraft models. This increase was partially offset by lower deliveries in regional aircraft, mainly the *CRJ200* aircraft. Despite the continuing challenges facing the U.S. airline industry, Aerospace delivered approximately the same number of larger *CRJ700, CRJ705* and *CRJ900* aircraft in aggregate in fiscal year 2006 compared to fiscal year 2005. Two *Bombardier 415* amphibious aircraft were delivered during fiscal year 2006. Production of the amphibious firefighting and surveillance aircraft resumed during fiscal year 2006, in response to an improved market.

Aerospace expects total aircraft deliveries for fiscal year 2007 to remain at a similar level as that of fiscal year 2006.

Analysis of Results

Aerospace's results were as follows for fiscal years:

	2006	2005
Segmented revenues		
Manufacturing		
Business aircraft	$3,127	$2,063
Regional aircraft	2,893	3,604
Other	332	237
Total manufacturing revenues	6,352	5,904
Services [1]	1,208	1,116
Other [2]	527	960
Total segmented revenues	8,087	7,980
Cost of sales	6,925	6,922
Margin	1,162	1,058
Operating expenses [3]	490	444
EBITDA	672	614
Amortization	406	411
EBIT	$ 266	$ 203
(as a percentage of total segmented revenues)		
Margin	14.4%	13.3%
EBITDA	8.3%	7.7%
EBIT	3.3%	2.5%

[1] Includes revenues from spare parts, fractional ownership and hourly flight entitlement programs' service activities, product support activities and military aviation training.

[2] Includes mainly sales of pre-owned aircraft.

[3] Comprised of selling, general and administrative and research and development expenses.

Manufacturing Revenues

The $448-million increase is mainly due to:

- increased deliveries and improved selling prices of business aircraft;
- increased deliveries of *Q300* turboprops;
- higher selling prices for the turboprops;
- additional fractional share revenue; and
- an additional delivery of the Bombardier 415 amphibious aircraft.

Partially offset by:

- lower deliveries of *CRJ200* aircraft.

Service Revenues

The $92-million increase is mainly due to:

- higher revenues from military aviation training due to significant progress on a contract; and

- higher revenues from fractional ownership and hourly flight entitlement programs related services.

Partially offset by:

- sale of a Bombardier amphibious aircraft search and rescue package to Greece in fiscal year 2005.

Other Revenues

The $433-million decrease is mainly due to lower volume of pre-owned business aircraft available for sale as a result of fewer trade-ins.

Margin Percentage

The 1.1 percentage-point increase is mainly due to:

- increased deliveries and improved selling prices of business aircraft;
- improved margin on the larger capacity *CRJ* Series aircraft;
- improved margin on pre-owned aircraft; and
- lower severance and other involuntary termination costs.

Partially offset by:

- lower deliveries of *CRJ200* aircraft;
- lower margin on spare parts; and
- lower margin from the rental of pre-owned commercial aircraft.

Operating Expenses

The $46-million increase is mainly due to higher costs relating to the *C-Series* aircraft feasibility study and to higher marketing expenses resulting from increased business aircraft activities.

Amortization

The $5-million decrease is mainly due to lower assets under operating leases related to long-term financing of regional aircraft, partially offset by an increase in the amortization of program tooling.

Program Information

The carrying amounts of excess over-average production costs ("EOAPC") included in Inventories, and program tooling costs included in Property, plant and equipment, were as follows as at January 31:

	2006			2005		
Program family	**EOAPC**	**Program Tooling**	**Total**	**EOAPC**	**Program Tooling**	**Total**
Business aircraft						
Learjet Series	$221	$ 111	$ 332	$254	$ 158	$ 412
Challenger 300	140	414	554	117	429	546
Challenger 604/605	—	38	38	—	19	19
Global Series	319	351	670	411	430	841
Regional aircraft						
CRJ Series	54	413	467	83	441	524
Q-Series	23	64	87	54	61	115
	$757	$1,391	$2,148	$919	$1,538	$2,457

The decrease in EOAPC is mainly due to the majority of programs having reached the point where the actual unit cost is less than the average unit cost recognized in income.

The decrease in program tooling is mainly due to the benefit arising from leveraging prior investments in product platforms, resulting in lower investment of programs under development or in their early phases of production, compared to amortization of programs under commercial production. Amortization of program tooling amounted to $254 million for fiscal year 2006, compared to $244 million for fiscal year 2005.

The following table presents accounting program quantities and remaining deliveries for programs with an EOAPC balance outstanding as at January 31, 2006:

Program family	**Accounting Program Quantities**	**Remaining Deliveries [1]**
Business aircraft		
Learjet Series	725	284
Challenger 300	300	213
Global Series	450	264
Regional aircraft		
CRJ Series [2]	550	251
Q-Series [2]	225	15

[1] Remaining deliveries include 74 firm orders of *CRJ700, CRJ705* and *CRJ900* aircraft and 15 firm orders of *Q-Series* turboprops. There are an additional 69 firm orders, beyond the current accounting program quantity, in the backlog for the *Q-Series* turboprops.

[2] Excludes *CRJ200* and *Q200* aircraft, which had no EOAPC balance outstanding as at January 31, 2006.

Product Development

During fiscal year 2006, Aerospace invested $338 million in product development, representing 5.3% of manufacturing revenues, compared to $298 million during fiscal year 2005, or 5.0% of manufacturing revenues.

Product development costs consisted of the following for fiscal years:

	2006	2005
Research and development [1]	$ 92	$ 62
Program change and engineering [2]	108	110
Program tooling [3]	138	126
	$338	$298

[1] Included in Research and development in the consolidated statements of income.

[2] Included in Cost of sales in the consolidated statements of income.

[3] Capitalized in Property, plant and equipment in the consolidated balance sheets.

Research and development costs were higher during fiscal year 2006 mainly due to the *CSeries* aircraft feasibility study.

Order Backlog

Aerospace's order backlog was as follows as at January 31:

(in billions of dollars)	2006	2005
Aircraft programs	$ 9.6	$ 9.1
Military aviation training	1.1	1.1
	$10.7	$10.2

The year-over-year increase is mainly due to strong order intake for business aircraft and turboprops, partially offset by a declining order backlog for *CRJ* Series aircraft.

Workforce and Labour Relations

The total number of employees and the percentage of employees covered by collective agreements were as follows as at January 31:

	2006	2005
Total number of employees	26,800	27,100
Percentage of employees covered by collective agreements	56%	56%

The 1% decrease in the total number of employees is mainly due to terminations as a result of the previously announced workforce reductions relating to the realignment of the production rate of the 50-passenger *CRJ200* aircraft. Substantially all of the terminations have taken place during fiscal year 2006. There are approximately 355 remaining layoffs, which should be completed by July 2006.

On January 31, 2006, the Corporation announced that present market conditions did not justify the launch of the *CSeries* program at this time. The majority of *CSeries* employees will be redirected to the development of regional jet and turboprop aircraft opportunities to address regional airlines' future needs in the 80- to 100-seat aircraft market. A small team of approximately 50 employees will remain with the *CSeries* program to further develop its business plan. The decision not to launch the *CSeries* program at this time did not give rise to additional workforce reduction charges in fiscal year 2006.

In fiscal year 2007, collective agreements with the following unions are up for renewal:

- *Montréal*—During fiscal year 2006, the Corporation reached an agreement for a new six-year collective agreement with the International Association of Machinists and Aerospace Workers 712 ("IAMAW"), the largest union, covering approximately 5,300 employees in

Montréal, beginning in December 2005. The agreement was conditional on the assembly of the *CSeries* aircraft being performed in the Montréal area. As a result of the Corporation's decision not to launch the *CSeries* program at this time, this collective agreement is being renegotiated.

- *Wichita*—The IAMAW collective agreement, covering approximately 1,400 employees in Wichita, expires on October 2, 2006.
- *Toronto*—The Canadian Auto Workers ("CAW") collective agreement, covering approximately 2,500 employees in Toronto, expires on June 22, 2006.
- *Belfast*—The Amicus, the Amalgamated Transport & General Workers Union and the General Machinists & Boilermakers collective agreements, covering approximately 4,300 employees in Belfast, expires on January 24, 2007.

II Business Aircraft

Market Drivers

There has been a total of 750 business jets delivered in calendar year 2005, according to data from General Aviation Manufacturers Association ("GAMA"), which is slightly short of the peak reached in calendar year 2001.

U.S. Economic Performance

The U.S. market still remains the dominant market for sales of business aircraft. A strong U.S. economy with steady real GDP growth and increasing corporate profits generally translates into stronger aircraft deliveries. According to the Blue Chip Economic Indicators report, published on February 10, 2006, the growth in U.S. real GDP was 3.5% for calendar year 2005 (3.7% for calendar year 2004). A recent Honeywell Aerospace forecast indicates that should U.S. real GDP growth exceed the 3% range over the next 12 to 18 months, the strength of the business aircraft market is expected to continue.

International Markets

During calendar year 2005, there has been an increase in the percentage of sales made outside of North America for all manufacturers. The weakening of the U.S. dollar in recent years, in comparison to the euro, the result of stronger economic performance in Europe, and the emergence of new markets, such as China, eastern Europe and India, have helped stimulate sales internationally.

Pre-Owned Business Jet Inventory Level and Fair Market Values

The level of pre-owned business jet inventory, as well as the price that these aircraft are selling for (fair market values), are key drivers for the industry. As the inventory level of pre-owned aircraft increases, their prices may drop, making it more affordable for buyers to purchase pre-owned aircraft. When the availability of pre-owned aircraft on the market is low, their prices may increase, and thus the price gap to buy a new aircraft diminishes, making the choice of a new aircraft more attractive to potential buyers. According to monthly extracts of the Jetnet database, the number of pre-owned business jet inventory available for sale amounted to 1,602 units as at December 31, 2005 compared to 1,786 units as at December 31, 2004, representing a 10% decline. This decline contributed to increased fair market values for pre-owned business jets.

New Aircraft Model Introductions

The introduction of new aircraft models stimulates demand for business aircraft. As new products are introduced, the consumer is given more choice of models at varying price and performance points. A new product introduction may attract new potential buyers to the market if the model meets their needs in terms of price and capability. Consumers who already own a business aircraft may be tempted to upgrade their present model with a more sophisticated model, which offers the latest in terms of technological advances. Other potential buyers may be attracted to a new product offering in a category in which there was no product offering before. In fiscal year 2006, Aerospace introduced the *Learjet 60 XR* and *Challenger 605* aircraft derivatives and launched the *Challenger 800* Series aircraft.

Competition

The overall business jet aircraft market is segmented into narrow-body and wide-body aircraft, based on cabin size, range and price of aircraft. Narrow-body aircraft is further segmented into four distinct categories, which range from smallest to largest: very light, light, super light and midsize. The wide-body aircraft is further segmented into five distinct categories, which range from smallest to largest: super midsize, large, super large, ultra long range and corporate airliner. The orders, deliveries and market share of the corporate airliner category, represented by the *Challenger 800* Series aircraft, are shown in the Regional aircraft section in this MD&A.

Aerospace's major competitors in the narrow-body business jet category are: Cessna Aircraft Company ("Cessna"), a subsidiary of Textron Inc., Raytheon Aircraft ("Raytheon"), a subsidiary of the Raytheon Company, and Embraer Executive Jets, a subsidiary of Embraer-Empresa Brasileira de Aeronáutica SA ("Embraer"). Aerospace's main competitors in the wide-body business jet category are: Gulfstream Aerospace Corporation ("Gulfstream"), a subsidiary of General Dynamics and Dassault Aviation ("Dassault").

The table below illustrates Aerospace's major competitors by category (the shaded areas represent categories in which Aerospace's competitors have a product offering or a product under development):

	Narrow-body				Wide-body			
	Very light	Light	Super light	Midsize	Super midsize	Large	Super large	Ultra long range
Aerospace[1]		*L40/L40 XR*	*L45/L45 XR*	*L60/L60 XR*	*CL300*	*CL604/ CL605*	*G5000*	*GEX/ GEX XRS*
Cessna	▨	▨	▨	▨	▨			
Raytheon	▨	▨		▨	▨			
Embraer	▨	▨						
Gulfstream				▨	▨	▨	▨	▨
Dassault					▨	▨	▨	▨

[1] L refers to *Learjet*, CL to *Challenger*, G to *Global* and GEX to *Global Express.*

Product Development

- In November 2005, Aerospace launched the *Challenger 605* aircraft, which features an advanced cockpit, a more spacious restyled interior and an increased payload capacity offering additional flexibility to add more options, passengers or fuel. In January 2006, the *Challenger 605* aircraft successfully completed its first flight.
- In November 2005, Aerospace launched the *Learjet 60 XR* aircraft. This model retains the combination of value and high-speed performance of the *Learjet 60* aircraft, while adding an advanced cockpit, together with a stand-up cabin redesigned for style, comfort and functionality.
- In November 2005, Transport Canada ("TC"), the U.S. Federal Aviation Administration ("FAA") and the European Aviation Safety Agency ("EASA") granted full operational approval for the Bombardier Enhanced Vision System *("*BEVS"*).* This system, available on Bombardier *Global 5000, Global Express* and *Global Express XRS* aircraft*,* provides pilots with improved situational awareness and the ability to observe runway lights and the runway environment in difficult operating conditions.
- In May 2005, Aerospace launched Bombardier Corporate Shuttle Solutions, a complete family of corporate shuttle jets, backed by a full team from engineering, program planning, sales and customer support. Based on the *CRJ* Series platform, the *Challenger 850, 870* and *890* aircraft offer the proven advantages of a wide-body cabin, low direct operating costs, dispatch reliability and ease of maintenance.

Aircraft Deliveries

Business aircraft deliveries were as follows for fiscal years:

			2006			**2005**
		Flexjet	**Total**		**Flexjet**	**Total**
Narrow-body business jets						
Learjet 40/40 XR	20	4	24	11	3	14
Learjet 45/45 XR	29	2	31	23	—	23
Learjet 60	14	—	14	10	—	10
Wide-body business jets						
Challenger 300	44	8	52	21	7	28
Challenger 604	35	—	35	31	—	31
Bombardier Global 5000	14	—	14	9	—	9
Global Express/Global Express XRS	16	—	16	13	—	13
	172	14	186	118	10	128

The 45% increase in business aircraft deliveries mainly resulted from the ramp-up in production of newer models (*Challenger 300* and *Learjet 40* aircraft), the introduction of new derivatives (mainly *Learjet 40 XR* and Learjet 45 XR aircraft), as well as from the strengthening of the business aircraft market. There has been an increase in deliveries in all business aircraft models.

Net Orders

During fiscal year 2006, Aerospace received 210 net orders for business aircraft, compared to 154 net orders during fiscal year 2005, which represents a 36% increase. The level of net orders received in fiscal year 2006 is at its highest level since fiscal year 2000. The increase reflects continued strength of the business aircraft market, strong product positioning on the market and Aerospace's continuous investments to meet evolving customer needs.

The order backlog for business aircraft remains strong for each product family.

Market Share

Aerospace competes in eight out of the nine market categories, which on a revenue basis, represent 97% in calendar year 2005 (compared to 96% in calendar year 2004) of the total business aircraft market. Orders, deliveries and market share of the corporate airliner category are shown in the regional aircraft section of this MD&A.

Assessment of market share in the business aircraft industry is based on delivery data from GAMA for the calendar year, and therefore does not correspond with the number of aircraft deliveries recorded during the Corporation's fiscal year ended January 31. For some competitors, GAMA only provides the information by product family. In these cases, Aerospace estimates the deliveries by category using the FAA records, other databases, historical trends and competitive intelligence.

Total deliveries and Aerospace's market share of the business aircraft market in which it competes were as follows for calendar years:

		2005			2004		
			Aerospace			Aerospace	
Category	**Product**	**Total Market (In Units)** [1]	**Total Deliveries In Units)**	**Market Share**	**Total Market (In Units)** [1]	**Total Deliveries (In Units)**	**Market Share**
Light	*Learjet 40/40 XR*	156	21	13%	100	17	17%
Super light	*Learjet 45/45 XR*	92	28	30%	77	22	29%
Midsize	*Learjet 60*	126	18	14%	71	9	13%
Super midsize	*Challenger 300*	91	50	55%	67	28	42%
Large	*Challenger 604*	71	36	51%	82	29	35%
Super large	*Bombardier Global 5000*	55	17	31%	37	4	11%
Ultra long range	*Global Express/Global Express XRS*	49	13	27%	48	20	42%
		640	183	29%	482	129	27%

[1] Deliveries of the very light category (71 units in calendar year 2005 and 84 units in calendar year 2004) are not included in the market total shown above since Aerospace has no product offering in this category.

In calendar year 2005, the 33% increase in the total market, and the two-percentage-point increase in Aerospace's market share in categories in which it competes, reflect mainly the ramp-up in production of the *Challenger 300* and the overall strengthening of the business aircraft market, due to robust economic conditions and growth in emerging markets.

Outlook

In the market categories in which Aerospace competes, it is expected that competition will remain intense over the next few years, as all manufacturers will be offering product upgrades to stimulate demand.

The U.S. real GDP growth consensus estimate, according to Blue Chip Economic Indicators consensus of 53 top economists, dated February 10, 2006, is 3.3% for calendar year 2006, which should support continued strength in the business aircraft market this coming year. According to a report issued by the Transportation Research Board of the FAA dated January 2006, for the market categories in which Aerospace competes, the consensus forecast is for 650 annual deliveries, on average, over the next 10 years. This figure compares to the 500 units delivered annually during the 1996-2005 period.

Increasing energy costs, the possible introduction of user fees (a charge for those who utilize the air traffic control system regardless of the size of the aircraft) and proposed reduced tax breaks on "personal and entertainment" use of business aircraft could dampen demand for business aircraft in the U.S. Emerging markets, such as China, India and eastern European countries offer the most potential for developing business aircraft operations and associated infrastructure.

During calendar year 2005, Aerospace has regained its leadership position of the business aircraft market on a revenue basis. Aerospace is well positioned to benefit from sustained market growth in business aircraft. Aerospace has the broadest line of products in the market, and offers customers total transportation solutions, including business charter services (*Skyjet*), fractional ownership (*Flexjet*) and corporate shuttles (Bombardier Corporate Shuttle Solutions).

II Regional Aircraft

Market Drivers

Economic Environment

Airlines continue to restructure their networks and to rely on their regional airline partners to provide smaller units of capacity at competitive costs to supplement and replace their own larger aircraft capacity, as well as to open new markets. This has contributed significantly to the growth of the regional airline industry as outlined in the table hereafter (Annual year-over-year increases in U.S. airline traffic).

The U.S. airline industry continues to face financial challenges and has undergone some major restructuring.

- Delta Air Lines sold Atlantic Southeast Airlines ("ASA") to SkyWest, Inc. ASA is now a wholly-owned subsidiary of SkyWest Holdings Inc. SkyWest Holdings Inc. has since converted 18 orders of *CRJ200* aircraft in the order backlog to *CRJ700* aircraft and has placed an additional order for four *CRJ700* aircraft during fiscal year 2006.
- US Airways, another one of Aerospace's regional aircraft customers, recently merged with America West to form a new carrier called US Airways and emerged from the U.S. Bankruptcy Act Code ("Chapter 11"). Since US Airways has emerged from Chapter 11, Aerospace has been in negotiations for the affirmation of 30 aircraft in the order backlog.
- On February 1, 2006, UAL Corporation, the holding company whose primary subsidiary is United Airlines, announced that it had formally exited Chapter 11. A significant number of *CRJ* Series aircraft are operated by independent regional airline affiliates under the brand United Express. United Airlines has no ownership position in its regional affiliates.
- Aerospace customers Delta Air Lines, Northwest Airlines, Mesaba Airlines, and FLYi ("Independence Air") have filed under Chapter 11. FLYi operations ceased on January 5, 2006, and the airline is being liquidated under U.S. bankruptcy law.
- These developments have resulted in certain *CRJ100/200* being returned to their lessors or otherwise idled as described below:
    - Northwest Airlines elected to return 15 *CRJ200* aircraft to lessors as part of Northwest's reorganization plan.
    - Delta Air Lines announced its intention to remove up to 30 *CRJ100/200* aircraft operated by Comair, Inc. from revenue service.
    - The cessation of operations at Independence Air resulted in 58 *CRJ200* aircraft being removed from service.

- Based on the above, the number of *CRJ100/200* aircraft that can be returned to lessors or otherwise idled is approximately 100. This represents approximately 10% of the world's *CRJ100/200* aircraft fleet. Aerospace is working directly with the owners and operating lessees of these aircraft to remarket them, particularly outside the traditional U.S. market and with newer airlines. The remainder of the fleet remains in active revenue service, as smaller regional jets continue to play a crucial role in the U.S. network, and will help the airlines to open new markets and provide route frequency in off-peak times.

Availability of Aircraft Financing

The availability of regional aircraft financing continues to be a major challenge. Aircraft ownership costs represent a significant portion of operating expenses for most airlines. As a result, the availability of attractive financing is an important part of the business plans of Aerospace customers. Globally, aircraft financing has been affected by strained airline cash flows. In addition, the U.S. airline industry has been particularly affected by the incidence of major airline bankruptcies. Aerospace has worked and continues to work closely with leading financial institutions to assist regional airline customers to obtain financing.

Revenue Passenger Miles and Available Passenger Capacity

Mainline airlines continued outsourcing routes to their regional partners to reduce costs. Regional airlines are shifting new aircraft purchases to larger capacity aircraft from the 30- and 50-seat aircraft to the 70- and 90-seat aircraft. This shift is due to lower seat-mile costs offered by the larger aircraft, which helps to maintain the airlines' profitability even in a depressed fare environment. Also, additional seats allow the airlines to serve more passengers, as passenger traffic recovers from a low level following the September 11, 2001 event.

According to an *Airline Monitor* report dated January/February 2006, in calendar year 2005, U.S. regional airlines posted a strong annual year-over-year percentage increase in Revenue Passenger Miles ("RPM") and in Available Seat Miles ("ASM") compared to mainline airlines as demonstrated by the table below:

Annual Year-Over-Year increases in U.S. Airline Traffic

	2005		**2004** [3]	
	Regional Airlines	**Mainline Airlines**	**Regional Airlines**	**Mainline Airlines**
RPM [1]	21.3%	4.7%	28.2%	9.4%
ASM [2]	17.6%	1.8%	23.9%	6.3%

[1] RPM is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported one mile.

[2] ASM is a measure of available passenger capacity and represents one seat carried for one mile, whether a passenger occupies it or not.

[3] The calendar year 2004 figures have been restated by *Airline Monitor.*

Fuel Prices

The increases in the price of crude oil, which began in mid-2003, continue to put pressure on the airlines' results. As a consequence, the mainline airlines continue to outsource routes to their regional partners to reduce costs. The regional airlines are shifting new aircraft purchases to larger capacity aircraft, which offer lower seat-mile costs and which help to maintain the airlines' profitability even in a depressed fare environment.

Turboprop economics, built on significantly lower maintenance, fuel and acquisition costs for short-haul flights, have become more appealing with higher fuel prices.

Scope Clauses

Scope clauses in pilot union agreements, restricting the operation of smaller jetliners by major airlines or by their regional affiliates, are gradually moving towards larger capacity regional aircraft in order to allow the mainline airlines and the regional airlines to better compete in low-yield environments. Notable examples of more liberalized scope clauses are at Delta, United, US Airways and Air Canada/Jazz Air Inc.

Competition

Aerospace's main competitors are Embraer in the regional jet category and the European consortium Avions de Transport Régional ("ATR") in the turboprop category.

The table below illustrates Aerospace's competitors by category, in the categories in which Aerospace competes. The shaded areas represent categories in which Aerospace's competitors have a product offering.

	Regional jets				Turboprops		
	20 - 39	40 - 59	60 - 79	80 - 90	20 - 39	40 - 59	60 - 90
Aerospace		Product commonality *CRJ200*	*CRJ700/705*	*CRJ900*	Product commonality *Q200*	*Q300*	*Q400*
Embraer	▨	▨	▨	▨			
ATR						▨	▨

Aerospace has families of aircraft offering commonality in the regional jet and turboprop categories:

Regional Jets

The *CRJ* Series family of aircraft offers regional airlines a network solution with products ranging from 40 to 86 passengers with product commonality, which includes common crew qualification, spare parts and maintenance procedures. Aerospace believes that this family has an economic advantage over competing aircraft due to their superior speed, better fuel efficiency and lower maintenance costs.

Turboprops

The *Q-Series* family of turboprops offers products ranging from 37 to 78 passengers with product commonality, which includes common crew qualification, spare parts and maintenance procedures. The *Q400* aircraft competitive advantage is its superior economics as it offers the lowest cost per seat in the industry. It also offers an extended range and jet-like speed, which allows regional airlines to operate the *Q400* aircraft in markets not traditionally served by turboprop aircraft.

Product Development

Approval was obtained for four *CRJ* Series aircraft enhancement programs from TC:

- The *CRJ900* aircraft Enhanced Performance Packages ("EPP") provide improved take-off and landing performance, increased range and contribute to lower fuel consumption.

- The *CRJ900* LR (long range) aircraft provides an increased payload and can carry a full passenger load more than 2,103 miles (3,385 km), an increase of 270 miles (435 km) over the *CRJ900* ER (extended range) aircraft.
- The *CRJ700* engine upgrade provides operators with savings of up to 15% in engine maintenance costs over 15 years. In addition, the upgrade allows operators to carry a single spare engine type to support a mixed *CRJ700/705/900* aircraft fleet, simplifying fleet management and significantly reducing spares investment.
- The *CRJ705*, the 75-seat regional jet first delivered to Air Canada in May 2005, also incorporates the EPP.

In addition, the *CRJ700* aircraft also received certification with noise levels that are below the latest stringent International Civil Aviation Organization ("ICAO") Stage IV requirements. Like its larger sibling, the *CRJ900* aircraft (the first commercial aircraft to achieve Stage IV compliance), the *CRJ700* aircraft will have improved operational flexibility at noise-sensitive airfields.

Developments for the *Q400* aircraft include an enhanced navigation package for improved pilot situation awareness/productivity. In addition, an optional Enhanced High Gross Weight variant is now available, increasing payload capacity by 1,000 pounds (454 kg) over the High Gross Weight variant.

Aircraft Deliveries

Regional aircraft deliveries were as follows for fiscal years:

	2006	2005
Regional jets		
CRJ200 [1]	44	100
CRJ700	50	64
CRJ705	15	—
CRJ900	12	14
Turboprops		
Q200	1	1
Q300	11	5
Q400	16	16
	149	200

[1] Includes 11 deliveries of the corporate airliner category aircraft in fiscal year 2006 (three deliveries in fiscal year 2005).

The 26% decrease in regional aircraft deliveries is mainly due to lower deliveries of *CRJ200* aircraft, consistent with current market trends, which indicate a reduction in demand for the 50-passenger regional jets.

Orders and Backlog

Aerospace received the following significant net orders for fiscal year 2006:

Customer	Aircraft	Number
Regional jets		
SkyWest	*CRJ700*	24
Deutsche Lufthansa AG	*CRJ900*	12
GoJet Airlines	*CRJ700*	4
Atlasjet	*CRJ900*	3
Turboprops		
Porter Airlines	*Q400*	10
Jeju Air	*Q400*	5
Horizon Air	*Q400*	5
FlyBE	*Q400*	4
Caribbean Aircraft Leasing (BVI) Limited	*Q300*	4

Regional aircraft orders received by aircraft type were as follows as at January 31:

				2006 (1)	2005 (1)
	Orders	Swaps	Cancellations/ removals	Net orders	Net orders
Regional jets					
CRJ200	24	(23)	(16)	(15)	25
CRJ700	35	15	(6)	44	25
CRJ705	—	—	—	—	15
CRJ900	16	1	—	17	6
Turboprops					
Q200	2	—	—	2	1
Q300	8	—	—	8	22
Q400	27	7	—	34	39
	112	—	(22)	90	133

(1) Includes nine net orders of the corporate airliner category in fiscal year 2006 (five net orders in fiscal year 2005).

As a result of the filing by Northwest Airlines for reorganization under Chapter 11, Aerospace voluntarily removed 13 *CRJ200* aircraft, in the third quarter of fiscal year 2006, from its order backlog.

On March 14, 2005, GoJet Airlines placed an order for 10 *CRJ700* aircraft. Subsequently, the interest in six of the aircraft was transferred to General Electric Capital Aviation Services ("GECAS"). As a result, Aerospace relieved GECAS from its previous commitment to purchase six *CRJ700* aircraft, and the order backlog was reduced accordingly.

In the first quarter of fiscal year 2006, Eurowings cancelled three *CRJ200* aircraft.

In fiscal year 2006, 23 orders for the *CRJ200* aircraft, previously received from SkyWest and Air Nostrum, were swapped for 22 *CRJ700* aircraft and one *CRJ900* aircraft. In addition, Horizon Air transferred seven orders for the *CRJ700* regional jet for seven *Q400* turboprops.

The order backlog, as well as options and conditional orders for regional aircraft consisted of the following as at January 31, 2006:

	Aircraft on Firm Order [1]	Options and Conditional Orders
Regional jets		
CRJ200	17	342
CRJ700	51	336
CRJ705	—	15
CRJ900	23	20
Turboprops		
Q200	2	2
Q300	20	11
Q400	64	82
	177	808

[1] There are 37 firm orders in the order backlog with conversion rights to other regional aircraft.

Market Share

Assessment of market share in the regional aircraft industry is calculated on the basis of gross order intake and aircraft deliveries recorded during the calendar year, which does not correspond to the number of gross order intake and aircraft deliveries recorded during the Corporation's fiscal year ended January 31.

Market Share Based on Gross Orders

Total gross order intake and Aerospace's market share in the market categories in which it competes were as follows for calendar years:

	2005			2004		
		Aerospace			Aerospace	
	Worldwide Market (In Units) [1]	Gross Order Intake (In Units) [1]	Market Share [1]	Worldwide Market (In Units) [1]	Gross Order Intake (In Units) [1]	Market Share [1]
CRJ Series	139 [2]	85	61%	241 [2]	157	65%
Q-Series	151 [3]	61	40%	47 [3]	35	74%
	290	146	50%	288	192	67%

[1] Gross orders and market share for the corporate airliner category have been excluded from the above table, as the information is not available.

[2] 40- to 90-passenger aircraft.

[3] 20- to 90-passenger aircraft.

Source: Competitor reports.

In calendar year 2005, the worldwide regional aircraft market, measured by gross order intake, remained stable. However, there has been a significant change in the mix of aircraft ordered. For the first time in a number of years, turboprop orders exceeded regional jet orders with turboprops increasing by 221 percentage points and regional jets decreasing by 42 percentage points.

Aerospace's market share, in the categories in which it competes, decreased by 17 percentage points. This decrease is mainly a result of Aerospace's competitor obtaining two major orders for turboprops in India.

Market Share Based on Deliveries

Total deliveries and Aerospace's market share in the market categories in which it competes were as follows for calendar years:

	2005			2004		
		Aerospace			Aerospace	
	Worldwide Market (In Units)	Total Deliveries (In Units)	Market Share	Worldwide Market (In Units)[4]	Total Deliveries (In Units)[4]	Market Share[4]
CRJ Series	233[1]	125	54%	309[1]	175	57%
Q-Series	43[2]	28	65%	32[2]	19	59%
Corporate airliner	39[3]	5	13%	26[3]	1	4%
	315	158	50%	367	195	53%

[1] 40- to 90-passenger aircraft.

[2] 20- to 90-passenger aircraft.

[3] The worldwide market information for corporate airliners is from GAMA. The 2004 GAMA information has been restated to include Aerospace's deliveries of the corporate airliner category.

[4] 2004 figures have been restated, to separately identify the market share for corporate airliners.

Source: Competitor and GAMA reports.

In calendar year 2005, the worldwide regional aircraft market, measured by deliveries, decreased by 14%. This decrease is consistent with the current market trend, which indicates a reduction in demand for smaller regional jets.

In calendar year 2005, Aerospace's market share, in the categories in which it competes, decreased by three percentage points, mainly due to a decrease in market share for regional jets, partially offset by an increase in market share for turboprops.

Outlook

In response to meeting airlines' requirements for aircraft with exceptional operating economics, Aerospace has started investigating potential options for the proven *CRJ* and *Q-Series* platforms in the 80- to 100-seat aircraft market.

Aerospace currently has two proven families of regional aircraft in service with 12 of the world's 20 largest airlines, their subsidiaries and affiliated companies (as per an *Air Transport World* report dated January 2006, based on revenue passenger miles from January to November 2005).

CRJ Series

Competition for the 70- to 90-passenger regional jet market category will continue to be fierce. Aerospace believes that it is well positioned in this category given the economic advantage of its products, family commonality benefits across the 40- to 86-passenger *CRJ* Series aircraft and the large installed base for the *CRJ100/200* aircraft. Therefore, there is potential that these customers will upgrade to larger capacity *CRJ700, CRJ705* and *CRJ900* aircraft.

The larger models will drive future *CRJ* Series aircraft sales activity. The demand for new 50-passenger regional jet aircraft appears to be satisfied by the current fleet. As a result, Aerospace announced a temporary suspension of the production of *CRJ200* aircraft in October 2005. In February 2006, Aerospace announced that it would restart production of the *CRJ200/ Challenger 850* aircraft platform to primarily meet present and anticipated demand for the *Challenger 850* business jets. In addition, Aerospace will pursue opportunities for the remarketing of pre-owned *CRJ200* aircraft to the regional airline markets in China, Russia, India and Latin America, as well as explore opportunities for the *CRJ200* aircraft in the cargo market.

Q-Series

Due to superior economics offered by turboprops, the turboprop sector experienced a significant worldwide increase in orders, which is expected to continue. Aerospace continues to be well positioned to benefit from the market growth with its comprehensive family of *Q-Series* new-generation quiet turboprop aircraft. Improved seat-mile cost being a necessary response to the continuing difficult environment in the airline industry, Aerospace expects demand for the larger regional aircraft, such as *CRJ700, CRJ705*, *CRJ900* and *Q400* aircraft, to increase. Sourcing regional aircraft attractive financing is expected to remain a challenge.

IV Aircraft Services and New Commercial Aircraft Program

Parts Logistics

Aerospace provides worldwide 24-hour spare parts support, including regular shipments, aircraft-on-ground service, lease programs, hourly programs, rotable management programs, surplus sales and customer-owned repair. Customers are currently served from:

- Main distribution centres in Chicago (238,000 sq ft—22,110 m^2) and Frankfurt (50,000 sq ft—4,650 m^2).
- Depots in Montréal, Singapore, Sydney, Dubai and Beijing.

On September 7, and on December 8, 2005, Aerospace officially inaugurated two high-volume aircraft parts distribution warehouses in Chicago and Frankfurt, respectively. The newly-built warehouses serve as the central distribution points for essentially all of Aerospace's aircraft parts, offering operators of Aerospace business jets and regional airliners worldwide, improved local parts availability, delivery and service quality.

The parts logistics organization supports the parts requirements of substantially all of Aerospace's customers for the life of the aircraft. Spare parts demand is driven by the size of the fleet of Aerospace aircraft and by the number of hours flown. The continued growth of the installed fleet will contribute to the growth in spare parts demand.

Aerospace competes with various large and small suppliers of aerospace parts. Aerospace's competitive strengths include the availability of most spare parts for its aircraft, which are managed with the use of an integrated system, allowing quick turn-around to meet customer requests, lowering inventory costs and improving inventory turnover. Aerospace is at an advantage by offering Original Equipment Manufacturer ("OEM") certification along with OEM technical advice. Aerospace also offers a number of spare parts programs for customers, including *Smart Parts* program, which allows customers to purchase spare parts on a cost-per-flight-hour basis.

Aircraft Maintenance

Aerospace offers maintenance services for its business aircraft customers at its four exclusive centres located in Fort Lauderdale, Hartford, Wichita and Dallas as well as at a service centre located in Berlin, in which the Corporation holds an equity investment. In addition, Aerospace offers maintenance services to its business and regional aircraft customers at two centres, located in Tucson and Bridgeport.

Aerospace is also associated with 31 authorized service facilities worldwide, of which 28 facilities are for business aircraft and three for regional aircraft, which provide complete services to operators. These service facilities are located in Europe, Asia, Africa, Australia, North America and South America.

Customer Training

Aerospace offers a complete range of pilot and maintenance training programs for *CRJ* Series aircraft in Montréal as well as through a joint venture in Berlin.

Aerospace provides customized business aircraft pilot and maintenance training, as well as ancillary training. The training centres are located in Montréal and at the Dallas/Fort Worth International Airport.

Military Aviation Training

Aerospace's Military aviation training ("MAT") division, in collaboration with a team of sub-contractors, delivers integrated training solutions.

MAT currently has two major Canadian aviation training contracts: the NATO Flying Training in Canada ("NFTC") program and the CF-18 Advanced Distributed Combat Training System ("ADCTS") program.

Nations currently participating in the NFTC program include Denmark, the U.K., the Republic of Singapore, Italy, Hungary and Canada. Finland, Sweden, France and Germany have also sent instructor pilots to the program.

The ADCTS contract includes the design and construction of purpose-designed facilities, as well as the provision of full instructional and support services for up to 15 years for the Canadian Air Force's CF-18 ADCTS program.

CSeries

During fiscal year 2005, Aerospace undertook a feasibility study in connection with the development of a new generation of commercial aircraft, identified as the *CSeries.* The *CSeries* aircraft are designed to offer an economical, passenger-friendly and operationally flexible family of aircraft, and to offer mainline airlines, both the fast-growing low-cost carriers and network carriers, a 110- to 130-passenger family of aircraft with superior range and economics as well as operational flexibility.

In March 2005, the Board of Directors of the Corporation approved an authority to offer ("ATO") whereby Aerospace was able to offer a new *CSeries* family of aircraft to customers. The Board of Directors also reiterated the three conditions for program launch at that time:

1. The product family was to meet certain operational performance objectives, set forth at ATO.

2. The program business case had to meet certain requirements, set forth at ATO, including commitments for financing.

3. Firm customer commitments in the range of 50 to 100 aircraft had to be received.

On January 31, 2006, the Corporation concluded that it had met the first two conditions above, however, with respect to the third condition, market conditions were such, especially the financial instability of many U.S. airlines, that the launch of the *CSeries* program was not justified at this time.

The CSeries program has not been cancelled. A small team of approximately 50 employees will remain with the program to further develop its business plan, with an emphasis on including other partners, particularly ones in fast-growing major aerospace markets. Aerospace will now concurrently continue to explore the *CSeries*' potential as well as pursue opportunities in the regional aircraft market. Aerospace will re-orient *CSeries* project efforts and a majority of the *CSeries* program employees to regional jet and turboprop aircraft opportunities to address regional airlines' future needs in the 80- to 100-seat aircraft market. Aerospace's commitment to the upper end of the regional aircraft market and the lower end of the mainline market remains strong and it expects to continue to explore opportunities in these markets in the future.

Amphibious Aircraft

Aerospace manufactures and markets the *Bombardier 415* turboprop amphibious aircraft, a purpose-built firefighting aircraft. This aircraft can also be adapted to a multipurpose version, the *Bombardier 415*MP, which can be used in a variety of specialized missions such as search and rescue, environmental protection, coastal patrol and transport. Certification of the multipurpose *Bombardier 415*MP was obtained in March 2004. Production of the *Bombardier 415* resumed during fiscal year 2006 in response to improved market conditions. In February 2006, Aerospace re-launched the *CL-215*T program in response to customer demand, mainly in Canada, for a conversion of a *CL-215* piston aircraft to a turboprop engine aircraft. The converted *CL-215*T aircraft have a performance equivalent to that of the *Bombardier 415* aircraft.

Government and Missionized Aircraft

Aerospace continues to identify and provide special mission aircraft sales solutions to governments and special interest organizations worldwide. Aerospace recognizes the potential market for special mission versions of both regional and business aircraft and is dedicated to further develop this market through sale, marketing and support of these aircraft. Aerospace is mandated to work with technical and third-party specialists to support the conversion of these aircraft for their special roles.

V Flexjet and Skyjet

Flexjet

Through the North American *Flexjet* program, owners purchase shares of aircraft with operations and support, including flight crew, maintenance, hangar fees and insurance. The North American *Flexjet* program has partnered with Delta AirElite Business Jets, a subsidiary of Delta Air Lines, to market and sell the *Flexjet* membership card program (25-hour block of flight time entitlement on the *Flexjet* fleet).

The *Flexjet* program included 84 aircraft in service in North America as at January 31, 2006, compared to 79 aircraft as at January 31, 2005. The 6% increase is due to the increasing popularity of the *Challenger 300* and *Learjet 40* aircraft offered in the *Flexjet* program. *Flexjet* has continued to make operational improvements that have allowed Aerospace to more closely align aircraft in service to aircraft sold. *Flexjet*'s operational improvements have also contributed to a year-over-year increase in owner satisfaction and retention.

Skyjet

The North American *Skyjet* program offers both on-demand and flight time entitlement charter services. Through the *Skyjet International* program, which serves the European, Asian, and Middle Eastern markets, customers purchase hours of flight time entitlement instead of shares of aircraft. The *Skyjet* program arranges for its customer's business jet charter with selected air charter operators.

Number of Customers Under the Flexjet and Skyjet Programs

The number of customers owning shares of aircraft, or with an hourly flight time entitlement, excluding customers serviced by Delta AirElite Business Jets, was as follows as at January 31:

	2006	2005
Flexjet		
Customers owning shares of aircraft	612	593
Skyjet		
Customers with an hourly flight time entitlement	288	219
	900	812

Flexjet

The net increase of 19 customers, who own shares of aircraft, is mainly due to the increasing popularity of certain business aircraft models and *Flexjet* program innovations, designed to increase owner value and establish a competitive advantage in the fractional market. Among the program innovations launched in fiscal year 2006 is an expanded secondary service area for *Challenger* aircraft that now includes travel between Europe and Hawaii. *Flexjet* also announced a multiple-use program that provides fractional owners with access to more than one aircraft at a time.

Skyjet

The net increase of 69 customers with an hourly flight entitlement is mainly due to the growing demand for business jet travel and the success of the *Skyjet* card program (25-hour block of flight time entitlement).

VI Other

Aerospace is establishing a manufacturing facility in Querétaro, Mexico, to complement its existing manufacturing sites. The facility will allow Aerospace to develop a low-cost manufacturing capacity that, among other things, is intended to reduce reliance on third parties for structural aircraft components and contribute to the reduction of operating costs. Capabilities at the Mexican facility are scheduled to be implemented in phases starting in the second quarter of fiscal year 2007 and will initially include the manufacture and assembly of wire harnesses for Aerospace aircraft.

TRANSPORTATION

I Overview

Bombardier Transportation is the global leader in the rail equipment manufacturing and service industry. The transportation section of the MD&A is structured by market segment. The table below presents the main market segments as well as an overview of their main products and services.

Rolling Stock			Services	System and Signalling	
Rolling Stock	Propulsion & Controls	Bogies	Services	System [1]	Signalling [2]
Locomotives	Traction converters	Portfolio of products which match the entire range of rail vehicles	Fleet management	Automated people movers	Integrated control systems
High-speed trains	Auxiliary converters		Spare parts & logistics management	Advanced rapid transit	
Intercity trains	Traction drivers			Light rapid transit	Onboard computer systems
Regional trains	Control and communication		Vehicle refurbishment & overhaul	Turnkey systems	Automatic train protection and operation
Commuter trains			Component refurbishment & overhaul	Automated monorail	Wayside interlocking & equipment
Metros			Technical support	Operations & maintenance related to systems	
Light rail vehicles					

[1] Previously referred to as Total Transit Systems.

[2] Previously referred to as Rail Control Solutions.

Forward-Looking Statements

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

- current backlog and estimated future order intake;
- expected growth in signalling and services businesses;
- maintaining market leadership in rolling stock and systems;
- normal contract execution and continued deployment of strategic initiatives, especially those linked to cost reductions including procurement and manufacturing improvement initiatives;
- market forecasts, using long-term market demand models and future project databases, consistent with publicly available market forecasts; and
- recent trends in the industry which are expected to continue in the foreseeable future.

Business Environment

The rail market consists primarily of customers in the public or quasi-public sectors, such as large national railways, regional railways and municipal transit authorities. Trends toward deregulation in some markets are driving an emergence of private operators. Public-sector entities still dominate the market, however, and most contracts include some form of public involvement related to financing of operations or funding of infrastructure. In many countries, investment in rail infrastructure is viewed as a public-sector obligation.

Rail contracts tend to be large in size and relatively complex in design. While common platforms are generally preferred by suppliers, the majority of contracts, particularly those in rolling stock, require product customization to fit the unique characteristics of individual rail systems. Projects often demand extensive engineering and design work up front before production can begin, resulting in significant lead times before delivery.

The supplier field serving the rail market is concentrated with the largest three competitors accounting for approximately 50% of the accessible world market.

Anticipated trends for the coming 12 months include further deregulation of rail markets and continuing movement by operators toward outsourcing equipment maintenance and related services. Urbanization and congestion, driving the need for new and improved urban rail systems, will be another influencing factor. Growing populations and the increasing number of large cities in the Asia-Pacific and Middle East regions are expected to be key catalysts in driving demand for urban transit systems. Europe's focus on cross-border traffic will also be a factor as development of rail freight on international corridors builds demand for multi-system locomotives and European Rail Traffic Management System ("ERTMS"). New regulations and trends towards automation and driverless rail systems will provide opportunities for growth in the signalling market. An increasing emphasis on security and safety in all modes of transport will play a role in the defining of new rail products and features.

Potential challenges facing Transportation include the risk of delayed or cancelled projects, potential reduction of public funding, increasing competition leading to price erosion, and the possibility of operators adopting services outsourcing at a slower than projected rate.

The need to replace rolling stock and existing infrastructure presents an attractive opportunity for newly-built equipment. Rail assets have a long lifetime, lasting up to 30 years. Many current fleets are approaching the end of their useful lifecycle, making replacement of the existing rolling stock and signalling installed base a primary driver of future demand. Increasing cross-border traffic in Europe and new urban light rail, metro and commuter systems or extensions to existing systems create additional opportunities for Transportation. Transportation is well positioned for new rolling stock orders, by leveraging its product portfolio, e.g. in multi-system locomotives and light rail vehicles, or by deploying ERTMS signalling equipment and through its global presence. In addition, the shift from air and road modes of transportation to rail transportation creates opportunities in some market segments.

In services, the continuing trend towards outsourcing vehicle maintenance and supporting activities presents an additional growth opportunity for Transportation, which currently maintains more than 8,000 rail vehicles around the world. In addition, the trend towards longer-term service contracts will provide further growth opportunities for Transportation.

Transportation is also focused on high-potential, emerging markets—such as China, Asia-Pacific, Russia and central and eastern Europe—that are showing great promise. With its local presence, Transportation is well positioned to gain from the huge infrastructure demand in the new European Union ("EU") member states.

In the Middle East, increasing growth and development is creating opportunities for activity in the systems industry.

Goals/Strategy

Most of the restructuring activities having been completed, Transportation's primary goal is to improve EBIT margin to reach its goal of 6% over the next two to four years.

Improved and sustained profitability will be achieved through:

- growth in the services and signalling businesses;
- maintaining market leadership in rolling stock and systems;
- improvements in contract execution;
- continued deployment of strategic initiatives, especially those linked to cost reductions, including procurement and manufacturing improvement initiatives; and
- leveraging strength of current extensive product offering and further improving the portfolio.

Key elements necessary to achieve success in the current business environment include a broad, leading-edge flexible product portfolio, which can be customized to deliver technical compliance, competitive initial purchase cost and attractive lifecycle costs. The ability to effectively protect and manage intellectual property is also an important factor in the current market. Superior engineering capability linked with highly evolved project management processes are critical capabilities necessary in bringing products to market on time and with high quality. Global presence accentuated by established local partners will support efficient entry into markets around the world. Developing and managing a strong and reliable supply base is vital to ensuring consistent, just-in-time flow of components and materials into the production process. A flexible talent pool of well-trained workers is also a requirement in an increasingly competitive market.

Highlights

- EBIT percentage before special items of 2.7%, compared to 0.4% last fiscal year.
- $7.3 billion in new orders for the year exceeding revenues by $671 million (book-to-bill ratio of 1.1).
- Progress on restructuring initiatives in fiscal year 2006. Seven sites closed as planned or ahead of schedule. Net reduction of 7,500 positions (of the planned 7,600 positions) achieved by the fourth quarter of fiscal year 2006.
- Maintained market leadership in rolling stock, significantly improving the position in locomotives and light rail vehicles.
- Maintained leading position in rolling stock with the successful product introduction of multi-system locomotives for cross-border traffic and received an order for the 1,300th *FLEXITY* tram. In signalling, Transportation achieved the number one position for the delivery of ERTMS onboard and wayside systems.

Analysis of Results

The results of operations of Transportation using functional currencies other than the U.S. dollar, mainly the euro, the sterling pound and other western European currencies are translated into U.S. dollars using the average exchange rates for the relevant periods. Mainly due to the weakening of the euro and other European currencies compared to the U.S. dollar ("currency impact"), the results of operations have been negatively impacted (see the Foreign exchange rates section of this MD&A for the average exchange rates used to translate revenues and expenses).

Transportation's results were as follows for fiscal years:

	2006	2005
Segmented revenues		
Rolling stock	$4,365	$5,622
Services	1,329	1,270
System and signalling [(1)(2)]	959	692
Total segmented revenues	6,653	7,584
Cost of sales	5,808	6,850
Margin	845	734
Operating expenses [(3)]	527	563
EBITDA before special items	318	171
Amortization	139	138
EBIT before special items	179	33
Special items	(88)	(172)
EBIT	$ 91	$ (139)
(as a percentage of total segmented revenues)		
Margin	12.7%	9.7%
EBITDA before special items	4.8%	2.3%
EBITDA	3.5%	—
EBIT before special items	2.7%	0.4%
EBIT	1.4%	(1.8)%

[(1)] The revenues of system and signalling are presented in the caption. Other revenues in the consolidated statements of income.

[(2)] Excluding the rolling stock portion of system orders manufactured by other divisions within Transportation.

[(3)] Comprised of selling, general and administrative and research and development expenses.

Segmented Revenues by Geographic Region

	2006		2005	
Europe	$4,781	72%	$6,266	83%
North America	1,223	19%	918	12%
Asia-Pacific	495	7%	336	4%
Other	154	2%	64	1%
	$6,653		$7,584	

Rolling Stock Revenues

The $1,257-million decrease is mainly due to:

- decreased mainline revenues in the U.K. and Germany, due to a lower level of activities in these markets; and
- the negative currency impact, amounting to approximately $25 million.

Partially offset by:

- increased mainline revenues in North America, due to a higher level of activities.

Services Revenues

The $59-million increase is mainly due to higher maintenance revenues in the U.K. and the U.S., partially offset by a negative currency impact, amounting to approximately $15 million.

System and Signalling Revenues

The $267-million increase is mainly due to:

- increased signalling revenues for projects in Asia, Italy and Spain, due to a higher level of activities in these markets;
- increased system revenues in Asia-Pacific, mainly due to a contract in Taiwan; and
- higher activities related to the signalling portion of the London Underground contract.

Margin Percentage

The three-percentage-point increase relates to:

- improvements in contract execution;
- the positive impact of procurement initiatives;
- the positive impact of the restructuring; and
- the negative impact of contract adjustments, amounting to $200 million, recorded in the first quarter of fiscal year 2005.

Operating Expenses

The $36-million decrease is mainly due to:

- lower selling, general and administrative ("SG&A") expenses resulting mainly from the restructuring plan and other cost-reduction initiatives; and
- the currency impact, amounting to approximately $5 million.

Amortization

Amortization remained essentially unchanged compared to last fiscal year. A decrease due to real estate impairment charges recorded last fiscal year and the remaining amortization recorded on sites closed in the first quarter of last fiscal year, compared to no amortization recorded in the current fiscal year was offset by an impairment charge, amounting to $17 million, in connection with trademarks recorded in the fourth quarter of fiscal year 2006.

Orders and Backlog

Transportation received the following major orders during fiscal year 2006:

Customer	Product	Number of Cars	Rolling Stock
Metropolitan Transportation Authority (MTA)/Metro-North Railroad (MNR) and Long Island Rail Road (LIRR), U.S.	M-7 electric multiple units	194	$425
Société Nationale des Chemins de fer Français (SNCF), France	High-capacity trains, type AGC	274	343
Trenitalia, Italy	*TRAXX* locomotives, type P160 DCP	100	323
Red Nacional de los Ferrocarriles Españoles (RENFE), Spain	Very high-speed power heads, type AVE S-102	60	290[1]

Customer	**Product**	**Number of Cars**	**Rolling Stock**
Deutsche Bahn (DB), Germany	Suburban electric multiple units, type ET 422	312[2]	262
Société Nationale des Chemins de fer Français (SNCF), France	High-capacity trains, type AGC	168	239
Österreichische Bundesbahnen (ÖBB), Austria	*Talent* electric multiple units	240	223
New Jersey Transit, U.S.	Multi-level commuter cars	131	206
Angel Trains Cargo, U.K.	*TRAXX* locomotives, type F140 MS/DC	36	202
Landesnahverkehrsgesellschaft Niedersachsen, Germany	Double-deck coaches/*TRAXX* locomotives, type P160 AC2	78/9	172
Red Nacional de los Ferrocarriles Españoles (RENFE), Spain	High-speed power heads	46	145
Metrorex, Romania	*MOVIA* metro vehicles	120	144
Société Nationale des Chemins de fer Français (SNCF), France	TGV Duplex and power cars	272[3]	127
Nederlandse Spoorwegen (NS—Netherlands Railways), Netherlands	Sprinter electric multiple units	174[4]	125
Ministry of Railways of China	High-speed trains	160[5]	119
Société Nationale des Chemins de fer Belges (SNCB), Belgium	Double-deck coaches M6	90	108
Ferrocarrils de la Generalitat Valenciana, Spain	Bi-directional *FLEXITY* Outlook trams	30	106
RET Rotterdam, Netherlands	*FLEXITY* Swift trams	21	100

[1] Total contract value is $786 million. Transportation will build 60 power heads for a total of 30 contracted trains.

[2] Total number of contracted cars, Transportation and Consortium partner combined. Total contract value is $402 million.

[3] Total number of contracted cars, Transportation and Consortium partner combined. Total contract value is $660 million.

[4] Total number of contracted cars, Transportation and Consortium partner combined. Total contract value is $298 million.

[5] Total number of contracted cars, Transportation and its joint venture partner combined. Total contract value is $276 million.

Transportation's total order intake was as follows for fiscal years:

(in billions of dollars)	**2006**	**2005**
Rolling stock	$5.3	$2.7
Services	1.2	1.0
System and signalling	0.8	0.7
	$7.3	$4.4

The $2.9-billion increase is mainly due to higher order intake in mainline (mainly Europe and U.S.), locomotives (Europe) and light rail vehicles (Europe).

Transportation's order backlog was as follows as at January 31:

(in billions of dollars)	2006	2005
Rolling stock	$11.6	$11.4
Services	4.4	4.8
System and signalling	4.9	5.1
	$20.9	$21.3

The decrease in the value of the order backlog reflects the negative impact of the weakening of the euro and the sterling pound compared to the U.S. dollar, amounting to approximately $1.0 billion. This negative currency impact was partially offset by a higher order intake compared to revenues recorded. The order backlog is translated into U.S. dollars using year-end rates.

Restructuring Initiative

In fiscal year 2005, a restructuring plan to reduce the cost structure in Transportation was initiated. This restructuring contemplates workforce reductions of 7,600 positions, net of new hires, of which 7,300 are permanent positions, and the closure of seven manufacturing sites. Approximately 7,500 positions, net of new hires, including contractual employees, were eliminated as at January 31, 2006.

Five sites ceased manufacturing activities during fiscal year 2005. The two remaining sites scheduled to be closed—Ammendorf (Germany) and Kalmar (Sweden)—ceased manufacturing activities as planned in December 2005.

The costs and net cash outflows related to the restructuring plan are as follows:

	Actual F2004/F2005	Actual F2006	Expected F2007	Expected Total
Severance and other involuntary termination	$303	$ 35	$ 2	$340
Other [(1)]	218	53	19	290
	$521	$ 88	$ 21	$630
Net cash outflows	$147	$170	$147	$464

[(1)] Comprised of lease termination and environmental costs, as well as other costs, partially offset by non-taxable gains on the sale of land and buildings, amounting to $27 million for fiscal year 2006.

The total cost of the restructuring plan is estimated at $630 million ($617 million as at January 31, 2005). The increase in the total expected cost is mainly due to a change in the cost estimate for severance and other involuntary termination costs related to employees in Europe.

The total net cash outflow is now estimated at $464 million ($473 million as at January 31, 2005). This decrease in total expected net cash outflows is mainly due to the weakening of the euro and sterling pound compared to the U.S. dollar. This decrease was partially offset by the previously discussed increase in severance and other involuntary termination costs.

The Corporation expects the remaining restructuring costs to be recorded by April 2006, with the expected net cash outflows to be essentially disbursed by the end of fiscal year 2007.

Workforce and Labour Relations

The total number of employees was as follows as at January 31:

	2006	2005
Europe	21,551	24,500
North America	6,163	6,250
Other	930	820
	28,644 [1]	31,570 [1]

[1] Including 2,070 and 2,200 contractual employees for fiscal years 2006 and 2005 respectively.

The 9% decrease in the total number of employees is mainly due to the restructuring initiative.

In Europe and North America, respectively 80% and 40% of the employees were covered by collective agreements as at January 31, 2006. During fiscal year 2007, 41 collective labour agreements in Europe are up for renewal for clerical and production employees, covering approximately 13,000 employees, and two collective agreements in North America are up for renewal for clerical and production employees, covering approximately 900 employees.

Market Overview

The worldwide rail industry is comprised of rolling stock, services, systems and signalling, including rail-related telecommunication equipment. The worldwide rail market relevant to Transportation is the market accessible to open bid competition, excluding the North American freight locomotive and wagon markets, segments in which Transportation has no product offering.

The worldwide Transportation-relevant market, by market segment, based on total annual orders received was as follows for calendar years:

	2005	2004
(in billions of dollars)		
Rolling stock	$17.2	$14.0
Services	13.8	13.7
System and signalling	8.3	7.7
	$39.3	$35.4

The worldwide Transportation-relevant market, by geographic region, based on total annual orders was as follows for calendar years:

	2005		2004	
	Total Market	(in %)	Total Market	(in %)
(in billions of dollars)				
Europe	$23.2	59	$22.1	62
North America	6.9	18	5.0	14
Asia-Pacific	4.8	12	5.2	15
Other	4.4	11	3.1	9
	$39.3		$35.4	
Transportation market share (in %) [1]	19%		12%	

[1] Based on a three-year average, Transportation's market share would be 16% and 19% for calendar years 2005 and 2004 respectively, excluding the London Underground project awarded in 2003.

- The European and North American markets grew due to an increase in rolling stock orders.
- Asia-Pacific remained at a high level due to sustained investments in China.
- Other markets increased, mainly due to the award of a large system project in Dubai, United Arab Emirates.
- Transportation's market share in terms of orders was 19% in calendar year 2005, compared to 12% in calendar year 2004. The increase is mainly due to a 66% increase in Transportation's order intake, compared to an 11% increase in the total market.
- The accessible worldwide rail market is expected to remain sustainable at a high level of above $35.0 billion over the next three years, compared to a three-year average market size of $34.5 billion over calendar years 2003 to 2005, excluding the one-time impact of the exceptionally large London Underground project in 2003.

II Rolling Stock

Market Drivers

The demand for rolling stock is driven primarily by vehicle replacement needs in the mature European and North American markets. Additional demand is created by the extension of the high-speed network and growth in the regional and commuter segment in Europe and by new lines and transit systems in the Asian emerging markets. Infrastructure investment is one of the leading indicators for demand in rolling stock and will drive demand in China, where the network planned is to be extended by 17,000 km to 90,000 km by 2010. In Europe, rail transport will benefit from the Trans European Network, a program to improve overall transportation conditions in Europe until 2020, including 25,000 km of new build or upgraded railway lines. In addition, the liberalization of the rail market is expected to continue to positively influence the rail market with the emergence of new rail freight and passenger operators.

The rolling stock fleet can be broadly defined either by its mainline applications (commuter, regional and long-distance services, including inter-regional, intercity and high-speed services) or mass transit services (metro, light-rail and automated systems).

Mainline

The worldwide mainline rolling stock fleet was as follows for calendar year 2005:

	Number of Cars	(in %)
Europe	178,000	36
Asia-Pacific	175,000	35
Other [1]	108,000	22
North America	35,000	7
	496,000	

[1] Including the Commonwealth of Independent States.

Sources: Union Internationale des Chemins de Fer, World Bank, and Transportation research.

Western Europe alone accounts for 145,000 cars, with 19% of its fleet above the 30-year replacement threshold and another 30% reaching life expectancy during the next decade. The addition of high-speed and very high-speed lines throughout Europe and Asia-Pacific is also increasing the demand for high-speed trains, with the latest technologies in propulsion and train control systems. Today a large portion of the Asia-Pacific and Other market is not accessible to international competition. The ongoing opening of these regions is expected to create further potential for Transportation.

Mass Transit

The worldwide mass transit fleet consists of approximately 63,000 metro cars and approximately 45,000 light rail vehicles. There are approximately 100 metro systems worldwide, with New York and London having the largest installed fleets. Over 50% of the light-rail fleet is located in Europe, with Germany representing 15% of the worldwide fleet.

The demand for rolling stock in the mass transit segment is primarily driven by new transit systems in Asian and Middle Eastern countries, driven by economic growth and urbanization, and by extensions to existing systems and replacement needs in Europe and North America. Between 20% and 25% of the European metros and Light Rail Vehicles ("LRV") fleets are above replacement threshold age and another 30% will reach their life expectancy during the next decade. Large LRV systems exist in eastern Europe; however demand is growing slowly due to funding challenges. Approximately 30% of the North American metro fleet is above replacement threshold age.

Competition

Transportation has two major global competitors, Alstom Transport, a division of Alstom SA ("Alstom") and Siemens Transportation Systems, a division of Siemens AG ("Siemens"). Both are active in the same markets as Transportation.

Ansaldobreda Spa Transport ("Ansaldo") is also a full line supplier, with established bases in Italy and other European countries. Construcciones y Auxiliar de Ferrocarriles SA ("CAF"), Patentes Talgo SA, and Stadler Rail AG are specialized in the field of passenger cars, mainly in Europe. CAF and Talgo are also active in North America. Vossloh AG is active in the field of diesel locomotives and propulsion, among others.

Japanese suppliers like Kawasaki Heavy Industries Ltd., Mitsubishi Electric Corporation and Toshiba Corporation are competing mostly in Asia and the U.S. in rolling stock or electrical propulsion segments. Rotem Company is a Korean manufacturer of passenger rolling stock active in Asia, the U.S. and Europe.

Transportation has traditionally maintained project-based business relationships with most of its competitors, especially in Europe.

Transportation's key competitive advantage is its unmatched passenger rolling stock product portfolio, which comprises all train types and major subsystems, including single and double-deck trains, multiple units and loco-hauled trains, electric and diesel propulsion, steel and aluminium carbodies, bogies, from urban application up to very high-speed.

In the U. K., electrical and diesel multiple units manufactured and maintained by Transportation have been ranked the most reliable for four consecutive years.

Product Development

- Transportation is continuously improving its portfolio of product platforms and families to maintain its position as the globally recognized railway technology leader, with focus on *TRAXX* locomotives, *FLEXITY* light rail vehicles, *MOVIA* metros, double-deck trains, regional & commuter and very high-speed trains.

- Transportation follows a path of standardization, modularization and complexity reduction, while offering a range of customizable features to the operator. In addition, developments are pursued in crash prevention, safety, reliability, availability, cost reduction, noise reduction, ride comfort, environmental-friendly products and the development of total security solutions.

- Transportation was awarded a contract for *TRAXX* DE diesel-electric locomotives by Landesnahverkehrsgesellschaft Niedersachsen mbH. With this first customer, a new diesel variant will be developed and the *TRAXX* platform completed, comprising diesel-electric, AC, DC and multi-system locomotives.
- In Germany, Transportation has successfully introduced a new generation of innovative coaches based on proven components of its double-deck coaches. In addition, the development of a new generation of regional/commuter multiple units for the European core markets is ongoing.
- Development in the high-speed segment is ongoing for high-speed and very high-speed power heads and the completion of a design study for the *Zefiro* very high-speed train.
- In North America, Transportation unveiled to the media on September 14, 2005, the first multi-level commuter cars being designed and built for New Jersey Transit.
- The extensive LRV product range is being streamlined and optimized. Innovative technical features (e.g. energy saving and battery systems allowing for short-distance operation without overhead power supply) are integrated into the products.
- Ongoing development of the new MITRAC Train Control and Management System: a system adaptable to future information technology developments based on Internet Protocol ("IP") technology. Key advantages of the IP system are the use of a technology based on open industry standard, adaptability, flexibility, scalability, much higher bandwidth and processing capacity. The system will enable real-time information and data exchange, providing Transportation's customers with new functionalities and possibilities of revenue generation.

Order Backlog

Transportation recognizes revenues using the percentage-of-completion method based on actual cost incurred compared to total cost anticipated for the entire contract. The order backlog segmented by percentage of completion was as follows as at January 31:

(in billions of dollars)	2006	2005
0% to 25%	$ 6.4	$ 5.4
25% to 50%	2.4	2.7
50% to 75%	1.2	1.8
75% to 100%	1.6	1.5
	$11.6	$11.4

The evolution of the categories reflects new orders received more than offsetting contract progress during the year.

Market Share

The worldwide rolling stock market relevant to Transportation is the market accessible to open bid competition excluding the North American freight locomotive and wagon markets, segments in which Transportation has no product offering.

The worldwide rolling stock market relevant to Transportation, based on total annual orders, by geographic region, and Transportation's market share were as follows for calendar years:

	2005		2004	
	Total Market	Transportation Market Share [(1)]	Total Market	Transportation Market Share [(1)]
(in billions of dollars)				
Europe	$11.0	36%	$ 9.4	36%
North America	2.0	37%	0.7	43%
Asia-Pacific	3.1	10%	3.4	11%
Other	1.1	5%	0.5	9%
	$17.2	31%	$14.0	32%

(1) Transportation's annual market share calculation is based on an average of the total value of orders received compared to the total market during the past three years, consistent with industry practice. Market share calculations do not include European freight wagons, since Transportation has decided to exit this business.

- Europe remained the largest market for rolling stock. Orders placed increased by $1.6 billion year-over-year, mainly due to the recovery of the German market, and a high level of orders in France and Spain.
- The North American passenger rolling stock market increased due to large commuter and metro orders, from a low level last year.
- The Asia-Pacific market decreased slightly, but remained at a high level driven by orders in China for high-speed trains, locomotives and metros.
- Transportation maintained its market leadership worldwide and in Europe.
- In North America, the unsuccessful bid for a significant contract in the U.S. resulted in a decrease in Transportation's market share.
- In Asia, Transportation maintained its position with orders from China for intercity coaches and electric multiple units.

Outlook

The total European rail market is expected to remain the largest rail market over the next few years. Large orders are expected to be placed in Germany, France, Italy and Spain. An increase in demand is expected from the new European Union member states.

In North America, expected large metro and commuter rail contracts should keep the market volume over the next few years at the historical average.

In Asia-Pacific, the rolling stock market is mainly dependant on the development of the Chinese market, which is expected to remain at a high level, with large orders for locomotives, metros, intercity and high-speed rail.

The worldwide accessible rolling stock market is expected to remain at the same average level over the next three years compared to the average of $14.0 billion over the past three years. Upward potential is dependant on the materialization of major projects.

III Services

Market Drivers

The global trend towards outsourcing services is expected to continue. The emergence of new private operators in freight and passenger rail operations and rolling stock leasing companies remains a key driver. In addition, pressure on public budgets drives national operators towards outsourcing. Recent trends demonstrate an interest of national railways in outsourcing solutions that make use of their own workforce. Nevertheless, national railway operators who have, over the years built up extensive expertise and capability, still perform a major portion of vehicle maintenance and refurbishment in-house.

In the U.K., the main market, new opportunities for fleet maintenance are linked to the ongoing consolidation and re-tendering of rail operations. In this country, the number of operators is reduced and their challenge is to provide higher availability and more reliable vehicles at reduced costs. Transportation is well positioned to assist the operators to meet this challenge with a range of value solutions.

In North America, funding trends are forcing transit agencies to look for opportunities to reduce their operating budgets, for example, by delegating the responsibility for specific areas to the private sector, such as materials and inventory management. Transportation's operations, maintenance, overhaul, and material solutions expertise, and the flexibility with which that expertise can be applied to meet transit agencies' needs, are creating opportunities.

The high level of activity in vehicle refurbishment and overhaul sustained in calendar year 2005 is expected to continue during the next years, both in western Europe and in the EU's new accession countries.

Competition

For the services of Transportation-built trains, which are the primary focus of Transportation's services activities, Transportation is competing with railway operators, subsystem and component suppliers as well as third-party service providers in this highly fragmented market. For combined rolling stock and maintenance contracts, Transportation has the same two main competitors as in rolling stock, Alstom and Siemens, who also offer a full range of services. Most other rolling stock manufacturers are also active in the services segment.

Transportation's main strategic advantage is its large rolling stock installed base in key markets with a total of 97,000 cars and locomotives. This installed base, with an estimated annual service volume of more than $8.0 billion, represents a significant growth opportunity for Transportation, which currently has $1.3 billion of annual services revenues. More than 80% of this services volume is located in Europe, 50% of which is already outsourced.

Transportation's fleet maintenance expertise, intellectual property rights, an extensive materials supply chain and proven capability ensure Transportation's competitiveness in the services segment.

Product Development

As part of delivering innovative solutions, Transportation has launched the future of intelligent maintenance by providing customers the opportunity to employ predictive asset maintenance. First launched in the U.K., this concept will be extended to the rest of Europe.

The new refurbishment centre in Derby, U.K., was launched during the year to combine the experience in design and manufacture of rail vehicles together with Transportation's expertise in re-engineering and modernization.

Technical support and spares supply agreements are being increasingly offered to customers worldwide, and Transportation assists in planning and procuring their inventories to maximize asset allocation.

Market Share

Transportation defines the services market as activities in the fields of fleet management, spare parts and logistics management, vehicle and component refurbishment and overhaul and technical support. The accessible services market comprises the portion of these activities outsourced by railway operators to the supply industry or third parties. The services market excludes Japan, since it is not accessible to international competition, and services for vehicles older than 40 years, since they are far above the average life expectancy of 30 years.

Based on this definition, the worldwide accessible rail services market is valued at approximately $13.8 billion for calendar year 2005, compared to $13.7 billion the previous year. Europe is the largest market for services with approximately 56% of the accessible worldwide market, followed by North America with approximately 21%, Asia-Pacific with 7% and Other with 16%. The geographical split of the market is similar for both calendar years.

Transportation improved its leadership position in this highly fragmented market by increasing its market share to 10%, compared to 9% the previous year. Market share calculations are based on annual revenues generated in the accessible market. Approximately 90% of Transportation's service activities are located in Europe.

Outlook

The accessible services market related to Transportation's fleet is expected to grow at a compound annual growth rate ("CAGR") of approximately 3% over the next three years. Factors that will impact growth include the pace of outsourcing, the progress of liberalization and the emergence of new private passenger and freight operators. Transportation is well positioned to benefit from this growth by having the largest installed base and the highest new rolling stock delivery rates.

IV System and Signalling

System

In fiscal year 2006, Transportation introduced the *INNOVIA* Automated People Mover ("APM"), its latest generation of APM technology, at Dallas/Fort Worth International Airport, U.S. This driverless system incorporates Transportation's *CITYFLO* 650 automatic train control technology. The signing of the *INNOVIA* APM contract for Beijing Capital International Airport China, for the Summer Olympics in 2008 further strengthened Transportation's position in the Asia-Pacific region.

Transportation is part of the Bombela Consortium, which was selected as the preferred bidder for the Gautrain Project in South Africa. The 80-km Gautrain system will link Johannesburg, Tshwane and the Johannesburg International Airport. Transportation, a key member of the consortium, will be responsible for the core electrical and mechanical systems, including a fleet of *Electrostar* vehicles.

Market Drivers

Urbanization, growing population and economic wealth, as well as the commitment of countries worldwide to improve rail transportation systems are key drivers and are all expected to contribute to future growth.

Competition

Transportation's global competitors, Alstom and Siemens, continue to develop system capabilities.

Engineering, procurement and construction companies are active in rail project development. Such firms include Bechtel Corporation, SNC-Lavalin Inc., Dragados S.A., and Washington Group.

In the automated people mover market, Mitsubishi Heavy Industries Ltd. and Doppelmayr Cable Car GmbH are Transportation's main competitors. Hitachi Ltd. and KL Monorail System Sdn Bhd are active in the monorail market.

Transportation is well positioned in this market as a leader in the design, manufacture, commissioning, operation and maintenance of automated people movers and advanced rapid transit systems. These systems allow for highly reliable unattended train operation in high passenger traffic airports and urban areas. Transportation's product portfolio for automated systems comprises both rubber tire and steel wheel solutions, as well as conventional and innovative electric propulsion technologies.

Market Share

In calendar year 2005, the worldwide systems market was valued at approximately $2.6 billion, of which approximately $800 million relate to the rolling stock and signalling portion of the orders, compared to $700 million last calendar year. The $1.9-billion increase is mainly due to the Dubai Light Rapid Transit project valued at $1.4 billion.

Average annual market size for systems over the last five years was $2.0 billion, excluding the London Underground project awarded in 2003, which includes systems integration, engineering and project-related services, and equipment supplies like rolling stock, automation, signalling as well as operations and maintenance related to systems.

The worldwide systems market relevant to Transportation, by geographic region, based on total annual orders was as follows for calendar years:

	2005		2004	
	Total market	**(in %)**	**Total market**	**(in %)**
(in billions of dollars)				
Other	$1.6	61	$0.1	14
North America	0.8	31	—	—
Asia-Pacific	0.1	4	0.4	57
Europe	0.1	4	0.2	29
	$2.6		$0.7	

The Middle East, which is included in the Other region, was the largest market for new systems orders in calendar year 2005.

Due to large contract values and a small number of projects in the systems market, the geographic split could vary significantly year over year.

Transportation's annual market share calculation is based on an average of the total value of orders received compared to the total market during the past five years, consistent with industry practice. Total market and market share include the complete scope of system orders, including rolling stock and signalling, as this represents the size of the rail market covered by turnkey contracts. With a 49% five-year-average market share in calendar year 2005, compared to 40% the previous year, Transportation increased its leadership position in the systems market.

Outlook

Continued pressure on public funding and on government budgets is expected to contribute to the implementation of new models for financing and operating public transport. The share of turnkey contracts for newly-built systems is also expected to increase due to the trend toward driverless operations for mass transit systems.

Continued growth and development in the Middle East is anticipated to create substantial demand for systems.

The systems market is expected to exceed $1.5 billion for each of the next three years.

Signalling

- Transportation achieved the number one position in the ERTMS market with more onboard fitted vehicles than all competitors combined and also with more route kilometres equipped with ERTMS. The technology is now reaching maturity with the completion of the first successful cross-exchange tests between Transportation's *INTERFLO* 450 system and equipment of other major suppliers in the Netherlands.
- This position has been further strengthened by the award of two ERTMS contracts in Sweden, one for the *INTERFLO* 150 which will serve as future specifications for 13 regional lines and one for *INTERFLO* 450 on the Bothnia line. Transportation also commissioned an ERTMS *INTERFLO* 250 pilot line for the Korean National Railroad during the year.
- Significant delivery milestones were achieved this year with the approval of the German ATP onboard system, reaching the final phase for the commissioning of the Mannheim-Rheinau *EBI* Lock 950 computer-based interlocking system in Germany and the commissioning of the first stations in Thailand.

Market Drivers

The main drivers in the signalling market are the migration from analog technology to computer-based technology, standardization in the mainline market, and the automation and driverless operation in the mass transit segment.

The majority of the existing mainline signalling and control infrastructure is based on systems developed and implemented approximately 30 years ago. In order to increase capacity on strategic rail routes and upgrade lines to higher speeds, signalling technology has migrated to more reliable and efficient computer-based technology.

Wayside technology migration is then followed by the replacement of onboard equipment of partial or complete existing fleets.

ERTMS, the new European standard for train control systems, opens previously closed markets by replacing large installed country-specific systems. It constitutes a prerequisite for European cross-border traffic. ERTMS-compliant products are becoming the norm within Europe and are increasingly accepted outside of Europe. The growth of ERTMS in Europe is largely driven by EU funding to national operators.

Within the mass transit segment, there is a move towards greater automation and driverless operation, particularly Communication-Based Train Control systems, which satisfy customer demands for increased capacity and minimal operational disruption during implementation.

Competition

Major competitors in the market for signalling are Siemens, Alstom, Alcatel, Invensys and Ansaldo.

Transportation is well positioned in the mass transit segment with its leading-edge technology and further consolidated its position this year with orders for Metro Sevilla, Metro de Madrid, Strathclyde Passenger Transport, Istanbul Light Rail and Bucharest metro lines 1 and 3.

In the mainline market segment, Transportation has a comprehensive product portfolio to serve western European countries as well as emerging needs for state-of-the-art systems in Asia and Latin America. It also has competitive advantages in growth markets such as Poland and Russia, resulting from successful joint ventures with local signalling suppliers.

Transportation continues to invest in the development of ERTMS products to secure its long-term competitive position across all markets.

Market Share

The worldwide market for signalling and telecommunications accessible to international competition is estimated at $6.5 billion in calendar year 2005,compared to $7.0 billion the previous year. This decrease is essentially due to a lower level of investment in Germany. Europe is the largest market with approximately 68% of the accessible worldwide market, followed by North America with 19%, Asia-Pacific 9% and Other 4%. The geographical split of the market is similar for both calendar years.

Transportation's market share, based on total annual orders received, increased to 9% in calendar year 2005, compared to 8% the previous year, mainly due to a decrease in the overall signalling market.

Outlook

The market is expected to grow at a CAGR of between 0% and 2% over the next three years. The ERTMS portion of this market is expected to grow at a double-digit CAGR over the next three years.

LIQUIDITY AND CAPITAL RESOURCES

I Financial Position

Total assets amounted to $17.5 billion as at January 31, 2006, compared to $20.1 billion as at January 31, 2005.

Receivables

Receivables amounted to $1.7 billion as at January 31, 2006, compared to $1.5 billion as at January 31, 2005. This increase is mainly due to a higher level of trade receivables in Transportation as a result of lower factoring activities. Trade receivables were also higher in Aerospace.

Aircraft Financing

Aircraft financing amounted to $1.5 billion as at January 31, 2006, compared to $1.8 billion as at January 31, 2005. This decrease is mainly due to a lower level of commercial aircraft interim financing and to the continued reduction in the business aircraft loan portfolio.

Inventories

Inventories are presented net of the related advances and progress billings on contracts and programs. However, advances and progress billings in excess of related costs, determined on a contract-by-contract basis, are reported as liabilities.

Gross inventories were $6.5 billion ($3.8 billion net of advances and progress billings) as at January 31, 2006, compared to $7.3 billion ($4.0 billion net of advances and progress billings) as at January 31, 2005. This decrease in gross inventories is mainly due to:

- a lower level of inventory in Transportation; and
- the translation adjustment arising from the weakening of the euro and the sterling pound compared to the U.S. dollar ("the currency impact"), amounting to approximately $150 million.

Total advances and progress billings amounted to $4.9 billion as at January 31, 2006, compared to $5.6 billion as at January 31, 2005, $2.2 billion of which is shown as liabilities as at January 31, 2006, compared to $2.4 billion as at January 31, 2005. This decrease in total advances and progress billings is mainly due to:

- a lower level of advances in Transportation, which is consistent with the lower level of gross inventories; and
- the currency impact, amounting to approximately $100 million.

Property, Plant and Equipment

Property, plant and equipment amounted to $3.1 billion as at January 31, 2006, compared to $3.4 billion as at January 31, 2005. This decrease is mainly due to:

- amortization exceeding net additions; and
- the currency impact, amounting to approximately $35 million.

Goodwill

Goodwill amounted to $2.1 billion as at January 31, 2006, compared to $2.4 billion as at January 31, 2005. This decrease is mainly due to the currency impact, amounting to $162 million.

Fractional Ownership Deferred Costs and Deferred Revenues

Fractional ownership deferred costs amounted to $270 million as at January 31, 2006, compared to $142 million as at January 31, 2005. Fractional ownership deferred revenue amounted to $325 million as at January 31, 2006, compared to $163 million as at January 31, 2005. These increases are mainly due to additional deliveries of aircraft related to the fractional ownership program.

Deferred Income Taxes

Deferred income taxes, net amounted to $644 million as at January 31, 2006, compared to $481 million as at January 31, 2005. This increase results from the impact of the strengthening of the Canadian dollar compared to the U.S. dollar on the Canadian denominated deferred income tax asset, the impact of the increase in enacted tax rates in Quebec on the deferred income tax asset and the net increase in temporary differences.

Assets Held for Sale and Liabilities Related to Assets Held for Sale

Assets held for sale amounted to $237 million as at January 31, 2006, compared to $2.6 billion as at January 31, 2005. Liabilities related to assets held for sale amounted to $42 million as at January 31, 2006, compared to $1.6 billion as at January 31, 2005. These decreases result from the sale of the inventory finance and on-balance sheet manufactured housing operations during fiscal year 2006.

Other Assets

Other assets amounted to $843 million as at January 31, 2006, compared to $1.1 billion as at January 31, 2005. This decrease is mainly due to:

- the settlement of a derivative financial instrument prior to its maturity; and
- the expiration of the BRP receivable financing agreement in June 2005 (see note 18— Transactions with related parties to the Consolidated Financial Statements).

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were $6.9 billion as at January 31, 2006, compared to $7.1 billion as at January 31, 2005. This decrease is mainly due to:

- a lower level of activities;
- the currency impact, amounting to approximately $200 million; and
- the decrease in severance and other involuntary termination costs provision.

Partially offset by:

- the increase in income and other taxes payable.

Long-Term Debt

Total long-term debt amounted to $4.7 billion as at January 31, 2006, compared to $5.7 billion as at January 31, 2005. This decrease is mainly due to:

- the repayments of $300 million and $200 million of BC's medium-term notes in May 2005, and October 2005, respectively;
- debt repayments of $166 million related to consolidated VIEs;
- the repayment of $150 million of the Corporation's debentures in January 2006; and
- the currency impact, amounting to $100 million.

II Cash Flows

The following summarizes the cash flows as reported in the consolidated statements of cash flows for fiscal years:

	2006	2005
Income (loss) from continuing operations	$ 135	$ (122)
Non-cash items	519	629
Net change in non-cash balances related to operations	100	(27)
Cash flows from operating activities	754	480
Net additions to property, plant and equipment	(222)	(274)
Free cash flow	532	206
Cash flows from investing activities (excluding net additions of property, plant and equipment)	1,556	488
Cash flows from financing activities	(907)	51
Effect of exchange rate changes on cash and cash equivalents	(174)	101
Cash flows from continuing operations	1,007	846
Cash flows from discontinued operations	(440)	288
Net increase in cash and cash equivalents	$ 567	$1,134

Cash Flows from Operating Activities

The improvement of $274 million is mainly due to the variation in net change in non-cash balances related to operations of Aerospace, partially offset by a negative variation in non-cash balances related to the operations of Transportation. In Transportation, earnings for fiscal year 2005 were negatively impacted by non-cash charges resulting from contract adjustments in the first quarter of last fiscal year. Since these contract adjustments were non-cash charges, the negative effect on earnings was offset by a positive variation in net change in non-cash balances related to operations.

Net Additions to Property, Plant and Equipment

The $52-million net decrease is mainly due to increased disposals of property, plant and equipment in both segments.

Segmented Free Cash Flow

The free cash flow by segment was as follows for fiscal year 2006:

	Aerospace	Transportation	Total
EBIT	$ 266	$ 91	$ 357
Non-cash items:			
Amortization			
Program tooling	254	—	254
Other	152	139	291
Provision for credit losses	4	—	4
Loss (gain) on disposals of property, plant and equipment	10	(4)	6
Stock-based compensation	4	3	7
Special items	—	88	88
Net change in non-cash balances related to operations	377	(388)	(11)
Net additions to property, plant and equipment	(167)	(55)	(222)
Segmented free cash flow	$ 900	$(126)	774
Income taxes and net financing expense [1]			(242)
Free cash flow			$ 532

[1] Income taxes and net financing expense are not allocated to segments.

The free cash flow by segment was as follows for fiscal year 2005:

	Aerospace	Transportation	Total
EBIT	$ 203	$(139)	$ 64
Non-cash items:			
Amortization			
Program tooling	244	—	244
Other	167	138	305
Provision for credit losses	14	—	14
Gain on disposals of property, plant and equipment	(2)	(3)	(5)
Stock-based compensation	5	4	9
Special items	—	172	172
Net change in non-cash balances related to operations	(50)	(84)	(134)
Net additions to property, plant and equipment	(199)	(75)	(274)
Segmented free cash flow	$ 382	$ 13	395
Income taxes and net financing expense [1]			(189)
Free cash flow			$ 206

[1] Income taxes and net financing expense are not allocated to segments.

Segmented free cash flow increased by $518 million in Aerospace. Positive variations compared to fiscal year 2005 in aircraft financing, mainly as a result of a lower level of aircraft financing, and advances, were partially offset by a negative variation in gross inventories compared to last fiscal year. In addition, net change in non-cash balances related to operations for fiscal year 2005 was negatively impacted by a voluntary contribution of $182 million to the aerospace pension plan in the U.K.

The decrease in segmented free cash flow of $139 million in Transportation is mainly due to a negative variation in accounts receivable, mainly due to a lower level of factoring activities, and accounts payable and accrued liabilities in fiscal year 2006 compared to fiscal year 2005, partially offset by a positive variation in gross inventories in fiscal year 2006 compared to fiscal year 2005.

Cash Flows from Investing Activities (Excluding Net Additions to Property, Plant and Equipment)

The cash flows for fiscal year 2006 mainly reflect the disposal of discontinued operations, net of cash disposed of (see note 1—Discontinued operations and assets held for sale to the Consolidated Financial Statements) and the proceeds from the settlement of a derivative financial instrument prior to its maturity, amounting to $209 million.

The cash flows for fiscal year 2005 mainly reflect:

- the repayment of a loan made by BC in connection with a financing transaction entered into for term-debt management, amounting to $311 million; and
- the net proceeds of $209 million relating to the settlement of the DaimlerChrysler Rail Systems GmbH ("Adtranz") claim.

Cash Flows from Financing Activities

The cash flows used for fiscal year 2006 mainly reflect:

- the net repayment of long-term debt of $868 million;
- dividends paid of $25 million; and
- the purchase of common shares, amounting to $14 million, in connection with the Corporation's performance stock unit plan.

The cash flows for fiscal year 2005 mainly reflect the net issuance of $194 million of long-term debt, partially offset by dividends paid of $146 million.

Cash Flows from Discontinued Operations

The cash flows used for fiscal year 2006 mainly reflect:

- the repayment of $578 million of bank-sponsored securitized floorplan conduits with the proceeds from the sale of the inventory finance operations.

Partially offset by:

- cash flows from operating and investing activities of $146 million.

The cash flows for fiscal year 2005 mainly reflect:

- the net proceeds from the issuance of $287 million of securitized floorplan debt in connection with the inventory finance portfolio; and
- cash flows from operating activities of $74 million.

Partially offset by:

- cash flows from investing activities of $79 million.

As a result of the above items, cash and cash equivalents amounted to $2.9 billion as at January 31, 2006, compared to $2.3 billion as at January 31, 2005.

III Capital Resources

The details of the available and outstanding amounts under the bank credit facilities, as well as the amount of outstanding borrowings as at January 31, 2006 and 2005, are provided in note 8—Short-term borrowings and note 10—Long-term debt to the Consolidated Financial Statements.

The Corporation considers that its current cash position, as well as its current credit facilities and expected capital resources, will enable the implementation of investment programs, the development of new products, the pursued growth of its activities, the payment of dividends on preferred shares and allow it to meet other expected financial requirements.

The available short-term capital resources were as follows as at:

	Credit Facilities		Cash and Cash Equivalents	Available Short-Term Capital Resources
	Committed	Amounts Available		
January 31, 2006	$5,282	$1,033	$2,917 [(1)]	$3,950
January 31, 2005	$7,119 [(2)]	$2,799 [(2)]	$2,344	$5,143

[(1)] Including $1.0 billion of cash and cash equivalents required to meet the minimum liquidity requirement at the end of each quarter.

[(2)] Including $600 million of unused committed credit facilities related to BC.

The variation in available short-term capital resources was as follows for fiscal year 2006:

Balance as at January 31, 2005	$5,143
Net proceeds from sale of discontinued operations	1,363
Net repayments of long-term debt	(868)
Non-renewal of the 364-day portion of the European credit facility	(642)
Non-renewal of BC's credit facility	(600)
Free cash flow	532
Cash flows from discontinued operations (including $578 million of debt repayment)	(440)
Translation adjustment on committed credit facilities arising from the strengthening of the U.S. dollar compared to the euro	(307)
Net reduction in the North American credit facilities	(288)
Proceeds from the settlement of a derivative financial instrument	209
Effect of exchange rate changes on cash and cash equivalents	(174)
Net reduction in letters of credit drawn (net of foreign exchange impact)	71
Other	(49)
Balance as at January 31, 2006	$3,950

In June 2005, the Corporation entered into a new $1.1-billion North American syndicated credit facility to refinance its $1.7 billion Cdn credit facility scheduled to mature in September 2005. The new facility is unsecured and matures in July 2007. This credit facility is subject to various covenants (computed without the former BC segment), including requirements to maintain (as defined in the related agreements):

- a minimum liquidity of $1.0 billion at the end of each quarter;
- a minimum interest coverage ratio of 2 to 1 on a rolling four-quarter basis for the period ending January 31, 2006, and 2.5 to 1 thereafter; and
- a maximum net debt-to-capitalization ratio of 55% as at January 31, 2006, and 50% at the end of each fiscal quarter thereafter.

As at January 31, 2006, the Corporation was in compliance with its bank covenants.

Fiscal Year 2005

- In November 2004, the Corporation entered into a €165-million three-year European letter of credit facility.
- In September 2004, the Corporation renewed the 364-day portion of its North American credit facility. This portion of the facility, totalling $718 million Cdn, replaced the $730-million Cdn short-term portion of the North American credit facility.
- In July 2004, the Corporation renewed the 364-day portion of its European credit facility. This portion of the facility, totalling €492 million, replaced the €560-million short-term portion of the European credit facility.
- In July 2004, the Corporation entered into a €125-million four-year European letter of credit facility.

IV Liquidity

The Corporation's liquidity needs arise principally from working capital requirements, capital expenditures, product development, principal and interest payments on long-term debt, lease payment obligations and distributions to shareholders.

The following table summarizes the Corporation's obligation to make future payments on long-term debt, lease obligations and other obligations as at January 31, 2006, as well as the expected timing of these payments:

	Total	Less Than 1 Year	1 to 3 Years	4 to 5 Years	Thereafter
Long-term debt—Bombardier (1)	$ 2,654	$ 524	$ 649	$ 15	$1,466
Medium-term notes, notes and other—BC (1)	2,025	627	833	541	24
Capital lease obligations—Bombardier (1)	68	3	6	7	52
Operating lease obligations (2)	1,751	202	350	245	954
Outsourcing commitments	734	189	332	161	52
Purchase obligations (3)	7,921	4,891	2,476	490	64
Other obligations (4)	464	31	59	48	326
	$15,617	6,467	$4,705	$1,507	$2,938

(1) Include principal repayments only. Bombardier refers to the two manufacturing segments, while BC refers to the former BC segment.

(2) Comprised of sale and leaseback and operating lease obligations included in note 22—Commitments and contingencies to the Consolidated Financial Statements.

(3) Purchase obligations represent contractual agreements to purchase goods or services that are legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, variable or indexed price provisions; and the appropriate timing of the transaction. In addition, these agreements are not cancellable without incurring a substantial penalty.

(4) Principal repayment requirements in connection with sales incentives offered in the aerospace segment.

Purchase Obligations

The Corporation has entered into certain significant inventory procurement contracts that specify prices and quantities, as well as long-term delivery timeframes. These agreements require suppliers to build and deliver components in time to meet the Corporation's production schedules. Such arrangements arise as a result of the extended production planning horizon for many of the Corporation's products where the delivery of products to customers arises over an extended period of time. A significant portion of the Corporation's exposure arising from the inventory procurement contracts is mitigated by firm contracts with customers or through risk-sharing arrangements with suppliers. Although there are no plans to do so, if any of the Corporation's aerospace programs or long-term contracts were to be terminated, the Corporation would be exposed to potentially material termination costs.

Employee Benefits Contributions

The Corporation maintains defined benefit and defined contribution pension plans as well as post-retirement benefit plans other than pensions as discussed in note 21—Employee future benefits to the Consolidated Financial Statements. The Corporation's future cash contributions to the funded pension plans are subject to changes based on actual returns on plan assets and pension assumptions, and have not been reflected in the preceding table. (see the section Other—Pension in this MD&A)

V Credit Support

The indentures governing BC's long-term debt provide for covenant and "keepwell" packages from the Corporation. Bombardier Inc.'s keepwell agreements provide for minimum ownership of 51% in BC and for the injection of equity in the event that certain minimum net worth levels are not met or if a fixed charge coverage ratio falls below 1.2. These covenants were met as at January 31, 2006 and 2005. Finally, these indentures provide for the undertaking by Bombardier Inc. to maintain the existing cross-default provision in the indenture governing the Corporation's $150-million Cdn ($131 million) debentures due in 2026, as well as to provide for similar cross-default provisions in all of its future debt issuances.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

I Financial Arrangements

In addition to the off-balance sheet lease obligations disclosed elsewhere in this MD&A or in the Consolidated Financial Statements, the Corporation finances certain activities off-balance sheet through securitizations and factoring of trade receivables and other arrangements in the normal course of business.

Securitizations and Factoring Arrangements

The following table summarizes the amounts sold and outstanding as well as available under the Corporation's facilities as at January 31:

	2006			2005		
Facility	**Total**	**Sold and Outstanding**	**Amounts Available**	**Total**	**Sold and Outstanding**	**Amounts Available**
German	$122	$ 2	$120	$131	$131	$ —
French	85	—	85	91	59	32
Italian	—	—	—	131	13	118
U.S.	—	—	—	70	15	55
	$207	$ 2	$205	$423	$218	$205

German Facility

In December 2003, the Corporation entered into a €100-million four-year factoring arrangement, renewable on a yearly basis, for certain receivables originating from Transportation's German operations.

French Facility

In January 2005, the Corporation entered into a €70-million uncommitted facility for the factoring of trade receivables originating from Transportation's operations in France.

Italian Facility

During fiscal year 2006, the Italian facility was not renewed.

U.S. Facility

During fiscal year 2006, the U.S. facility was not renewed.

The following table summarizes the proceeds received on the sale of receivables for fiscal years:

Facility	**2006**	**2005**
German	$279	$ 288
French	129	155
Italian	—	238
U.S.	—	585
U.K. [1]	—	225
	$408	$1,491

[1] U.K. facility was not renewed in fiscal year 2005.

Other Arrangements

RASPRO Facility

In September 2005, a $1.7-billion securitization transaction was completed to provide permanent financing in the form of long-term leases for 70 regional aircraft. In connection with this transaction, the Corporation has provided certain credit enhancements and has acquired a subordinated beneficial interest. In addition, the Corporation provides administrative services in return for market fees. Of the $1.7-billion gross proceeds, approximately $500 million was used to pay third parties under off-balance sheet interim financing structures. After giving effect to the payment of expenses and other payments, the Corporation received approximately $1.0 billion for the assets transferred.

After the closing of the securitization, it was discovered that the cash flows of the RASPRO structure would be different than anticipated. As of the date of this report, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, are considering ways to adjust the cash flows of RASPRO. Various solutions are being considered, including the involvement of various parties, and these solutions could involve, in part, the Corporation purchasing assets for cash or providing other consideration, the implementation of which would not have a material adverse effect on the Corporation. Holders of the RASPRO securities benefit from various third-party guarantees.

RASPRO is subject to the consolidation rules applicable to VIEs, which require variable interest holders to reassess the appropriateness of consolidation when certain events take place. The contemplated adjustments to the RASPRO cash flows would be a reconsideration event under the VIEs rules and, the Corporation being a variable interest holder, an assessment of whether or not this entity should be consolidated by the Corporation will be performed if and when the adjustments to the cash flows are adopted.

Interim Financing Support

In connection with the sale of commercial aircraft, a government agency has provided customers with $296 million of financing, expiring at various dates, up to July 31, 2006. This financing funded a percentage of the sale price of the aircraft. The balance of the sale price, amounting to $38 million, has been financed by the Corporation. The subordinated portion of $38 million is included in Aircraft financing (commercial aircraft interim financing portfolio) as at January 31, 2006. The Corporation has committed to provide permanent financing to these customers in the event that alternative permanent financing cannot be obtained from third parties, which is included in the $2.2-billion financing commitments referred to in note 22d) to the Consolidated Financial Statements.

Sale and Leaseback Agreement

In fiscal year 2005, the Corporation entered into a $300-million three-year sale and leaseback agreement with third parties. Under this agreement, the Corporation can sell pre-owned business aircraft to these parties, which in turn lease back the aircraft to the Corporation for a 24-month period. The Corporation has the right to buy back the aircraft during the term of the lease at pre-determined amounts. Aircraft amounting to $41 million and $105 million were sold and leased back as at January 31, 2006 and 2005, with respect to this sale and leaseback agreement.

II Derivative Financial Instruments

The Corporation's exposures to foreign currency and interest rate risks are managed through a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's foreign currency policy and procedures (the "policy"). The policy requires each segment to identify all potential foreign currency exposures arising from their operations and to hedge this exposure according to pre-set criteria. Interest rate exposures are managed in order to achieve an appropriate mix of fixed and variable interest rate long-term debt and to reduce the impact of fluctuating interest rates on financial commitments and intercompany loans.

Derivative financial instruments used to manage foreign currency and interest rate exposures consist mainly of:

- forward foreign exchange contracts;
- interest-rate swap agreements;
- cross-currency interest-rate swap agreements; and
- interest-rate cap agreements.

The Corporation's foreign currency and interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates and interest rates on the hedged item.

The details and fair value of the outstanding derivative financial instruments as at January 31, 2006 and 2005, are presented in note 20—Financial instruments to the Consolidated Financial Statements.

Hedging Programs

Based on the Corporation's guidelines, each segment is required to hedge their foreign currency exposures as follows:

Segment	**Hedged Exposures**	**Hedging Policy [1]**
Aerospace	Forecasted cash outflows denominated in a currency other than the functional currency of the entity, mainly the Canadian dollar and the sterling pound.	Hedge a minimum of 85% of the identified exposures for the first three months, a minimum of 75% for the next nine months and a minimum of 50% for the following year.
Transportation	Forecasted cash inflows or outflows resulting from revenues and expenditures denominated in a currency other than the functional currency of the entity.	Hedge 100% of the identified foreign currency exposures.

[1] Deviations from the policy are allowed subject to maximum predetermined risk limits.

Aerospace Foreign Currency Denominated Costs

The expected costs denominated in foreign currencies and the hedged portion of these costs for fiscal year 2007 were as follows as at January 31, 2006:

	Expected Costs	**Hedged Portion (in %)**	**Weighted-Average Hedge Rate**
Costs denominated in:			
Canadian dollar	$1,750	80	0.7975
Sterling pound	$ 265	77	1.7833

Management conducts quarterly reviews as well as a detailed annual review in the fourth quarter as part of its annual budget process of its cost estimates and program quantities. As part of the detailed annual review, Aerospace revised the long-term foreign exchange rate assumption for its future unhedged expected costs denominated in Canadian dollars from a weighted-average rate of 0.7813 to 0.8696. The effect of the revision was accounted for by way of a cumulative catch-up adjustment in the fourth quarter of fiscal year 2006, and resulted in a charge of approximately $60 million under the average cost accounting method. This charge was essentially offset by cost reduction initiatives.

Sensitivity

A one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact fiscal year 2007 expected costs in Aerospace by approximately $18 million before giving effect to forward foreign exchange contracts, and approximately $4 million after giving effect to the outstanding forward foreign exchange contracts.

A one-cent change in the value of the sterling pound compared to the U.S. dollar would impact fiscal year 2007 expected costs in Aerospace by approximately $3 million before giving effect to forward foreign exchange contracts, and approximately $1 million after giving effect to the outstanding forward foreign exchange contracts.

Forward Foreign Exchange Contracts

The Corporation uses forward foreign exchange contracts to manage foreign currency exposure arising from forecasted foreign currency cash flows. The Corporation also uses forward foreign currency contracts to manage foreign currency exposures arising from third party long-term debt, and intercompany loans and receivables.

Most of the forward foreign exchange contracts are denominated in currencies of major industrial countries:

- In Aerospace, forward foreign exchange contracts are mainly to sell U.S. dollars and buy Canadian dollars and sterling pounds.
- In Transportation, forward foreign exchange contracts are mainly to sell or purchase U.S. dollars, sterling pounds, euros and other western European currencies.

The fair value of forward foreign exchange contracts is sensitive to changes in foreign exchange rates. Foreign exchange rate changes result in offsetting fair value gains or losses on forward foreign exchange contracts and the corresponding hedged item attributable to the underlying exposure.

Interest Rate Exposure

Interest-Rate Swap Agreements

The Corporation enters into interest-rate swap agreements in order to achieve an appropriate mix of fixed and variable interest rate long-term debt. In addition, the Corporation enters into interest-rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments and to manage the interest rate exposure arising from aircraft financing support provided to regional aircraft customers. Swap agreements involve the exchange of interest payments, based on a predetermined notional amount for a specified period of time.

The fair value of interest-rate swaps is sensitive to changes in interest rates. Interest rate changes result in offsetting fair value gains or losses on interest-rate swap agreements and the corresponding hedged item attributable to the underlying exposure.

Cross-Currency Interest-Rate Swap Agreements

The Corporation enters into cross-currency interest-rate swap agreements to manage foreign currency exposures on its long-term debt and net foreign investments, and to modify the interest rate characteristics of long-term debt from fixed to variable interest rates. These swap agreements involve the exchange of fixed and variable interest payment obligations, as well as principal amounts in two different currencies for a specified period of time.

The fair value of cross currency interest-rate swaps varies in the same manner described in the preceding discussion on forward foreign exchange contracts and interest-rate swap agreements.

Interest-Rate Cap Agreements

The Corporation enters into interest-rate cap agreements to manage its exposure to interest-rate increases arising from protection granted to certain customers in connection with the sale of aircraft.

The fair value of interest-rate caps is sensitive to changes in interest rates and implied volatility. Changes in interest rates and implied volatility result in offsetting fair value gains or losses on financial obligations, and interest-rate cap agreements.

III Commitments and Contingencies

The Corporation's commitments and contingencies are described in note 22—Commitments and contingencies to the Consolidated Financial Statements.

Credit and Residual Value Guarantees

In connection with the sale of certain of its products, mainly regional aircraft, the Corporation provides financing support on behalf of certain customers in the form of credit and residual value guarantees to enhance their ability to arrange third-party financing for their asset acquisition.

Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from one to 20 years) under the relevant financing arrangements. Credit guarantees provide support through contractually-limited payments to the guaranteed party to mitigate default-related losses. In the event of default, the Corporation usually acts as an agent for the guaranteed parties for the repossession, refurbishment and remarketing of the underlying assets. The Corporation typically receives a fee for these services. In most circumstances, a claim under the guarantee may be made only upon the sale of the underlying asset to a third party.

In most cases, residual value guarantees are guarantees provided at the end of a financing arrangement, ranging from four to twenty years. Such guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset is below the guaranteed value. The value of the underlying asset may be adversely affected by a number of factors, including, but not limited to, an economic downturn. To mitigate the Corporation's exposure, the financing arrangements generally require the collateral to meet certain contractual return conditions on the expiry date of the guarantee. If a residual value guarantee is exercised, it provides for a contractually-limited payment to the guaranteed parties, which is typically a percentage of the first loss from a guaranteed level. A claim under the guarantee may typically be made only upon the sale of the underlying asset to a third party.

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

The Corporation's risk management framework for the credit and residual value risks consists of the following: risk control, risk measurement, risk monitoring and risk transfer. The Corporation practices active risk control through inclusion of protective covenants and securities into commercial contracts to mitigate its exposure under these guarantees. Quantitative assessments of the risk relating to these guarantees and the determination of the related provisions to be recorded in the Consolidated Financial Statements, if any, are performed using a risk-pricing model. Risk monitoring comprises ongoing Management reporting of exposures, active credit watch, on-site credit due diligence and active intervention. In addition, asset value trends for the Corporation's products are closely monitored. The Corporation also engages, from time to time, in risk transfer with third-party insurers to minimize its exposure to credit and residual value guarantees.

Financing Commitments

Manufacturers of commercial aircraft sometimes provide financing support to facilitate their customers' access to capital. This support may take a variety of forms, including providing assistance to customers in accessing and structuring debt and equity for aircraft acquisitions, or providing assurance that debt and equity are available to finance such acquisitions. The Corporation may provide interim financing to customers while permanent financing is being arranged.

As at January 31, 2006, the Corporation had outstanding financing commitments to eight customers in relation to the future sale of aircraft scheduled for delivery through fiscal year 2010 and in connection with a $296 million off-balance sheet financing facility (see the Financial arrangements section in this MD&A), amounting to $2.2 billion, net of third-party financing already arranged. The Corporation mitigates its exposure to credit and interest rate risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment and by entering into interest-rate cap agreements. Total customer financing arranged by the Corporation in fiscal year 2006 amounted to $2.9 billion ($3.1 billion in fiscal year 2005).

The Corporation anticipates that it will be able to satisfy its financing commitments to its customers in fiscal year 2007 through third-party financing. However, the Corporation's ability to satisfy its financing commitments may be affected by further financial difficulties in the commercial airline industry in general and of certain customers in particular, and the Corporation's current and future credit condition.

Other Commitments and Contingencies

In connection with its contracts with the Metronet companies for the modernization of the London Underground, the Corporation is committed to provide collateral (surety bonds and letters of credit) in support of its obligations. These commitments extend to 2015. As at January 31, 2006, surety bonds maturing in 2011 and amounting to £181 million ($322 million) were outstanding. The period covered by the surety bonds must be extended by a year, every year. In the event that the bonds are not extended, the Corporation could have to provide, within one year, alternate collateral, which could reduce availability of credit facilities.

Over the years, Aerospace has invested in excess of $3.1 billion in program tooling and other significant amounts in product development and capital assets. The Corporation receives government financial support from various levels of government, related to the development of aircraft. Certain of these financial support programs require the Corporation to pay amounts to governments, at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. In connection with Aerospace aircraft programs, the Corporation has received cumulative contingently repayable government support, amounting to $506 million as at January 31, 2006. The total amount paid in connection with such government support as at that date amounted to $238 million. The remaining undiscounted maximum amount repayable, mostly based on future deliveries of aircraft, amounted to $535 million as at January 31, 2006. The amount repayable based solely on the total of the remaining accounting aircraft program quantities (see also section on Program information in this MD&A) was $226 million as at January 31, 2006.

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. district court of the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others for alleged violations of federal securities laws relating to BCMSC's Senior/Subordinated Pass-Through Certificates, Series 2000-A due January 15, 2030. On April 15, 2005, the plaintiffs filed an amended complaint, such amendments include the inclusion of all open market purchasers of BCMSC's Senior/Subordinated Pass-Through Certificates, Series 1998-A, Series 1998-B, Series 1998-C, Series 1999-A, Series 1999-B, Series 2000-A and Series 2000-B as part of the putative class. While the Corporation cannot predict the outcome of any legal proceedings, based on information currently available, the Corporation believes that it has strong defences and it intends to vigorously defend its position.

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

While the Corporation cannot predict the final outcome of legal proceedings that were pending as at January 31, 2006, based on information currently available, Management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

IV Variable Interest Entities

The following table summarizes by segment the significant VIEs in which the Corporation has a variable interest as at January 31:

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Aerospace				
Financing structures related to the sale of regional aircraft [1]	$ 6,946	$4,106	$ 5,306	$2,871
Sale of rights under manufacturing contracts	—	—	166	154
Sale and leaseback structure	15	15	16	16
Transportation				
Partnership arrangements	4,805	4,326	4,352	4,035
Sale support guarantee	529	523	663	662
Cash collateral accounts	70	70	61	61
	12,365	9,040	10,564	7,799
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	67	65	78	76
Sale of rights under manufacturing contracts	—	—	166	154
Sale and leaseback structure	15	15	16	16
Cash collateral accounts	70	70	61	61
	152	150	321	307
Assets and liabilities of non-consolidated VIEs	$12,213	$8,890	$10,243	$7,492

[1] Increase in fiscal year 2006, mainly relates to the closing of the RASPRO facility, a $1.7-billion securitization transaction, related to the sale of 70 regional aircraft (see the Financial arrangements section in this MD&A).

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. The consolidation of debt resulting from the application of AcG-15 is excluded from the computation of the Corporation's debt covenant ratio for structures existing prior to May 1, 2004. All consolidated debt is related to structures existing prior to May 1, 2004. Additionally, the consolidation of VIEs did not result in any change in the underlying tax, legal or credit exposure of the Corporation.

Aerospace

Financing Structures Related to the Sale of Regional Aircraft

The Corporation has provided credit and/or residual value guarantees to certain special purposes entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs' long-term debt. The Corporation's variable interests in these SPEs are in the form of credit and residual value guarantees and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only two of them, which were consolidated. For all other SPEs, consolidation is not appropriate under AcG-15. For purposes of determining whether the Corporation is the primary beneficiary, certain financing structures related to the sale of regional aircraft were grouped together when they had common characteristics, such as same customer, aircraft type, lease terms and financial support. The Corporation's maximum potential exposure relating to the non-consolidated SPEs was $2.1 billion, of which $551 million of provisions and liabilities were available to cover the Corporation's exposure as at January 31, 2006 ($1.6 billion and $295 million respectively as at January 31, 2005). The Corporation's maximum exposure under these guarantees is presented in note 22—Commitments and contingencies.

Sale of Rights Under Manufacturing Contracts

In 1995, the Corporation entered into an agreement with LR Jet Corporation ("LR Jet"), a company created for the sole purpose of purchasing, on a revolving basis, rights under certain aircraft manufacturing contracts from the Corporation. The purchase price was essentially financed by long-term debt issued to third-party investors. The Corporation concluded that LR Jet is a VIE and the Corporation is the primary beneficiary; accordingly, LR Jet was consolidated. As of January 31, 2006, the long-term debt of LR Jet has been repaid in full.

Transportation

Partnership Arrangements

The Corporation entered into partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long-term services, such as the operation and maintenance of rail equipment.

The Corporation's involvement with entities created in connection with these partnership arrangements is mainly through investments in their equity and/or in subordinated loans and through manufacturing, selling and long-term service contracts. The Corporation concluded that certain of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement. As at January 31, 2006 and 2005, the Corporation's maximum off-balance sheet exposure to loss related to these non-consolidated VIEs, other than from its contractual obligations, was not material.

As at January 31, 2006 and 2005, the Corporation had the following involvement with significant partnership arrangements which qualify as VIEs:

- In April 2003, Metronet Rail BCV Holdings Ltd. and Metronet Rail SSL Holdings Ltd. (together "Metronet"), in which the Corporation has a 20% equity interest, were awarded contracts for the renewal, modernization and maintenance of two of the London Underground's infrastructure projects. As part of its involvement with Metronet, the Corporation was awarded firm supply contracts to provide metro cars, signalling, maintenance and management services to Metronet.

- The Corporation has a 20% equity interest in Consorzio Treno Veloce Italiano ("TREVI"), an entity which was awarded, starting in May 1992, a series of contracts, including the supply of ETR 500 locomotives and railcars as well as their maintenance and refurbishment, for which the Corporation was selected as a sub-supplier to TREVI.

- In May 2004, Arrow Light Rail Holdings Ltd. and Arrow Light Rail Ltd. (together "Arrow"), in which the Corporation has a 12.5% equity interest, were awarded contracts for the design, manufacture, operation and maintenance of the Nottingham Express Transit Line One System located in the U.K. As part of its involvement with Arrow, the Corporation was awarded the operation and maintenance service contract.
- In June 2004, Yong-In LRT Co., Ltd ("Yong-In"), in which the Corporation has a 26% interest, was established to build and operate a light rail system in the city of Yong-In, South Korea. As part of its involvement with Yong-In, the Corporation is responsible for project management, system integration, mobilization and test running, and providing vehicles and other equipment.

Sale Support Guarantee

In August 1998, the Corporation provided residual value guarantees on diesel electric multiple unit trains sold to Lombard Leasing Contracts Limited ("Lombard"). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of $124 million as at January 31, 2006 ($135 million as at January 31, 2005). The Corporation's maximum exposure under these guarantees is presented in note 22—Commitments and contingencies.

Cash Collateral Accounts

In connection with the sale of rail equipment by Adtranz prior to its acquisition by the Corporation in May 2001, the purchasers have been provided with the right, under certain conditions, to sell back the equipment to the Corporation at predetermined prices on three separate dates, beginning in fiscal year 2009. In addition, the Corporation may be required, beginning in fiscal year 2009, upon customer default on payments to the financing providers, to repurchase the equipment.

As a result of this commitment, Fabian Investments Limited and Lineal Investments Limited were created and cash was deposited in a cash collateral account by the lessee of the equipment. This cash, together with accumulated interest, is expected to entirely cover the Corporation's exposure. The Corporation concluded that these SPEs are VIEs and the Corporation is their primary beneficiary; accordingly, these SPEs were consolidated. Their assets, consisting of restricted cash, are presented in Other assets, and their liabilities, consisting of a provision for repurchase obligations, are presented in Accounts payable and accrued liabilities on the Corporation's consolidated balance sheets.

OTHER

■ Pension

The Corporation sponsors several domestic- and foreign-funded and unfunded defined benefit pension plans.

- Funded plans are plans for which segregated plan assets are invested in trusts. These plans can be in an over- or under-funded position, depending on various factors, such as investment returns. The funded plans are mainly located in North America, the U.K. and Switzerland. For these plans, employer cash contributions are determined in accordance with the regulatory requirements of each local jurisdiction.
- Unfunded plans are plans for which there are no segregated plan assets. These plans, for which the Corporation has no prefunding obligations, are located mainly in continental Europe. In these countries, the establishment of segregated plan assets is either not permitted or not in line with local practice. The employer cash requirement for these plans corresponds to the benefit payments made to the participants.

The Corporation uses a measurement date of December 31 for accounting purposes.

The financial position and other information regarding the Corporation's defined benefit pension plans are presented in note 21—Employee future benefits to the Consolidated Financial Statements.

Assumptions

The determination of assumptions is made after a periodic review of factors, such as long-term return expectations prepared by consultants or economists, historical and expected investment returns, long-term interest rate yield curves on high quality corporate bonds, long-term inflation assumptions and recommendations from actuaries. With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values. The Corporation reflects in advance the cost of future discretionary increases of pension benefits, for plans with a history of regular discretionary increases, and the cost of future life expectancy improvements.

Pension Plan Deficit

The deficit for the pension plans amounted to $2.3 billion as at December 31, 2005 ("the measurement date") ($1.9 billion as at December 31, 2004). This amount includes the projected benefit obligation of the unfunded plans amounting to $493 million as at December 31, 2005 ($517 million as at December 31, 2004).

The increase in the deficit is mainly due to an increase in the projected benefit obligation resulting from a decrease in long-term discount rates in Canada and the U.K.

Sensitivity

It is estimated that an increase/decrease of 0.25% in the current weighted-average discount rate used to calculate the net present value of the projected benefit obligation would decrease/increase the projected benefit obligation by approximately $300 million.

Unrecognized Amounts

The net actuarial gains and losses, based on the market-related value of plan assets, over 10% of the greater of the projected benefit obligation and the market-related value of plan assets, as well as prior service costs, are amortized to income over the estimated weighted-average remaining service life of the plan participants. The amortization of the net unrecognized amounts is expected to account for $105 million of the estimated pension cost for fiscal year 2007.

Pension Cost

Pension cost from continuing operations amounted to $287 million for fiscal year 2006, compared to $270 million for fiscal year 2005.

Pension cost is capitalized as part of labour costs and included in inventories and aerospace program tooling or is recognized directly to income.

Pension cost is estimated to be $325 million for fiscal year 2007. The expected increase is mainly due to the previously discussed decrease in discount rates.

Funding

The Corporation complies with the regulatory cash contribution requirements of each local jurisdiction, which are designed to protect participants' rights. Since the measurement basis used to determine the pension cost is, in general, more conservative than the regulatory requirements in most jurisdictions, the deficit computed to establish cash contributions (funding deficit) is smaller than the deficit for accounting purposes for most pension plans.

Cash contributions to the defined benefits pension plans are estimated at $410 million for fiscal year 2007, compared to actual contributions of $327 million for fiscal year 2006. Cash contributions to the defined contributions pension plans are estimated at $25 million for fiscal year 2007, compared to actual contributions of $26 million for fiscal year 2006.

II Controls and Procedures

As of January 31, 2006, an evaluation was carried out, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the Corporation's disclosure controls and procedures as defined in *Multilateral Instrument 52-109.* Based on this evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective.

III Risks and Uncertainties

Risk Management Practices

The Corporation's risk management practice is to embed risk management activities in the operational responsibilities of its management. Risk management is therefore an integral part of how the Corporation plans and executes its business strategies. Each segment manages its risks in line with the Corporation's overall organizational and accountability structure. The Corporation has developed and applies risk assessment, mitigation and management practices to reduce the nature and extent of its exposure to operational, financial, technical, market and legal risks.

Aerospace

Aerospace's risk management begins prior to program launch. It includes the development of a detailed plan to support a program launch decision, and continues throughout the product cycle. Aerospace's risk management strategy includes a governance process to assess the risk of deviation from the revenue, cost, schedule and technical targets, established as part of a detailed plan with the aim of developing specific risk mitigation plans. Such practices include a sales contract evaluation process ensuring compliance with internal policy. Risk management for product cost includes the development of long-term relationships with key suppliers, together with supplier evaluation and competitive bidding processes. Other risk management practices for cost include foreign exchange hedging, insurance coverage and collective agreements with a significant portion of the workforce. Technical risk is mitigated through strict compliance with the regulatory requirements of various bodies, as well as stringent quality control in the production cycle. The International Standards Organization ("ISO") has established ISO 9001 standards. The Society of Automotive Engineers ("SAE") has used the baseline ISO 9001 standards to establish AS 9100 standards in order to standardize Quality Management Systems requirements specific to the aerospace industry. Aerospace holds four ISO 9001/AS 9100 certificates in 12 sites located in Canada, U.S. and Europe. These sites include facilities for all stages of the product life cycle including administrative, design, manufacturing, testing, training, spares distribution and service centres. The application of these standards allows Aerospace to improve the product quality and reduce costs through the standardization of quality processes and procedures.

Transportation

Transportation's risk management strategy comprises the complete activities of the segment with defined processes for the bid approval, project start-up, design, realization and field support phases.

The bid approval process is managed by senior executives with bids reviewed for compliance with internal policies and guidelines in the areas of commercial and contractual terms and conditions, profitability, engineering and manufacturing resources availability, product strategy, delivery schedule and supply base before tendering.

Bid approval, project start-up and design phases also include a technical risk assessment, legal review of contracts, development of long-term relationships with key suppliers, together with supplier evaluation and cost.

During the realization and field support phases, schedule control, the regular review of forecasts, project improvement management and a proactive risk and opportunity management are applied. The principal objective of the risk and opportunity management is:

- to anticipate future events that may harm or benefit a project; and
- to identify and quantify potential risks and opportunities so that Transportation can:
  - take action that will decrease the probability of a risk occurring and/or decrease the impact of the risk, should it occur; and
  - increase the probability of an opportunity occurring and/or increase the benefits of the opportunity, should it occur.

In addition, risk mitigation is managed by aiming to structure positive cash flow arrangements through the use of customer advances, foreign exchange hedging, securing insurance, obtaining third-party guarantees, and other risk mitigating measures, such as collective agreements with a significant portion of the workforce.

Risk Environment

The Corporation operates in industry segments that have a variety of risk factors and uncertainties, including general economic risk, business environment, operational, financing and market risk. The risks and uncertainties described below are risks that could materially affect the Corporation's business, financial condition and results of operations, but are not necessarily the only ones facing the Corporation. Additional risks and uncertainties not presently known to the Corporation, or that the Corporation currently believes to be immaterial, may also adversely affect its business.

General Economic Risk

Unfavourable economic conditions, such as a macroeconomic downturn in important markets and an increase in commodity prices may result in lower order intake, which would adversely affect the Corporation's business. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Corporation incurring significant costs associated with temporary layoffs or termination of employees.

Business Environment Risk

The Corporation faces a number of external risk factors, more specifically the financial condition of the airline industry and major rail operators, government policies related to import and export restrictions, changing priorities and possible spending cuts by government agencies, government support to export sales, world trade policies, competition from other businesses; as well as scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates. In addition, acts of terrorism, political instability or the outbreak of war or continued hostilities in certain regions of the world, and global health risks, may result in lower orders, rescheduling or the cancellation of part of the existing order backlog for certain of the Corporation's products.

Airline Industry Environment

Airline industry profitability and viability influence demand for Aerospace's commercial aircraft. Continued cost pressure in the airline industry places pressure on the price of Aerospace's products. Aerospace is faced with the challenge of finding ways to reduce costs and improve productivity to sustain a favourable market position at acceptable profit margins. Several of Aerospace's U.S. commercial airline customers are operating under the protection of Chapter 11. The loss of any major commercial airline as a customer or the termination of a contract could significantly reduce the Corporation's revenue.

Operational Risk

The activities conducted by the Corporation are subject to operational risks, including business partners, developing new products and services, regulatory risk, product performance warranty, legal, dependence on key customers, suppliers and personnel, risk of problems in supply management, production and project execution as well as successful integration of new acquisitions, reliance on information systems and environmental policies, all of which could affect the ability of the Corporation to meet its obligations. In addition, large and complex projects for customers are common for the businesses of the Corporation, including fixed-price contracts.

Business Partners

In certain of the projects carried out through consortia or other partnership vehicles in Transportation, all partners are jointly and severally liable to the customer. The success of these partnerships is dependent on the satisfactory performance of the Corporation's business partners. Although in these situations, partners generally exchange counter indemnity obligations, often partially or totally backed up by guarantee instruments, the failure of the business partners to fulfill their contractual obligations could subject the Corporation to additional financial and performance obligations that could result in increased costs and unforeseen delays. In addition, in the transportation's systems business, the loss of potential order intake may result from a partner withdrawing from a consortium during the bid phase.

Developing New Products and Services

The principal markets in which the Corporation's businesses operate experience changes due to the introduction of new technologies. To meet its customers' needs in these businesses, the Corporation must continuously design new, and update existing products and services, and invest in and develop new technologies. Introducing new products requires a significant commitment to research and development, which may not be successful. The Corporation's sales may be impacted if it invests in products that are not accepted in the marketplace, if customer demand or preference for aircraft models changes, if the products are not approved by regulatory authorities, or if the products are not brought to market in a timely manner or become obsolete. In Aerospace and Transportation, the Corporation is subject to stringent certification or approval requirements, which may delay the certification of the Corporation's products. Non-compliance with regulatory requirements, such as those imposed by TC, the FAA, the EASA, national rail regulatory bodies or other regulatory authorities, could result in the grounding of the Corporation's products, which could have a material adverse impact on the Corporation.

Warranty and Casualty Claim Losses

The products manufactured by the Corporation are highly complex and sophisticated and may contain defects that are difficult to detect and correct. Defects may be found in the Corporation's products after they are delivered to the customer. If discovered, the Corporation may not be able to correct them in a timely manner, or at all. The occurrence of defects and failures in the Corporation's products could result in warranty claims or the loss of customers. Correcting such defects could require significant capital investments. Any claims, defects or failures could have an adverse effect on the Corporation's operating results and business. In addition, due to the nature of the Corporation's business, the Corporation may be subject to liability claims arising from accidents or disasters, involving the Corporation's products, or products for which the Corporation provided services, including claims for serious personal injuries or death, or those caused by climatic factors (such as snow and icy weather), or by pilot or driver error. The Corporation cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Corporation will be able to obtain insurance coverage at acceptable levels and cost in the future.

Legal Risks

The Corporation is subject to numerous risks relating to legal proceedings to which it is currently a party or that could develop in the future. In the ordinary course of its business the Corporation becomes party to lawsuits, including suits involving allegations of improper delivery of goods or services, product liability, product defects, quality problems and intellectual property infringement. There can be no assurance that the results of these or other legal proceedings will not materially harm the Corporation's business, operations or reputation. The Corporation maintains liability insurance for certain legal risks at levels the Corporation's Management believes are appropriate and consistent with industry practice. The Corporation may incur losses relating to litigation beyond the limits, or outside the coverage, of such insurance and such losses may have a material adverse effect on the results of the Corporation's operations or financial condition, and the Corporation's provisions for litigation related losses may not be sufficient to cover the Corporation's ultimate loss or expenditure.

Key Customers and Key Suppliers

The Corporation's manufacturing operations are dependent upon a limited number of customers. As at January 31, 2006, 12% of Aerospace's backlog related to aircraft programs was attributable to two customers. In Transportation, three customers represented 44% of the order backlog as at January 31, 2006. The Corporation believes that it will continue to depend on a limited number of customers; accordingly, the loss of any such customer could result in lower sales and/or market share. As the majority of Transportation's customers are public or operate under public contract, Transportation's order intake is dependent on public budgets and spending policies. Please refer to government support hereafter for additional information.

The Corporation's manufacturing operations are dependent on a limited number of key suppliers for the delivery of materials, services and major systems, such as aluminium, titanium, power plants, wings, nacelles and fuselages in Aerospace, and brakes in Transportation. A failure by one or more key suppliers to meet performance specifications, quality standards, and delivery schedules could adversely affect the ability of the Corporation to meet its commitments to customers. If one or more key suppliers are unable to meet their contractual obligations towards the Corporation, this could result in a material effect on the Corporation's Consolidated Financial Statements. Certain of these suppliers participate in the development of products such as aircraft or rolling stock platforms and the subsequent delivery of materials and major components, and own some of the intellectual property from the key components they develop. Therefore, the Corporation's contracts with these key suppliers are on a long-term basis. Although alternative supplier sources generally exist for the procurement of material and major components, the replacement of certain key suppliers could be costly and could take a significant amount of time.

Fixed-Term Commitments

The Corporation has historically offered, and will continue to offer, a significant portion of its products on fixed-term contracts, rather than contracts in which payment is determined solely on a time-and-material basis. Generally, the Corporation may not terminate these contracts unilaterally. Although the Corporation often relies on tools, methodologies and past experience to reduce the risks associated with estimating, planning and performing these projects, in most cases, the Corporation is exposed to risks associated with these projects, including unexpected technological problems, difficulties with the Corporation's partners and subcontractors, and logistic difficulties that could lead to cost overruns and late delivery penalties.

Human Resource Risk (Including Collective Agreements)

Human resource risk is the risk that the Corporation is unable to recruit, retain, and motivate highly skilled employees to assist in the Corporation's business, including research and development activities, that are essential to the success of the Corporation. Failure to recruit and retain highly-skilled personnel could negatively impact the Corporation's development efforts and cause delays in production.

In addition, the Corporation is party to several collective agreements throughout its business segments, which are subject to expiration at various times in the future. If the Corporation is unable to renew these collective agreements as they become subject to renegotiation from time to time, this could result in work stoppages and other labour disturbances.

Environmental Risk

Environmental risk is the risk that regulatory requirements, or enforcements thereof, may become more stringent in the future and that additional costs may be incurred by the

Corporation to be compliant with such future requirements or enforcements. The Corporation is subject to environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, product performance and/or content, air and water pollution, hazardous substance discharges, and the remediation of soil and/or groundwater contamination caused by past operations. Although the Corporation believes that it is in substantial compliance with current applicable requirements of environmental laws, there can be no assurance that limitations imposed by, or costs of compliance with, current or future environmental laws, or liabilities arising from environmental problems, will not have a material adverse effect on the Corporation's financial position.

Financing Risk

Government Support

From time to time, the Corporation or its customers receive various types of government support. The level of government support reflects government policy and depends on budgets and other political and economic developments. The Corporation cannot predict if future government-sponsored support will be available. The loss or any substantial reduction in the availability of government support could negatively impact the Corporation's cost competitiveness and market share. In addition, any future government support received by the Corporation's competitors may have a negative impact on the Corporation's competitiveness, product development, sales and market share.

Financing Support Provided on Behalf of Certain Customers

The Corporation may provide aircraft financing support to regional aircraft customers.

- Interim financing, which includes loans made to customers and the leasing of aircraft to customers;
  - The Corporation faces the risk that certain customers, mainly regional aircraft customers, may not be able to obtain permanent financing. This in turn, would have a negative impact on free cash flow.
- Credit support provided by the Corporation in the form of credit and/or residual value guarantees to airlines and to certain special purpose entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies, and ii) to purchase financial assets related to the sale of regional aircraft. Under these arrangements, the Corporation is obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make lease or loan payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at the end of the lease. A claim under these guarantees can typically be made only upon the sale of the aircraft to a third party. A substantial portion of these guarantees has been extended on behalf of original debtors or lessees with less than investment-grade credit. Recent financial weakness in certain airlines further exposes the Corporation to loss under credit guarantees.
  - Significant claims under these guarantees could have a material effect on the Corporation's business, financial condition and results of operations (see Commitments and contingencies section of this MD&A for a discussion of credit and residual value guarantees).

Liquidity and Access to Capital Markets

The Corporation requires continued access to the capital markets to support its activities. To satisfy its financing needs, the Corporation relies on cash resources, debt, bank lines of credit and cash flow generated from operations. Any impediments to the Corporation's ability to access the capital markets, including a decline in credit ratings, a significant reduction of the surety market global capacity, significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Corporation's financial condition or prospects, could have a material adverse effect on the Corporation's financial condition and results of operations. Credit ratings may be impacted by many external factors beyond the Corporation's control and accordingly, no assurance can be given that the Corporation's credit ratings will not be reduced in the future.

Restrictive Debt Covenants

The indentures governing certain of the Corporation's indebtedness and syndicated credit facilities contain covenants that, among other things, restrict the Corporation's ability to:

- sell all or substantially all of its assets;
- incur certain indebtedness, secured or unsecured;
- engage in mergers or consolidations;
- incur capital expenditures in excess of a certain amount;
- engage in certain transactions with affiliates; and
- engage in acquisitions in excess of a certain amount.

These restrictions could impair the Corporation's ability to finance its future operations or its capital needs, or to engage in other business activities that may be in its interest. In addition, the Corporation is also required to comply with various financial covenants (computed without the former BC segment) under its two main syndicated credit facilities and is required to maintain (as defined in the related agreements):

- a minimum liquidity of $1.0 billion at the end of each quarter;
- a minimum interest coverage ratio of 2 to 1 on a rolling four-quarter basis for the period ending January 31, 2006, and 2.5 to 1 thereafter; and
- a maximum net debt-to-capitalization ratio of 55% as at January 31, 2006, and 50% at the end of each fiscal quarter thereafter.

The Corporation's ability to comply with these covenants may be affected by events beyond its control. A breach of any of these agreements or the Corporation's inability to comply with these covenants could also result in a default under its bank lines, which would permit the Corporation's banks to request the immediate cash collateralization of all outstanding letters of credit and the bond holders and other lenders of the Corporation to declare amounts owed to them immediately payable.

Market Risk

Market risk is defined as a potential loss due to an adverse move in market rates, including the following:

Foreign Currency Fluctuations

The Corporation is exposed to risks resulting from foreign currency fluctuations, as described in the Derivative financial instruments section of this MD&A. In an effort to mitigate these risks, the Corporation uses financial derivative instruments to hedge its exposure to future cash inflows and outflows in various foreign currencies.

Changing Interest Rates

The Corporation is exposed to risks from fluctuating interest rates as described in the Derivative financial instruments section of this MD&A. The Corporation uses derivative financial instruments or asset/liability management techniques to manage the impact of fluctuating interest rates, arising mainly on existing assets and liabilities and financial commitments.

Commodity Price Risk

The Corporation is subject to commodity price risk relating principally to fluctuations in material prices, such as aluminium and titanium used in the supply chain. In an effort to mitigate these risks, the Corporation seeks to enter into long-term arrangements with the supplier base.

The impact of the above fluctuations could have a material effect on the Corporation's Consolidated Financial Statements.

IV Critical Accounting Estimates

The Corporation's significant accounting policies are described in the Consolidated Financial Statements. The preparation of financial statements, in conformity with Canadian GAAP, requires the use of estimates, judgment and assumptions. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates could have been reasonably used or if changes in the estimate that would have a material impact on the Corporation's financial condition or results of operations are likely to occur from period to period.

The sensitivity analysis included in this section should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

Average Cost Accounting

Average cost accounting, used in Aerospace, is a method of accounting for the costs associated with the manufacturing of aircraft, whereby the estimated average unit production cost is charged to cost of sales.

The determination of the estimated average unit production cost per aircraft involves estimates of total accounting program quantities and total production costs for a selected program, as well as the period over which the units can reasonably be expected to be produced.

Accounting program quantities are based on an assessment of prevailing market conditions and anticipated demand for the aircraft, considering, among other factors, firm order backlog.

Production costs include material, direct labour and manufacturing overhead costs. Total production costs are estimated based on actual and forecasted costs of materials, foreign exchange rates, labour productivity and employment levels and salaries. Cost estimates are based mainly on historical performance trends, economic trends, labour agreements and information provided by suppliers. Production costs are also based on the learning curve concept, which anticipates a decrease in costs as tasks and production techniques become more efficient through repetition. As a result, the actual unit production cost, incurred in the early stage of the program, will exceed the estimated average unit production cost for the entire program. This difference, referred to as excess over-average production costs, is included in inventories and is expected to be recovered from sales of aircraft to be produced later at lower-than-average production costs.

Management conducts quarterly reviews as well as a detailed annual review in the fourth quarter as part of its annual budget process of its cost estimates and program quantities. The effect of any revision is accounted for by way of a cumulative catch-up adjustment in the period in which the revision takes place.

Sensitivity

A 1% change in the estimated future costs to produce the remaining aircraft accounting program quantities for all aircraft programs would have increased or decreased the Corporation's Cost of sales by approximately $50 million in fiscal year 2006, including $35 million relating to cumulative catch-up adjustments for prior years.

Aerospace Program Tooling

Aerospace program tooling is reviewed for impairment when certain events or changes in circumstances indicate that the carrying amount of the tooling may not be recoverable. The recoverability test is performed using undiscounted expected future net cash flows that are directly associated with the asset's use. An impairment charge is recorded in Amortization when the undiscounted value of the expected future cash flow is less than the carrying value of program tooling. The amount of impairment, if any, is measured as the difference between the carrying value and the fair value of the program tooling. Estimates of net future cash flows, over the remaining useful life of program tooling, are subject to uncertainties with respect to expected selling prices, as well as estimates and judgments as described in the average cost accounting section above.

Sales Incentives

The Corporation offers sales incentives, including credit and residual value guarantees, mostly in connection with the sale of regional aircraft. Management reviews the maximum exposure related to these commitments relative to the aircraft's expected future value and, in the case of credit guarantees, the creditworthiness of the borrower. Provisions are recorded at the time of sale of the underlying aircraft and are reviewed quarterly. Non-cash sales incentives are included in Cost of sales and cash sales incentives are presented as a reduction of Manufacturing revenues. The aircraft's expected future value is estimated using internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. The creditworthiness of borrowers, for which credit guarantees have been provided, is based on credit ratings published by credit rating agencies, when available. The creditworthiness of other borrowers is estimated based on internal evaluation models (see note 22—Commitments and contingencies to the Consolidated Financial Statements for additional information on these guarantees).

Sensitivity

As at January 31, 2006, had the expected future value of aircraft used to calculate the provision for credit and residual value guarantees provided in connection with aircraft sales decreased by 5%, Cost of sales would have increased by approximately $100 million for fiscal year 2006.

Long-Term Contracts

Transportation conducts most of its business under long-term contracts with customers. Revenues and margins from long-term contracts relating to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method. Revenues and margins from maintenance contracts entered into on, or after December 17, 2003, are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract. The long-term nature of contracts involves considerable use of estimates in determining total contract costs, revenues and percentage of completion.

Contract costs include material, direct labour, manufacturing overhead and other costs, such as warranty and freight. Total contract costs are estimated based on forecasted costs of materials, inflation rates, foreign exchange rates, labour productivity, and employment levels and salaries, and are influenced by the nature and complexity of the work to be performed, the impact of change orders and the impact of delayed delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and information provided by suppliers.

Revenue estimates are based on the negotiated contract price adjusted for change orders, claims and contract terms that provide for the adjustment of prices in the event of variations from projected inflationary trends. Contract change orders and claims are included in revenue when they can be reliably estimated and realization is probable.

The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative for the measure of performance.

Recognized revenues and margins are subject to revisions as the contract progresses to completion. Management conducts quarterly reviews and a detailed annual review in the fourth quarter as part of its annual budget process of its estimated costs to complete, percentage of completion estimates and revenues and margins recognized, on a contract-by-contract basis. The effect of any revision is accounted for by way of a cumulative catch-up adjustment in the period in which the revision takes place.

If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in the period in which the negative gross margin is identified.

Sensitivity

A 1% increase in the estimated future costs to complete all ongoing contracts accounted for under the percentage-of-completion method in Transportation would have decreased margin by approximately $60 million, while a 1% decrease in the estimated future costs would have increased margin by approximately $50 million.

Goodwill

Goodwill recorded is the result of the purchase of Adtranz.

Goodwill is tested for impairment using a two-step test annually or more frequently if events or circumstances, such as significant declines in expected sales, earnings or cash flows, indicate that it is more likely than not that the asset might be impaired. Under the first step, the fair value of a reporting unit, based on discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, the second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income. The Corporation selected its fourth quarter as its annual testing period for its goodwill.

Future cash flows are forecasted based on the Corporation's best estimate of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, collective agreements and general market conditions, and are subject to review and approval by senior management. The future cash flows used for the impairment test performed during the fourth quarter of fiscal year 2006 were discounted using a weighted-average cost of capital rate of 9.5%.

Variable Interest Entities

The Corporation consolidates VIEs for which it assumes a majority of the risk of losses, is entitled to receive a majority of the residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the enterprise became the primary beneficiary. See note 23—Variable interest entities to the Consolidated Financial Statements, for additional information on VIEs. The Corporation revises its initial determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

The Corporation uses a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and to analyze and calculate its expected losses and its expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows from the expected cash flows, and allocating the expected losses and expected returns among the identified parties holding variable interests to then determine who is the primary beneficiary. In addition, there is a significant amount of judgment exercised in applying these consolidation rules to the Corporation's transactions.

Variable interest includes mostly credit and/or residual value guarantees to certain SPEs created solely to purchase regional aircraft, as well as partnership arrangements entered into to provide manufactured rail equipment and civil engineering work as well as related long-term services.

Product Warranties

Products sold in Aerospace and Transportation are accompanied by warranties for systems, accessories, equipment, parts and software developed by the Corporation.

A provision for warranty cost is recorded when revenue for the underlying product is recognized. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and counter-warranty coverage available from the Corporation's suppliers.

The Corporation reviews quarterly its recorded product warranty provisions and any adjustment is recognized to income. Warranty expense is recorded as a component of Cost of sales.

Employee Future Benefits

Pension and other employee benefit costs and obligations are dependent on assumptions used in calculating such amounts. The discount rate, the expected long-term rate of return on plan assets and rate of compensation increase are important elements of cost and/or obligation measurement.

The discount rate allows the Corporation to reflect estimated future benefit payments at present value on the measurement date. Management has little discretion in selecting the discount rate, as it must represent the market rates for high quality fixed income investments available for the period to maturity of the benefits. A lower discount rate increases the benefit obligation and benefit costs.

Sensitivity

A 0.25% change in the weighted-average discount rate would increase or decrease expected benefit cost in fiscal year 2007 by approximately $30 million.

The expected long-term rate of return on pension plan assets is determined considering historical returns, future estimates of long-term investment returns and asset allocations. A lower return assumption increases pension cost.

Sensitivity

A 0.25% change in the weighted-average return assumption would increase or decrease expected benefit cost in fiscal year 2007 by approximately $10 million.

The rate of compensation increase is determined considering current salary structure, historical wage increases and anticipated wage increases.

Sensitivity

A 0.25% change in the weighted-average rate for compensation increase would increase or decrease expected benefit cost in fiscal year 2007 by approximately $20 million.

Other assumptions include the inflation rate and the health-care cost trend rate, as well as demographic factors such as retirement ages of employees, mortality rates and turnover. Assumptions are reviewed and updated on an annual basis.

Income Taxes

The Corporation recognizes deferred income tax assets, resulting from operating losses carry-forward and deductible temporary differences.

Management assesses the realization of these deferred tax assets regularly to determine whether a valuation allowance is required. Based on evidence, both positive and negative, the Corporation determines whether it is more likely than not that all or a portion of the deferred income tax assets will be realized. The factors considered include estimated future earnings based on internal forecasts, cumulative losses in recent years, history of losses carry-forward and other tax assets expiring unused, as well as prudent and feasible tax planning strategies.

V Accounting and Reporting Developments

The following standards may, when adopted, have a material impact on the Corporation's Consolidated Financial Statements:

- Financial instruments—Recognition and measurement;
- Hedges; and
- Comprehensive income.

These standards are substantially harmonized with U.S. GAAP and will be effective for the Corporation for the first quarter of fiscal year 2008. The principal impacts of the standards are summarized below:

Financial Instruments—Recognition and Measurement

- All derivative financial instruments, including embedded derivatives that are not closely related to the host contract, must be recorded on the balance sheet and measured at fair value.
- All financial assets must be classified as held for trading, available for sale, held to maturity or as loans and receivables, and measured either at fair value, cost or amortized cost.
- Gains and losses on financial instruments measured at fair value must be recognized in the income statement or in other comprehensive income.

Hedges

Hedges can be designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation. Gains and losses as a result of changes in the fair value of hedging instruments which qualify for hedge accounting must be recognized to income, together with the offsetting gains or losses on the hedged risk in the period of change or to other comprehensive income if certain criteria are met, with subsequent reclassification to income when the hedged item affects income.

Comprehensive Income

Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income and its components must be presented in the consolidated financial statements with the same prominence as other financial statements that constitute the complete set of consolidated financial statements.

The Corporation is currently assessing the impact of these recommendations on its Consolidated Financial Statements.

VI Environment

The Corporation's manufacturing and service activities are subject to environmental regulation by federal, provincial and local authorities in Canada, as well as local regulatory authorities having jurisdiction over the Corporation's foreign operations. As a result, the Corporation has established, and periodically updates, a health, safety and environment policy that defines the Corporation's vision for its worldwide operations. Consistent with this policy, approximately 85% of the Corporation's manufacturing and services locations (over 150 employees) have been accredited according to the ISO 14001 Standard for Environmental Management by outside auditors.

Consistent with the Corporation's policy stressing environmental responsibility and its desire to maintain legal compliance, the Corporation routinely procures, installs and operates pollution control devices, such as waste water treatment plants, groundwater monitoring devices, air strippers or separators, and incinerators at new and existing facilities constructed or upgraded in the normal course of business. Future expenditures for pollution control systems are not expected to have a material effect on the Corporation's consolidated financial position.

With respect to environmental matters related to site contamination (historical contamination of soil and groundwater), the Corporation periodically conducts studies, individually at sites owned by the Corporation and jointly as members of industry groups at sites not owned by the Corporation, to determine the feasibility of various remedial techniques, and to define the Corporation's share of liability. The Corporation is currently proceeding with decontamination at a small number of sites both in North America and in Europe. The historical costs for soil and/or groundwater decontamination have not been significant.

Estimating future environmental clean-up liabilities is dependent on the nature and the extent of historical information and physical data about the contaminated site, the complexity of the contamination, the uncertainty of which remedy to apply, the timing of the remedial action and the outcome of the discussions with regulatory authorities.

The Corporation expects to increase its costs for remediation activities in future years. This increased cost is based on the probable closure of certain existing facilities and on ever increasing legal requirements. Although it appears likely that annual costs for soil and groundwater decontamination may increase over time, these costs are not expected to be material to the Corporation.

VII Foreign Exchange Rates

The Corporation is subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of the self-sustaining foreign operations using a functional currency other than the U.S. dollar, mainly the euro and the sterling pound, and from transactions denominated in foreign currencies, mainly the Canadian dollar and the sterling pound.

The year-end exchange rates used to translate assets and liabilities were as follows as at January 31:

	2006	2005	Increase (Decrease)
Euro	1.2157	1.3051	(7)%
Canadian dollar	0.8742	0.8078	8%
Sterling pound	1.7814	1.8837	(5)%

The average exchange rates used to translate revenues and expenses were as follows for fiscal years:

	2006	2005	Increase (Decrease)
Euro	1.2374	1.2469	(1)%
Canadian dollar	0.8294	0.7729	7%
Sterling pound	1.8121	1.8356	(1)%

VIII Selected Financial Data

The Consolidated Financial Statements of Bombardier Inc. are prepared in accordance with Canadian GAAP and are expressed in U.S. dollars. The result of operations of BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets. (see note 1—Discontinued operations and assets held for sale to the Consolidated Financial Statements).

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

(in millions of U.S. dollars, except per share amounts)	2006	2005	2004
Revenues	$ 14,726	$ 15,546	$ 15,201
EBIT from continuing operations before special items	445	236	462
EBIT from continuing operations	357	64	132
EBT from continuing operations before special items	238	12	231
EBT from continuing operations	150	(160)	(99)
Income (loss) from continuing operations	135	(122)	(220)
Income from discontinued operations, net of tax	114	37	135
Net income (loss)	249	(85)	(85)
Basic and diluted earnings (loss) per share:			
From continuing operations	0.06	(0.08)	(0.15)
Net income (loss)	0.13	(0.06)	(0.07)
Cash dividends declared per share (Cdn$):			
Class A Shares (Multiple Voting)	—	0.090000	0.090000
Class B Shares (Subordinate Voting)	—	0.091600	0.091600
Series 2 Preferred Shares	1.115860	0.997810	1.169296
Series 3 Preferred Shares	1.369000	1.369000	1.369000
Series 4 Preferred Shares	1.562500	1.562500	1.562500
Total assets	17,482	20,130	19,277
Financial liabilities:			
Long-term debt—Bombardier	2,722	3,128	2,097
Long-term debt—BC	2,025	2,588	3,028

The following table provides authorized and issued and outstanding share data as at January 31, 2006.

	Authorized	Issued and Outstanding
Class A Shares (Multiple Voting) [1]	1,892,000,000	319,260,212
Class B Shares (Subordinate Voting) [2]	1,892,000,000	1,425,772,756
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	2,597,907
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	9,402,093
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

(1) 10 votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).

(2) Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions (see note 11—Share capital to the Consolidated Financial Statements).

The following table provides share option and performance stock units ("PSU") data.

Options issued and outstanding under share option plans as at February 28, 2006	53,323,900
PSUs issued and outstanding under PSU plan as at January 31, 2006	4,014,082

The table containing the quarterly information is shown at the end of this MD&A.

March 28, 2006

Bombardier, Bombardier 415, Bombardier Global 5000, Challenger, Challenger 300, Challenger 604, Challenger 605, Challenger 800, Challenger 850, Challenger 870, Challenger 890, CITYFLO, CL-215T, CRJ, CRJ100, CRJ200, CRJ700, CRJ705, CRJ900, CSeries, EBI, Electrostar, FLEXITY, Flexjet, Global, Global Express, Global Express XRS, INNOVIA, INTERFLO, Learjet, Learjet 40, Learjet 40 XR, Learjet 45, Learjet 60, Learjet 60 XR, MITRAC, MOVIA, Q100, Q200, Q300, Q400, Q-Series, Skyjet, Skyjet International, Smart Parts, Talent, TRAXX and *Zefiro* are trademarks of Bombardier Inc. or its subsidiaries.

Additional information relating to Bombardier, including the Corporation's Annual Information Form, can be found on SEDAR at www.sedar.com or on Bombardier's website at www.bombardier.com.

BOMBARDIER INC.

QUARTERLY DATA

For the fiscal years ended January 31
(Unaudited)
(In millions of US dollars, except per share amounts)

	2006	2006	2006	2006	2006	2005	2005	2005	2005	2005
	Total	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Total	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Segmented revenues										
Aerospace [1]	$ 8,087	$2,400	$1,789	$1,962	$1,936	$ 7,980	$ 2,612	$ 1,633	$ 1,962	$ 1,773
Transportation [2]	6,653	1,638	1,515	1,675	1,825	7,584	2,119	1,929	1,847	1,689
Intersegment revenues	(14)	(3)	(3)	(4)	(4)	(18)	(6)	(4)	(4)	(4)
External revenues	$14,726	$4,035	$3,301	$3,633	$3,757	$15,546	$ 4,725	$ 3,558	$ 3,805	$ 3,458
Income (loss) from continuing operations before special items, financing income and expense and income taxes										
Aerospace [1]	$ 266	$ 107	$ 31	$ 76	$ 52	$ 203	$ 85	$ 41	$ 39	$ 38
Transportation	179	53	39	43	44	33	61	44	43	(115)
	445	160	70	119	96	236	146	85	82	(77)
Special items										
Transportation	88	37	25	34	(8)	172	38	43	5	86
	88	37	25	34	(8)	172	38	43	5	86
Income (loss) from continuing operations before financing income and expense and income taxes										
Aerospace	266	107	31	76	52	203	85	41	39	38
Transportation	91	16	14	9	52	(139)	23	1	38	(201)
	357	123	45	85	104	64	108	42	77	(163)
Financing income	(156)	(52)	(39)	(32)	(33)	(104)	(35)	(29)	(24)	(16)
Financing expense	363	98	87	91	87	328	102	74	74	78
Income (loss) from continuing operations before income taxes	150	77	(3)	26	50	(160)	41	(3)	27	(225)
Income tax expense (recovery)	15	(8)	(2)	16	9	(38)	(6)	(6)	15	(41)
Income (loss) from continuing operations	135	85	(1)	10	41	(122)	47	3	12	(184)
Income (loss) from discontinued operations, net of tax	114	1	(8)	107	14	37	9	7	11	10
Net income (loss)	$ 249	$ 86	$ (9)	$ 117	$ 55	$ (85)	$ 56	$ 10	$ 23	$ (174)
Earnings (loss) per share:										
Basic and diluted										
From continuing operations	$ 0.06	$ 0.05	$ —	$ —	$ 0.02	$ (0.08)	$ 0.02	$ —	$ —	$ (0.11)
Net income (loss)	$ 0.13	$ 0.05	$ (0.01)	$ 0.06	$ 0.03	$ (0.06)	$ 0.03	$ —	$ 0.01	$ (0.10)
Dividend—Class A Shares (in Cdn dollars)	—	—	—	—	—	0.0900	0.0225	0.0225	0.0225	0.0225
Dividend—Class B Shares (in Cdn dollars)	—	—	—	—	—	0.0916	0.0229	0.0229	0.0229	0.0229
Market price range of Class B Shares (Cdn dollars)										
High	$ 3.66	$ 3.13	$ 3.66	$ 3.39	$ 3.10	$ 7.13	$ 2.89	$ 3.40	$ 6.24	$ 7.13
Low	$ 2.28	$ 2.34	$ 2.44	$ 2.41	$ 2.28	$ 1.87	$ 1.87	$ 2.55	$ 3.29	$ 5.67

[1] Historically, Bombardier Aerospace has higher aircraft deliveries during the fourth quarter compared to the first three quarters of its fiscal year, generating higher revenues and margins.

[2] Transportation results for the first quarter of fiscal year 2005 were negatively impacted by contract adjustments related to revision of estimates for the completion of certain contracts.

BOMBARDIER INC.
HISTORICAL FINANCIAL SUMMARY
CONSOLIDATED BALANCE SHEETS
AS AT JANUARY 31
(in millions of U.S. dollars)

	2006	2005	2004	2003	2002
ASSETS					
Cash and cash equivalents	$ 2,917	$ 2,344	$ 1,214	$ 662	$ 276
Receivables	1,684	1,513	1,730	2,056	2,601
Aircraft financing	1,457	1,791	1,463	2,209	2,072
Inventories	3,805	4,013	4,340	3,443	3,532
Property, plant and equipment	3,090	3,412	3,550	3,523	3,259
Goodwill	2,142	2,357	2,290	2,122	1,704
Fractional ownership deferred costs	270	142	—	—	—
Deferred income taxes	653	522	401	446	399
Accrued benefit assets	384	353	375	173	153
Assets held for sale	237	2,582	2,526	3,556	2,246
Other assets	843	1,101	1,388	859	866
	$17,482	$20,130	$19,277	$19,049	$17,108
LIABILITIES AND SHAREHOLDERS' EQUITY					
Short-term borrowings	$ —	$ —	$ —	$ 816	$ 1,814
Accounts payable and accrued liabilities	6,866	7,085	6,710	5,772	4,626
Advances and progress billings in excess of related costs	2,191	2,359	2,686	2,496	2,067
Fractional ownership deferred revenues	325	163	—	—	—
Deferred income taxes	9	41	104	122	399
Long-term debt	4,747	5,716	5,125	5,331	4,480
Accrued benefit liabilities	877	897	932	753	624
Liabilities related to assets held for sale	42	1,571	1,270	1,966	1,003
Preferred shares	347	347	347	347	199
Common shareholders' equity	2,078	1,951	2,103	1,446	1,896
	$17,482	$20,130	$19,277	$19,049	$17,108

BOMBARDIER INC.
HISTORICAL FINANCIAL SUMMARY
FOR THE FISCAL YEARS ENDED JANUARY 31
(in millions of US dollars)

	2006	2005	2004	2003	2002
Segmented revenues					
Aerospace	$ 8,087	$ 7,980	$ 8,261	$ 7,271	$ 7,933
Transportation	6,653	7,584	6,954	6,019	4,509
Intersegment revenues	(14)	(18)	(14)	(13)	(15)
External revenues	$14,726	$15,546	$15,201	$13,277	$12,427
Income (loss) from continuing operations before special items, financing income and expense and income taxes					
Aerospace	$ 266	$ 203	$ 419	$ 255	$ 715
Transportation	179	33	43	162	89
	445	236	462	417	804
Special items					
Aerospace	—	—	(19)	837	654
Transportation	88	172	349	—	48
	88	172	330	837	702
Income (loss) from continuing operations before financing income and expense and income taxes					
Aerospace	266	203	438	(582)	61
Transportation	91	(139)	(306)	162	41
	357	64	132	(420)	102
Financing income	(156)	(104)	(96)	(117)	(138)
Financing expense	363	328	327	345	305
Income (loss) from continuing operations before income taxes	150	(160)	(99)	(648)	(65)
Income tax expense (recovery)	15	(38)	121	(159)	(22)
Income (loss) from continuing operations	135	(122)	(220)	(489)	(43)
Income from discontinued operations, net of tax	114	37	135	96	66
Net income (loss)	$ 249	$ (85)	$ (85)	$ (393)	$ 23
Earnings (loss) per share:					
Basic and diluted					
From continuing operations	$ 0.06	$ (0.08)	$ (0.15)	$ (0.37)	$ (0.04)
Net income (loss)	$ 0.13	$ (0.06)	$ (0.07)	$ (0.30)	$ 0.01

BOMBARDIER INC.
HISTORICAL FINANCIAL SUMMARY
FOR THE FISCAL YEARS ENDED JANUARY 31

(in millions of US dollars, except per share amounts and shareholders of record)

	2006	2005	2004	2003	2002
General information for continuing operations					
Export revenues from Canada	$ 5,271	$ 5,430	$ 5,851	$ 4,764	$ 5,320
Additions to property, plant and equipment	$ 329	$ 305	$ 300	$ 461	$ 723
Amortization	$ 545	$ 549	$ 560	$ 512	$ 477
Dividend per common share (in Cdn dollars)					
Class A	$ —	$0.090000	$0.090000	$0.180000	$0.180000
Class B	$ —	$0.091600	$0.091600	$0.181563	$0.181563
Dividend per preferred share (in Cdn dollars)					
Series 2	$1.115860	$0.997810	$1.169296	$1.193750	$1.375000
Series 3	$1.369000	$1.369000	$1.369000	$0.684500	$ —
Series 4	$1.562500	$1.562500	$1.562500	$1.398760	$ —
Number of common shares (in millions)	1,745	1,750	1,750	1,378	1,371
Book value per common share (in US dollars)	$ 1.19	$ 1.11	$ 1.20	$ 1.05	$ 1.38
Shareholders of record	13,600	13,008	12,371	11,579	11,310
Market price ranges					
(in Canadian dollars)					
Class A					
High	$ 3.69	$ 7.11	$ 6.32	$ 15.67	$ 24.60
Low	$ 2.34	$ 2.01	$ 2.95	$ 3.19	$ 9.25
Close	$ 3.02	$ 2.80	$ 5.96	$ 5.34	$ 14.72
Class B					
High	$ 3.66	$ 7.13	$ 6.28	$ 15.67	$ 24.65
Low	$ 2.28	$ 1.87	$ 2.56	$ 3.13	$ 9.19
Close	$ 2.98	$ 2.62	$ 5.99	$ 5.12	$ 14.70

BUSINESS

Our Company

We are a world-leading manufacturer of innovative transportation solutions, including regional aircraft, business jets and rail transportation equipment. We are the third largest manufacturer of commercial aircraft in the world. We have held the number one global market position in the rail equipment and servicing industry since 2003, based on worldwide orders in markets accessible to open bid competition. As of July 31, 2006, we had a total of approximately 56,400 employees and 49 manufacturing facilities in 21 countries. For the twelve-month period ended July 31, 2006, we generated revenues of $14.4 billion and EBITDA before special items of $1,004 million. We operate in two segments: (i) Bombardier Aerospace and (ii) Bombardier Transportation.

Bombardier Aerospace is a world leader in the design and manufacture of aviation products and services for the business, regional and amphibious aircraft markets. Our legacy of innovation consolidates more than 250 years of aviation industry experience and has led to the launch by Bombardier of 15 new aircraft programs in the past 15 years.

Bombardier Transportation is the global leader in the rail equipment manufacturing and servicing industry. We offer a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. We also provide electrical propulsion and control equipment as well as complete system and signalling solutions and maintenance services.

Bombardier Aerospace

Bombardier Aerospace's product portfolio includes the broadest offering of business aircraft and lines of regional jets, turboprops and amphibious aircraft. Bombardier Aerospace also provides hourly flight time entitlement programs, parts logistics, technical services, aircraft maintenance and pilot training and offers fractional ownership programs and charter services. During the twelve-month period ended July 31, 2006, Bombardier Aerospace generated revenues of $8.0 billion and EBITDA of $668 million and had a backlog of $10.9 billion as of July 31, 2006.

Bombardier Aerospace Products and Services

Business Aircraft

Narrow-body business jets
- Learjet 40/40 XR
- Learjet 45/45 XR
- Learjet 60/60 XR

Wide-body business jets
- Challenger 300
- Challenger 605
- Challenger 800 Series
- Bombardier Global 5000
- Global Express/Global Express XRS

Regional Aircraft

Regional jets
- CRJ200 (50 seat)
- CRJ700 (70 seat)
- CRJ705 (75 seat)
- CRJ900 (86 seat)

Turboprops
- Q200 (37 seat)
- Q300 (50 seat)
- Q400 (68-78 seat)

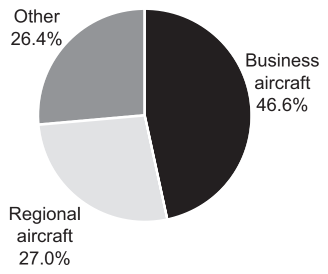
Other

Flexjet and Skyjet
- Aircraft fractional ownership
- Hourly flight entitlement programs

Aircraft services
- Parts logistics
- Aircraft maintenance
- Customer training
- Military aviation training

Amphibious/Missionized
- Amphibious aircraft
- Government and missionized aircraft

**% of Total Bombardier Aerospace Revenues,
for the Twelve-Month Period Ended July 31, 2006**



Business Aircraft. Bombardier Aerospace markets, sells and provides customer support for its three families of business jets: (1) the Global family, (2) the Challenger family and (3) the Learjet family. Aircraft ordered by customers are produced by the manufacturing facilities of Bombardier Aerospace. Business aircraft manufacturing revenues contributed 46.6% to Bombardier Aerospace's revenues for the twelve-month period ended July 31, 2006.

Regional Aircraft. Bombardier Aerospace markets and sells the CRJ family of regional jets and the Q-Series family of turboprops to airline companies and also provides maintenance and modification services to its customers. Regional aircraft manufacturing revenues contributed 27.0% to Bombardier Aerospace's revenues for the twelve-month period ended July 31, 2006.

Other Operations. Bombardier Aerospace offers fractional ownership program and charter services, provides a broad range of aircraft services, as well as manufactures, markets and sells amphibious aircraft. Other operations contributed 26.4% to Bombardier Aerospace's revenues for the twelve-month period ended July 31, 2006.

Fractional Ownership and Charter: Through our North American Flexjet program, owners purchase shares of an aircraft with operations and support, including flight crew, maintenance, hangar fees and insurance. The North American Flexjet program has partnered with Delta AirElite Business Jets, a subsidiary of Delta Airlines, to market and sell the Flexjet membership card program (25-hour block of flight time entitlement on the Flexjet fleet). The Flexjet program included 84 aircraft in service in North America as of January 31, 2006. Our North American Skyjet program offers both on-demand and flight time entitlement charter services.

Aircraft Services: Bombardier Aerospace provides a broad range of services to customers, including parts logistics, customer and military aviation training and aircraft maintenance. Bombardier Aerospace provides worldwide spare parts support, including regular parts shipments, aircraft on ground service, lease programs, rotable management programs, surplus sales and customer-owned repair. Customers are served from two main distribution centres, one in Chicago, Illinois, in the United States, and the other in Frankfurt, Germany, and from depots in Montréal, Canada, Dubai in the United Arab Emirates, Singapore, Sydney, Australia and Beijing in the People's Republic of China.

Amphibious Aircraft: Bombardier Aerospace markets and manufactures the Bombardier 415 turboprop amphibious aircraft, a purpose-built firefighting aircraft. This aircraft can also be adapted to a multi-purpose version which can be used in a variety of specialized missions such as search and rescue, environmental protection, coastal patrol and transport. Bombardier Aerospace continues to identify and provide special mission aircraft sales solutions to governments and special interest organizations worldwide.

Bombardier Aerospace—Financial Results Overview

	For the Years Ended January 31,			For the Twelve-Month Period Ended July 31,
	2004	2005	2006	2006
Deliveries				
Business [1]	89	128	197	214
Regional	232	200	138	111
Amphibious	3	1	2	2
Total deliveries	324	329	337	327
(US$ in millions, except as noted below)				
Revenues				
Business	$1,687	$2,063	$3,330	$3,738
Regional	4,256	3,604	2,690	2,162
Other	2,318	2,313	2,067	2,120
Total revenues	$8,261	$7,980	$8,087	$8,020
EBIT before special items	$ 419	$ 203	$ 266	$ 259
EBITDA before special items	$ 821	$ 614	$ 672	$ 668
Backlog (US$ in billions)	$ 10.9	$ 10.2	$ 10.7	$ 10.9

[1] Includes deliveries of the fractional ownership program.

The core operation of Bombardier Capital consisting of commercial aircraft financing is now managed by Bombardier Aerospace, and therefore these operations are part of Bombardier Aerospace's results.

We have substantially completed our strategy of reducing Bombardier Capital's operations. Several portfolios were put up for sale and all were subsequently sold. The sale of Bombardier Capital's inventory finance operations was completed in May 2005 for $1.3 billion, with a pre-tax gain of $191 million. This transaction yielded $732 million, after repayment of bank-sponsored securitized floorplan conduits. We also sold our on-balance sheet manufactured housing operations in July 2005 for $119 million, and our off-balance sheet manufactured housing servicing operations in March 2006 for $26 million. The Consumer Finance operations were sold in May 2006 for cash proceeds of $67 million. Bombardier Capital's freight railcar leasing operations were sold in October 2006 for cash proceeds of $94 million.

Bombardier Transportation

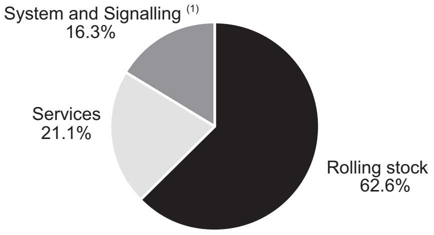
Bombardier Transportation's product portfolio includes a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. Bombardier Transportation also provides electrical propulsion and control equipment as well as complete system and signalling solutions. It also provides maintenance services. During the twelve-month period ended July 31, 2006, Bombardier Transportation generated revenues of $6.4 billion and EBITDA before special items of $336 million and had a backlog of $22.2 billion as of July 31, 2006.

Bombardier Transportation markets and sells a broad range of rolling stock products, offers a full range of railway services and develops, designs, builds and maintains complete transportation systems.

Bombardier Transportation Products and Services

Rolling Stock			Services	System and Signalling	
Rolling stock	*Propulsion and controls*	*Bogies*	*Services*	*System*	*Signalling*
• Locomotives • High-speed trains • Intercity trains • Regional trains • Commuter trains • Metro cars • Light rail vehicles	• Traction converters • Auxiliary converters • Traction drivers • Control and communication	• Portfolio of products which match the entire range of rail vehicles	• Fleet management • Spare parts and logistics management • Vehicle refurbishment and overhaul • Component refurbishment and overhaul • Technical support	• Automated people movers • Advanced rapid transit • Light rapid transit • Turnkey systems • Automated monorail • Operations and maintenance related to systems	• Integrated control systems • Onboard computer systems • Automatic train protection and operation • Wayside interlocking and equipment

% of total Bombardier Transportation Revenues, for the Twelve-Month Period Ended July 31, 2006



[1] Excludes the rolling stock portion of system orders manufactured by other divisions within Bombardier Transportation.

Bombardier Transportation—Financial Results Overview

	For the Years Ended January 31,			For the Twelve-Month Period Ended July 31,
	2004	2005	2006	2006
(US$ in millions, except as noted below)				
Rolling stock	$4,956	$5,622	$4,356	$3,977
Services	1,189	1,270	1,329	1,340
System and signalling [1]	795	674	954	1,040
Total revenues	$6,940	$7,566	$6,639	$6,357
EBIT before special items	$ 43	$ 33	$ 179	$ 199
EBITDA before special items	201	171	318	336
New orders (US$ in billions)	$ 11.4 [2]	$ 4.4	$ 7.3	$ 7.7
Backlog (US$ in billions)	23.7	21.3	20.9	22.2
Book to bill ratio [3]	1.6x	0.6x	1.1x	1.2x

[1] Excludes the rolling stock portion of system orders manufactured by other divisions within Bombardier Transportation.

[2] Includes the London Underground contract, which is worth approximately $5.7 billion over 15 years.

[3] Firm orders received divided by revenues recorded in an applicable period.

Our Industries

Our principal operations are in the business and regional aircraft and rail transportation markets.

Business Aircraft

The business aircraft market consists primarily of customers in the corporate sector and high net worth individuals.

The United States continues to be the dominant market; however, the international markets have gained significant momentum in recent years, supported by emerging eastern European economies and the strengthening of the Euro compared to the U.S. dollar.

The demand for business aircraft is primarily driven by economic growth, increasing acceptance of fractional ownership and growing demand for business jets from the emerging economies of Eastern Europe, Asia, Africa and the Middle-East. Business aircraft deliveries in the industry have increased at a compounded annual growth rate of approximately 6% in 1985-2005, while the business aircraft fleet in the industry has grown at a compounded annual growth rate of approximately 4% over the same period of time according to the Honeywell NBAA Report. Business aircraft deliveries in the industry are expected to increase at a compounded annual growth rate of approximately 5% through 2015, according to the Honeywell NBAA Report.

Bombardier Aerospace's main competitors in the wide-body business jet category are Gulfstream and Dassault. Bombardier Aerospace's major competitors in the narrow-body business jet category are Cessna, Raytheon and Embraer Jets.

Regional Aircraft

Regional airlines generally operate regional aircraft (jets and turboprops) up to 90 seats in a domestic route network. Mainline airlines generally operate narrow-body and wide-body jet aircraft over 90 seats in a network consisting of both domestic and international routes. Pilot scope clauses continue to loosen, thus permitting larger numbers of 70- to 90-passenger regional jets to be flown by the pilots of regional airlines affiliated with mainline airlines through a code-sharing agreement.

Over the past five years, regional aircraft operated by regional airlines and low cost carriers have continued to replace mainline service offered by major network carriers. Also, the turboprop market has recently experienced a turnaround. Due to increasing fuel prices, regional aircraft demand has recently shifted from smaller to larger regional aircraft, which offer lower unit operating costs. This trend resulted in a demand shift from Bombardier Aerospace's 50-passenger CRJ200 aircraft to the 70-passenger CRJ700 and 86-passenger CRJ900 aircraft. The regional aircraft fleet over 40 seats in the industry is estimated to increase by an average annual growth rate of 4% through 2017, according to the FAA.

The U.S. airline industry continues to face financial challenges and has undergone some major restructurings. Bombardier Aerospace continues to work with its regional customers to support their efforts to emerge from bankruptcy protection.

Bombardier Aerospace's main competitors are Embraer in the regional jet category and ATR in the turboprop category.

Transportation

The rail market consists primarily of customers in the public or quasi-public sectors, such as large national railways, regional railways and municipal transit authorities. Trends toward deregulation in some markets are driving an emergence of private operators. Public-sector entities still dominate the market, however, and most contracts include some form of public involvement related to financing of operations or funding of infrastructure. In many countries, investment in rail infrastructure is viewed as a public-sector obligation.

Rail contracts tend to be large in size and relatively complex in design. While common platforms are generally preferred by suppliers, contracts often require, particularly those in rolling stock, product customization to satisfy customer requirements and to fit the unique characteristics of individual rail systems. Projects often demand extensive engineering and design work up front before production can begin, resulting in significant lead times before delivery.

The supplier field serving the rail market is concentrated, with the largest three competitors accounting for approximately 50% of the accessible world market as at the end of calendar year 2005.

Our Competitive Strengths

Leading Market Position. We have grown to become a world-leading manufacturer of innovative transportation solutions, including regional aircraft, business jets and rail transportation equipment. We are the third largest manufacturer of commercial aircraft in the world and are a leading manufacturer in the regional jet, turboprop and business aircraft markets. We hold the number one global market position in the rail equipment industry, and we are a leader in the rail servicing industry, based on worldwide orders in markets accessible to open bid competition.

Diversified Revenue Base. Our revenues are diversified by global region, by products and by customers.

Major Restructuring Initiatives. In recent years, we have implemented significant restructuring initiatives. We have right sized our business and improved productivity, and we continue to focus on cost reductions and margin improvement.

Our restructuring program announced in 2004 in Bombardier Transportation is complete. Seven production sites were closed in Bombardier Transportation. Through April 30, 2006, net personnel positions in Bombardier Transportation were reduced by 7,700.

Other restructuring initiatives included the following:

- Between January 31, 2005 and July 31, 2006, we reduced our long-term debt by over US$3 billion.

- We completed the sale of the non-core businesses of Bombardier Capital.

- We adjusted production rates in Bombardier Aerospace.

Industry Leading Design and New Product Development. We are committed to innovation and product development. Bombardier Aerospace has launched 15 new aircraft programs in the past 15 years. With regard to product development, Bombardier Transportation emphasizes innovative product families featuring common platforms, proven technologies and increased standardization and modularization.

Strong Entrepreneurial Management Team. In December 2004, the Board of Directors announced the creation of the Office of the President which includes the CEO and the presidents of Bombardier Aerospace and Bombardier Transportation. The group presidents are directly accountable to the Board and are responsible for the achievement of their group's full profit potential. Our management team is united by strong values and a shared corporate culture that is committed to spurring Bombardier's growth.

Recent Developments

Refinancing Plan

This offering of notes is part of a refinancing plan to provide us with increased financial and operating flexibility. Our refinancing plan is comprised of: (i) entering into the New LC Facility to replace the Existing Facilities prior to their maturity, (ii) the issuance of the notes offered hereby, (iii) the repurchase invitations and (iv) retiring all the outstanding $220 million 7.09% Notes due 2007 issued by BCI. The exact principal amount of Refinance Notes to be repurchased will be announced on November 14, 2006, the business day following the expiration of the repurchase invitations.

In this offering memorandum, we refer to all these transactions and the application of the proceeds as set forth under "Use of Proceeds," collectively, as our "Refinancing Plan." With respect to the repurchase invitations, the defined term "Refinancing Plan" assumes that we will repurchase all Refinance Notes.

Bombardier has mandated BNP Paribas, Calyon, Commerzbank AG, Deutsche Bank AG, Dresdner Bank AG, JP Morgan Chase N.A., BayernLB, KfW and ABN-AMRO to arrange the New LC Facility designed to replace the Existing Facilities in advance of their renewal in 2007 and 2008.

The obligations of Bombardier to the banks issuing letters of credit from time to time under the New LC Facility are expected to be secured by (i) a fixed security interest granted by Bombardier on €860 million of cash and cash equivalent accounts and (ii) for any excess claims, the unsecured counter guarantee from a syndicate of banks providing Bombardier with a €3.44 billion facility for that purpose. Bombardier will also be the guarantor of the obligations of its subsidiaries which will be party to the New LC Facility from time to time. The New LC Facility is expected to be available to Bombardier on or about December 15, 2006.

Ile-de-France Commuter Train

On October 25, 2006, Bombardier Transportation announced that it has been selected by SNCF, French National Railways, to supply the future Ile-de-France commuter train, after a call for tenders launched in February 2004. The contract is for the delivery of a total of 372 trains that will operate on the Greater Paris/Ile-de-France suburban network and includes an initial order of 172 trains valued at an estimated €1.35 billion ($1.7 billion). The total value of the contract is estimated at €2.7 billion ($3.4 billion). Contract signing is expected to take place in the near future. On October 31, 2006, Bombardier became aware that Alstom S.A. initiated proceedings with a French administrative court against the selection of Bombardier Transportation as supplier of the Ile-de-France commuter train. In response to such proceedings, Bombardier Transportation announced on November 2, 2006, that it is reviewing all its legal options and will vigorously defend its interests in this matter.

Alignment of Regional Aircraft Production Rates with Current Market Demand

On October 24, 2006, Bombardier Aerospace announced that it is adjusting its regional aircraft production rates to reflect current market demand. As a result, the production rate for its CRJ700 and CRJ900 regional jets will be reduced. This is expected to be partly offset by an increase in the Q400 turboprop production level in response to the growing need for this type of cost-efficient regional airliner, which is ideally suited to short-haul routes. Our workforce level will be adjusted accordingly.

Our total aircraft deliveries for the current fiscal year ended January 31, 2007 are expected to remain at a similar level to that of our last fiscal year ended January 31, 2006, but with a different product mix.

Rapid Rail System in South Africa

In September 2006, the Bombela Consortium, of which Bombardier Transportation is a member, finalized the terms of a concession agreement for a rapid rail transit system with the Gauteng Provincial Government of South Africa. The contract for the 54-month design-build portion of the contract is valued at approximately $3.3 billion. Bombardier Transportation’s share of the design-build contract is approximately $950 million. Bombardier Transportation’s share of the separate 15-year maintenance contract carries a value of approximately $700 million. The 80-km Gautrain Rail Rapid Link will connect Johannesburg, Tshwane (Pretoria) and the Johannesburg International Airport.

DESCRIPTION OF OTHER INDEBTEDNESS AND LETTER OF CREDIT FACILITY

New Syndicated Letter of Credit Facility

Pursuant to an appointment letter dated as of July 19, 2006, BNP Paribas, Calyon, Deutsche Bank AG and J.P. Morgan Chase N.A., have agreed to use their best efforts to arrange a syndicate of banks and financial institutions to provide the New LC Facility. The anticipated principal terms of New LC Facility are summarized below. However, as the final terms of the New LC Facility have not yet been agreed upon, such final terms may differ from those set forth herein and any such differences may be significant. We expect the New LC Facility to be available to us on or about December 15, 2006.

Purpose

The New LC Facility is expected to consist of a €4.3 billion facility which will be available for the purposes of (i) rolling over present outstanding letters of credit, letters of guarantee, bid bonds, performance bonds, performance guarantees or similar instruments (collectively, "Letters of Credit"), and (ii) future issuances of Letters of Credit. Pursuant to the terms of the New LC Facility, Letters of Credit will be brought or issued under the New LC Facility only to secure performance obligations of Bombardier and its subsidiaries to their customers and other third parties in the normal course of business and not to secure indebtedness for borrowed money of any person.

The New LC Facility will replace existing facilities comprised of a US$1.1 billion North American facility, a €3.15 billion European facility and two other smaller facilities (collectively the "Existing Facilities") in advance of their respective renewals in 2007 and 2008.

The practice of issuing Letters of Credit as guarantees to customers is common practice for manufacturers of major capital equipment.

Bombardier Transportation issues Letters of Credit in the following contexts:

- Bid processes where it provides bid bonds to the inviting party to the tender;
- Advance payments received from its customers;
- The delivery of goods or performance under contracts; and
- Warranty bonds underpinning performance of warranty obligations.

Bombardier Aerospace issues Letters of Credit in the context of performance guarantees like Bombardier Transportation but primarily issues Letters of Credit to guarantee obligations relating to advance payments and other obligations. Outside the New LC Facility, Bombardier Aerospace also expects to purchase a US$150 million letter of credit to replace a letter of credit that Bombardier had obtained under the Existing Facilities to support obligations of Bombardier and its subsidiaries regarding RASPRO.

Availability Period and Maturity

It is expected that the New LC Facility will be available for new issuances of Letters of Credit for a three-year period and will mature five years following the effectiveness of that facility. On such maturity date, Bombardier will be required to mitigate its obligations in respect of the Letters of Credit then outstanding under the New LC Facility, whether by collateralizing (through cash cover or letter of credit support) any uncollateralized amount outstanding under such Letters of Credit and/or canceling any such uncollateralized amount.

Security and Guarantee

The obligations of Bombardier to the banks issuing Letters of Credit from time to time under the New LC Facility are expected to be secured by (i) a fixed security interest granted by Bombardier on €860 million of cash and cash equivalent accounts and (ii) for any excess claims, the unsecured counter guarantee from a syndicate of banks providing Bombardier with a €3.44 billion facility for that purpose (the "Counter Guarantee"). Bombardier will also be the guarantor of the obligations of its subsidiaries which will be party to the New LC Facility from time to time.

Covenants

The New LC Facility is expected to involve the following financial covenants: a minimum coverage ratio, a maximum capitalization ratio and a maximum leverage ratio. In addition, the agreements governing our New LC Facility are expected to contain customary covenants that restrict and limit our ability to, among other things, encumber assets, incur financial indebtedness (such restriction only applies with respect to the subsidiaries of Bombardier which are party to the New LC Facility but not to Bombardier itself), pay dividends or make other distributions, voluntarily prepay any debt ranking *pari passu* or junior with the obligations under the New LC Facility, sell assets and enter into transactions with affiliates.

Events of Default

The agreements governing the New LC Facility are expected to contain customary events of default including, among other things, the non-payment of any amount payable under the New LC Facility, the breach of other covenants or obligations under the New LC Facility, the making of any materially incorrect or misleading representation or warranty, the occurrence of a cross-default to loan, letter of credit facilities or other debt such as the notes, the occurrence of bankruptcy or insolvency events, the commencement of certain process against a material portion of the assets of Bombardier or any subsidiary of Bombardier which is party to the New LC Facility, the ineffectiveness of the security or the guarantee granted to the banks issuing Letters of Credit under the New LC Facility and the occurrence of a material adverse effect.

Events of Termination

It is expected that the New LC Facility will involve certain events of termination which will not constitute events of default, including, among other things, a document relating to the New LC Facility becoming unenforceable or of no force or effect (if not remedied within twenty days of the occurrence of such event), the occurrence of a change of control with respect to Bombardier (subject to the expiry of thirty days from the date of a written notice given in that regard by banks with aggregate commitments of more than 66⅔% of the total commitments under the New LC Facility) or a withdrawal from the collateral covered by the security interest granted in favour of the banks issuing Letters of Credit in connection with the New LC Facility (subject to the expiry of six months from the date of a written notice given in that regard by banks with aggregate commitments of more than 66⅔% of the total commitments under the New LC Facility).

Acceleration prior to Maturity Date

It is expected that, at any time after the occurrence of an event of default or an event of termination which is continuing, the facility agent will have the right, or the obligation if so directed by banks with aggregate commitments of more than 66⅔% of the total commitments under the New LC Facility, to cancel the New LC Facility in full and/or declare that amounts outstanding under the New LC Facility are immediately due and payable in whole or in part and/or demand cash cover with respect to the then outstanding letters of credit. In addition, it is expected that automatic acceleration will apply in the case of the occurrence of certain events of default relating to an insolvency or bankruptcy situation.

Since the New LC Facility will, for a period of not more than 90 days, coexist with the Existing Facilities that it will ultimately replace, Bombardier will need to seek certain consents from the creditors under such Existing Facilities in order to allow for the entering into of such New LC Facility.

Notes and Debentures

Bombardier or its subsidiaries have, in addition to the notes offered hereby, the following debentures and notes issued and outstanding:

(i) Cdn$150,000,000 aggregate principal amount of 7.35% Debentures due December 2026;

(ii) Cdn$150,000,000 aggregate principal amount of 6.40% Debentures due December 2006;

(iii) €500,000,000 aggregate principal amount of 5.75% Notes due February 2008;

(iv) US$550,000,000 aggregate principal amount of 6.75% Notes due May 2012;

(v) US$500,000,000 aggregate principal amount of 6.30% Notes due May 2014;

(vi) US$250,000,000 aggregate principal amount of 7.45% Notes due May 2034; and

(vii) Cdn$29,000,000 outstanding principal amount of 7.00% Notes due 2007-2012.

Each of these instruments are redeemable at the option of Bombardier at any time at the applicable redemption price set forth in the respective indentures. The respective indentures under which the debentures and notes were issued contain restrictive covenants and event of default customary for investment grade debt instruments, including limitations on liens, mergers and consolidations and sales of assets.

The proceeds of the offering of the notes described in this offering memorandum are to be applied, in part, to fund the acquisition price of the 5.75% Notes due February 2008 validly offered to us pursuant to the repurchase invitations. See “Summary—Our Refinancing Plan” and “Use of Proceeds.”

On May 14, 2002, BCF LP issued €500,000,000 aggregate principal amount of 6.125% Notes due May 2007 and £300,000,000 Notes aggregate principal amount of 6.75% Notes due May 2009. These notes were unconditionally guaranteed by BCI.

The notes of BCF LP are redeemable at the option of their issuer at any time, at the applicable redemption price set forth in the respective indenture. These indentures contain restrictive covenants and events of default customary for investment grade debt instruments including limitations on liens, mergers, consolidations and sale of assets.

The guarantee of the notes issued by BCF LP provided by BCI, an indirect wholly-owned subsidiary of Bombardier, benefits from a Keepwell Agreement from Bombardier pursuant to which Bombardier has agreed, for the benefit of BCI and the trustee acting on behalf of the holders of the BCF LP notes, to, among other things, make investments in BCI as may be necessary to cause BCI to meet certain financial tests.

The proceeds of the offering of the notes described in this offering memorandum are to be applied, in part, to fund the acquisition price of the 6.125% Notes of BCF LP due May 2007 validly offered to us pursuant to the repurchase invitations. See “Summary—Our Refinancing Plan” and “Use of Proceeds.”

In addition, BCI currently has outstanding US$220,000,000 aggregate principal amount of 7.09% Senior Unsecured Notes due March 2007 (the "BCI Notes"), which were issued on December 20, 2001 pursuant to separate note purchase agreements. The BCI Notes are redeemable at BCI's option at any time, at a redemption price set forth in the note purchase agreements. The note purchase agreements contain restrictive covenants and events of default with respect to BCI that are customary for investment grade debt instruments, including limitations on the incurrence of liens by BCI and its subsidiaries and on the ability of BCI to merge, consolidate or sell its assets substantially as an entirety. The holders of the BCI Notes also benefit from a Keepwell Agreement from Bombardier pursuant to which Bombardier has agreed, for the benefit of BCI and the holders of the BCI Notes, to, among other things, make investments in BCI as may be necessary to cause BCI to meet certain financial tests. The proceeds of the offering of the notes described in this offering memorandum are to be applied, in part, to redeem the BCI Notes in whole. See "Summary—Our Refinancing Plan" and "Use of Proceeds."

Variable Interest Entities

As of July 31, 2006, our long-term debt included $57 million related to consolidated VIEs. Effective November 1, 2004, we consolidate VIEs, for the purpose of financial statement presentation, in accordance with GAAP, which requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party is exposed to a majority of the VIE's losses), or both. See "Note 23 — Variable interest entities on page F-60 of our audited consolidation financial statements for the two years ended January 31, 2006," for additional information on VIEs. We revise our initial determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements. These revisions may result in the consolidation of significant assets and liabilities of previously unconsolidated VIEs. The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against our general assets. The consolidation of debt resulting from the application of the relevant accounting rules is excluded from the computation of our debt covenant ratio for structures existing prior to April 30, 2004. Indebtedness for borrowed money of consolidated VIEs created after April 30, 2004 is included in the computation of our debt covenant ratios, only to the extent of the amount of recourse that the creditors of such VIEs have to us. Additionally, the consolidation of VIEs does not result in any changes in our underlying tax, legal or credit exposure. We are currently negotiating with a government agency to finalize the details of our indirect financial support to them in connection with RASPRO and other financing structures related to the sale of regional aircraft. As a result, an assessment of whether or not consolidation of RASPRO and other VIEs benefiting from the financial support of this government agency may be required.

DESCRIPTION OF THE NOTES

This description describes the U.S. dollar denominated 8% senior notes due 2014 (the "*2014 Notes*"), the euro denominated 7¼% senior notes due 2016 (the "*2016 Notes*" and, collectively with the 2014 Notes, the "*Fixed Rate Notes*"), and the euro denominated floating rate senior notes due 2013 (the "*Floating Rate Notes*" and, collectively with the Fixed Rate Notes, the "*Notes*") that will be issued by Bombardier Inc. ("*Bombardier*"). In this Description of the Notes, the word "Bombardier" refers only to Bombardier Inc. and any successor to Bombardier Inc. as obligor under the Notes, and not to any of its Subsidiaries, except for the purposes of financial data determined on a consolidated basis. The definitions of terms used in this Description of the Notes are set forth throughout this text or under "—Certain Definitions."

Each series of Notes will be issued under a separate indenture, each to be dated as of November 16, 2006 (each an "*Indenture*"), by and among Bombardier, as issuer, Deutsche Bank Trust Company Americas, as joint trustee, U.S. registrar, U.S. paying agent and U.S. transfer agent (the "*Global Trustee*"), Computershare Trust Company of Canada, as joint trustee, Canadian registrar and Canadian transfer agent (the "*Canadian Trustee*" and, together with the Global Trustee, the "*Trustee*"), Deutsche Bank AG, London Branch, as London paying agent, London transfer agent and, in respect of the Floating Rate Notes, calculation agent, and Deutsche Bank Luxembourg SA, as European registrar, Luxembourg paying agent, Luxembourg transfer agent and Luxembourg listing agent. Although, for convenience, the 2014 Notes and 2016 Notes are referred to as the "Fixed Rate Notes," and, collectively with the Floating Rate Notes, the "Notes," each of these series of Notes will be issued separately under a separate Indenture, and will not have any class voting rights, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase. The registered Holder of a Note will be treated as its owner for all purposes. Only registered Holders will have rights under the respective Indentures, including, without limitation, with respect to enforcement and the pursuit of other remedies. The word "Notes," unless the context requires otherwise, also refers to book-entry interests in the Notes, as defined herein.

The following description is a summary of the material terms of the Notes and the Indentures. It does not, however, restate the Indentures in their entirety, and where reference is made to particular provisions of the Indentures, such provisions, including the definitions of certain terms, are qualified in their entirety by reference to all of the provisions of the Notes and the Indentures. With regard to each series of Notes, you should read the Indenture governing such Notes because it contains additional information and because such Indenture, and not this description, defines your rights as a Holder of such Notes. A copy of the form of the Indenture governing a series of Notes will be made available to prospective purchasers of such Notes upon request to Bombardier or for so long as such Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and are admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, upon request to Bombardier's Paying Agent in Luxembourg.

The Notes have not been, and will not be, registered under the Securities Act or under the securities laws of any other jurisdiction, have not been and will not be qualified for sale to the public under applicable Canadian securities laws, and are subject to certain transfer restrictions. See "Notice to Investors" elsewhere in this offering memorandum. The Indentures are not required to be and will not be qualified under the United States Trust Indenture Act of 1939, as amended.

Brief Description of the Notes

The Notes

The Notes will be direct, unsecured senior obligations of Bombardier and will rank equal in right of payment ("*pari passu*") with all other unsecured and unsubordinated indebtedness and other obligations of Bombardier. The Notes of each series will rank among themselves equally without preference or priority. The Notes are not obligations of any of Bombardier's Subsidiaries.

Although each Indenture will contain limitations on the amount of additional indebtedness that Bombardier and its Subsidiaries may incur, the amounts of such additional indebtedness could nevertheless be substantial and may be incurred either by Bombardier or its Subsidiaries. See "—Certain Covenants—Limitation on Indebtedness." The Notes are unsecured obligations of Bombardier. Secured indebtedness of Bombardier will effectively be senior to the Notes to the extent of the value of the assets securing such indebtedness.

Assuming the completion of our Refinancing Plan and the application of the proceeds therefrom as described under "Use of Proceeds," as of July 31, 2006 on a *pro forma* basis,

- Bombardier and its Subsidiaries would have had approximately US$5.1 billion of senior indebtedness outstanding, provided that this amount may change based upon the actual principal amount of the 5.75% Notes due 2008 that are offered for repurchase pursuant to the repurchase invitations and Bombardier's determination of the principal amount of 5.75% Notes due 2008 that it will repurchase, and
- Bombardier would have had no Subordinated Debt.

Principal, Maturity and Interest

Fixed Rate Notes

Bombardier is offering US$385,000,000 aggregate principal amount of its 2014 Notes and €800,000,000 aggregate principal amount of its 2016 Notes in this offering.

Unless earlier redeemed, the 2014 Notes will be repayable at 100% of their principal amount on November 15, 2014, and unless earlier redeemed, the 2016 Notes will be repayable at 100% of their principal amount on November 15, 2016.

Interest on the 2014 Notes will accrue at a rate of 8% per annum. Interest on the 2016 Notes will accrue at a rate of 7¼% per annum. Interest on each series of Fixed Rate Notes will be payable, in cash, semi-annually in arrears on May 15 and November 15, commencing on May 15, 2007. Bombardier will pay interest to those persons who were Holders of record on the May 1 or November 1 immediately preceding each interest payment date. Interest on each series of Fixed Rate Notes will accrue from November 16, 2006 or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

If the due date for any payment in respect of any Fixed Rate Note is not a Business Day at the place in which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place and will not be entitled to any further interest or other payment as a result of any such delay. Interest on overdue principal and, to the extent permitted by law, on overdue installments of interest will accrue at the rate of interest borne by the Fixed Rate Notes.

Floating Rate Notes

Bombardier is offering €800,000,000 aggregate principal amount of its Floating Rate Notes in this offering.

The Floating Rate Notes will mature on November 15, 2013 and, unless earlier redeemed, will be payable at 100% of their principal amount at maturity. The Floating Rate Notes will bear interest at a rate per annum (the "*Applicable Rate*"), reset quarterly, equal to EURIBOR plus 3.125%, as determined by the calculation agent (the "*Calculation Agent*"), which will initially be the Global Trustee, except that the interest rate on the Floating Rate Notes for the period beginning on November 16, 2006, and ending on February 15, 2007 will be 6.709%.

Interest on the Floating Rate Notes will be payable, in cash, quarterly in arrears on February 15, May 15, August 15 and November 15, commencing on February 15, 2007, to Holders of record on the February 1, May 1, August 1 and November 1 immediately preceding the related interest payment date.

Set forth below is a summary of certain of the provisions from the Floating Rate Notes Indenture relating to the calculation of interest on the Floating Rate Notes.

"*Determination Date*," with respect to an Interest Period, will be the day that is two TARGET Settlement Days preceding the first day of such Interest Period.

"*EURIBOR*," with respect to an Interest Period, will be the rate (expressed as a percentage per annum) for deposits in euro for a three-month period beginning on the day that is two TARGET Settlement Days after the Determination Date that appears on the Telerate Page as of 11:00 a.m. Brussels time, on the Determination Date. If the Telerate Page does not include such a rate or is unavailable on a Determination Date, the Calculation Agent will request the principal London office of each of four major banks in the Euro-zone inter-bank market, as selected by the Calculation Agent, to provide such bank's offered quotation (expressed as a percentage per annum) as of approximately 11:00 a.m., Brussels time, on such Determination Date, to prime banks in the Euro-zone inter-bank market for deposits in a Representative Amount in euro for a three month period beginning on the day that is two TARGET Settlement Days after the Determination Date. If at least two such offered quotations are so provided, the rate for the Interest Period will be the arithmetic mean of such quotations. If fewer than two such quotation are so provided, the Calculation Agent will request each of three major banks in London, as selected by the Calculation Agent, to provide such bank's rate (expressed as a percentage per annum), as of approximately 11:00 a.m., London time, on such Determination Date, for loans in a Representative Amount in euro to leading European banks for a three month period beginning on the day that is two TARGET Settlement Days after the Determination Date. If at least two such rates are so provided, the rate for the Interest Period will be the arithmetic mean of such rates. If fewer than two such rates are so provided then the rate for the Interest Period will be the rate in effect with respect to the immediately preceding Interest Period.

"*Euro-zone*" means the region comprised of member states of the European Union that adopt the euro.

"*Interest Period*" means the period commencing on and including an interest payment date and ending on and including the day immediately preceding the next succeeding interest payment date, with the exception that the first Interest Period shall commence on and include the Issue Date and end on and include February 15, 2007.

"*Representative Amount*" means the greater of (1) €1,000,000 and (2) an amount that is representative for a single transaction in the relevant market at the relevant time.

"*TARGET Settlement Day*" means any day on which the Trans European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

"*Telerate Page*" means, the display page designated "Telerate Page 248" on Bridge's Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor).

The Calculation Agent shall, as soon as practicable after 11:00 a.m. (Brussels time) on each Determination Date, determine the Applicable Rate and calculate the aggregate amount of interest payable in respect of the following Interest Period (the "*Interest Amount*"). The Interest Amount shall be calculated by applying the relevant rate to the principal amount of each Floating Rate Note outstanding at the commencement of the Interest Period, multiplying each such amount by the actual number of days in the Interest Period concerned divided by 360 and rounding the resultant figure upwards to the nearest available currency unit. The determination of the Applicable Rate and the Interest Amount by the Calculation Agent shall, in the absence of willful default, bad faith or manifest error, be final and binding on all parties. In no event will the rate of interest on the Floating Rate Notes be higher than the maximum rate permitted by applicable law.

If the due date for any payment in respect of any Floating Rate Note is not a Business Day at the place in which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place and will not be entitled to any further interest or other payment as a result of any such delay. Interest on overdue principal and, to the extent permitted by law, on overdue installments of interest will accrue at the rate of interest borne by the Floating Rate Notes.

Global Notes and Definitive Registered Notes; Payment

The Notes will be represented by global notes (as described under "Book-Entry, Delivery and Form" elsewhere in this offering memorandum) and will be issued only in fully registered form without coupons. The Notes will be issued only in minimum denominations of €50,000 and integral multiples of €1,000 in excess thereof in the case of Notes denominated in euros, and minimum denominations of US$75,000 and in integral multiples of US$1,000 in excess thereof in the case of Notes denominated in U.S. dollars. The global notes will be deposited with a common depositary for Euroclear and Clearstream, or DTC, as the case may be, or, in each case, its respective nominee. Ownership of interests in the global notes, referred to as "book-entry interests," will be limited to Persons that have accounts with Euroclear or Clearstream or DTC, as applicable, or Persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream or DTC, as applicable, and their respective participants. See "Book-Entry, Delivery and Form" elsewhere in this offering memorandum.

Principal, interest, premium, if any, and Additional Amounts (as defined below) on the global notes will be payable at the specified office or agency of one or more Paying Agents; *provided* that all such payments with respect to Notes represented by one or more global notes registered in the name of or held by a nominee of Euroclear and/or Clearstream or DTC, as applicable, will be made by wire transfer of immediately available funds to the account specified by the Holder or Holders thereof.

Principal, interest, premium, if any, and Additional Amounts (as defined below), on any certificated securities ("*Definitive Registered Notes*") will be payable at the specified office or agency of one or more Paying Agents in the City of London, the Borough of Manhattan, City of New York, and (so long as the Notes are admitted to listing on the Official List of Luxembourg Stock Exchange and are admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require) Luxembourg, in each case, maintained for such purposes, subject to Bombardier's right to pay interest on Definitive Registered Notes, if any, by check mailed to the person entitled thereto as shown on the register for the Definitive Registered Notes as of the close of business on the record date immediately preceding the interest payment date for such interest. Holders of Definitive Registered Notes, if any, must surrender such Notes at a Paying Agent in order to collect principal payments. See " — Paying Agent and Registrar for the Notes."

Settlement for the Notes will be made in same day funds. All payments of principal, interest, premium, if any, and Additional Amounts (as defined below), if any, in respect of the Notes will be made by Bombardier in same day funds.

When issued, the Notes will be a new issue of securities with no established trading market. No assurance can be given as to the liquidity of the trading market for the Notes. Bombardier has applied to have the Notes listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of that Exchange.

Paying Agent and Registrar for the Notes

Bombardier will maintain a Paying Agent for the Notes in (i) the City of London, (ii) the Borough of Manhattan, City of New York, and (iii) Luxembourg (for so long as the Notes are admitted to listing on the Official List of Luxembourg Stock Exchange and are admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require). Bombardier will also undertake to ensure, to the extent practicable, to maintain a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to the European Union Directive 2003/48/EC regarding the taxation of savings income (the "*Directive*") or any law implementing or complying with, or introduced in order to conform to, such Directive. The principal Paying Agent for the Notes denominated in euros will be Deutsche Bank AG, London Branch, the principal Paying Agent for the Notes denominated in U.S. dollars will be Deutsche Bank Trust Company Americas, and the Paying Agent in Luxembourg will be Deutsche Bank Luxembourg S.A.

Bombardier will maintain one or more registrars (each, a "Registrar") with offices in Luxembourg, Canada and in the Borough of Manhattan, City of New York. Bombardier will maintain a transfer agent in each of (i) the City of London, (ii) the Borough of Manhattan, City of New York and (iii) Luxembourg (for so long as the Notes are admitted to listing on the Official List of Luxembourg Stock Exchange and are admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require). The principal Registrar and transfer agent in respect of the Notes denominated in euros will be Deutsche Bank Luxembourg S.A. The principal Registrar and transfer agent in respect of the Notes denominated in U.S. dollars will be Deutsche Bank Trust Company Americas. In addition, so long as required by applicable Canadian law, Bombardier will maintain a Registrar and transfer agent in Canada. The initial Canadian Registrar and transfer agent will be Computershare Trust Company of Canada.

Optional Redemption

Fixed Rate Notes

2014 Notes

Except as set forth in this section and below under "—Redemption for Changes in Withholding Taxes," the 2014 Notes will not be redeemable at the option of Bombardier prior to November 15, 2010. Starting on that date, Bombardier may redeem all or any portion of the 2014 Notes, at once or over time, after giving the required notice under the respective Indenture, at the redemption prices set forth below, plus accrued and unpaid interest, if any, to but excluding the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). The following redemption prices are for 2014 Notes redeemed during the 12-month period commencing on November 15 of the years set forth below, and are expressed as percentages of principal amount:

Year	Redemption Price
2010	104.0%
2011	102.0%
2012 and thereafter	100.000%

At any time prior to November 15, 2010, Bombardier may from time to time redeem all or any portion of the 2014 Notes after giving the required notice under the respective Indenture at a redemption price equal to the greater of:

(a) 100% of the principal amount of the 2014 Notes to be redeemed, and

(b) the sum of the present values of (1) the redemption price of the 2014 Notes at November 15, 2010 (as set forth in the preceding paragraph) and (2) the remaining scheduled payments of interest from the redemption date through November 15, 2010, but excluding accrued and unpaid interest through the redemption date, discounted to the redemption date (assuming a 360-day year consisting of twelve 30 day months), at the 2010 Treasury Rate plus 50 basis points,

plus accrued and unpaid interest, if any, to but excluding the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On and after the redemption date, interest ceases to accrue on Notes or portions thereof called for redemption, unless Bombardier defaults in the payment of the applicable redemption price.

2016 Notes

Except as set forth in this section and below under "—Redemption for Changes in Withholding Taxes," the 2016 Notes will not be redeemable at the option of Bombardier prior to November 15, 2011. Starting on that date, Bombardier may redeem all or any portion of the 2016 Notes, at once or over time, after giving the required notice under the respective Indenture, at the redemption prices set forth below, plus accrued and unpaid interest, if any, to but excluding the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). The following redemption prices are for 2016 Notes redeemed during the 12-month period commencing on November 15 of the years set forth below, and are expressed as percentages of principal amount:

Year	Redemption Price
2011	103.625%
2012	102.417%
2013	101.208%
2014 and thereafter	100.000%

At any time prior to November 15, 2011, Bombardier may from time to time redeem all or any portion of the 2016 Notes after giving the required notice under the respective Indenture at a redemption price equal to the greater of:

(a) 100% of the principal amount of the 2016 Notes to be redeemed, and

(b) the sum of the present values of (1) the redemption price of the 2016 Notes at November 15, 2011 (as set forth in the preceding paragraph) and (2) the remaining scheduled payments of interest from the redemption date through November 15, 2011, but excluding accrued and unpaid interest through the redemption date, discounted to the redemption date (assuming a 360-day year consisting of twelve 30 day months), at the 2011 Bund Rate plus 50 basis points,

plus accrued and unpaid interest, if any, to but excluding the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On and after the redemption date, interest ceases to accrue on Notes or portions thereof called for redemption, unless Bombardier defaults in the payment of the applicable redemption price.

Equity Offering Redemption

In addition, at any time on or prior to November 15, 2009, Bombardier, at its option and from time to time, may use the net cash proceeds of one or more Equity Offerings to redeem Fixed Rate Notes of any series in an amount up to an aggregate of 35% of the aggregate principal amount of each series of Fixed Rate Notes originally issued under the respective Indentures at a redemption price equal to (1) in the case of the 2014 Notes, 108.000% of the principal amount thereof and (2) in the case of the 2016 Notes, 107.250% of the principal amount thereof, plus, in each case, accrued and unpaid interest thereon, if any, to the redemption date (subject to the rights of Holders of record on relevant record dates to receive interest due on an interest payment date); *provided, however,* that, after giving effect to any such redemption, Notes representing at least 65% of the initial aggregate principal amount of each such series of Fixed Rate Notes originally issued under the respective Indentures governing the Fixed Rate Notes, respectively, remains outstanding. In order to effect the foregoing redemption, Bombardier must mail a notice of redemption no later than 120 days after the closing of the related Equity Offering and must consummate such redemption upon not less than 30 days' nor more than 60 days' prior written notice.

On and after the redemption date, interest ceases to accrue on Notes or portions thereof called for redemption, unless Bombardier defaults in the payment of the applicable redemption price.

Floating Rate Notes

Except as set forth below under "—Redemption for Changes in Withholding Taxes," the Floating Rate Notes will not be redeemable at the option of Bombardier prior to November 15, 2008. Starting on that date, Bombardier may redeem all or any portion of the Floating Rate Notes, at once or over time, after giving the required notice under the respective Indenture, at the redemption prices set forth below, plus accrued and unpaid interest, if any, to but excluding the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). The following redemption prices are for Floating Rate Notes redeemed during the 12-month period commencing on November 15 of the years set forth below, and are expressed as percentages of principal amount:

Year	Redemption Price
2008	102.0%
2009	101.0%
2010 and thereafter	100.000%

Any notice to Holders of Floating Rate Notes of such a redemption shall include the appropriate calculation of the redemption price, but need not include the redemption price itself. The actual redemption price, calculated as described above, shall be set forth in an

Officers' Certificate delivered to the Trustee no later than two business days prior to the redemption date.

On and after the redemption date, interest ceases to accrue on Notes or portions thereof called for redemption, unless Bombardier defaults in the payment of the applicable redemption price.

Selection and Notice

If less than all of the Notes of any series are to be redeemed at any time, the Trustee shall select the Notes of such series, or portions thereof to be redeemed, in compliance with the requirements of the principal security exchange, if any, on which such Notes are listed, and/or in compliance with the requirements of Euroclear, Clearstream or DTC, as applicable, or if such Notes are not so listed or such exchange prescribes no method of selection and such Notes are not held through Euroclear, Clearstream or DTC, as applicable, or Euroclear, Clearstream or DTC, as applicable, prescribes no method of selection, on a *pro rata* basis, by lot or by any other method the Trustee shall deem fair and reasonable.

No Notes shall be redeemed in part if the resulting Note would have a denomination that is less than €50,000, in the case of Notes denominated in euros, or US$75,000, in the case of Notes denominated in U.S. dollars. Notices of redemption shall be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the respective Indenture, in each case in accordance with the provisions of the respective Indenture.

A notice of redemption shall state the redemption date, the redemption price (except as provided above) and the amount of accrued interest, if any, to be paid; the section of the respective Indenture pursuant to which the Notes are being redeemed; the name and address of the Paying Agent; that Notes called for redemption must be surrendered to the Paying Agent to collect the redemption price; that unless Bombardier defaults in making the redemption payment, interest, if any, on Notes called for redemption shall cease to accrue on and after the redemption date; that, if any Note is being redeemed in part, the portion of the principal amount of such Note to be redeemed, and the only remaining right of the Holders of such Notes is to receive payment of the redemption price upon surrender to the Paying Agent of such Notes; that, if less than all the Notes of a series are to be redeemed, the identification of the particular Notes and the principal amount (or portion thereof) of such Notes to be redeemed and the aggregate principal amount of Notes to be outstanding after such partial redemption, and that the Notes called for redemption shall become due on the date fixed for redemption. Bombardier shall cause the notice described above to be published through the newswire service of Bloomberg (or if Bloomberg does not then operate, any similar agency) or in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and, with respect to and so long as the Notes of any series are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of that Exchange, and the rules of the Luxembourg Stock Exchange so require, in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *d'Wort*), or on the website of the Luxembourg Stock Exchange at http://www.bourse.lu.

Redemption for Changes in Withholding Taxes

Each series of Notes will be redeemable, at Bombardier's option, at any time as a whole but not in part, upon not less than 30 nor more than 60 days' prior written notice, at a redemption price equal to 100% of its aggregate principal amount, plus any Additional Amounts (as defined below) and accrued and unpaid interest to the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), in the event there is more than an insubstantial risk that Bombardier has become or would become obligated to pay, on the next date on which any amount would be payable with respect to such series of Notes, any Additional Amounts (as defined below) as a result of:

(a) an amendment of or change in the laws (including any regulations promulgated thereunder) of any Relevant Taxing Jurisdiction (as defined below) affecting taxation; or

(b) any change in or amendment to any official position or the introduction of an official position regarding the application or interpretation of such laws or regulations (each of (a) and (b) a "Change in Tax Law"),

which change or amendment is announced or becomes effective on or after the date of this offering memorandum.

No such notice of redemption may be given earlier than 90 days prior to the earliest date on which Bombardier would be obligated to pay such Additional Amounts were a payment in respect of such series of Notes then due and payable. Any such redemption shall be consummated upon not less than 30 days' nor more than 60 days' prior written notice.

Before Bombardier publishes or mails notice of redemption of any series of Notes as described under this heading, it will deliver to the Trustee an Officer's Certificate to the effect that Bombardier is entitled to redeem such Notes pursuant to the terms of the respective Indenture governing such Notes, and, upon request from the Trustee, an opinion of counsel to the effect that there is a more than insubstantial risk that Additional Amounts will be payable on the next payment date in respect of such Notes as a result of a Change in Tax Law.

Payment of Additional Amounts

Each Indenture will provide that Bombardier is required to make all payments under or with respect to the Notes issued thereunder free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (hereinafter "*Taxes*") imposed or levied by or on behalf of the government of the country in which Bombardier and any successor thereof is organized or incorporated or any political subdivision or any authority or agency therein or thereof having power to tax, or any other jurisdiction in which Bombardier is otherwise resident for tax purposes or any jurisdiction from or through which any payment under or with respect to the Notes is made (each, a "*Relevant Taxing Jurisdiction*"), unless Bombardier is required to withhold or deduct Taxes by law or by the interpretation or administration thereof.

If Bombardier is so required to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment made under or with respect to any Notes, Bombardier will be required to pay such additional amounts ("*Additional Amounts*") of such Notes as may be necessary so that the net amount received by any Holder or beneficial owner (including Additional Amounts) after such withholding or deduction will not be less than the amount such Holder or beneficial owner would have received if such Taxes had not been withheld or deducted; *provided*, *however*, that the foregoing obligation to pay Additional Amounts does not apply to (1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, the relevant Holder or beneficial owner, if the relevant Holder or beneficial owner is an estate, nominee, trust, partnership or corporation) and the Relevant Taxing Jurisdiction, including such Holder or beneficial owner (or such fiduciary, settlor, beneficiary, partner, member, shareholder, or possessor) of the Notes being or having been a citizen, resident, or national thereof or being or having been present or engaged in a trade or business therein or having or having had a permanent establishment therein; (2) any estate, inheritance, gift, sales, transfer, personal property tax or similar Taxes; (3) any withholding or deduction in respect of the Notes (a) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive, or (b) presented for payment by or on behalf of a Holder or beneficial owner who would have been able to avoid such withholding or deduction by presenting the relevant Note to any other Paying Agent in a European Union Member State, or (c) where the payment could have been made without such deduction or withholding if the beneficiary of the payment had presented the Notes for payment within 30 days after the date on which such payment on such Notes became due and payable or the date on which payment thereof is duly provided for, whichever is later (except to the extent that the Holder or beneficial owner would have been entitled to Additional Amounts had the Notes been presented on the last day of such 30-day period); (4) any Taxes imposed with respect to any payment of principal of (or premium, if any, on) or interest on the Notes by Bombardier to any Holder or beneficial owner who is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder or beneficial owner of such Notes; (5) any Taxes that are payable other than by deduction or withholding from payments made under or with respect to the Notes; (6) any Taxes that would not have been imposed but for the failure of the Holder and/or beneficial owner (a) to comply with Bombardier's or the Paying Agent's request in writing at least 30 days before any withholding for such Taxes to the Holder to provide certification, documentation, information or other evidence concerning the nationality, residence, identity or connection with the Relevant Taxing Jurisdiction of the Holder and/or beneficial owner of such Notes or (b) to make any valid or timely declaration or similar claim or satisfy any other reporting requirement relating to such matters, whether required or imposed by statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of withholding or deduction of, Taxes imposed by the Relevant Taxing Jurisdiction; (7) any Holder or beneficial owner of Notes with which Bombardier does not deal at arm's length (within the meaning of the *Income Tax Act* (Canada)) at the time of making such payment, or (8) any combination of (1) to (7) above.

At least 30 calendar days prior to each date on which any payment under or with respect to any Notes is due and payable (unless such obligation to pay Additional Amounts arises shortly before or after the 30th day prior to such date, in which case it shall be promptly thereafter), if Bombardier will be obligated to pay Additional Amounts with respect to such payment, Bombardier will deliver to the Trustee and Paying Agent for the affected Notes an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Trustee or Paying Agent, as the case may be, to pay such Additional Amounts to Holders and beneficial owners of such Notes on the payment date. Each such Officer's Certificate shall be relied upon until receipt of a further Officer's Certificate addressing such matters.

Bombardier will also (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. Bombardier will provide the Trustee with official receipts or, if notwithstanding the efforts of Bombardier official receipts are not obtainable, other documentation reasonably satisfactory to the Trustee, evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes. Bombardier will attach to each official receipt or other documentation a certificate stating (x) that the amount of such Tax evidenced by the official receipt or other documentation was paid in connection with payments in respect of the principal amount of such Notes then outstanding and (y) the amount of such Tax paid per €1,000 of principal amount of such Notes, in respect of Notes denominated in euros, or per US$1,000 of principal amount of such Notes, in respect of Notes denominated in U.S. dollars.

Whenever reference is made in the Indentures, in any context, to:

(1) the payment of principal;

(2) redemption prices or purchase prices in connection with a redemption or purchase of Notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the Notes,

such reference will be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Bombardier will pay any present or future stamp, court, documentary or other similar taxes, charges or levies that arise in any jurisdiction from the execution, delivery or registration of, or enforcement of rights under, the Indentures or any related document.

The obligations described under this heading will survive any termination, defeasance or discharge of the Indentures and will apply *mutatis mutandis* to any jurisdiction in which any successor Person to Bombardier is organized or any political subdivision or taxing authority or agency thereof or therein.

Open Market Purchases

Bombardier reserves the right to purchase Notes of any series in the open market or by tender or by any other means at any price. All Notes that are purchased by Bombardier will be cancelled and will not be reissued.

Further Issuances

Pursuant to the terms of each of the Indentures, Bombardier may from time to time, without notice to or the consent of the Holders (subject to certain limitations described under "—Certain Covenants—Limitation on Indebtedness"), "reopen" any series of Notes by increasing the aggregate principal amount of such series and issue additional Notes ("*Additional Notes*") ranking *pari passu* with the Notes of such series. The Notes originally constituting such series and such Additional Notes of such series shall constitute a single series of Notes and have the same terms as to status, redemption and otherwise, other than the date of original issuance and the date that interest begins to accrue. Unless the context requires otherwise, references to the "Notes" (or any series thereof) for all purposes of the Indentures and this "Description of the Notes" include any Additional Notes that may be issued.

It is currently expected that Additional Notes will not be issued with more than a *de minimis* amount of original issue discount for U.S. federal income tax purposes ("*OID*").

Currency Indemnity

The U.S. dollar is the is the sole currency of account and payment for all sums payable by Bombardier under the 2014 Notes and the euro is the sole currency of account and payment for all sums payable by Bombardier under the 2016 Notes and the Floating Rate Notes (in each case, respectively, the "*Contractual Currency*"). Any amount received or recovered in currency other than the respective Contractual Currency in respect of any series of Notes (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up, liquidation or dissolution of Bombardier, any Subsidiary or otherwise) by the

Holder in respect of any sum expressed to be due to it from Bombardier shall constitute a discharge of Bombardier only to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in other currency on the date of that receipt or recovery (or, if it is not possible to make that purchase on that date, on the first date on which it is possible to do so). If that purchased amount is less than the Contractual Currency amount expressed to be due to the recipient under any Note, Bombardier shall indemnify the recipient against any loss sustained by it as a result. For the purposes of this indemnity, it will be sufficient for the Holder to certify (indicating the sources of information used) that it would have suffered a loss had the actual purchase of Contractual Currency been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of Contractual Currency on such date had not been possible, on the first date on which it would have been possible).

Each of the above indemnities will, to the extent permitted by law:

- constitute a separate and independent obligation from the other obligations of Bombardier;
- give rise to a separate and independent cause of action;
- apply irrespective of any waiver granted by any Holder; and
- continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

Sinking Fund

The Notes will not be entitled to the benefit of any sinking fund.

Purchase of Notes Upon a Change of Control

If a Change of Control shall occur at any time, then Bombardier will be required to make an offer to each Holder of each series of Notes to purchase all of such Holder's Notes at a purchase price (the "*Change of Control Purchase Price*") in cash in an amount equal to 101% of the principal amount of such Notes, plus accrued and unpaid interest, if any, to, but not including, the date of purchase (the "*Change of Control Purchase Date*") (subject to the right of Holders of record on relevant record dates to receive interest due on the relevant interest payment date), pursuant to the offer mechanics described below (the "*Change of Control Offer*") and in accordance with the other procedures set forth in the respective Indenture; *provided, however,* that Bombardier shall not be obliged to repurchase any series of Notes as described under this heading in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes of such series pursuant to the provisions described under "—Optional Redemption." No such purchase in part shall reduce the principal amount of any Notes held by any Holder to below €50,000 in the case of Notes denominated in euros or below US$75,000 in the case of Notes denominated in U.S. dollars.

Within 30 days of any Change of Control, Bombardier shall notify the Trustee of each series of Notes and give written notice of such Change of Control to each Holder of such Notes by first-class mail at the Holder's address appearing in the security register, stating, among other things:

- that a Change of Control has occurred and the date of such event;
- that such Holder has the right to require Bombardier to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest to, but not including, the Change of Control Purchase Date

(subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date);

- the circumstances and relevant facts regarding such Change of Control;
- the Change of Control Purchase Date, which shall be fixed by Bombardier on a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed, or such later date as is necessary to comply with any applicable requirements under the Exchange Act and any other applicable securities laws and regulations;
- that any Note not tendered will continue to accrue interest and, unless Bombardier defaults in payment of the Change of Control Purchase Price, any Notes accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Purchase Date; and
- certain other procedures that a Holder of Notes must follow to accept a Change of Control Offer or to withdraw such acceptance.

Bombardier shall cause the notice described above to be published through the newswire service of Bloomberg (or if Bloomberg does not then operate, any similar agency) or in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and, with respect to and so long as the Notes of any series are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of that Exchange, and the rules of the Luxembourg Stock Exchange so require, in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *d'Wort*), or on the website of the Luxembourg Stock Exchange at http://www.bourse.lu.

A Change of Control Offer may be made in advance of a Change of Control, and conditioned upon the occurrence of such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

Bombardier will not be required to make a Change of Control Offer with respect to any series of Notes following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the respective Indenture applicable to a Change of Control Offer made by Bombardier and purchases all Notes of such series validly tendered and not withdrawn under such Change of Control Offer.

Subject to compliance with the other covenants described in this offering memorandum, Bombardier could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indentures, but that could increase the amount of debt outstanding at such time or otherwise affect Bombardier's liquidity, capital structure or credit ratings.

In addition to the obligations of Bombardier under the Indentures with respect to the Notes in the event of a Change of Control, the New L/C Facility provides that certain change of control events with respect to Bombardier would constitute an event of termination under the New L/C Facility. Other future debt of Bombardier may prohibit certain events that would constitute a Change of Control or require such debt to be repurchased or repaid upon a Change of Control. Moreover, if Holders of Notes exercise their right to require Bombardier to repurchase such Notes, Bombardier could be in breach of obligations under existing and future debt of Bombardier. Finally, Bombardier's ability to pay cash to Holders of Notes upon a repurchase may be limited by Bombardier's then existing financial resources. Bombardier cannot assure you that sufficient funds will be available when necessary to make any required repurchases. Bombardier's failure to repurchase Notes, as required following a Change of Control Offer, would result in a default under the applicable Indenture. Such a default could, in turn, constitute a default under the New L/C Facility and other existing debt of Bombardier and may constitute a default under future debt as well. Bombardier's obligation to make an offer to repurchase the Notes of any series as a result of a Change of Control may be waived or modified at any time prior to the occurrence of such Change of Control with the written consent of the Holders of at least a majority in aggregate principal amount of the Notes of such series. See "—Modification and Waiver; Meetings of Noteholders."

Except as described above with respect to a Change of Control, the Indentures do not contain provisions that permit the Holders of the Notes to require that Bombardier repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The existence of a Holder's right to require Bombardier to make an offer to repurchase such Holder's Notes upon the occurrence of a Change of Control may deter a third party from seeking to acquire Bombardier or its Subsidiaries in a transaction that would constitute a Change of Control.

The Trustee will promptly authenticate and deliver a new Note or Notes equal in principal amount to any unpurchased portion of Notes surrendered, if any, to the Holder of Notes in global form or to each Holder of certificated Notes; provided that each such new note will be in a principal amount of (i) in the case of Notes denominated in euros, €50,000, or an integral multiple of €1,000 in excess thereof or (ii) in the case of Notes denominated in U.S. dollars, US$75,000 or an integral multiple of US$1,000 in excess thereof. Bombardier will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Purchase Date.

Bombardier will comply with applicable tender offer rules and any other applicable securities laws or regulations (including United Kingdom, European Community, Canadian and United States laws and regulations, including Rule 14e-1 under the Exchange Act, in each case, to the extent applicable) in connection with a Change of Control Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the provisions of this covenant (other than the obligation to make an offer pursuant to this covenant), Bombardier will comply with the securities laws and regulations and will not be deemed to have breached its obligations described in this covenant by virtue thereof.

The definition of Change of Control includes a phrase relating to the sale, lease or transfer, of "all or substantially all" the assets of Bombardier and its Subsidiaries, taken as a whole. Although there is a body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, if Bombardier and its Subsidiaries, considered as a whole, dispose of less than all these assets by any of the means described above, the ability of a Holder of Notes to require Bombardier to repurchase its Notes may be uncertain.

Certain Covenants

Covenant Termination. Each of the Indentures will provide that the covenants set forth in this section will be applicable in respect of such series of notes unless Bombardier's senior unsecured debt reaches Investment Grade Status. After Bombardier's senior unsecured debt has reached Investment Grade Status, and notwithstanding that Bombardier's senior unsecured debt may later cease to have Investment Grade Status from either or both of the Rating Agencies, Bombardier will be under no obligation to comply with (i) the covenants in the respective Indentures described under this caption "Certain Covenants," except for the covenants described under the captions "—Limitation on Liens and Subsidiary Guarantees" (other than clauses (c) and (d) thereof), "—Reporting," "—Listing," and "—Additional Covenants" and (ii) the provisions described under the caption "Consolidation, Merger and Sale of Assets" (other than clause (c) of the second paragraph thereunder). There can be no assurance that Bombardier's senior unsecured debt will ever achieve Investment Grade Status from one or both Ratings Agencies.

Limitation on Indebtedness. Each of the Indentures will provide that Bombardier will not, and will not permit any Subsidiary to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "*incur*") any Indebtedness for Borrowed Money; *provided, however*, that Bombardier and any Subsidiary will be permitted to incur Indebtedness for Borrowed Money (whether or not it is Permitted Indebtedness, as defined below) if, after giving effect to such incurrence and to the application of the proceeds thereof on a *pro forma* basis,

(1) Bombardier's consolidated Coverage Ratio would be greater than 2.00:1.00, and

(2) no Default or Event of Default has occurred or would occur as a consequence of such incurrence and be continuing following such incurrence.

The first paragraph of this covenant will not prohibit the incurrence by Bombardier and its Subsidiaries of the following Indebtedness for Borrowed Money ("*Permitted Indebtedness*"):

(a) Indebtedness for Borrowed Money of Bombardier evidenced by the Notes issued in this offering;

(b) Indebtedness for Borrowed Money of Bombardier or a Subsidiary in respect of Purchase Money Obligations incurred after the Issue Date hereof, *provided* that:

i. the aggregate principal amount of such Indebtedness for Borrowed Money does not exceed the cost of construction, acquisition or improvement of the property or assets acquired, constructed or leased together with the reasonable costs of acquisition; and

ii. the aggregate principal amount of all Indebtedness for Borrowed Money incurred and then outstanding pursuant to this clause (b) (together with all Permitted Refinancing Indebtedness incurred and then outstanding in respect of Indebtedness for Borrowed Money previously incurred pursuant to this clause (b)) does not exceed the greater of US$500.0 million and 3.0% of Bombardier's consolidated assets;

(c) obligations of Bombardier or its Subsidiaries in respect of Capital Lease Obligations;

(d) the incurrence by Bombardier or its Subsidiaries of Indebtedness for Borrowed Money in respect of any Securitization Program;

(e) the incurrence by Subsidiaries of Bombardier of Indebtedness for Borrowed Money in respect of any Project Indebtedness, and Guarantees by Bombardier or any Subsidiary in respect of such Project Indebtedness, *provided, however*, that such incurrence is in respect of a Project that was initiated during a time in which Bombardier would have been able to incur at least US$1.00 of additional Indebtedness for Borrowed Money pursuant to clause (1) of the first paragraph of this covenant;

(f) the incurrence by Bombardier or any of its Subsidiaries of intercompany Indebtedness for Borrowed Money (including Affiliated Subordinated Debt) between or among Bombardier and any of its Subsidiaries; *provided*, *however*, that any subsequent issue or transfer of Capital Stock or other event that results in any such Subsidiary ceasing to be a Subsidiary or any subsequent transfer of any such Indebtedness for Borrowed Money (except to Bombardier or a Subsidiary) shall be deemed, in each case, to constitute the incurrence of such Indebtedness for Borrowed Money by Bombardier thereof;

(g) Subordinated Debt of Bombardier (other than Affiliated Subordinated Debt), *provided* that the maturity thereof extends beyond the Maturity Date of such series of Notes;

(h) Indebtedness for Borrowed Money of a Subsidiary of Bombardier outstanding on the date on which such Subsidiary is acquired by Bombardier or otherwise becomes a

Subsidiary (other than Indebtedness for Borrowed Money incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of transactions pursuant to which such Subsidiary became a Subsidiary of Bombardier or was otherwise acquired by Bombardier), *provided* that at the time such Subsidiary is acquired by Bombardier or otherwise becomes a Subsidiary and after giving effect to the incurrence of such Indebtedness for Borrowed Money, either (i) the aggregate principal amount of such acquired Indebtedness for Borrowed Money does not exceed US$200.0 million in the aggregate or (ii) Bombardier would have been able to incur US$1.00 of additional Indebtedness for Borrowed Money pursuant to clause (1) of the first paragraph of this covenant;

(i) Guarantees by Bombardier or any Subsidiary of the obligations of any Subsidiary of Bombardier, *provided* that the Indebtedness for Borrowed Money so Guaranteed is otherwise permitted by this "Limitation on Indebtedness" covenant;

(j) Guarantees by Bombardier or any Subsidiary issued in the ordinary course of business in respect of the obligations of suppliers or customers or in respect of Customer Sales Financing Transactions;

(k) Indebtedness for Borrowed Money of Bombardier or a Subsidiary outstanding on the Issue Date not otherwise described in clauses (a) through (j) above;

(l) Indebtedness for Borrowed Money of Bombardier or a Subsidiary incurred after the Issue Date in an aggregate principal amount outstanding at any one time not to exceed US$1.5 billion; and

(m) Permitted Refinancing Indebtedness incurred in respect of Indebtedness for Borrowed Money incurred pursuant to clause (1) of the first paragraph of this covenant and clauses (a), (b), (c), (e), (h) and (k) above.

Notwithstanding the foregoing, Bombardier will not permit any Subsidiary, other than a Finance Subsidiary or Subsidiary Guarantor, to incur any Indebtedness for Borrowed Money other than Excluded Subsidiary Indebtedness if after giving effect to such incurrence the aggregate outstanding amount of Indebtedness for Borrowed Money of Bombardier's Subsidiaries, other than Excluded Subsidiary Indebtedness, would exceed the greater of US$1.6 billion and 10% of Bombardier's consolidated assets.

Notwithstanding anything to the contrary contained in this covenant, accrual of interest, accretion or amortization of original issue discount and the payment of interest or dividends in the form of additional Indebtedness for Borrowed Money, will be deemed not to be an incurrence of Indebtedness for Borrowed Money for purposes of this covenant. For purposes of calculating any amount of Indebtedness for Borrowed Money for purposes of this covenant (whether in applying the ratio in clause (1) of the first paragraph of this covenant, in applying any limitations under a category of Permitted Indebtedness or in applying the limitations of the previous paragraph), any contingent Indebtedness for Borrowed Money incurred as a Guarantee of, reimbursement obligation in respect of, or otherwise in support of, any other Indebtedness for Borrowed Money shall be excluded from such calculation to the extent of the aggregate amount of the Indebtedness for Borrowed Money so Guaranteed, to be reimbursed or supported that is included in such calculation.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness for Borrowed Money meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (a) through (m) above or is entitled to be incurred pursuant to clause (l) of the first paragraph of this covenant, Bombardier shall, in its sole discretion, classify (and may later reclassify in whole or in part, in its sole discretion) such item of Indebtedness for Borrowed Money in any manner that complies with this covenant.

Notwithstanding any other provision of this “Limitation on Indebtedness” covenant, the maximum amount that Bombardier or a Subsidiary may incur pursuant to this “Limitation on Indebtedness” covenant shall not be deemed to be exceeded, with respect to any outstanding Indebtedness for Borrowed Money, due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Liens and Subsidiary Guarantees. Each of the Indentures will provide that so long as any Note remains outstanding thereunder, and unless the benefit of the relevant Charge or Guarantee is at the same time extended equally and ratably to the Holders in respect of the obligations of Bombardier in respect of such Notes:

(a) Bombardier will not, and will ensure that none of its Subsidiaries will, create or have outstanding any Charge on or over its respective assets (present or future) in respect of any Indebtedness for Borrowed Money of any Person, except for:

(i) any Charge existing at the time of acquisition on any asset acquired by it and not created in contemplation of that acquisition and any substitute Charge created on that asset in connection with the Permitted Refinancing Indebtedness secured on that asset;

(ii) any Charge created on any asset acquired, developed or constructed by it (and/or on any real or immovable property, and fixtures and fittings in respect thereof, which is substantially unimproved and on which such development or construction takes place or is located), being a Charge created for the sole purpose of financing or refinancing that acquisition or development or construction and provided that the principal moneys so secured shall not exceed the cost of that acquisition, development or construction provided also that such Charge is created contemporaneously with, or within a six month period from the date of such acquisition or completion of such development or construction or from the date of such refinancing thereof (provided the principal amount secured by any such security may not be increased);

(iii) any Charge subsisting over any asset of any Subsidiary prior to the date of such Subsidiary becoming a Subsidiary and not created in contemplation of such Subsidiary becoming a Subsidiary and any substitute Charge created on that asset in connection with Permitted Refinancing Indebtedness secured on that asset;

(iv) any Charge existing on January 31, 2006 and any substitute Charge created in connection with the refinancing of the Indebtedness for Borrowed Money secured by such Charge (but in any such case the aggregate principal amount so secured shall not exceed US$25,000,000 (or the equivalent in other currencies));

(v) any Charge created in the ordinary course of business over stock-in-trade, inventory, accounts receivable or deposit accounts; or

(vi) any Charge (other than a floating charge over assets except as permitted in (v) above) arising by reason solely of the consolidation, amalgamation or merger of Bombardier with any other corporation permitted as hereinafter mentioned or of one or more of its Subsidiaries with any other corporation, and in any such case arising automatically by operation of mandatory statutory provisions of law or (in the case of the consolidation, amalgamation or merger of Bombardier with any of its Subsidiaries, present or future) arising by virtue of the provisions of any Charge outstanding immediately prior to such consolidation, amalgamation or merger, not being, in any such case, a Charge created, or provisions in relation thereto entered into, in contemplation of such consolidation, amalgamation or merger (but the principal amount secured by such Charge may not be increased); or

(vii) any Charge by a Subsidiary of Bombardier granted to Bombardier or to any other Subsidiary of Bombardier;

(b) Bombardier will ensure that none of its Subsidiaries gives any Guarantees with respect to any Indebtedness for Borrowed Money of Bombardier;

(c) Bombardier will not, and will ensure that none of its Subsidiaries will, create or have outstanding any Lien, other than Permitted Liens, on or over (i) the Capital Stock of any Subsidiary of Bombardier or (ii) its respective property, plant or equipment (present or future), in each case, in respect of any Indebtedness of any Person; and

(d) Bombardier will ensure that the Subsidiaries of Bombardier, other than Finance Subsidiaries or Subsidiary Guarantors, with outstanding Guarantees in respect of Indebtedness for Borrowed Money of any other Subsidiary of Bombardier incurred pursuant to clause (b), (c), (e) or (h) of the definition of "Permitted Indebtedness" (together with any Permitted Refinancing Indebtedness incurred and then outstanding in respect thereof) represent no more than 20% of Bombardier's consolidated EBITDA for the preceding four fiscal quarter period.

Limitation on Sales of Assets and Subsidiary Stock. Each of the Indentures will provide that Bombardier will not, and will not permit any of its Subsidiaries to, consummate an Asset Sale unless:

(1) Bombardier or such Subsidiary, as the case may be, receives consideration at the time of that Asset Sale at least equal to the Fair Market Value of the assets or Capital Stock subject of such Asset Sale; and

(2) at least 75% of the consideration therefor received by Bombardier or such Subsidiary is in the form of cash, Cash Equivalents, property or assets that are used or useful in a Related Business, Capital Stock of any Person engaged in a Related Business, or any combination thereof.

For the purposes of this provision, each of the following shall be deemed to be cash:

(i) the assumption by the transferee of liabilities of Bombardier or its Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Guarantee thereof) as a result of which Bombardier or such Subsidiary is no longer obligated with respect to such liabilities; and

(ii) any securities, notes or other obligations received by Bombardier or the Subsidiary from the transferee, to the extent that such securities, notes or other obligations are converted by Bombardier or such Subsidiary into cash or Cash Equivalents within 90 days of such Asset Sale.

The 75% limitation referred to in clause (2) above will not apply to any Asset Sale in which the cash portion of the consideration received therefrom, determined in accordance with subclauses (i) and (ii) above, is equal to or greater than what the after-tax proceeds would have been had that Asset Sale complied with the aforementioned 75% limitation.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, Bombardier or such Subsidiary, as the case may be, may apply the Net Proceeds (or any portion thereof), at its option, to:

(1) (a) investments in assets, the making of capital expenditures or the acquisition of assets that are used or useful in a Related Business, and the funding of the operations and ordinary working capital requirements of Bombardier and its Subsidiaries; or

(b) the acquisition of Capital Stock of any Person primarily engaged in a Related Business; or

(2) repay or purchase *pari passu* indebtedness of Bombardier or any indebtedness of any Subsidiary.

provided that, for the purposes of clause (1)(a) above, a binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment so long as Bombardier or such Subsidiary enters into such commitment with the good faith expectation that such Net Proceeds will be applied to satisfy such commitment within 180 days of such commitment (an "*Acceptable Commitment*") and, in the event any Acceptable Commitment is later cancelled, abandoned or terminated for any reason before the Net Proceeds are applied in connection therewith, Bombardier or such Subsidiary may enter into another Acceptable Commitment (a "*Second Commitment*") within 180 days of such cancellation, abandonment or termination and such Second Commitment shall also be treated as a permitted application of the Net Proceeds from the date of the previous Acceptable Commitment; *provided further* that if either a Second Commitment is not entered into after an Acceptable Commitment is cancelled, abandoned or terminated before such Net Proceeds are applied or any Second Commitment is later cancelled, abandoned or terminated for any reason before such Net Proceeds are applied, then such Net Proceeds shall constitute Excess Proceeds (as defined below). Pending the final application of any Net Proceeds, Bombardier may temporarily reduce indebtedness or otherwise invest those Net Proceeds in any manner that is not prohibited by such Indenture.

Any Net Proceeds from an Asset Sale that are not applied or invested in accordance with the preceding paragraph within 365 days from the date of the receipt of such Net Proceeds shall constitute "*Excess Proceeds.*" When the aggregate amount of Excess Proceeds exceeds US$200.0 million, Bombardier will be required to make an offer to all holders of Notes (an "*Asset Sale Offer*") to purchase the maximum principal amount of notes that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of purchase, in accordance with the procedures set forth in the Indentures.

If Bombardier becomes obligated to make an Asset Sale Offer pursuant to this covenant, the Notes of each series shall be purchased by Bombardier, at the option of the Holders thereof, in whole or in part (in a principal amount of €50,000, in the case of Notes denominated in euros, or US$75,000, in the case of Notes denominated in U.S. dollars, or an integral multiple of €1,000 or US$1,000, as applicable, in excess thereof, such that no Note denominated in euros of less than €50,000 remains outstanding thereafter and that no Note denominated in U.S. dollars of less than US$75,000 remains outstanding thereafter) on a date that is not earlier than 30 days and not later than 60 days from the date the notice of the Asset Sale Offer is given to holders, or such later date as may be necessary for Bombardier to comply with the requirements under applicable laws or regulations (including, without limitation, those of any securities exchange on which the Notes of each series are listed).

To the extent that any Excess Proceeds remain after consummation of an Asset Sale Offer, Bombardier may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes surrendered by Holders thereof in connection with an Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee shall select the Notes to be purchased in the manner as set forth above under "—Optional Redemption—Selection and Notice." Upon completion of an Asset Sale Offer, the amount of Excess Proceeds shall be reset at zero.

Any Excess Proceeds payable in respect of the Notes pursuant to this covenant will be apportioned between the Notes denominated in euros and the Notes denominated in U.S. dollars in proportion to the respective aggregate principal amounts of Notes denominated in euros and Notes denominated in U.S. dollars validly tendered and not withdrawn, based upon the euro equivalent of such principal amount of Notes denominated in U.S. dollars determined as of a date selected by Bombardier that is within the Asset Sale Offer period.

To the extent that any portion of Excess Proceeds payable in respect of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by Bombardier upon converting such portion into such currency.

If the date on which the Asset Sale Offer is consummated is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest will be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest will be payable to holders of the Notes who tender Notes pursuant to the Asset Sale Offer.

Each Indenture will provide that Bombardier will comply with applicable tender offer rules and any other applicable securities laws or regulations (including United Kingdom, European Community, Canadian and United States laws and regulations, including Rule 14e-1 under the Exchange Act, in each case, to the extent applicable) in connection with an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the provisions of this covenant (other than the obligation to make an offer pursuant to this covenant), Bombardier will comply with the securities laws and regulations and will not be deemed to have breached its obligations described in this covenant by virtue thereof.

Limitation on Restricted Payments. Each of the Indentures will provide that Bombardier will not make, and will not permit any Subsidiary to make, directly or indirectly, any Restricted Payment if at the time of, and after giving effect to, such proposed Restricted Payment,

(1) a Default or Event of Default shall have occurred and be continuing, or

(2) Bombardier could not incur at least US$1.00 of additional Indebtedness for Borrowed Money pursuant to clause (1) of the first paragraph of the covenant described under "—Limitation on Indebtedness" or

(3) that Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Bombardier and its Subsidiaries after the Issue Date exceeds the sum, without duplication, of:

(a) 50% of the Consolidated Net Income of Bombardier for the period (taken as one accounting period) commencing November 1, 2006 to the end of Bombardier's most recently ended fiscal quarter for which internal financial statements are available at the time of that Restricted Payment (or, if Consolidated Net Income for that period is a deficit, less 100% of the deficit); plus

(b) 100% of the Capital Stock Sale Proceeds received by Bombardier on or after the Issue Date from contributions to Bombardier's capital or from the issue or sale on or after the Issue Date of Qualified Capital Stock of Bombardier or of Redeemable Capital Stock or convertible debt securities of Bombardier to the extent that they have been converted into Qualified Capital Stock, other than Qualified Capital Stock or Redeemable Capital Stock or convertible debt securities sold to a Subsidiary of Bombardier; plus

(c) the aggregate amount by which Indebtedness for Borrowed Money (other than Subordinated Debt) of Bombardier or any Subsidiary is reduced on Bombardier's consolidated balance sheet on or after the Issue Date upon the conversion or exchange of any Indebtedness for Borrowed Money issued or sold on or prior to the Issue Date that is converted or exchanged for Qualified Capital Stock of Bombardier.

Notwithstanding the foregoing limitation, Bombardier and its Subsidiaries may:

(i) pay dividends on its Capital Stock within 60 days of the declaration thereof if, on the declaration date, such dividends could have been paid in compliance with the Indentures; *provided, however*, that at the time of such payment of such dividend, no other Default or Event of Default shall have occurred and be continuing (or result therefrom);

(ii) may declare and pay dividends in respect of its Preferred Stock, and may purchase, redeem or otherwise acquire or retire for value any of its Redeemable Capital Stock if that declaration and payment of dividends, or that purchase, redemption, acquisition or retirement of Redeemable Capital Stock, is obligatory, fixed or scheduled (in each case in accordance with the rights attaching to the relevant Capital Stock at the time of its issue);

(iii) purchase any Capital Stock of Bombardier out of the Capital Stock Sale Proceeds of a substantially concurrent issuance and sale (other than to a Subsidiary and excluding the Capital Stock Sale Proceeds from the issuance of any Capital Stock financed, directly or indirectly, using funds borrowed from Bombardier or any Subsidiary until and to the extent such borrowing is repaid in cash) of other shares of Qualified Capital Stock or of a capital contribution of cash to Bombardier; *provided* that the Capital Stock Sale Proceeds from the issuance of such shares of Qualified Capital Stock or from such capital contribution (to the extent the Capital Stock Sale Proceeds are used to repurchase, redeem, acquire or retire for value (i) such Capital Stock or (ii) options, warrants or other rights to acquire such Capital Stock) are excluded from the calculation pursuant to clause (3)(b) of the first paragraph of this covenant;

(iv) purchase, repurchase, redeem, legally defease, acquire or retire for value Capital Stock of Bombardier or Subordinated Debt in exchange for, or out of the proceeds of the substantially concurrent sale of, Qualified Capital Stock of Bombardier (other than Capital Stock issued or sold to a Subsidiary of Bombardier or an employee stock ownership plan or trust established by Bombardier or any such Subsidiary for the benefit of their employees); *provided, however*, that the Capital Stock Sale Proceeds from such exchange or sale shall be excluded from the calculation pursuant to clause (3)(b) of the first paragraph of this covenant;

(v) purchase, repurchase, redeem, legally defease, acquire or retire for value any Subordinated Debt in exchange for, or out of the proceeds of the substantially concurrent sale of, Permitted Refinancing Indebtedness;

(vi) purchase, repurchase, redeem, legally defease, acquire or retire for value Affiliated Subordinated Debt;

(vii) purchase, repurchase, redeem, legally defease, acquire or retire for value any Capital Stock of Bombardier held by any current or former director, officer, employee or consultant (or permitted transferees of such current or former directors, officers, employees or consultants) of Bombardier (or any of its Subsidiaries) pursuant to the terms of any employee equity subscription agreement, stock option agreement or similar agreement entered into in the ordinary course of business;

(viii) repurchase Capital Stock of Bombardier deemed to occur upon the exercise of options or warrants to the extent that such Capital Stock represents all or a portion of the exercise price thereof;

(ix) purchase, repurchase, redeem, legally defease, acquire or retire for value any Subordinated Debt upon a Change of Control to the extent required by the agreement governing such Subordinated Debt, but only (A) if Bombardier shall have complied with the covenant described under the caption "—Purchase of Notes Upon a Change of Control," and (B) Bombardier repurchased all Notes tendered pursuant to the offer required by such covenant prior to offering to purchase, purchasing or repaying such Subordinated Debt;

(x) payments of cash in lieu of the issuance of fractional shares of Capital Stock upon exercise or conversion of securities exercisable or convertible in to Capital Stock of Bombardier, *provided, however*, that any such payments shall not be for the purpose of evading the limitations of this covenant; and

(xi) make other Restricted Payments in an aggregate amount after the Issue Date not to exceed US$200.0 million.

In determining the amount of Restricted Payments made after the Issue Date, cash amounts expended pursuant to clauses (ii), (iii), (iv), and (v) of the immediately preceding paragraph shall be excluded from such calculation. The amount of any non-cash Restricted Payment shall be deemed to be equal to the Fair Market Value thereof at the date of the making of such Restricted Payment.

Limitations on Dividend and Other Payment Restrictions Affecting Subsidiaries. Each of the Indentures will provide that Bombardier will not, and will not permit any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Subsidiary to:

(A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock or pay any indebtedness owed to Bombardier or any of its Subsidiaries;

(B) make loans or advances to Bombardier or any of its Subsidiaries; or

(C) transfer any of its properties or assets to Bombardier or any of its Subsidiaries.

However, the foregoing restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements as in effect or entered into on the Issue Date, and any amendments, modifications, supplements, restatements, renewals or Refinancings that are no less favorable to the Holders taken as a whole than the encumbrances and restrictions contained in the initial agreement or agreements to which such amendment, modification, supplement, restatement, renewal or Refinancing relates (as determined in good faith by Bombardier);

(2) the Indentures and the Notes (including Additional Notes);

(3) applicable law and any applicable rule, regulation or order;

(4) any encumbrance or restriction with respect to a Person that is not a Subsidiary of Bombardier on the Issue Date in existence at the time such Person becomes a Subsidiary of Bombardier and not incurred in connection with, or in contemplation of, such Person becoming a Subsidiary; *provided* that such encumbrances and restrictions are not applicable to Bombardier or any Subsidiary of Bombardier or the properties or assets of Bombardier or any Subsidiary of Bombardier other than such Person which is becoming a Subsidiary;

(5) any agreement or instrument of a Person or relating to any Capital Stock or indebtedness of a Person which is assumed by Bombardier or any Subsidiary in connection with an acquisition of assets (other than Capital Stock or indebtedness incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which Bombardier or any Subsidiary entered into such transaction) and outstanding on such date;

(6) with respect to clause (C) of the first paragraph of this covenant, any encumbrance or restriction (i) that restricts in a customary manner the subletting, assignment or transfer

of any property or asset that is subject to a lease, license or other agreement, (ii) by virtue of any transfer of, agreement to transfer, option or right with respect to or encumbrance on, any property or assets of Bombardier or any Subsidiary not otherwise prohibited by the Indentures, (iii) contained in security agreements, mortgages, hypothecs and other Charges to the extent such encumbrance or restriction restricts the transfer of the property or asset subject to such security agreements, mortgages, hypothecs or other Charges or (iv) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements and servitudes of Bombardier or any Subsidiary;

(7) Purchase Money Obligations for property or assets acquired in the ordinary course of business that impose restrictions on the property or assets so acquired;

(8) any limitation contained in any Charge permitted pursuant to the covenant described under the caption "—Limitation on Liens and Subsidiary Guarantees" on the ability of the debtor to dispose of property or assets subject to such Charge;

(9) contracts for the transfer of assets, including, without limitation, any restrictions with respect to a Subsidiary pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of that Subsidiary;

(10) customary provisions in joint venture agreements, consortium agreements, shareholders' agreements, agreements in respect of Project Vehicles and other similar agreements entered into in connection with a Related Business;

(11) encumbrances or restrictions applicable to a Finance Subsidiary, Subsidiary Guarantor or captive insurance Subsidiary of Bombardier;

(12) encumbrances or restrictions contained in any agreement with respect to Indebtedness incurred subsequent to the Issue Date, *provided* that such Indebtedness is permitted to be incurred pursuant to the provisions of the covenant described under the caption "—Limitation on Indebtedness," and *provided further* that such encumbrances and restrictions are not materially less favorable taken as a whole to the Holders of the Notes than is customary in comparable financings (as determined in good faith by Bombardier), and Bombardier determines at the time of the incurrence of such Indebtedness that such encumbrances or restrictions will not adversely affect, in any material respect, Bombardier's ability to make payments of principal or interest on the Notes;

(13) restrictions created in connection with any Capital Lease Obligation or Securitization Program that are necessary or advisable (as determined in good faith by Bombardier) to effect such Capital Lease Obligation or Securitization Program;

(14) contracts entered into in the ordinary course of business, not relating to Indebtedness, and that do not, individually or in the aggregate, (i) detract from the value of property or assets of Bombardier or any of its Subsidiaries in any manner material to Bombardier or such Subsidiary or (ii) adversely affect, in any material respect, Bombardier's ability to make payments of principal or interest on the Notes, in each case, as determined in good faith by Bombardier; and

(15) any encumbrance or restriction existing under any agreement that extends, renews, Refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing clauses (1) through (14), or in this clause (15); *provided* that the terms and conditions of any such encumbrances or restrictions are no more restrictive in any material respect than those under or pursuant to the initial agreement so extended, renewed, Refinanced or replaced.

Limitation on Transactions with Affiliates. Each of the Indentures will provide that Bombardier will not, and will not permit any Subsidiary to, directly or indirectly, conduct any business or enter into any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of Bombardier, other than transactions with an Affiliate solely in such Person's capacity as a director, officer or employee of Bombardier or any of its Subsidiaries (an "*Affiliate Transaction*") unless:

(d) such transaction or series of related transactions is on terms that are no less favorable to Bombardier or such Subsidiary, as the case may be, than those that would be available in a comparable transaction in arm's-length dealings with a party that is not an Affiliate of Bombardier, and

(e) if such Affiliate Transaction involves aggregate payments or value in excess of US$50.0 million (1) the Board of Directors (including at least a majority of the Disinterested Directors of the Board of Directors) approves such Affiliate Transaction and, in its good faith judgment, believes that such Affiliate Transaction complies with clause (a) of this paragraph, as evidenced by a Board Resolution promptly delivered to the Trustee, or (2) Bombardier obtains a written opinion from an Independent Financial Advisor to the effect that the consideration to be paid or received in connection with such Affiliate Transaction is fair, from a financial point of view, to Bombardier and/or the relevant Subsidiary.

Limitation on Line of Business. Each of the Indentures will provide that Bombardier will not, and will ensure that none of its Subsidiaries, engage in any business other than a Related Business, except to such extent as would not be material to Bombardier and its Subsidiaries, taken as a whole.

Reporting. Bombardier will provide to the Trustee, and make available (including by way of posting on Bombardier's corporate internet website) to the Holders of the Notes, within 15 days after it files with, or furnishes to, the securities commissions or other similar securities regulatory authorities in each of the Canadian provinces ("*Canadian Securities Regulatory Authorities*"), copies of such documents, financial statements and other information that Bombardier is required to file with such Canadian Securities Regulatory Authorities under National Instrument 51-102 adopted by the Canadian Securities Regulatory Authorities (as such National Instrument may be amended from time to time). Regardless of whether Bombardier is subject to continuous reporting requirements pursuant to Canadian securities regulation, each of the Indentures will require Bombardier to continue to provide to the Trustee and make available to Holders of the Notes:

(a) within 90 days after the end of each financial year (or such shorter period as the Canadian Securities Regulatory Authorities may in the future prescribe), (i) an annual information form, (ii) audited annual financial statements, and (iii) management's discussion and analysis, in each case containing substantially the same information required pursuant to National Instrument 51-102 and the forms thereunder that would be required if Bombardier were subject to continuous disclosure requirements under Canadian securities regulation; and

(b) within 45 days after the end of each of the first three quarters of each financial year (or such shorter period as the Canadian Securities Regulatory Authorities may in the future prescribe), unaudited interim financial statements containing substantially the same information required pursuant to National Instrument 51-102 and the forms thereunder that would be required if Bombardier were subject to continuous disclosure requirements under Canadian securities regulation.

Each of the Indentures will also provide that Bombardier will provide to the Trustee, and make available, upon request, to any Holder of a Note issued thereunder, any owner of a beneficial interest in such Note or any prospective purchaser of such Note designated by such Holder or owner, the information required to be delivered by Rule 144A(d)(4) under the Securities Act if (i) any Notes of such series are outstanding and are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act and (ii) Bombardier is neither subject to Section 13 or Section 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. Bombardier will also make the foregoing information available during normal business hours at the offices of the listing agent in Luxembourg if and so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require.

Listing. Bombardier has applied to have each series of the Notes admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market. Bombardier will use its commercially reasonable efforts to obtain the listing of each series of the Notes as promptly as practicable and to maintain such listing of the Notes; *provided*, *however*, that if Bombardier is unable to list any series of the Notes on the Luxembourg Stock Exchange or if maintenance of such listing becomes unduly onerous, it will, prior to the delisting of such Notes from Luxembourg Stock Exchange, use commercially reasonable efforts to list and maintain a listing of such Notes on another internationally recognized stock exchange.

Additional Covenants. Each of the Indentures will also contain covenants with respect to: (a) payment of principal, interest, premium and Additional Amounts, if any; and (b) arrangements regarding the handling of money held in trust.

Consolidation, Merger and Sale of Assets

Each Indenture will provide that, except as provided below, Bombardier and its Subsidiaries, taken as a whole, will not (whether by a single transaction or a number of related or unrelated transactions and whether at the same time or over a period of time) sell, transfer, lease out, lend or otherwise dispose of the whole or substantially the whole of their undertaking or assets.

Bombardier will not consolidate with, amalgamate with or merge into any other corporation or convey or transfer its assets substantially as an entirety to any person, unless:

(a) the entity formed by such consolidation or amalgamation or into which Bombardier is merged or the person which acquires by operation of law or by conveyance or transfer the properties and assets of Bombardier substantially as an entirety shall be a corporation (each a "successor corporation") and shall (except in any case where such assumption is deemed to have occurred by the sole operation of law or except where Bombardier is the surviving legal entity), expressly assume, by an indenture supplemental to such Indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and interest (and Additional Amounts, if any) on all the Notes issued thereunder and the performance of every covenant under such Indenture on the part of Bombardier to be performed or observed;

(b) after giving effect to such transaction, no Event of Default under such Indenture, and no event which, after notice or lapse of time, or both, would become an Event of Default under such Indenture, shall have occurred and be continuing under the Indenture;

(c) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis, Bombardier or the successor corporation, as the case may be, would be able to incur at least US$1.00 of additional Indebtedness for Borrowed Money under clause (1) of the first paragraph of the covenant described under "—Certain Covenants—Limitation on Indebtedness;" and

(d) within thirty (30) days after the consummation of any such consolidation, merger or amalgamation in which Bombardier shall not be the successor corporation or legal entity, Bombardier shall have delivered to the Trustee an Officers' Certificate and an opinion of counsel each stating that such consolidation, merger, amalgamation, conveyance or transfer and such supplemental indenture, if any, comply with this provision and that all conditions precedent under such Indenture provided for relating to such transaction have been complied with.

After Bombardier's senior unsecured debt has reached Investment Grade Status, and notwithstanding that Bombardier's senior unsecured debt may later cease to have Investment Grade Status from either or both of the Rating Agencies, Bombardier will be under no obligation to comply with clause (c) of the preceding paragraph. There can be no assurance that Bombardier's senior unsecured debt will ever achieve Investment Grade Status from one or both Rating Agencies.

Upon any consolidation or merger or amalgamation or any conveyance or transfer of the properties and assets of Bombardier substantially as an entirety in accordance with the applicable conditions of the preceding paragraph, the successor corporation formed by such consolidation or amalgamation or into which Bombardier is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, Bombardier under each Indenture; *provided, however*, that no such conveyance or transfer shall have the effect of releasing Bombardier (or any successor corporation which shall theretofore have become such in the manner prescribed under this heading and which is the conveyor or transferor) from its liability as obligor and maker on any of the Notes unless such conveyance or transfer is followed by the complete liquidation of Bombardier.

Events of Default

Each Indenture will provide that if an Event of Default, as defined in this section, shall occur and be continuing with respect to the Indenture, the Trustee or the Holders of not less than 25% in aggregate principal amount of the series of Notes issued thereunder then outstanding may, and the Trustee at the request of such Holders shall, declare all unpaid principal of, premium, if any, any Additional Amounts and accrued interest on all such Notes to be due and payable immediately, by a notice in writing to Bombardier (and to the Trustee if given by the Holders of such Notes) and upon any such declaration, such principal, premium, if any, any Additional Amounts and interest shall become due and payable immediately.

An "Event of Default," wherever used with respect to a series of Notes, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(i) default in the payment of any installment of interest upon any Note of such series at its Stated Maturity, and continuance of such default for a period of 30 days; or

(ii) default in the payment of the principal of any Note of such series at its Maturity Date; or

(iii) default in the performance, or breach, of any covenant of Bombardier in the applicable Indenture or in the Notes issued thereunder (other than a default in the performance, or breach, of a covenant or agreement which is specifically dealt with in clause (i) or (ii) above), and continuance of such default or breach for a period of 60 days after written notice (specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the applicable Indenture) has been given to (A) Bombardier by the Trustee or (B) Bombardier and the Trustee by the Holders of at least 25% in aggregate principal amount of the outstanding Notes of such series affected thereby; or

(iv) default under any other Indebtedness for Borrowed Money of Bombardier or any of its Subsidiaries which:

(a) is not paid when due or within any applicable grace period in any agreement relating to the Indebtedness for Borrowed Money; or

(b) becomes due and payable before its normal maturity by reason of a default or event of default, howsoever described; or

(c) when such other Indebtedness for Borrowed Money is in the form of a Guarantee or indemnity in respect of any Indebtedness for Borrowed Money of others given by the Corporation or any of its Subsidiaries, shall not be honored when due within 60 days of demand,

where the aggregate amount of all such Indebtedness for Borrowed Money exceeds US$25,000,000 (or the equivalent in other currencies); *provided* that no Event of Default shall be deemed to have occurred with respect to a series of Notes under this subsection (iv) if the failure to pay or other default under the relevant agreement is waived, rescinded or annulled in writing by the relevant creditor(s) prior to declaration of acceleration of maturity with respect to such series of Notes; or

(v) the making by Bombardier or any Principal Subsidiary of an assignment for the benefit of its creditors, the filing by it of a petition for the declaration of its own bankruptcy, the consenting by it to the institution of, or the granting by a court of, bankruptcy or other insolvency proceedings against it, the admission by Bombardier or any Principal Subsidiary to some or all of its creditors at a meeting or by other means of communication that it is insolvent or the commencement by Bombardier or any Principal Subsidiary of any proceeding relative to overdue indebtedness of Bombardier or any Principal Subsidiary under any reorganisation, arrangement, compromise, adjustment or postponement of debt, dissolution, winding-up, composition or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or

(vi) the making of an order or judgment by a court having jurisdiction adjudging Bombardier or any Principal Subsidiary bankrupt or insolvent or ordering the winding-up or liquidation or rearrangement of its affairs, or the seizure or attachment of all or a substantial part of Bombardier's or any Principal Subsidiary's property at the instance of a creditor, or the appointment of a Person to take possession or control under an agreement subjecting property of Bombardier or any Principal Subsidiary to a security interest or pursuant to an order of any court having jurisdiction of all or a substantial part of the property or all or a substantial part of the inventory of Bombardier or any Principal Subsidiary, such person to include a receiver, a receiver-manager, an agent, a sequestrator, a trustee under a trust indenture, a creditor in possession or any person or corporation authorised to act on their behalf; provided that such order, judgment, seizure or attachment remains in force or such taking of possession or control continues in effect for a period of 60 days.

If an Event of Default with respect to a series of Notes shall have occurred and be continuing, the Trustee shall, within 30 Business Days after a Responsible Officer of the Trustee becomes aware of such Event of Default, give notice of such Event of Default to the Holders of the Notes of such series then outstanding affected thereby, provided that, notwithstanding the foregoing, except in the case of any Event of Default described in paragraphs (i) and (ii) above, the Trustee shall not be required to give such notice if the Trustee in good faith determines that withholding the notice is in the best interests of the Holders of the Notes of such series outstanding affected thereby and shall so have advised Bombardier in writing. Where a notice of the occurrence of an Event of Default has been given to the Holders of Notes of a series pursuant to the applicable Indenture and the Event of Default is thereafter cured, the Trustee shall give notice that the Event of Default is no longer continuing to the Holders of such Notes with 30 days after the Trustee becomes aware that the Event of Default has been cured.

No Holder of any Note shall have any right to institute any action, suit or proceeding, judicial or otherwise, with respect to the applicable Indenture or such Note, for the payment of any principal, premium, if any, or interest owing on such Note, or for the execution of any trust or power under the applicable Indenture or for the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official, or to have Bombardier wound up, or for any other remedy under the applicable Indenture, unless (i) an Event of Default shall have occurred and be continuing, (ii) such Holder shall have previously given written notice to the Trustee of such continuing Event of Default with respect to such Notes, (iii) the Holders of not less than 25% in aggregate principal amount of the Notes outstanding of such series have made written request to the Trustee to institute such proceeding as Trustee under the applicable Indenture, (iv) such Holder or Holders shall have offered to the Trustee, when so requested by the Trustee, reasonably satisfactory indemnity to it against costs, expenses and liabilities to be incurred therein or thereby in compliance with such request, (v) the Trustee shall have failed to institute such proceeding within 60 days after receipt of such notice and request, and (vi) no direction inconsistent with such request shall have been given to the Trustee during such 60-day period by the Holders of not less than a majority in aggregate principal amount of the outstanding Notes of such series. Such limitations do not, however, apply to a suit instituted by a Holder of a Note for the enforcement of the payment of the principal of, premium, if any, and interest on such Note on or after the Stated Maturity expressed in such Note or, in the case of redemption, on the Redemption Date; the right to institute such suit is unconditional and shall not be impaired without the consent of such Holder.

In case an Event of Default with respect to a series of Notes has occurred and is continuing of which a Responsible Officer of the Trustee has actual knowledge, the Trustee shall exercise such of the rights and powers vested in it by the applicable Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by such Indenture, unless such Holders shall have offered and furnished to the Trustee funds for the purpose and reasonable indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

After a declaration of acceleration of maturity with respect to a series of Notes, but before a judgment or decree for payment of the money due has been obtained by the Trustee, the Holders of not less than a majority in aggregate principal amount of Notes of such series then outstanding may, by written notice to Bombardier and the Trustee, direct the Trustee to rescind and annul the default or cancel the declaration, or both, and cancel the consequences thereof if:

(a) Bombardier has paid or deposited with the Trustee a sum sufficient to pay:

(1) all overdue interest and Additional Amounts on all Notes of such series then outstanding,

(2) the principal of and premium, if any, on any Notes of such series then outstanding which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by such Notes, and

(3) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the Notes; and

(b) all Events of Default with respect to such series of Notes, other than the non-payment of principal of, premium, if any, and any Additional Amounts and interest on the Notes which have become due solely by such declaration of acceleration, have been cured or waived as provided in the Indenture.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Modification and Waiver; Meetings of Noteholders

Each Indenture will permit Bombardier, when authorized by a Board Resolution, and the Trustee to enter into supplemental indentures, in form satisfactory to the Trustee, without the consent of the holders of the Notes issued thereunder to, among other things:

(a) evidence the succession of another Person, or successive successions of other Persons, to Bombardier and the assumption by any such successor of the covenants and obligations of Bombardier under such Indenture and in the Notes issued thereunder;

(b) add to the covenants of Bombardier for the benefit of the Holders or to surrender any right or power conferred upon Bombardier under such Indenture;

(c) add any additional Events of Defaults with respect to the Notes issued thereunder for the benefit of the holders of such Notes;

(d) secure the Notes issued thereunder pursuant to the provisions described under "—Certain Covenants—Limitation on Liens and Subsidiary Guarantees" or otherwise;

(e) evidence and provide for the acceptance of appointment by a successor Trustee under such Indenture and to add to or change any of the provisions of such Indenture as shall be necessary to provide for or facilitate the administration of the trusts under such Indenture by more than one Trustee;

(f) cure any ambiguity, to correct or supplement any provision under such Indenture or in any supplemental indenture which may be defective or inconsistent with any other provision under such Indenture or in any supplemental indenture, or to make any other provisions as may be necessary or desirable, including the making of any modifications in the form of Notes issued thereunder, provided that such action shall not adversely affect the interests of the holders of such Notes in any material respect;

(g) to provide for the issuance of Additional Notes in accordance with the Indenture; or

(h) to conform the text of the Indenture or the Notes to any passage in this "Description of the Notes" to the extent that such passage was intended to be a recitation of a provision of the Indenture or the Notes.

Each Indenture also will permit Bombardier (when authorized by a Board Resolution) and the Trustee, with the consent of the holders of a majority in aggregate principal amount of the Notes issued thereunder outstanding and affected by such supplemental indenture, by act of such holders delivered to Bombardier and the Trustee, at any time or from time to time, to enter into an indenture or indentures supplemental to such Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of such Indenture or any supplemental indenture or of modifying in any manner the rights of the holders of such Notes; *provided, however*, that no such supplemental indenture will, without the consent of the Holder of each outstanding Note issued under such Indenture adversely affected thereby:

(a) change the Stated Maturity of the principal of, or any installment of principal of or interest on, such Note;

(b) reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption of such Note;

(c) change any place of payment where, or the coin or currency in which, such Note or any premium or interest on such Note is payable;

(d) impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date);

(e) reduce the percentage in principal amount of the outstanding Notes of such series issued under such Indenture, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions or certain Events of Default of such Indenture and their consequences) provided for in such Indenture; or

(f) modify any of the other provisions in such Indenture relating to rights of waiver, except to increase any such percentage or to provide that certain other provisions of such Indenture cannot be modified or waived without the consent of the Holder of each outstanding Note issued under such Indenture affected thereby.

It shall not be necessary for any act of holders of Notes to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such act shall approve the substance thereof.

The holders of a majority in aggregate principal amount of the outstanding Notes of a series with respect to which a default or breach or an Event of Default shall have occurred and be continuing may, prior to the acceleration of the Maturity of any Notes of that series, on behalf of the holders of all such affected Notes of that series, waive any past default or breach or Event of Default and its consequences, except a default in the payment of the principal of or premium or interest on any such Notes or an Event of Default in respect of a covenant or provision of the applicable Indenture or of any such Note which cannot be modified or amended without the consent of the Holder of each outstanding Note of that series which is affected.

Each Indenture will contain provisions for convening meetings of the holders of the Notes issued thereunder to consider matters affecting their interests, including (i) to give any notice to Bombardier or the Trustee, (ii) to consent to the waiving of any Event of Default under such Indenture and its consequences or to take any other action required or permitted to be taken by the holders, (iii) to remove the Trustee and appoint a successor Trustee, and (iv) to consent to the execution of an indenture or indentures supplemental to such Indenture. Each Indenture will also contain a provision permitting any action to be taken by the holders of the Notes issued thereunder pursuant to a meeting to be validly taken by an instrument in writing (in one or more counterparts) signed by or on behalf of the holders of the specified percentage of the aggregate principal amount of such Notes.

Defeasance or Covenant Defeasance of Indentures

Each Indenture will provide that, at the option of Bombardier and at any time, Bombardier may elect to be discharged from any and all obligations with respect to the series of Notes issued thereunder ("*Legal Defeasance*") and cure all then-existing Events of Default with respect to such Indenture, except for, among other things, certain obligations, including those respecting the defeasance trust, obligations to register the transfer or exchange of Notes, to replace mutilated, destroyed, lost or stolen Notes, to maintain paying agencies and to compensate and indemnify the Trustee.

Each Indenture will also provide that, at the option of Bombardier and at any time, Bombardier may elect to have its obligations released with respect to certain covenants that are described in the Indenture ("*Covenant Defeasance*") and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the Notes issued thereunder. In the event Covenant Defeasance occurs under any Indenture, certain events (not including non-payment and bankruptcy, insolvency and reorganization events) described under "—Events of Default" will no longer constitute an Event of Default with respect to the Notes issued thereunder.

In order to exercise either Legal Defeasance or Covenant Defeasance under any Indenture, Bombardier must irrevocably deposit in trust with the Trustee, for the benefit of the holders of Notes issued thereunder, (A) in the case of Notes denominated in euros, cash in euros or European Government Obligations, or a combination thereof, or (B) in the case of Notes denominated in U.S. dollars, cash in U.S. dollars or U.S. Cash Equivalents, or a combination thereof, in each case in such aggregate amounts as will be sufficient to pay the principal of, interest and premium, if any, on, such Notes to maturity or redemption, as the case may be, and comply with certain other conditions, including the delivery of an opinion of counsel as to certain tax and other matters.

In the event that Bombardier exercises its option to effect a covenant defeasance with respect to a series of Notes and such Notes are thereafter declared due and payable because of the occurrence of another Event of Default with respect to that series of Notes, the amount of money and securities on deposit with the Trustee would be sufficient to pay the amounts due on such Notes at their respective Stated Maturities but may not be sufficient to pay the amounts due on such Notes at the times of the acceleration resulting from that Event of Default. Bombardier would remain liable for this deficiency.

Satisfaction and Discharge

Each Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes issued thereunder as expressly provided for in the Indenture) as to all outstanding Notes under such Indenture when:

(a) either:

(1) all such Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid or Notes whose payment has been deposited in trust or segregated and held in trust by Bombardier and thereafter repaid to Bombardier or discharged from such trust as provided for in the Indenture) have been delivered to the Trustee for cancellation or

(2) all such Notes not theretofore delivered to the Trustee for cancellation

(A) have become due and payable,

(B) will become due and payable at their Stated Maturity within one year, or

(C) are to be called for redemption within one year under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of Bombardier;

and Bombardier has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust an amount (i) in the case of Notes denominated in euros, in cash in euros or European Government Obligations, or a combination thereof, or (ii) in the case of Notes denominated in U.S. dollars, in cash in U.S. dollars or U.S. Cash Equivalents, or a combination thereof, in each case sufficient to pay and discharge the entire indebtedness on such Notes not theretofore delivered to the Trustee for cancellation, including the principal of, premium, if any, any Additional Amounts and accrued interest on, such Notes at such Maturity, Stated Maturity or redemption date, as the case may be;

(b) Bombardier has paid or caused to be paid all other sums payable under the Indenture by Bombardier; and

(c) Bombardier has delivered to the Trustee an Officer's Certificate and an opinion of independent counsel each stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of such Indenture have been complied with; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (a), (b) and (c)).

Governing Law

The Indentures and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

Consent to Jurisdiction and Service

Each Indenture will provide that Bombardier will appoint CT Corporation System, 111 Eighth Avenue, New York, NY 10011 (or a permitted alternative), as its agent for service of process in any suit, action or proceeding with respect to such Indenture or the Notes issued thereunder and for actions brought under the federal or state securities laws brought in any federal or state court located in the Borough of Manhattan in the City of New York, and Bombardier will submit to such jurisdiction.

Enforceability of Judgments

Since a significant portion of the assets of Bombardier are outside the United States, any judgment obtained in the United States against Bombardier, including judgments with respect to the payment of principal, premium, interest, Additional Amounts, redemption price and any purchase price with respect to the Notes, may not be collectable within the United States.

Bombardier has been advised by its counsel, Ogilvy Renault LLP, that the laws of the Province of Quebec permit a motion to be brought before a court of competent jurisdiction in the Province of Quebec to recognize and, where applicable, declare enforceable a judgment of any federal or state court located in the Borough of Manhattan in the City of New York (the "*New York Court*") that is not impeachable as void or voidable under the laws of the State of New York ("*New York Laws*") for a sum certain unless: (i) the New York Court rendering such judgment does not have jurisdiction over the judgment debtor (although submission by Bombardier in the indenture to the non-exclusive jurisdiction of the New York Court will be sufficient for that purpose); (ii) such judgment is not final and enforceable in the jurisdiction in which it was rendered; (iii) such judgment was rendered in contravention of the fundamental principles of procedure; (iv) there were proceedings pending in the Province of Quebec or judgment was rendered in the Province of Quebec or in a third country meeting the necessary conditions for recognition in the Province of Quebec between the same parties, based on the same facts and having the same object; (v) such judgment is manifestly inconsistent with public order as understood in international relations, as that term is applied by a court of competent jurisdiction in the Province of Quebec; (vi) such judgment enforces obligations arising from the taxation laws of a foreign country, unless there is reciprocity, or arising from other laws of public nature, such as penal or expropriation laws; (vii) the action to enforce such judgment is not commenced in the Province of Quebec within the applicable prescriptive period; or (viii) the foreign judgment is contrary to an order made by the Attorney General of Canada under the Foreign Extraterritorial Measures Act (Canada) or by the Competition Tribunal under the Competition Act (Canada) in respect of certain judgments defined therein.

If the judgment of the New York Court is rendered by default, the plaintiff must prove that the act of procedure initiating the proceedings was duly served on the defendant (in accordance with the laws of the place where such judgment was rendered, *i.e.*, New York Laws), and a court of competent jurisdiction in the Province of Quebec may refuse recognition or enforcement of the judgment if the defendant proves that, owing to the circumstances, it was unable to learn of the act of procedure or it was not given sufficient time to offer its defense.

In any such motion brought before a court of competent jurisdiction in the Province of Quebec, the court will confine itself to verifying whether the judgment of the New York Court meets the foregoing requirements without entering into any examination of the merits of the judgment. Under the Currency Act (Canada), a court of competent jurisdiction in the Province of Quebec may only render judgment for a sum of money in Canadian currency, and in enforcing a foreign judgment for a sum of money in foreign currency, a court of competent jurisdiction in the Province of Quebec will render its decision in the Canadian currency equivalent of such foreign currency calculated at the rate of exchange prevailing on the date the judgment become enforceable at the place where it was rendered.

Bombardier has been advised by its counsel, Ogilvy Renault LLP, that they know of no reason under the present laws of the Province of Quebec for avoiding recognition of judgments of a New York Court under the Indentures, or the Notes issued thereunder, based upon public order as understood in international relations, as the term is applied by a court of competent jurisdiction in the Province of Quebec.

The recognition and enforceability in the Province of Quebec of any such judgment of the New York Court may be limited by applicable Canadian federal and provincial bankruptcy, insolvency, reorganization, arrangement, winding-up, moratorium, or other laws generally affecting the enforceability of creditors' rights.

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator, member or shareholder of Bombardier, or any parent companies or any Subsidiary or affiliate as such, shall have any liability for any obligations of Bombardier under the Indentures or the Notes or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws.

Concerning the Trustee

Each Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of Bombardier, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise.

Each Indenture provides that the holders of a majority in principal amount of the then-outstanding Notes issued thereunder will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. Each Indenture provides that in case an Event of Default occurs thereunder (which has not been cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by such Indenture, unless the Holders of the other Notes issued thereunder shall have offered and furnished to the Trustee funds for the purpose and reasonable indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Notices

Bombardier shall cause all notices to be published through the newswire service of Bloomberg (or if Bloomberg does not then operate, any similar agency) or in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and, with respect to and so long as the Notes of any series are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of that Exchange, and the rules of the Luxembourg Stock Exchange so require, in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *d'Wort*), or on the website of the Luxembourg Stock Exchange at http://www.bourse.lu. Additionally, in the event the Notes are in the form of Definitive Registered Notes, notices will be sent, by first-class mail, with a copy to the Trustee, to each Holder at such Holder's address as it appears on the registration books of the registrar. If and so long as such Notes are listed on any securities exchange, notices will also be given in accordance with any applicable requirements of such securities exchange. If and so long as any Notes are presented by one or more Global Notes and ownership of Book-Entry Interests therein are shown on the records of Euroclear, Clearstream or DTC, as the case may be, or any successor appointed by Euroclear, Clearstream or DTC, as the case may be, at the request of Bombardier, notices will be delivered to such clearing agency for communication to the owners of such Book-Entry Interests. Notices given by publication will be deemed given on the first date on which publication is made and notices given by first-class mail, postage prepaid, will be deemed given five calendar days after mailing.

Certain Definitions

"*2010 Treasury Rate*" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such statistical release is not so published or available, any publicly available source of similar market data selected by Bombardier in good faith)) most nearly equal to the period from the redemption date to November 15, 2010; *provided, however*, that if the period from the redemption date to November 15, 2010 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the 2010 Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to November 15, 2010 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

"*2011 Bund Rate*" means the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (*Bunds* or *Bundesanleihen*) with a constant maturity (as officially compiled and published in the most recent financial statistics that have become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by Bombardier in good faith)) most nearly equal to the period from the redemption date to November 15, 2011; *provided, however*, that if the period from the redemption date to November 15, 2011 is not equal to the constant maturity of a direct obligation of the Federal Republic of Germany for which a weekly average yield is given, the 2011 Bund Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such redemption date to November 15, 2011 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used.

"*Additional Amounts*" is defined under "—Payment of Additional Amounts."

"*Affiliate*" means, with respect to Bombardier, the Permitted Holders and any Person directly or indirectly controlled by the Permitted Holders, other than Bombardier and its Subsidiaries. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"*Affiliated Subordinated Debt*" means all intercompany indebtedness owing between or among Bombardier and any of its Subsidiaries that (i) is fully and effectively subordinate or junior in right of payment to the Notes, or (ii) is repayable with or convertible or exchangeable into Qualified Capital Stock of the debtor of such indebtedness at the option of such debtor, *provided, however*, that to the extent that such option is not or cannot be exercised by the debtor, then the payment of such indebtedness must be subordinated to the same extent as described in clause (i) of this definition.

"*Asset Sale*" means:

(1) the sale, lease, conveyance, disposition or other transfer (a "*disposition*") of any properties, assets or rights (including, without limitation, by way of a sale and leaseback); *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of Bombardier and its Subsidiaries taken as a whole will be governed by the provisions of the respective Indentures described under the caption "—Change of Control" and/or the provisions described under the caption "—Consolidation, Merger and Sale of Assets" and not by the provisions of the Asset Sale covenant; and

(2) the issuance, sale or transfer by Bombardier or any of its Subsidiaries of Capital Stock of any of Bombardier's Subsidiaries,

in the case of either clause (1) or (2), whether in a single transaction or a series of related transactions,

(a) that have a Fair Market Value in excess of US$200.0 million; or

(b) for net proceeds in excess of US$150.0 million.

Notwithstanding the foregoing, the following items shall not be deemed to be Asset Sales:

(A) dispositions of inventory, stock-in-trade, accounts or current assets;

(B) dispositions in the ordinary course of business;

(C) dispositions of redundant, surplus, obsolete, worn out or unused assets;

(D) dispositions in connection with Customer Sales Financing Transactions;

(E) dispositions of assets by Bombardier to a Subsidiary, Project Vehicle, or joint venture primarily involved in a Related Business, or by a Subsidiary or Project Vehicle to Bombardier or to another Subsidiary or Project Vehicle;

(F) disposition or liquidation of investments in joint ventures or Project Vehicles, or assets thereof;

(G) a disposition of Capital Stock by a Subsidiary to Bombardier or to another Subsidiary;

(H) the sale and leaseback of any assets within 180 days of the acquisition thereof;

(I) the transfer of Securitization Program Assets in connection with a Securitization Program;

(J) the sale of accounts receivable and related assets of the nature described in clauses (i) to (ix) of the definition of "Securitization Program Assets" pursuant to any discount or factoring transaction in the ordinary course of business;

(K) any disposition that constitutes a Restricted Payment permitted by the covenant described under the caption "—Certain Covenants—Limitation on Restricted Payments;"

(L) any sale or disposition of cash or Cash Equivalents;

(M) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(N) the granting of Charges not prohibited by the covenant described under the caption "—Certain Covenants—Limitation Liens and Subsidiary Guarantees" and the granting of Permitted Liens; and

(O) foreclosure, condemnation or similar action with respect to assets.

"*Average Life*" means, as of any date of determination, with respect to any Indebtedness for Borrowed Money or Preferred Stock, the quotient obtained by dividing:

(a) the sum of the product of (i) the numbers of years from the date of determination to the date or dates of each successive scheduled principal payment of such Indebtedness for Borrowed Money or redemption or similar payment with respect to such Preferred Stock; multiplied by (ii) the amount of each such principal payment; by

(b) the sum of all such principal payments.

"*Board of Directors*" means the Board of Directors of Bombardier Inc. or the Executive Committee thereof.

"*Board Resolution*" of a Person means a copy of a resolution certified by the secretary or an assistant secretary (or individual performing comparable duties) of the applicable Person to have been duly adopted by the board of directors of such Person and to be in full force and effect on the date of such certification.

"*Business Day*" means each day that is not a Saturday, Sunday or other day on which banking institutions in Luxembourg, Montreal, London or the City of New York are authorized or required by law to close; *provided, however*, that in respect of any Notes denominated in euros, such day shall also be a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer ("TARGET") payment system is open for the settlement of payments.

"*Capital Lease Obligation*" means any obligation under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP; and the amount of debt represented by such obligation shall be the capitalized amount of such obligations determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"*Capital Stock*" of any Person means any and all common shares, preferred shares or other equivalent equity interests, howsoever designated, in the capital stock of a body corporate, equity preferred or common interests in a limited liability company, limited or general partnership interests in a partnership or any other equivalent ownership interest, or the interest of a beneficiary under a trust), in each case, whether now outstanding or issued after the Issue Date, and any rights, warrants or options exchangeable for or convertible into such Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"Capital Stock Sale Proceeds" means the aggregate cash proceeds received by Bombardier from the issuance or sale (other than to a Subsidiary of Bombardier or an employee stock ownership plan or trust established by Bombardier or any such Subsidiary for the benefit of their employees) by Bombardier of its Capital Stock after the Issue Date, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"*Cash Equivalents*" means European Government Obligations and U.S. Cash Equivalents.

"*Change of Control*" means the occurrence of any of the following events:

(a) the consummation of any transaction as a result of which any person or group acting jointly or in concert (as such expression is defined in Section 91 of the *Securities Act* (Ontario)) is or becomes the beneficial owner, directly or indirectly, of more than 50% of the total outstanding Voting Capital Stock of Bombardier, measured by voting power rather than number of shares; *provided, however*, that it shall not constitute a Change of Control if such person or group consists of Permitted Holders or persons acting in concert with Permitted Holders unless, in the case of any such transaction involving persons acting in concert with the Permitted Holders, such transaction results in a Ratings Decline; or

(b) Bombardier effects an arrangement or consolidates, amalgamates or merges with or into any Person or sells, leases, transfers or otherwise disposes of all or substantially all of the assets of Bombardier and its Subsidiaries, taken as a whole to any Person, or any Person consolidates with, amalgamates with or merges with or into Bombardier, in any such event pursuant to a transaction in which the outstanding Voting Capital Stock of Bombardier is converted into or exchanged for cash, securities or other property, other than any such transaction where (1) the outstanding Voting Capital Stock of Bombardier is changed into or exchanged for Voting Capital Stock of the surviving corporation or transferee which is not Redeemable Capital Stock and (2) immediately after such transaction, no person or group acting jointly or in concert (as such expression is defined in Section 91 of the *Securities Act* (Ontario)) is the beneficial owner, directly or indirectly, of more than 50% of the total outstanding Voting Capital Stock of the surviving corporation or transferee, measured by voting power rather than number of shares; *provided, however*, that it shall not constitute a Change of Control if such person or group consists of Permitted Holders or persons acting in concert with Permitted Holders unless, in the case of any such transaction involving persons acting in concert with the Permitted Holders, such transaction results in a Ratings Decline; or

(c) Bombardier is liquidated or dissolved or adopts a plan of liquidation or dissolution other than in a transaction which complies with the provisions described under "—Consolidation, Merger, and Sale of Assets."

For purposes of this definition, any transfer of an equity interest of an entity that was formed for the purpose of acquiring Voting Capital Stock of Bombardier will be deemed to be a transfer of such portion of such Voting Capital Stock as corresponds to the portion of the equity of such entity that has been so transferred.

"*Charge*" or "*security*" means and includes any mortgage, pledge, lien, hypothecation, prior claim, security interest or other charge or encumbrance securing Indebtedness for Borrowed Money and any deferred purchase, sale-and-repurchase or sale-and-leaseback arrangement and any other arrangement of a like or similar effect with respect to Indebtedness for Borrowed Money; for clarification, it is understood that "Charge" or "security" does not include any arrangement whatsoever (whether a deferred purchase, sale-and-purchase, sale-and-leaseback, leasing or other arrangement) the direct or indirect purpose and effect of which is to allow the purchaser or user of a product marketed by Bombardier or any of its Subsidiaries to finance the acquisition or rental thereof, in whole or in part, with a third party.

"*Clearstream*" means Clearstream Banking, *société anonyme.*

"*Consolidated Net Income*" means, with respect to any Person for any period, the aggregate of the net income of that Person and its Subsidiaries for that period, on a consolidated basis, determined in accordance with GAAP; excluding, however:

(1) any gain (or loss), together with any related provision for taxes on that gain (or loss), realized in connection with:

(a) any Asset Sale, including, without limitation, dispositions pursuant to sale and leaseback transactions;

(b) the extinguishment of any indebtedness of that Person or any of its Subsidiaries; or

(c) any extraordinary gain (or loss), together with any related provision for taxes on that extraordinary gain (or loss); and

(2) any cumulative effect of a change in accounting principles.

"*Coverage Ratio*" means, for any given period, the ratio of (1) EBITDA of Bombardier (exclusive of amounts attributable to discontinued operations, as determined in accordance with GAAP, or operations and businesses disposed of prior to the Calculation Date (as defined below)) to (2) Net Interest Expense (exclusive of amounts attributable to discontinued operations, as determined in accordance with GAAP, or operations and businesses disposed of prior to the Calculation Date), calculated on a rolling four fiscal quarter consolidated basis with respect to Bombardier.

In the event that Bombardier or any of its Subsidiaries incurs, assumes, guarantees or redeems any indebtedness (other than revolving credit borrowings) subsequent to the commencement of the period for which the Coverage Ratio is being calculated but prior to the date on which the event for which the calculation of the Coverage Ratio is made (the "*Calculation Date*"), then the Coverage Ratio shall be calculated giving *pro forma* effect to that incurrence, assumption, guarantee or redemption of indebtedness, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of making the computation referred to above, acquisitions that have been made by Bombardier or any of its Subsidiaries, including all mergers or consolidations and any related financing transactions, during the four-quarter reference period or subsequent to that reference period and on or prior to the Calculation Date shall be deemed to have occurred on the first day of the four-quarter reference period and EBITDA for that reference period shall be calculated to include the EBITDA of the acquired entities on a *pro forma* basis.

"*Customer Sales Financing Transaction*" means any transaction or operation in the ordinary course of business, the direct or indirect purpose of which is to allow the purchaser or user of a product or service marketed by Bombardier or any of its Subsidiaries to finance the purchase or rental of any such products or services, in whole or in part.

"*Default*" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"*Disinterested Director*" means, with respect to any transaction or series of related transactions, a member of the Board of Director who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A member of the Board of Directors shall not be deemed to have such a financial interest by reason of such member's holding Capital Stock of Bombardier or any options, warrants or other rights in respect of such Capital Stock.

"*DTC*" means The Depository Trust Company.

"*EBITDA*" means, with respect to any person, for any period:

(i) the net income or loss for such period determined in accordance with GAAP, less the gains or plus the losses incurred in connection with any special items as reported in the public financial statements of such person; plus

(ii) all amounts deducted in computing the net income or loss for such period in respect of depreciation and amortisation expense, Net Interest Expense and income tax expense without taking into account any re-valuation of assets.

With respect to Bombardier, EBITDA is calculated on a rolling four fiscal quarter consolidated basis, and "special items" means extraordinary items in accordance with GAAP, and items reported as special items in Bombardier's audited financial statements.

"*Equity Offering*" means an offering and sale of Capital Stock of Bombardier to persons that are not Subsidiaries of Bombardier; *provided, however*, that Equity Offering does not include any offering and sale to any Affiliate of Bombardier solely in such Affiliate's capacity as director, officer or employee of Bombardier or any of it Subsidiaries (including pursuant to stock option or other equity compensation plans).

"*Euroclear*" means Euroclear Bank S.A./N.V.

"*European Government Obligations*" means securities that are (a) direct obligations (or certificates representing an ownership interest in such obligations) denominated in euro of any member nation of the European Union rated at least "A-1" by S&P or "P-1" by Moody's for the timely payment of which its full faith and credit is pledged or (b) obligations denominated in euro of a Person controlled or supervised by and acting as an agency or instrumentality of any member nation of the European Union rated at least "A-1" by S&P or "P-1" by Moody's, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by such member nation and which are not callable or redeemable at the option of the issuer thereof.

"*Exchange Act*" means the United States Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations thereunder.

"*Excluded Subsidiary Indebtedness*" means (1) Indebtedness for Borrowed Money of a Subsidiary of Bombardier that is Permitted Indebtedness pursuant to clauses (b) through (f) and (h) through (k) of the definition of "Permitted Indebtedness" and any Permitted Refinancing Indebtedness incurred in respect thereof, and (2) Indebtedness for Borrowed Money of any Finance Subsidiary or Subsidiary Guarantor.

"*Fair Market Value*" means, with respect to any asset or property, the sale value that would be obtained in an arm's-length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy. Fair Market Value shall be determined by Bombardier acting in good faith.

"*Finance Subsidiary*" means a Subsidiary of Bombardier that (i) engages in no activities other than finance activities (including borrowing, lending, leasing and other types of financing activities), (ii) does not own any Capital Stock of any other Subsidiary of Bombardier other than wholly-owned Finance Subsidiaries and Securitization Vehicles, and (iii) no portion of the indebtedness or other obligations of which are Guaranteed by any other Subsidiary of Bombardier other than (a) Subsidiaries of Bombardier that are direct or indirect parents of such Finance Subsidiary or (b) other Finance Subsidiaries.

"*GAAP*" means, with respect to Bombardier, the Accounting Recommendations in the Handbook of the Canadian Institute of Chartered Accountants ("Recommendations") and, when a matter is not covered by a Recommendation, other accounting principles that either

(i) are generally accepted by virtue of their use in similar circumstances by a significant number of profit-oriented entities in Canada; or

(ii) are consistent with the Recommendations and are developed through the exercise of professional judgment and the application of the concepts described in the financial statement concepts section of the Handbook referred to above,

provided that, in the case of either the foregoing clause (i) or (ii), Bombardier's auditors will have concurred in the use of such other accounting principles.

Where the character or amount of any asset or liability or item of income or expense, or any consolidation or other accounting computation is required to be made for any purpose hereunder, it shall be done in accordance with GAAP as in effect on the date of, or at the end of the period covered by, the financial statements from which such asset, liability, item of income, or item of expense, is derived, or, in the case of any such computation, as in effect on the date as of which such computation is required to be determined, provided, that if any concepts that would not be included in or excluded from such term as used herein will be deemed to include or exclude such amounts, items or concepts as set forth herein, provided further that references to "consolidation" or "consolidated" shall in all events mean as defined with reference solely to GAAP.

"*Guarantee*" means and includes any obligation (whatever called) of any Person to pay, purchase, provide funds (whether by the advance of money, the purchase of or subscription for shares or other Notes, the purchase of assets or services, the indemnification in respect of letters of credit and letters of guarantee issued in respect of Indebtedness for Borrowed Money or otherwise) for the payment of, indemnify against the consequences of default in the payment of, or otherwise be responsible for, any Indebtedness for Borrowed Money of any other Person (and "*Guaranteed*" shall be construed accordingly).

"*Holder*" means a Person in whose name a Security is registered in the Security Register.

"*Indebtedness*" means, with respect to any Person, any Indebtedness for Borrowed Money of that Person and all other indebtedness evidenced by bonds, notes, debentures or similar instruments, any letter of credit facility or similar facility or reimbursement agreements in respect thereof, bankers' acceptances, Capital Lease Obligations, and the balance deferred and unpaid of the purchase price of any property, as well as all Indebtedness of others secured by a Lien on any asset of that Person (whether or not that Indebtedness is assumed by that Person) and, to the extent not otherwise included, the Guarantee by that Person of any Indebtedness of any other Person, *provided, however,* that "Indebtedness" shall not include any facility or arrangement for the issuance of bonds, letters of credit or similar instruments by a surety, insurance company or performance bond provider or any bonds or letters of credit or similar instruments issued thereunder or the reimbursement obligations with respect thereto.

"*Indebtedness for Borrowed Money*" means and includes any obligation (whether present or future, actual or contingent, secured or unsecured, as principal or surety or otherwise) for the payment or repayment of money borrowed or raised (whether or not for a cash consideration), by whatever means including obligations under or in respect of (a) deposits and financial leasing, (b) any letter of credit securing financial accommodation, (c) promissory notes, certificates of deposit or like instruments (whether negotiable or otherwise),

(d) acceptance credit, note purchase or bill acceptance or discounting facilities; or (e) like arrangements entered into by any Person in order to enable it to finance its operations or capital requirements; but excluding reimbursement obligations in respect of advance payments made by or on behalf of third party customers in relation to purchase orders to Bombardier or to one of its Subsidiaries.

"*Independent Financial Advisor*" means an accounting, appraisal or investment banking firm of Canadian national or international standing, or other recognized expert, which, in the judgment of the Board of Directors, is independent and qualified to perform the task for which it is to be engaged.

"Investment Grade Status" means a rating from both Moody's and S&P equal to or higher than Baa3 (or the equivalent) in the case of Moody's and BBB- (or the equivalent) in the case of S&P or, if no rating of either Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organizations selected by Bombardier to replace such agency or agencies, as the case may be.

"*Issue Date*" means the original issue date of each series of Notes under the respective Indentures. *The Issue Date is expected to be on or around November 16, 2006.*

"*Lien*" means and includes any mortgage, pledge, lien, hypothecation, prior claim, security interest or other charge or encumbrance securing Indebtedness and any deferred purchase, sale-and-repurchase or sale-and-leaseback arrangement and any other arrangement of a like or similar effect with respect to Indebtedness; for clarification, it is understood that "Lien" does not include any arrangement whatsoever (whether a deferred purchase, sale-and-purchase, sale-and-leaseback, leasing or other arrangement) the direct or indirect purpose and effect of which is to allow the purchaser or user of a product marketed by Bombardier or any of its Subsidiaries to finance the acquisition or rental thereof, in whole or in part, with a third party.

"*Maturity Date*" means, when used with respect to the Notes, the date on which the principal of the Notes becomes due and payable as therein provided or as provided in the Indenture, whether at Stated Maturity, an Asset Sale Purchase Date, a Change of Control Purchase Date or the redemption date, and whether by declaration of acceleration, Asset Sale Offer in respect of an Asset Sale, Change of Control Offer in respect of a Change of Control, call for redemption or otherwise.

"*Moody's*" means Moody's Investors Service, Inc. or any successor to the rating agency business thereof.

"*Nationally Recognized Statistical Rating Organization*" means a nationally recognized statistical rating organization within the meaning of Rule 436 under the Securities Act.

"*Net Interest Expense*" means, for any period, all interest expense (including discount and acceptance fees in respect of bankers' acceptances, depository bills or depository notes (as these latter two expressions are defined in the *Depository Bills and Notes Act* (Canada)) and other financing fees paid or required to be paid during such period (whether subsequently capitalised or not) in respect of any Indebtedness for Borrowed Money, less interest revenues received during such period, in each case calculated on a consolidated basis and otherwise in accordance with GAAP.

"*Net Proceeds*" means, with respect to an Asset Sale by Bombardier or any of its Subsidiaries, the aggregate proceeds thereof (without duplication in respect of all Asset Sales) received by Bombardier or any of its Subsidiaries in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of, or securities or other non-cash consideration when disposed of for, cash or Cash Equivalents, but only as and when received and excluding any other consideration received in the form of assumption by the transferee Person of liabilities, net of, without duplication,

(i) the direct costs relating to that Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, recording fees, title transfer fees and appraiser fees and cost of preparation of assets for sale, and any relocation expenses incurred as a result thereof;

(ii) taxes paid or payable as a result thereof;

(iii) payments made to retire indebtedness where payment of such indebtedness is secured by the assets the subject of such Asset Sale;

(iv) any reserve established in accordance with GAAP against any liabilities associated with such Asset Sale and retained by Bombardier or its Subsidiary; and

(v) any amount placed in escrow for adjustment in respect of the sale price of such asset or assets until such time as that escrow arrangement is terminated, in which case Net Proceeds shall include the amount returned to Bombardier or its Subsidiaries from that escrow arrangement, as the case may be.

"*New L/C Facility*" means the L/C Facility, currently expected to be entered into on or before November 30, 2006, by and among Bombardier Inc., as obligor, Bombardier Corporate Financial Services Islandi sf., Reykjavik, Zurich Branch, as obligor and borrowers' agent, BNP Paribas, Calyon, Commerzbank AG, Deutsche Bank AG, Dresdner Bank AG and JPMorgan Chase Bank, N.A. as arrangers.

"*Notes*" means, collectively, the Fixed Rate Notes and the Floating Rate Notes, as well as any Additional Notes of any such series that may be issued pursuant to the respective Indentures.

"*Officer's Certificate*" means a certificate signed by the Chairman, the President or a Vice-President, and by the Secretary, an Assistant Secretary, the Treasurer, an Assistant Treasurer, the Controller or an Assistant Controller of Bombardier (or by any two officers or any two directors of Bombardier or any director acting with any officer of Bombardier duly authorized for the purpose by a Board Resolution and acceptable to the Trustee).

"*Paying Agent*" means any Person authorized by Bombardier to pay the principal of (and premium, if any), or interest on any Notes on behalf of Bombardier.

"*Permitted Holders*" means any one or more of the following individuals, namely, Janine Bombardier, Claire Bombardier, Huguette Bombardier and André Bombardier and their respective issue, born and to be born, as holders of Voting Capital Stock of Bombardier (or any successor entity) for the time being outstanding whether such shares are owned directly or indirectly in any manner whatsoever, including, without limiting the generality of the foregoing, whether through interposed corporations or trusts or otherwise, by any of such individuals and, for greater certainty, any Voting Capital Stock of Bombardier (or any successor entity) held in a trust is deemed to be owned by its beneficiary under such trust.

"*Permitted Liens*" means:

(1) any Lien on property or assets of a Person existing at the time that Person is merged into or consolidated with Bombardier or any of its Subsidiaries, *provided* that those Liens were not incurred in contemplation of that merger or consolidation and do not secure any property or assets of Bombardier or any of its Subsidiaries other than the property or assets subject to the Liens prior to that merger or consolidation;

(2) any Liens existing on the Issue Date;

(3) any Liens securing indebtedness consisting of Capital Lease Obligations, Purchase Money Obligations, mortgage or hypothec financings, industrial revenue bonds or other monetary obligations, in each case incurred solely for the purpose of financing all or any part of the purchase price or cost of construction or installation of property or assets used in the business of Bombardier or its Subsidiaries, or repairs, additions or improvements to those properties or assets, provided that:

(a) those Liens secure Indebtedness in an amount not in excess of the original purchase price or the original cost of construction or installation of any such property or assets or repair, addition or improvement thereto (plus an amount equal to the reasonable fees and expenses in connection with the incurrence of that Indebtedness);

(b) those Liens do not extend to any other assets of Bombardier or its Subsidiaries (and, in the case of repair, addition or improvements to any such assets, that Lien extends only to the assets (and improvements thereto or thereon) repaired, added to or improved); and

(c) those Liens attach within 365 days of that purchase, construction, installation, repair, addition or improvement;

(4) any Lien existing at the time of acquisition on any property or asset acquired by it and not created in contemplation of that acquisition and any substitute Lien created on that property or asset in connection with the Permitted Refinancing Indebtedness secured on that property or asset;

(5) any Lien subsisting over any property or asset of any Subsidiary prior to the date of such Subsidiary becoming a Subsidiary and not created in contemplation of such Subsidiary becoming a Subsidiary and any substitute Lien created on that property or asset in connection with Permitted Refinancing Indebtedness secured on that asset;

(6) any Liens in respect of obligations of suppliers or customers or in respect of Customer Sales Financing Transactions;

(7) any Lien in respect of Project Indebtedness;

(8) any Liens to secure any Refinancings, renewals, extensions, modification or replacements (or successive Refinancings, renewals, extensions, modification or replacements), in whole or in part, of any indebtedness secured by Liens referred to in the clauses (1) through (7) above so long as that Lien does not extend to any other property (other than improvements thereto);

(9) any Liens securing letters of credit, letters of guarantee, performance bonds or other undertakings in respect of obligations as manufacturer, supplier, seller or provider of goods or services entered into in the ordinary course of business;

(10) any Lien in favor of Bombardier or any Subsidiary of Bombardier;

(11) other Liens securing Indebtedness that is not otherwise permitted by the terms of the respective Indentures to be outstanding having an aggregate principal amount at any one time outstanding not to exceed US$200.0 million.

"*Permitted Refinancing Indebtedness*" means any Indebtedness for Borrowed Money that Refinances any other Indebtedness for Borrowed Money, including any successive Refinancings, so long as:

(a) such Indebtedness for Borrowed Money is in an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) not in excess of the sum of:

(1) the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness for Borrowed Money being Refinanced, and

(2) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such Refinancing,

(b) the Average Life of such Indebtedness for Borrowed Money is equal to or greater than the Average Life of the Indebtedness for Borrowed Money being Refinanced,

(c) the Stated Maturity of such Indebtedness for Borrowed Money is no earlier than the Stated Maturity of the Indebtedness for Borrowed Money being Refinanced,

(d) the new Indebtedness for Borrowed Money shall not be senior in right of payment to the Indebtedness for Borrowed Money that is being Refinanced, and

(e) any such Indebtedness for Borrowed Money that is incurred by a Subsidiary of Bombardier, other than a Finance Subsidiary or a Subsidiary Guarantor, is not used to Refinance Indebtedness for Borrowed Money of Bombardier or any Finance Subsidiary or Subsidiary Guarantor.

"*Permitted Securitization Transaction*" means one or more receivables or inventory financing facilities or arrangements, as amended or modified from time to time, pursuant to which Bombardier or any Subsidiary sells (including a sale in exchange for a promissory note or Capital Stock of a Securitization Vehicle) its accounts receivable or inventory to a Securitization Vehicle or a Securitization Vehicle sells accounts receivables or inventory to any other Person; *provided* such transaction is on market terms at the time Bombardier or such Subsidiary enters into such transaction.

"*Person*" means any individual, corporation, company (including any limited liability company), partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"*Preferred Stock*" means, with respect to any Person, any Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over the Capital Stock of any other class in such Person.

"*Principal Subsidiary*" means any Subsidiary of Bombardier (x) whose revenues for the 12 months ending at the end of the most recently completed fiscal year of Bombardier constitute 10% or more of the consolidated revenues of Bombardier for the 12 months ending at the end of the most recently completed fiscal year of Bombardier or (y) whose total assets as at the end of the most recently completed fiscal year of Bombardier constitute 10% or more of the consolidated assets of Bombardier as at the end of the most recently completed fiscal year of Bombardier, calculated in each case in accordance with the generally accepted accounting principles used to prepare Bombardier's consolidated annual financial statements.

"*Project*" means a specific project in connection with the design, development, manufacturing, sale or supply of products or services in a Related Business that is undertaken by a Project Vehicle.

"*Project Indebtedness*" means Indebtedness for Borrowed Money (including the Permitted Refinancing Indebtedness in respect thereof) incurred by any Project Vehicle or any Subsidiary of Bombardier where the proceeds of such Indebtedness for Borrowed Money are ultimately used (a) for one or more Projects or (b) to reduce Indebtedness for Borrowed Money incurred for one or more Projects (or the financing thereof) or reduce the equity (including the stated capital account(s) and retained earnings) of one or more Project Vehicles.

"*Project Vehicle*" means a corporate entity or an unincorporated entity, whether or not having a legal personality (including a joint-venture, a consortium, a partnership, a trust, a co-ownership scheme or other business combination or risk-sharing scheme), in which Bombardier or any of its Subsidiaries owns shares or any other form of ownership or participating interest and which was formed to carry out, whether alone or in association with other persons, a specific Project.

"*Purchase Money Obligation*" means, with respect to any Person, any Indebtedness for Borrowed Money incurred in respect of the cost of acquisition (including by way of conditional sales contract), development, construction, improvement or extension of any property or assets acquired, constructed, improved or extended by such Person, which indebtedness is incurred contemporaneously with such acquisition, development, construction, improvement or extension or is incurred within one hundred and eighty (180) days after the completion of such acquisition, development, construction, improvement or extension, and includes Indebtedness for Borrowed Money incurred by Bombardier or any Subsidiary of Bombardier as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the acquisition (whether by purchase, merger, consolidation or otherwise) of any Person, business or assets primarily engaged in or used in (as the case may be) a Related Business, and also includes any Permitted Refinancing Indebtedness in respect thereof. Notwithstanding the foregoing, "Purchase Money Obligation" shall not include Indebtedness for Borrowed Money incurred in respect of the cost of acquisition of, or the cost of acquisition of property or assets from, Bombardier or a Subsidiary of Bombardier that is not a Project Vehicle.

"*Qualified Capital Stock*" means any Capital Stock other than Redeemable Capital Stock.

"*Ratings Decline*" means that at any time after the first date of public notice of a Change of Control, or of Bombardier's intention, or that of any Person to effect a Change of Control and prior to the 30th day after consummation of such transaction, the rating of Bombardier's senior unsecured debt is decreased by both Rating Agencies by one or more categories.

"*Redeemable Capital Stock*" means any Capital Stock that, either by its terms or by the terms of any security into which it is convertible or exchangeable or otherwise, matures or is, or upon the happening of an event or passage of time would be, required to be redeemed prior to the final Stated Maturity of the principal of the Notes or is redeemable at the option of the Holder thereof at any time prior to such final Stated Maturity, or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity at the option of the Holder thereof.

"*Redemption Date*" means, when used with respect to any Note to be redeemed, the date fixed for such redemption by or pursuant to the Indenture governing such Note.

"*Refinance*" means, in respect of any Indebtedness for Borrowed Money or Permitted Indebtedness, to refinance, extend, renew, refund or repay, or to issue other Indebtedness for Borrowed Money or Permitted Indebtedness, in exchange or replacement for, such Indebtedness for Borrowed Money or Permitted Indebtedness. "*Refinanced*" and "*Refinancing*" shall have correlative meanings.

"*Related Business*" means the business and activities currently or formerly engaged in by Bombardier or its Subsidiaries and any business, activity or service that is complimentary, incidental, related, ancillary or similar thereto or is a reasonable extension, development or expansion thereof or of the technologies, know-how or processes developed or used therein.

"*Responsible Officer*" means any officer within the Corporate Trust Administration group of the Trustee (or any successor group of the Trustee) or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"*Restricted Payment*" means:

(a) any dividend or distribution (whether made in cash, securities or other property) declared or paid on or with respect to any shares of Capital Stock of Bombardier (including any payment in connection with any merger or consolidation with or into Bombardier), except for any dividend or distribution payable solely in shares of Qualified Capital Stock of Bombardier;

(b) the purchase, repurchase, redemption, acquisition or retirement for value of any Capital Stock of Bombardier (other than (i) from Bombardier or a Subsidiary, or (ii) in respect of dissenters' rights as determined in accordance with applicable law) or any securities exchangeable for or convertible into any such Capital Stock, including the exercise of any option to exchange any Capital Stock (other than for or into Qualified Capital Stock of Bombardier); or

(c) the purchase, repurchase, redemption, acquisition or retirement for value, prior to the date for any scheduled maturity, sinking fund or amortization or other installment payment, of any Subordinated Debt (other than the purchase, repurchase or other acquisition of any Subordinated Debt purchased in anticipation of satisfying a scheduled maturity, sinking fund or amortization or other installment obligation, in each case due within one year of the date of acquisition).

"*S&P*" means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., or any successor to the rating agency business thereof.

"*Securities Act*" means the United States Securities Act of 1933, as amended, or any successor statute, and the rules and regulations thereunder.

"*Securitization Program*" means, with respect to any Person, an agreement or other arrangement or program providing for the contribution, sale or other transfer of Securitization Program Assets of such Person to a Securitization Vehicle, *provided* that such Securitization Program is subject only to Standard Securitization Undertakings at the time that Bombardier or any Subsidiary enters into such agreement, arrangement or program.

"*Securitization Program Assets*" means all of the following property and interests in property, whether now existing or existing in the future or hereafter arising or acquired (i) accounts, (ii) accounts receivable, general intangibles, instruments, contract rights, documents and chattel paper (including, without limitation, all rights to payment created by or arising from sales of goods, leases of goods, or the rendition of services, no matter how evidenced, whether or not earned by performance), (iii) all unpaid seller's or lessor's rights (including, without limitation, rescission, replevin, reclamation and stoppage of transit) relating to any of the foregoing or arising therefrom, (iv) all rights to any goods or merchandise represented by any of the foregoing (including, without limitation, returned or repossessed goods), (v) all reserves and credit balances with respect to any such accounts receivable or related account debtors, (vi) all letters of credit, security or guarantees of any of the foregoing, (vii) all insurance policies or reports relating to any of the foregoing, (viii) all collection or deposit accounts relating to any of the foregoing, (ix) all books and records relating to any of the foregoing, (x) all instruments, contract rights, chattel paper, documents and general intangibles related to any of the foregoing and (xi) all proceeds of any of the foregoing.

"*Securitization Vehicle*" means any Person created solely for the purposes of acquiring and holding Securitization Program Assets and funding such acquisition by issuing securities or borrowing money or selling an interest in Securitization Program Assets.

"*Security Register*" means, in respect of each series of Notes, a register in which, subject to such reasonable regulations as it may prescribe, Bombardier will provide for the registration of the Notes and the registration of transfers of Notes.

"*Standard Securitization Undertakings*" means representations, warranties, covenants and indemnities entered into by Bombardier or any Subsidiary that are reasonably customary in receivables or inventory financing facilities, including, without limitation, servicing of the obligations thereunder.

"*Stated Maturity*" means, when used with respect to any Note or other indebtedness or any installment of interest thereon, the dates specified in such Note or other indebtedness as the fixed date on which the principal of such Note or other indebtedness or such installment of interest, as the case may be, is due and payable.

"*Subordinated Debt*" means all indebtedness of Bombardier which (i) is fully and effectively subordinate or junior in right of payment to the Notes, or (ii) is repayable with or convertible or exchangeable into Qualified Capital Stock of Bombardier at the option of Bombardier, *provided, however*, that to the extent that such option is not or cannot be exercised by Bombardier, then the payment of such indebtedness must be subordinated to the same extent as described in clause (i) of this definition.

"*Subsidiary*" of any specified Person means any corporation or other Person of which more than 50% of the Subsidiary Voting Stock is owned, directly or indirectly, by or for such specified Person or by or for any corporation or other Person in like relation to such specified Person and includes any corporation or other Person in like relation to a Subsidiary.

"*Subsidiary Guarantor*" means any Subsidiary of Bombardier that shall have Guaranteed, pursuant to a supplemental indenture to the Indenture governing a series of Notes and the requirements set forth in such Indenture, the payment of all principal of, and interest and premium, if any, on, the Notes of such series and all other amounts payable under such Notes and such Indenture, which Guarantee shall be *pari passu* with or senior to all other unsecured indebtedness of such Subsidiary.

"*Subsidiary Voting Stock*" means shares of capital stock of any class of a corporation and other interests of any other Persons having under all circumstances the right to elect at least a majority of the board of directors of such corporation or in the case of any Person which is not a corporation, Persons having similar powers, *provided* that, for the purposes hereof, shares which only carry the right to vote conditionally on the happening of an event shall not be considered Subsidiary Voting Stock, and shares shall not be deemed to cease to be Subsidiary Voting Stock solely by reason of a right to vote accruing to shares of another class or classes by reason of the happening of such event.

"*Trustee*" means the Global Trustee and the Canadian Trustee. If the Canadian Trustee resigns or is removed and, pursuant to the applicable Indenture, Bombardier is not required to appoint a successor Trustee to the Canadian Trustee, then "*Trustee*" means the Global Trustee. Except to the extent otherwise indicated, "Trustees" shall refer to the Canadian Trustee (if still serving) and the Global Trustee, both jointly and individually, and "a Trustee" shall refer to either the Canadian Trustee (if still serving) or the Global Trustee.

"*U.S. Cash Equivalents*" means

(a) securities issued or fully guaranteed or insured by the federal government of the United States or Canada maturing within 365 days of the date of acquisition thereof;

(b) time deposit accounts, certificates of deposit, overnight bank deposits, money market deposits and bankers' acceptances maturing within 365 days of the date of acquisition thereof and issued by a bank or trust company organized under the laws of Canada or any province thereof, the United States, any state thereof, the District of Columbia, any non-U.S. bank, or its branches or agencies (fully protected against currency fluctuations) that, at the time of acquisition, is rated at least "A-1" by S&P or "P-1" by Moody's (or such similar equivalent rating by at least one Nationally Recognized Statistical Rating Organization) or the "R-1" category by the Dominion Bond Rating Service Limited and has capital, surplus and undivided profits aggregating in excess of $500 million;

(c) shares of any money market fund that (i) has at least 95% of its assets invested continuously in the types of investments referred to in clauses (a) and (b) above, (ii) has net assets, which exceed $500 million and (iii) is rated at least "A-1" by S&P or "P-1" by Moody's;

(d) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) entered into with:

(1) a bank meeting the qualifications described in clause (b) above, or

(2) any primary government securities dealer reporting to the Market Reports Division of the Federal Reserve Bank of New York;

(e) commercial paper issued by a corporation (other than an Affiliate of Bombardier) with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P (or such similar equivalent rating by at least one Nationally Recognized Statistical Rating Organization) or in the "R-1" category by the Dominion Bond Rating Service Limited; and

(f) direct obligations (or certificates representing an ownership interest in such obligations) of any state of the United States or the District of Columbia or any political subdivision or instrumentality thereof (including any agency or instrumentality thereof) or any province of Canada (including any agency or instrumentality thereof) for the payment of which the full faith and credit of such state or province is pledged and maturing within 365 days of the date of acquisition thereof, provided that the long-term debt of such state, province or political subdivision is rated, in the case of a state of the United States, "A-3" or "A−" or higher according to Moody's or S&P (or such similar equivalent rating by at least one Nationally Recognized Statistical Rating Organization), or the "R-1" category by the Dominion Bond Rating Service Limited.

"*Voting Capital Stock*" of a Person means the Capital Stock of that person which carries voting rights, *provided, however,* that Capital Stock which carries the right to vote conditionally upon the happening of an event shall not be considered Voting Capital Stock until the occurrence of such event and then only during the continuance of such event.

Book-Entry, Delivery and Form

General

The Notes will initially be issued in the form of several registered notes in global form without interest coupons, as follows:

- Each series of Notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by global notes in registered form without interest coupons attached (the "*Regulation S Global Notes*").
    - The Regulation S Global Notes representing the Floating Rate Notes and 2016 Notes (the "*Euro Regulation S Global Notes*") will, upon issuance, be deposited with and registered in the name of the common depositary ("*Common Depositary*") or its nominee for the accounts of Euroclear Bank S.A./N.V. ("*Euroclear*") and Clearstream Banking, *société anonyme* ("*Clearstream*").
    - The Regulation S Global Notes representing 2014 Notes (the "*Dollar Regulation S Global Notes*") will, upon issuance, be deposited with a custodian for The Depository Trust Company (*"DTC"*) and registered in the name of Cede & Co., as nominee of DTC.
- Each series of Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be represented by global notes in registered form without interest coupons attached (the "*144A Global Notes*" and, together with the Regulation S Global Notes, the "*Global Notes*").
    - The 144A Global Notes representing the Floating Rate Notes and 2016 Notes (the "*Euro 144A Global Notes*" and, together with the Euro Regulation S Global Notes, the "*Euro Global Notes*") will, upon issuance, be deposited with and registered in the name of the Common Depositary or its nominee for the accounts of Euroclear and Clearstream.
    - The 144A Global Notes representing 2014 Notes (the "*Dollar 144A Global Notes*" and, together with the Dollar Regulation S Global Notes, the *"Dollar Global Notes"*) will, upon issuance, be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of interests in the Global Notes ("*Book-Entry Interests*") will be limited to persons that have accounts with Euroclear and Clearstream or DTC, as applicable, or persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "Notice to Investors" elsewhere in this offering memorandum. In addition, transfers of Book-Entry Interests between participants in Euroclear, participants in Clearstream or participants in DTC will be effected by Euroclear, Clearstream or DTC, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear, Clearstream or DTC, as applicable, and their respective participants.

Each Rule 144A Global Note and Regulation S Global Note (and any Note issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the applicable Indenture and will bear the legend regarding such restrictions substantially as set forth under "Notice to Investors—United States."

Prior to the end of the period ending on the fortieth day after the later of (x) the commencement of the offering of the Notes of a series and (y) the date of closing of such offering (the "*Restricted Period*"), any resale or other transfer of a Book-Entry Interest in a Regulation S Global Note of such series to a U.S. Person (as defined in the Securities Act) will not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S and in accordance with the certification requirements described in the following sentence. Prior to the end of the Restricted Period, a Book-Entry Interest in a Regulation S Global Note of a series may be transferred in the United States only to a person who takes delivery in the form of a Book-Entry Interest in a Rule 144A Global Note of such series and only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the applicable Indenture) to the effect that such transfer is being made to a person that the transferor reasonably believes is a "qualified institutional buyer" as such term is defined in Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

A Book-Entry Interest in a Rule 144A Global Note of a series may be transferred to a person who takes delivery in the form of a Book-Entry Interest in a Regulation S Global Note of such series only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the applicable Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €50,000 or US$75,000 principal amount, as the case may be, and integral multiples of €1,000 in excess thereof or US$1,000 in excess thereof, as the case may be, upon receipt by the applicable registrar of instructions relating thereto and any certificates, opinions and other documentation required by the applicable Indenture. It is expected that such instructions will be based upon directions received by Euroclear, Clearstream or DTC, as applicable, from the participant which owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the applicable Indenture or as otherwise determined by Bombardier to be in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "Notice to Investors—United States."

Subject to the restrictions on transfer referred to above, the 2016 Notes and the Floating Rate Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €50,000 in principal amount and integral multiples of €1,000 in excess thereof, and the 2014 Notes issued as Definitive Registered Notes may be transferred or exchanged in whole or in part, in minimum denominations of US$75,000 in principal amount and integral multiples of US$1,000 in excess thereof, in each case at the office of any transfer agent for such Notes, including, so long as the Notes are admitted to listing on the Official List of Luxembourg Stock Exchange and are admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Luxembourg transfer agent. In connection with any such transfer or exchange, each Indenture will require the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear, Clearstream or DTC, where appropriate, to furnish certain certificates and opinions, and to pay any taxes, duties and governmental charges in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any taxes, duties and governmental charges payable in connection with such transfer.

Notwithstanding the foregoing, Bombardier is not required to register the transfer or exchange of any Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of such Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of such Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date applicable to such Notes; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Sale Offer.

Bombardier and the Trustee will be entitled to treat the Holder of a Note as the owner of it for all purposes.

Redemption of Global Notes

In the event any Global Note (or any portion thereof) is redeemed, DTC, Euroclear and/or Clearstream (or their respective nominees), as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). Bombardier understands that, under existing practices of DTC, Euroclear and Clearstream, if fewer than all of the Notes of any series are to be redeemed at any time, DTC, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no Book-Entry Interest of €50,000 or US$75,000, as applicable, principal amount or less may be redeemed in part.

Payments on Global Notes

Bombardier will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest, and Additional Amounts, if any) to the Common Depositary or its nominee (in the case of the Euro Global Notes) and to DTC or its nominee (in the case of the Dollar Global Notes), which will distribute such payments to participants in accordance with their procedures. Bombardier expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants. Under the terms of each of the Indentures, Bombardier and the Trustee will treat the registered holders of the Global Notes (e.g., DTC, Euroclear or Clearstream (or their respective nominees)) as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, none of Bombardier, the Trustee or any or their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or DTC or any participant or indirect participant relating to payments made on account of a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear, Clearstream, DTC or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or

- Euroclear, Clearstream, DTC or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants.

Currency of Payment for the Global Notes

Except as may otherwise be agreed between Euroclear and/or Clearstream and any Holder, the principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Euro Global Notes will be paid to holders of interests in such notes (the "*Euroclear/Clearstream Holders*") through Euroclear and/or Clearstream in euros. Except as may otherwise be agreed between DTC and any Holder, the principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Dollar Global Notes will be paid to holders of interests in such notes (the "*DTC Holders*") through DTC in U.S. dollars.

Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of Bombardier, the Trustee, the initial purchasers or any of their respective agents will be liable to any Holder of a Global Note or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Book-Entry Interests

DTC, Euroclear and Clearstream have advised Bombardier that they will take any action permitted to be taken by a Holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of notes as to which such participant or participants has or have given such direction. DTC, Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under any series of the Notes, each of DTC, Euroclear and Clearstream reserves the right to exchange the Global Notes of such series for definitive registered notes in certificated form (the "*Definitive Registered Notes*"), and to distribute Definitive Registered Notes to its participants.

Information Concerning Euroclear and Clearstream, and DTC

The following description of the operations and procedures of Euroclear, Clearstream and DTC are provided solely as a matter of convenience. These operations and procedures are solely within the control of the relevant settlement systems and are subject to changes by them. Bombardier takes no responsibility for these operations and procedures and urge investors to contact the systems or their participants directly to discuss these matters. Bombardier understands as follows with respect to Euroclear, Clearstream and DTC:

Euroclear and Clearstream

Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

DTC

DTC is:

- a limited purpose trust company organized under the New York Banking Law;
- a “banking organization” under New York Banking Law;
- a member of the Federal Reserve System;
- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC’s owners are the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. and a number of its direct participants. Others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC system will receive distributions attributable to the Dollar Global Notes only through DTC participants.

Global Clearance and Settlement Under the Book-Entry System

The Notes represented by the Global Notes are expected to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Luxembourg Stock Exchange’s Euro MTF Market. The Dollar Global Notes are expected to trade in DTC’s Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Dollar Global Notes will, therefore, be required by DTC to be settled in immediately available funds. Bombardier expects that secondary trading in any certificated notes will also be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Notes, cross market transfers of Book-Entry Interests in the Dollar Global Notes between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC’s rules on behalf of each of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Dollar Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Dollar Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Dollar Global Note by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as at the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Dollar Global Notes among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of Bombardier, the Trustee, the initial purchasers, the registrar, any transfer agent or any paying agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

TAX CONSIDERATIONS

Certain Canadian Federal Income Tax Considerations for Non-Residents of Canada

The following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires, as beneficial owner, notes pursuant to this offering and who, at all relevant times for purposes of the *Income Tax Act* (Canada) (the "Tax Act"), (i) deals at arm's length with and is not affiliated with Bombardier, holds the notes as capital property, (ii) is not an insurer who carries on an insurance business in Canada or an authorized foreign bank who carries on a bank business in Canada, (iii) is not and is not deemed to be a resident of Canada, and (iv) does not use or hold, and is not deemed to use or hold the notes in the course of carrying on a business in Canada, whom we refer to as a Non-Resident Holder.

This summary is based on the current provisions of the Tax Act and the regulations thereunder and the current administrative and assessing practices and policies of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act and the regulations announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that the Proposed Amendments will be enacted as proposed or at all. This summary does not otherwise take into account or anticipate any changes in law or any administrative or assessing practice, whether by judicial, governmental, regulatory or legislative decision or action, nor does it take into account provincial, territorial or foreign income tax considerations which may differ from the Canadian federal income tax considerations described herein.

This summary is not exhaustive of all Canadian federal income tax considerations that may be relevant to a particular Non-Resident Holder. This summary is of a general nature only and is not intended to be, and should not be interpreted as, legal or tax advice to any particular Non-Resident Holder, and no representation with respect to the income tax consequences to any particular Non-Resident Holder is made. Accordingly, prospective holders of the notes should consult their own tax advisors with respect to their individual circumstances.

Payments under the Notes

A Non-Resident Holder will not be subject to tax (including withholding tax) under the Tax Act on payments of interest, principal or premium in respect of the notes.

Dispositions

Gains realized on the disposition or deemed disposition of a note by a Non-Resident Holder (including a redemption, payment on maturity or repurchase of the notes) will not be subject to tax under the Tax Act.

Certain United States Federal Income Tax Considerations

Circular 230

ANY DISCUSSIONS OF U.S. FEDERAL TAX MATTERS SET FORTH IN THIS OFFERING MEMORANDUM WERE WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING BY THE COMPANY AND THE INITIAL PURCHASERS OF THE NOTES. SUCH DISCUSSIONS WERE NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND

WERE NOT INTENDED OR WRITTEN TO BE USED, AND THEY CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

General

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and retirement of notes by a beneficial owner of notes. This summary applies only to notes held as capital assets and does not address U.S. federal income tax rules applicable to holders that are subject to special treatment under the U.S. federal income tax laws including insurance companies, tax-exempt organizations, banks, dealers or traders in securities or currencies, persons subject to the alternative minimum tax, or persons that mark their securities to market, that will hold a note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar. Moreover, this summary does not address the U.S. federal income tax treatment of U.S. Holders (as defined below) that do not acquire notes as part of the initial offering at the initial issue price or to U.S. Holders having a "tax home" (as determined for U.S. federal income tax purposes) outside of the United States. Prospective purchasers should consult their own tax advisors with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding, selling and retirement of notes.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and existing, proposed and temporary U.S. Treasury Regulations currently in effect. These authorities are subject to changes that could affect the tax consequences described in this U.S. federal income tax discussion.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of notes that, for U.S. federal income tax purposes, is:

- a citizen or resident alien individual of the United States;
- a corporation, including an entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any State thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (i) if a United States court is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a domestic trust.

For purposes of this summary, a "Non-U.S. Holder" is a beneficial owner of notes (other than an entity treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partner of a partnership holding the notes is urged to consult its own tax advisor.

Interest

Interest (including any withheld taxes and Additional Amounts) paid or payable on a note will be includible in a U.S. Holder's gross income as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's regular method of accounting for tax purposes. In addition, interest on the notes will be treated as foreign source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, for taxable years beginning before January 1, 2007, interest on the notes will (with certain exceptions) generally constitute “passive income” or, in the case of banks or other financial services entities, “financial services income” or, if withholding tax is imposed at a rate of 5% or more, “high withholding tax interest.” For taxable years beginning after December 31, 2006, interest on the notes will (with certain exceptions) generally constitute “passive category income” or, in certain cases, “general category income,” for purposes of computing any foreign tax credit allowable under U.S. federal income tax laws. The rules relating to foreign tax credits are extremely complex. U.S. Holders should consult with their own tax advisors with regard to the availability of a foreign tax credit and the application of the foreign tax credit rules to their own tax situation.

A U.S. Holder that uses the cash method of accounting and that receives an interest payment in Euros (or that receives proceeds from a sale, exchange or other disposition attributable to accrued interest) with respect to a Euro-denominated note will be required to include in income the U.S. dollar value of the Euro payment (determined based on a spot rate on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at that time, and this U.S. dollar value will be the U.S. Holder’s tax basis in the Euros so received.

A U.S. Holder that is an accrual method taxpayer will be required to include in income the U.S. dollar value of the amount of interest income that has accrued and is otherwise required to be taken into account with respect to a Euro-denominated note during an accrual period. The U.S. dollar value of the accrued interest income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Holder will recognize exchange income or loss, which will constitute ordinary income or loss, with respect to accrued interest income on the date the interest payment or proceeds from the sale, exchange, redemption, retirement or other disposition attributable to accrued interest is actually received. The amount of such income or loss recognized will equal the difference between the U.S. dollar value of the Euro payment received (determined based on a spot rate on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). A U.S. Holder may elect to translate interest income into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service (the “IRS”). The exchange income or loss of a U.S. Holder will generally be treated as U.S. source income or loss for U.S. federal income tax purposes.

Sale, Exchange, Redemption or Retirement

Upon the sale, exchange, redemption or retirement of a note, a U.S. Holder will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, redemption or retirement and the U.S. Holder’s adjusted tax basis in the note. Except as described below, any gain or loss will be capital gain or loss, although amounts received that are attributable to accrued but unpaid interest will be taxable as ordinary income. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to capital gain generally will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if the U.S. Holder’s holding period for the note exceeds one year. Any gain or loss recognized upon a sale, exchange, redemption or retirement of a note by a U.S. Holder generally will be treated as U.S. source income or loss for U.S. federal income tax purposes. The deductibility of capital losses is limited.

A U.S. Holder's tax basis in a Euro-denominated note will be the U.S. dollar value of the Euro amount paid for such note determined on the date of the purchase. A U.S. Holder that purchases a Euro-denominated note with previously owned Euro will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the Euro and the U.S. dollar fair market value of the Euro-denominated note on the date of purchase. Any such income or loss recognized by a U.S. Holder generally will be treated as U.S. source income or loss for U.S. federal income tax purposes.

Gain or loss realized by a U.S. Holder upon the sale, exchange, redemption or retirement of a Euro-denominated note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the Euro principal amount of the Euro-denominated note, determined on the date the payment is received or the Euro-denominated note is disposed of, and (ii) the U.S. dollar value of the Euro principal amount of the Euro-denominated note, determined on the date the U.S. Holder acquired the note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on the Euro-denominated notes described above. The exchange gain or loss will be recognized only to the extent of the total gain or loss realized by a U.S. Holder on the sale, exchange, redemption or retirement of the note. Any such exchange gain or loss recognized by a U.S. Holder generally will be treated as U.S. source gain or loss for U.S. federal income tax purposes.

A U.S. Holder will have a tax basis in any Euros received on the sale, exchange, redemption or retirement of a note equal to the U.S. dollar value of the Euros, determined at the time of sale, exchange, redemption or retirement. A cash method taxpayer that buys or sells a note is required to translate units of Euro paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations. This election cannot be changed without the consent of the IRS. Any gain or loss realized by a U.S. Holder on a sale or other disposition of Euros (including its exchange for U.S. dollars or the use of Euros to purchase notes) will be ordinary income or loss and generally will be treated as U.S. source income or loss for U.S. federal income tax purposes.

U.S. Backup Withholding Tax and Information Reporting

Payments of interest, principal or proceeds from the sale, exchange, redemption or retirement of a note may be subject to information reporting or to backup withholding of U.S. federal income tax if a recipient that is a U.S. Holder fails to furnish to the paying agent with respect to the notes an IRS Form W-9 containing such U.S. Holder's taxpayer identification number or to otherwise establish an exemption from backup withholding. Penalties also may be imposed on a recipient that fails to properly supply IRS Form W-9 or other evidence of exemption from backup withholding. Any amounts deducted and withheld may be allowed as a credit against the recipient's U.S. federal income tax liability, if any. If backup withholding results in an overpayment of taxes, a refund may be obtained provided that the required information is furnished to the IRS.

Tax Treatment of Non-U.S. Holders

A Non-U.S. Holder of notes will be exempt from any U.S. federal income or withholding taxes with respect to gain derived from the sale, exchange, redemption or retirement of, or any distributions received in respect of, the notes, unless such gain or distributions are effectively connected with a U.S. trade or business of such holder, or, in the case of gain, such holder is a nonresident alien individual who holds the notes as a capital asset and who is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met. A Non-U.S. Holder will not be considered to be engaged in a U.S. trade or business solely by reason of holding the notes. "Noneffectively connected" gain or distributions received by a Non-U.S. Holder will not be subject to U.S. information reporting requirements or U.S. backup withholding, although such holders may be required to furnish a certificate to Bombardier's paying agent attesting to their status as Non-U.S. Holders.

Disclosure Regulations

Pursuant to certain U.S. Treasury Regulations (the "Disclosure Regulations"), any taxpayer that has participated in a "reportable transaction" and that is required to file a U.S. federal income tax return must generally attach a disclosure statement disclosing such taxpayer's participation in the reportable transaction to the taxpayer's tax return for each taxable year for which the taxpayer participates in the reportable transaction. The Disclosure Regulations provide that, in addition to certain other transactions, a "loss transaction" constitutes a "reportable transaction." A "loss transaction" is any transaction resulting in the taxpayer claiming a loss under section 165 of the Code in an amount equal to or in excess of certain threshold amounts. The Disclosure Regulations specifically provide that a loss resulting from certain foreign currency transactions will constitute a section 165 loss. It is important to note, however, that the Disclosure Regulations provide that the fact that a transaction is a reportable transaction shall not affect the legal determination of whether the taxpayer's treatment of the transaction is proper. Persons considering the purchase of the notes should consult their own tax advisors concerning the application of the rules contained in the Disclosure Regulations with respect to an investment in the notes and to determine their own tax return disclosure obligations, if any, with respect to an investment in the notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement), as well as any penalties which may be imposed as a result of a failure to comply with the Disclosure Regulations.

European Union Savings Directive

Under European Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

NOTICE TO INVESTORS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the notes offered hereby. See "Description of the Notes."

United Kingdom

Each initial purchaser has represented, warranted and agreed that:

a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than at any time:

1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

2) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

3) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd. or BNP Paribas, London Branch, for any such offer; or

4) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall result in a requirement for the publication by us or any manager of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the above, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

France

This offering memorandum has not been and will not be submitted to the clearance procedures of the French Autorité des marchés financiers, and accordingly may not be distributed to the public in France or used in connection with any offer to purchase or sell any notes to the public in France.

Prospective investors are informed that:

a) this offering memorandum has not been submitted for clearance to the French financial market authority (Autorité des marchés financiers);

b) the direct and indirect distribution or sale to the public of the notes acquired by them may only be made in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 of the French *Code monétaire et financier*; and

c) in compliance with articles D.411-1 and following of the French *Code monétaire et financier*, any investors subscribing for the notes should be acting for their own account.

Italy

The offering of the notes in the Republic of Italy ("Italy") has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation and, accordingly:

(1) the notes cannot be offered, sold or delivered in Italy in a solicitation to the public at large (sollecitazione all'investimento) within the meaning of Article 1, paragraph 1, letter (t) of Legislation Decree no. 58 of February 24, 1998 (the "Financial Services Act"), nor may any copy of this offering memorandum or any other document relating to the notes be distributed in Italy;

(2) the notes cannot be offered, sold and/or delivered, nor may any copy of this offering memorandum or any other document relating to the notes be distributed, either in the primary or in the secondary market, to individuals resident in Italy; and

(3) sales of the notes in Italy shall only be: (i) negotiated with "Professional Investors" (operatori qualificati), as defined under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of July 1, 1998, as amended ("CONSOB Regulation 11522") provided that such Professional Investors will act in such capacity and not as depositaries or nominees for other holders, (ii) effected in compliance with Article 129 of the Legislative Decree no. 385 of September 1, 1993 (the "Italian Banking Act") and the implementing instructions of the Bank of Italy, (iii) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Banking Act, the Financial Services Act, CONSOB Regulation 11522 and all the other relevant provisions of Italian law, and (iv) effected in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Germany

The offering of the notes is not a public offering in the Federal Republic of Germany.

United States

Each purchaser of notes will be deemed to have acknowledged and represented to, and agreed with, Bombardier and the initial purchasers as follows:

(1) It understands and acknowledges that the notes have not been registered under the Securities Act or any other applicable securities law, the notes are being offered for

sale and resale in transactions not requiring registration under the Securities Act or any other securities laws, and none of the notes may be reoffered, resold, pledged or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in a transaction not subject thereto and in the case of a purchaser of an interest in a Rule 144A Global Note in compliance with the conditions for transfer set out in the legend set forth in paragraph (4) below and in the case of a purchaser of an interest in a Regulation S Global Note in compliance with the conditions for transfer set out in the legend set forth in paragraph (5) below.

(2) It is not an "affiliate" (as defined in Rule 144 under the Securities Act) of Bombardier, or acting on behalf of Bombardier, and it either (A) is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act ("QIB"), is aware that any sale of Notes to it will be made in reliance on Rule 144A and is acquiring such Notes for its own account or for the account of another QIB or (B) is not a U.S. Person as defined in Regulation S under the Securities Act (and is not purchasing for the account or benefit of a U.S. Person) and is acquiring such notes in offshore transactions pursuant to Regulation S under the Securities Act.

(3) It understands and acknowledges that none of Bombardier or the initial purchasers or any Person acting on behalf of Bombardier or the initial purchasers has made any representation with respect to Bombardier or the offering or sale of any note, other than the information contained in or incorporated by reference in this offering memorandum, which offering memorandum has been delivered to it. Accordingly, it acknowledges that no representation or warranty is made by the initial purchasers as to the accuracy or completeness of such materials. It has had access to such financial and other information as it has deemed necessary in connection with its decision to purchase the notes, including an opportunity to ask questions of and request information from Bombardier and the initial purchasers, and it has received and reviewed all information which it requested.

(4) It understands and acknowledges that each certificate representing a Rule 144A Global Note will, unless otherwise agreed to by Bombardier and the holder thereof, contain a legend substantially to the following effect:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY ACQUIRING THIS SECURITY, AGREES FOR THE BENEFIT OF BOMBARDIER INC. (THE "CORPORATION") THAT NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, RESOLD, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (A) TO THE CORPORATION, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), IN COMPLIANCE WITH RULE 144A, TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE SELLER HAS INFORMED, IN EACH CASE, THAT THE OFFER, SALE, TRANSFER, PLEDGE, ENCUMBRANCE OR OTHER DISPOSITION, AS THE CASE MAY BE, IS BEING MADE IN RELIANCE ON RULE 144A, (C) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE CORPORATION'S AND THE TRUSTEE'S

> RIGHT PRIOR TO ANY SUCH OFFER, SALE, TRANSFER, PLEDGE, ENCUMBRANCE OR OTHER DISPOSITION PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM IN ACCORDANCE WITH THE INDENTURE, A COPY OF WHICH MAY BE OBTAINED FROM THE CORPORATION OR THE TRUSTEE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE CORPORATION THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE."

(5) If it is a person acquiring a beneficial interest in a Regulation S Global Note, it acknowledges and agrees that, until the expiration of the 40-day "distribution compliance period" within the meaning of Regulation S, any offer, sale, transfer, pledge, encumbrance or other disposition shall not be made by it in the United States or to, or for the account or benefit of, a U.S. Person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a Rule 144A Global Note, and that each Regulation S Global Note will contain a legend substantially to the following effect:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY ACQUIRING THIS SECURITY, AGREES FOR THE BENEFIT OF BOMBARDIER INC. THAT NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, RESOLD, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS.
>
> ANY OFFER, SALE, TRANSFER, PLEDGE, ENCUMBRANCE OR OTHER DISPOSITION OF THIS SECURITY OR ANY INTEREST OR PARTICIPATION HEREIN WITHIN FORTY DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THIS SECURITY OR THE DATE OF CLOSING OF SUCH OFFERING MAY BE MADE ONLY IN COMPLIANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR PURSUANT TO RULE 144A UNDER THE SECURITIES ACT."

(6) It agrees that in the event at some future time it wishes to dispose of any of the notes, it will not do so unless such disposition is made in accordance with any applicable securities laws of any state of the United States and the legends set forth in paragraphs (4) and (5) above, as applicable.

(7) It acknowledges that the notes will be issued and may be transferred only in blocks having an aggregate principal amount of €50,000 and integral multiples of €1,000 in excess thereof in the case of notes denominated in Euros, and US$75,000 and integral multiples of US$1,000 in excess thereof in the case of notes denominated in U.S. dollars.

(8) It acknowledges that Bombardier, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made with respect to its purchase of the notes are no longer accurate, it shall promptly notify the initial purchasers, without releasing it from its obligations under this Section "Notice to Investors." If it is acquiring any notes as a fiduciary or agent for one or more investor accounts, it represents that it has full power to make the foregoing acknowledgements, representations, warranties and agreements on behalf of each such investor account.

(9) It acknowledges that (a) (i) it is not itself, and is not acquiring notes with "plan assets" of, an employee benefit or other plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or any other federal, state or local law ("Similar Law") substantially similar to Title I of ERISA or Section 4975 of the Code (each, a "Plan"), (ii) it is not any entity whose underlying assets include "plan assets" by reason of any Plan's investment in that entity and (iii) it is not purchasing notes on behalf of any Plan or (b) its purchase and holding of the notes does not give rise to a non-exempt prohibited transaction under ERISA, Section 4975 of the Code or any similar law.

Canada

The offering is being made on a private placement or exempt distribution basis in one or more provinces of Canada through the initial purchasers or their affiliates who are permitted under applicable Canadian securities laws or available exemptions therefrom to offer and sell the notes in such provinces. In Canada, the offering is being made on a private placement basis in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Newfoundland and Labrador and Prince Edward Island (the "Private Placement Provinces") through the initial purchasers of the offering or their affiliates who are permitted under applicable securities laws or available exemptions to offer and sell the notes in the Private Placement Provinces. The notes have not been and will not be qualified for sale to the public under applicable Canadian securities laws and, accordingly, any offer and sale of the notes in Canada will be made on a basis which is exempt from the prospectus and dealer registration requirements of such securities laws. This offering memorandum constitutes an offering of the notes only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the notes. This offering memorandum is not, and should not under any circumstances be construed as, an advertisement or a public offering of the notes in Canada. No securities commission or similar securities regulatory authority in Canada has reviewed or in any way passed upon this offering memorandum or the merits of the notes and any representation to the contrary is an offence under applicable Canadian securities laws.

The offering is being made exclusively through this offering memorandum and not through any advertisement of the notes in any printed media of general and regular paid circulation, radio or television, electronic media or any other form of advertising. No person has been authorized to give any information or to make any representation other than those contained in this offering memorandum and any decision to purchase notes should be made solely based on the information contained in this offering memorandum.

The decision to offer the notes was made solely by Bombardier and the terms upon which the notes are being offered were determined by negotiation between Bombardier and the initial purchasers.

Purchasers' Representations, Covenants and Resale Restrictions

Confirmations of the acceptance of offers to purchase any notes will be sent to purchasers who have not withdrawn their offers to purchase prior to the issuance of such confirmations. Each purchaser of notes resident in Canada who receives a purchase confirmation, by the purchaser's receipt thereof, will be deemed to have represented, acknowledged or confirmed, as the case may be, to the issuer, the initial purchasers and any dealer who sells notes to such purchaser that such purchaser:

(a) is resident in one of the Private Placement Provinces and is entitled under applicable provincial securities laws to purchase the notes without the benefit of a prospectus qualified under such securities laws and pursuant to registration exemptions under such securities laws and, in the case of purchasers in provinces other than Ontario and Newfoundland and Labrador, without the services of a dealer registered pursuant to those securities laws;

(b) is basing its investment decision solely on the final version of this offering memorandum and not on any other information concerning us, the initial purchasers or the offering;

(c) or any ultimate purchaser for which such purchaser is acting as agent (where permitted by law) is entitled under applicable Canadian securities laws to purchase the notes without the benefit of a prospectus qualified under such securities laws;

(d) is purchasing for investment only and not with a view to resale or distribution and is not a person created or being used solely to purchase or hold securities as an accredited investor;

(e) without limiting the generality of the foregoing, is purchasing the notes under the "accredited investor" prospectus and dealer registration exemptions set forth in section 2.3 of National Instrument 45-106—Prospectus and Registration Exemptions (such instrument being titled in Québec "Regulation 45-106 respecting prospectus and registration exemptions"), or NI 45-106, provided the purchaser of the notes qualifies as an "accredited investor" as defined in NI 45-106 at the time of the trade and is, or is deemed pursuant to NI 45-106 to be, purchasing the notes as principal;

(f) acknowledges that the distribution of the notes in Canada is being made on an exempt distribution basis and that any resale of the notes in Canada must be made through an appropriately registered dealer or in accordance with an exemption from the registration requirements of applicable securities laws, and in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws, which vary depending on the province. These resale restrictions may in some circumstances apply to resales made outside of Canada. Canadian purchasers are advised to seek legal advice prior to any resale of the notes; and

(g) confirms that it is such purchaser's express wish that all documents evidencing or relating in any way to the sale of notes be drafted in the English language only. *Chaque acheteur des billets au Canada recevant un avis de confirmation à l'égard de son acquisition reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des billets soient rédigés uniquement en anglais.*

By purchasing these notes, each Ontario purchaser of the notes who receives a purchase confirmation, by the purchaser's receipt thereof, will be deemed to have represented to the issuer, the initial purchasers and any dealer who sells notes to such purchaser, that such purchaser:

(i) as been notified by the issuer:

(a) that it is required to provide information, or personal information, pertaining to the purchaser required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of notes purchased), which Form 45-106F1 is required to be filed by us under NI 45-106;

(b) that the personal information will be delivered to the Ontario Securities Commission, or the OSC, in accordance with NI 45-106;

(c) that such personal information is being collected indirectly by the OSC under the authority granted to it in securities legislation;

(d) that such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and

(e) that the public official in Ontario who can answer questions about the OSC's indirect collection of the personal information is the Administrative Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086, and

(ii) has authorized the indirect collection of the personal information by the OSC. Further, by purchasing these notes, the purchaser acknowledges that its name, address, telephone number and other specified information, including the number and value of notes it has purchased, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws. The purchaser consents to the disclosure of that information.

Rights of Action for Damages or Rescission

Securities legislation in certain of the provinces of Canada provides certain purchasers with, or requires certain purchasers to be provided with, in addition to any other rights they may have at law, a right of action for rescission or damages or both, against the issuer, and in certain cases, other persons, where this offering memorandum and any amendment to it and, in certain cases, advertising and sales literature used in connection therewith, contains a misrepresentation. Where used herein, the term "misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in light of the circumstances in which it was made, and the expression "material fact" means a fact that significantly affects or would reasonably be expected to have a significant effect on the market price or value of the notes. These remedies or notice with respect thereto must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation. The following is a summary of the rights of rescission or damages, or both, available to purchasers under the securities legislation of certain of the provinces of Canada. Each purchaser should refer to the provisions of applicable securities legislation for the particulars of these rights or consult with a legal advisor.

Rights for Purchasers in Ontario

In the event that this offering memorandum, together with any amendments hereto, delivered to an Ontario purchaser contains a misrepresentation, a purchaser who purchases notes offered by this offering memorandum during the period of distribution will be deemed to have relied upon the misrepresentation if it was a misrepresentation at the time of purchase and will, as provided below, have a right of action against the issuer for damages, or for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the issuer provided that, among other limitations:

(a) in the case of an action for rescission, no action shall be commenced more than 180 days after the date of the transaction that gave rise to the cause of action;

(b) in the case of any action, other than an action for rescission, no action shall be commenced more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the transaction that gave rise to the cause of action;

(c) the issuer will not be liable if it proves that the purchaser purchased the notes with knowledge of the misrepresentation;

(d) in the case of an action for damages, the issuer will not be liable for all or any portion of the damages that the issuer proves do not represent the depreciation in value of the notes as a result of the misrepresentation relied upon; and

(e) in no case will the amount recoverable in any action exceed the price at which the notes were offered.

Ontario Securities Commission Rule 45-501 provides that when an offering memorandum is delivered to an investor to whom securities are distributed in reliance upon the "accredited investor" prospectus exemption in Section 2.3 of NI 45-106, the right of action referred to in Section 130.1 of the Securities Act (Ontario) ("Section 130.1") is applicable, unless the prospective purchaser is:

(a) a Canadian financial institution, meaning either:

(i) an association governed by the Cooperative Credit Associations Act (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act; or

(ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services corporation, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction in Canada;

(b) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the Bank Act (Canada),

(c) The Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada), or

(d) a subsidiary of any person referred to in paragraphs (a), (b) or (c), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of the subsidiary.

Section 130.1 provides purchasers who purchase securities offered by an offering memorandum with a statutory right of action against the issuer of securities and any selling securityholder for rescission or damages in the event that the offering memorandum or any amendment to it contains a misrepresentation.

Rights for Purchasers in New Brunswick

Pursuant to Section 150(1) of the Securities Act (New Brunswick), this offering memorandum, together with any amendments hereto, or any information relating to the offering, delivered to a New Brunswick purchaser contains a misrepresentation and it was a misrepresentation at the time of purchase, the purchaser will be deemed to have relied upon the misrepresentation and will, as provided below, have a right of action against the issuer for damages, or for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the issuer provided that, among other limitations:

(a) in the case of an action for rescission, no action shall be commenced more than 180 days after the date of the transaction that gave rise to the cause of action;

(b) in the case of any action, other than an action for rescission, no action shall be commenced more than the earlier of (i) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, and (ii) six years after the date of the transaction that gave rise to the cause of action;

(c) in an action for damages, the issuer will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the notes as a result of the misrepresentation relied upon;

(d) in an action for damages, the issuer will not be liable if it proves that the purchaser purchased the notes with knowledge of the misrepresentation;

(e) the issuer shall not be liable where it is not receiving any proceeds from the distribution of the notes being distributed and the misrepresentation was not based on information provided by the issuer unless the misrepresentation (i) was based on information that was previously publicly disclosed by the issuer; (ii) was a misrepresentation at the time of its previous public disclosure; and (iii) was not subsequently publicly corrected or superseded by the issuer before the completion of the distribution of the notes being distributed; and

(f) in no case will the amount recoverable in any action exceed the price at which the notes were offered.

Rights for Purchasers in Nova Scotia

The right of action for rescission or damages described herein is conferred by section 138 of the Securities Act (Nova Scotia). In the event that this offering memorandum, together with any amendments hereto, or any advertising or sales literature (as defined in the Securities Act (Nova Scotia)) is delivered to a Nova Scotia purchaser of notes and contains a misrepresentation, the purchaser will be deemed to have relied upon such misrepresentation (if it was a misrepresentation at the time of purchase) and has a right of action against the seller, every person who was a director of the seller at the date of the offering memorandum and every person who signed the offering memorandum, for damages or, alternatively, while still the owner of any of the notes purchased by the purchaser, for rescission (in which case the purchaser shall have no right of action for damages against the seller, every person who was a director of the seller at the date of the offering memorandum and every person who signed the offering memorandum, provided that, among other limitations:

(a) no action shall be commenced to enforce the right of action for rescission or damages more than 120 days after the date on which the initial payment was made for the notes or after the date on which the initial payment for the notes was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment;

(b) no person or company will be liable if it proves that the purchaser purchased the notes with knowledge of the misrepresentation;

(c) in the case of an action for damages, no person or company will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the notes as a result of the misrepresentation relied upon; and

(d) in no case will the amount recoverable exceed the price at which the notes were offered.

In addition, no person or company (other than the issuer if it is the seller) will be liable if such person or company proves that:

(a) the offering memorandum or the amendment to the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;

(b) after delivery of the offering memorandum or the amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, or amendment to the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum, or amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or

(c) with respect to any part of the offering memorandum or amendment to the offering memorandum purporting (i) to be made on the authority of an expert, or (ii) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (A) there had been a misrepresentation, or (B) the relevant part of the offering memorandum or amendment to the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Furthermore, no person or company (other than the issuer if it is the seller) will be liable under section 138 of the Securities Act (Nova Scotia) with respect to any part of the offering memorandum or amendment to the offering memorandum not purporting (a) to be made on the authority of an expert; or (b) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or (ii) believed that there had been a misrepresentation. If a misrepresentation is contained in a record incorporated by reference in, or deemed incorporated into, the offering memorandum or amendment to the offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum or amendment to the offering memorandum. The right of action for rescission or damages described herein by section 138 of the Securities Act (Nova Scotia) and is in addition to and without derogation from any right the purchaser may have at law.

For the purposes of the Securities Act (Nova Scotia) “misrepresentation” means:

(a) an untrue statement of material fact; or

(b) an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Rights for Purchasers in Saskatchewan

Section 138 of The Securities Act, 1988 (Saskatchewan), as amended (the “Saskatchewan Act”) provides that where this offering memorandum or any amendment thereto is sent or delivered to a purchaser and it contains a misrepresentation (as defined in the Saskatchewan Act), a purchaser who purchases a security covered by this offering memorandum or any amendment to it is deemed to have relied upon that misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for rescission against the issuer or has a right of action for damages against:

(a) the issuer;

(b) every promoter and director of the issuer at the time this offering memorandum or any amendment to it was sent or delivered;

(c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;

(d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed this offering memorandum or the amendment to this offering memorandum; and

(e) every person who or company that sells securities on behalf of the issuer under this offering memorandum or amendment to this offering memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

(a) if the purchaser elects to exercise its right of rescission against the issuer, it shall have no right of action for damages against that party;

(b) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the securities resulting from the misrepresentation relied on;

(c) no person or company, other than the issuer, will be liable for any part of this offering memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;

(d) in no case shall the amount recoverable exceed the price at which the securities were offered; and

(e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of this misrepresentation.

In addition, no person or company, other than the issuer, will be liable if the person or company proves that:

(a) this offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; or

(b) with respect to any part of this offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of this offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Not all defences upon which we or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser is deemed to have relied on the misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for damages against the individual who made the verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

(a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or

(b) in the case of any other action, other than an action for rescission, the earlier of:

(i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or

(ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides that a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act has a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

Enforcement of Legal Rights

Certain of Bombardier's directors and officers, as well as the experts named herein, are or may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon Bombardier or such persons. All or a substantial portion of the assets of Bombardier and the assets of such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against Bombardier or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Bombardier or such persons outside of Canada.

General

The rights discussed above are in addition to and without derogation from any other rights or remedies available at law to the purchaser and are intended to correspond to the provisions of the relevant securities legislation and are subject to the defenses contained therein. The foregoing summaries are subject to the express provisions of the applicable securities legislation in each of the foregoing provinces and the regulations, rules and policy statements thereunder and reference is made thereto for the complete text of such provisions.

PLAN OF DISTRIBUTION

Bombardier, as issuer, and Deutsche Bank Securities Inc., J.P. Morgan Securities Ltd. and BNP Paribas Securities Corp., as representatives of the initial purchasers, will have entered into a purchase agreement, dated November 10, 2006 with respect to the notes (the "Purchase Agreement"). The initial purchasers have agreed to purchase, and Bombardier has agreed to sell, all of the notes pursuant to the terms of the Purchase Agreement.

The Purchase Agreement provides that the obligations of the initial purchasers to purchase and accept delivery of the notes offered hereby are subject to certain conditions precedent. The initial purchasers are obligated to purchase and accept delivery of all the notes if any are purchased.

The purchase price for the notes will be the initial offering price set forth on the cover page of this offering memorandum less an initial purchasers' discount. The initial purchasers propose to offer the notes at the initial offering price. After the notes are released for sale, the initial purchasers may change the offering price and other selling terms. Each initial purchaser has agreed that it will offer and sell the notes only in blocks having an aggregate principal amount of €50,000 and integral multiples of €1,000 in excess thereof in the case of notes denominated in Euros, and US$75,000 and integral multiples of US$1,000 in excess thereof in the case of notes denominated in U.S. dollars.

The notes have not been and will not be registered under the Securities Act or any other applicable securities law. Each initial purchaser has agreed that it will offer and sell notes only (i) in the United States to qualified institutional buyers ("QIBs") in reliance on Rule 144A or (ii) in offshore transactions in reliance on Regulation S. The notes being offered and sold pursuant to Regulation S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the notes are registered under the Securities Act or an exemption from the registration requirements thereof is available. Terms used above have the meanings given to them by Regulation S or Rule 144A, as applicable. See "Notice to Investors."

In connection with sales outside the United States, the initial purchasers have agreed that they will not offer, sell or deliver the notes to, or for the account or benefit of, U.S. persons (1) as part of the initial distribution at any time or (2) otherwise until 40 days after the later of the commencement of this offering or the date the notes were originally issued. Each initial purchaser will send to each dealer to whom it sells such notes during such 40-day period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States by a dealer or to, or for the account or benefit of, U.S. persons.

In addition, with respect to notes initially sold pursuant to Regulation S, until 40 days after the commencement of the offering of the notes, an offer or sale of such notes within the United States by any dealer, whether or not participating in the offering of the notes, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Persons who purchase notes from the initial purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

In connection with the offering of the notes, Deutsche Bank AG, London Branch (or persons acting on its behalf) (the "Stabilizing Manager") may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on its behalf) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made and, if begun, may be ended at any time, but it must end no later than 30 days after the date on which Bombardier received the proceeds of the issue, or no later than 60 days after the date of allotment of the notes.

No action has been taken in any jurisdiction, including the United States, by us or the initial purchasers that would permit a public offering of the notes or the possession, circulation or distribution of this offering memorandum or any other material relating to Bombardier or the notes in any jurisdiction where action for that purpose is required. Accordingly, the notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to purchase or a solicitation of an offer to sell in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the notes, the distribution of this offering memorandum and resales of the notes.

The initial purchasers expect to make offers and sales both inside and outside the United States through their respective selling agents. Any offers and sales in the United States will be conducted by broker-dealers registered with the SEC.

Each initial purchaser has also agreed that (a)(i) it is a qualified investor (within the meaning of section 86(7) of the Financial Services and Markets Act 2000) (the "FSMA") and (ii) it has not offered or sold and will not offer to sell any notes except to persons who are qualified investors or otherwise in circumstances which do not require a prospectus to be made available to the public in the United Kingdom within the meaning of section 85(1) of the FSMA; (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which section 21(1) of the FSMA does not apply to Bombardier; and (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any notes in, from or otherwise involving the United Kingdom.

This offering memorandum has not been prepared in the context of a public offering in France within the meaning of Article L.411-1 of the *Code monétaire et financier* and Title I of Book II of the *Règlement général* of the *Autorité des marchés financiers* (the "AMF") and therefore has not been submitted for clearance to the AMF. Each initial purchaser has acknowledged and agreed that the notes are not being offered, directly or indirectly, to the public in France and this offering memorandum has not been and will not be distributed to the public in France. Each initial purchaser has also agreed that offers, sales and distributions of the notes in France will be made only to qualified investors (*investisseurs qualifiés*) as defined in, and in accordance with, Articles L.411-2 and D.411-1 of the *Code monétaire et financier*, on the condition that (i) this offering memorandum shall not be circulated or reproduced (in whole or in part) by such qualified investors, (ii) such investors act for their own account and (iii) they undertake not to transfer the notes, directly or indirectly, to the public in France, other than in compliance with applicable laws and regulations pertaining to a public offering (and in particular Articles L.411-1, L.411-2 and L.621-8 of the *Code monétaire et financier*).

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than at any time:

(1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(2) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000 as shown in its last annual or consolidated accounts;

(3) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd. or BNP Paribas for any such offer; or

(4) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall result in a requirement for the publication by us or any manager of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement to a prospectus to Article 16 of the Prospectus Directive.

For the purposes of this restriction, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State. Accordingly, this offering memorandum are for distribution only to persons falling within the categories described in (1), (2) and (3) above.

The offering of the notes in the Republic of Italy ("Italy") has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation and, accordingly:

(1) the notes cannot be offered, sold or delivered in Italy in a solicitation to the public at large (sollecitazione all'investimento) within the meaning of Article 1, paragraph 1, letter (t) of Legislation Decree no. 58 of February 24, 1998 (the "Financial Services Act"), nor may any copy of this offering memorandum or any other document relating to the notes be distributed in Italy;

(2) the notes cannot be offered, sold and/or delivered, nor may any copy of this offering memorandum or any other document relating to the notes be distributed, either in the primary or in the secondary market, to individuals resident in Italy; and

(3) sales of the notes in Italy shall only be: (i) negotiated with "Professional Investors" (operatori qualificati), as defined under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of July 1, 1998, as amended ("CONSOB Regulation 11522") provided that such Professional Investors will act in such capacity and not as depositaries or nominees for other holders, (ii) effected in compliance with Article 129 of the Legislative Decree no. 385 of September 1, 1993 (the "Italian Banking Act") and the implementing instructions of the Bank of Italy, (iii) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Banking Act, the Financial Services Act, CONSOB Regulation 11522 and all the other relevant provisions of Italian law, and (iv) effected in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

The offering of the notes is not a public offering in the Federal Republic of Germany.

The offering is being made on a private placement or exempt distribution basis in one or more provinces of Canada through the initial purchasers or their affiliates who are permitted under applicable Canadian securities laws or available exemptions therefrom to offer and sell the notes in such provinces. The notes have not been and will not be qualified for sale to the public under applicable Canadian securities laws and, accordingly, any offer and sale of the notes in Canada will be made on a basis which is exempt from the prospectus and dealer registration requirements of such securities laws.

Please see the section entitled "Notice to Investors."

Bombardier has agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act. Bombardier will pay the initial purchasers a commission and pay certain fees and expenses relating to the offering of the notes.

Bombardier has applied, through its listing agent, to have the notes listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market, the alternative market of the Luxembourg Stock Exchange. Neither the initial purchasers nor Bombardier can assume that the notes will be approved for admission to trading and listing and will remain admitted to trading on the Euro MTF Market and listed on the Official List of the Luxembourg Stock Exchange.

The initial purchasers and their respective affiliates have from time to time performed certain investment banking and/or other financial services to Bombardier, its affiliates or its former affiliates for which they received customary fees and reimbursement of expenses. The initial purchasers and their respective affiliates may in the future provide investment banking or other financial services to us or our affiliates for which they will receive customary fees.

In addition, affiliates of Deutsche Bank Securities Inc., J.P. Morgan Securities Ltd., BNP Paribas Securities Corp., Calyon Securities (USA) Inc., Bayerische Landesbank and ABN-AMRO Incorporated are acting as mandated lead arrangers, and affiliates of Deutsche Bank Securities Inc., J.P. Morgan Securities Ltd. and BNP Paribas are acting as issuing banks, under the New LC Facility and have received and will continue to receive customary fees for their services in such capacities. An affiliate of Commerzbank AG is acting as a mandated lead arranger, facility agent and an issuing bank under the New LC Facility, for which it will receive customary fees. An affiliate of Dresdner Bank AG London Branch is acting as a mandated lead arranger, security agent and an issuing bank under the New LC Facility, for which it will receive customary fees. An affiliate of Deutsche Bank Securities Inc. is also acting as dealer manager in connection with the repurchase invitations, for which it will receive customary fees. Affiliates of Deutsche Bank Securities Inc. are acting as joint trustee, European registrar, U.S. registrar, London paying agent, Luxembourg paying agent, U.S. paying agent, London transfer agent, Luxembourg transfer agent, U.S. transfer agent, calculation agent and Luxembourg listing agent in connection with the issuance of the notes, for which they will receive customary fees. National Bank of Canada will act as senior lead arranger, Canadian administrative agent and issuing bank under the New LC Facility and is currently acting as mandated lead arranger, joint bookrunner, Canadian administrative agent and issuing bank under one of our existing letter of credit facilities which is being terminated pursuant to our Refinancing Plan. Bombardier may be viewed as a "connected issuer" of the initial purchasers, affiliates of which participate in the New LC Facility as described above, for purposes of applicable Canadian securities laws. As indicated under "Use of Proceeds," a portion of the proceeds from this offering will be used to pay a portion of the €860 million cash deposit to secure Bombardier's obligations to banks issuing letters of credit under our the New LC Facility. See "Description of Other Indebtedness and Letter of Credit Facility—New Syndicated Letter of Credit Facility—Security and Guarantee."

It is expected that delivery of the notes will be made against payment therefore on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fourth business day following the date of pricing of the notes (such settlement being herein referred to as “T+4”). Under Rule 15(c)6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+4, to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the notes who wish to trade the notes on the date of pricing or the next succeeding business day should consult their own adviser.

LISTING AND GENERAL MATTERS

Listing

We have applied to have the notes listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of the Luxembourg Stock Exchange. If listed and so long as the rules of the Luxembourg Stock Exchange require, notice of any optional redemption, change of control or any change in the rate of interest payable on the notes will be published on the website of the Luxembourg Stock Exchange at http://www.bourse.lu or in a newspaper having general distribution in Luxembourg (which is expected to be the *d'Wort*).

We accept responsibility for the information contained in this offering memorandum. To the best of our knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

We have appointed Deutsche Bank Luxembourg SA as the paying agent, transfer agent and listing agent for the notes in Luxembourg and as European registrar for the notes. We reserve the right to change such appointment, and, if listed and so long as the rules of the Luxembourg Stock Exchange require in the event of any such change of appointment, shall publish notice of such change on the website of the Luxembourg stock exchange at http://www.bourse.lu or in a newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*). So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, we will maintain a paying agent and transfer agent in Luxembourg.

The issue of the notes was authorized by resolutions of our Board of Directors passed on November 8, 2006.

Clearing Information

The notes sold pursuant to Regulation S and Rule 144A under the Securities Act have been accepted for clearance through the facilities of Euroclear and Clearstream Banking. The Common Code and ISIN numbers for these notes are as follows:

	Reg. S ISIN	Reg. S Common Code or CUSIP	144A ISIN	144A Common Code or CUSIP
Floating Rate Notes	XS0273978592	027397859	XS0273978915	027397891
2014 Notes	USC10602AK32	C10602 AK3	US097751AM35	097751 AM3
2016 Notes	XS0273988393	027398839	XS0273989102	027398910

No Significant Change or Litigation

Except as disclosed in this offering memorandum, there has been no material adverse change in our consolidated financial position since July 31, 2006, the date of the latest financial statements included in this offering memorandum. Except as disclosed in this offering memorandum, we are not, and our subsidiaries are not, involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the offering of the notes, nor so far as we are aware is any such litigation or arbitration pending or threatened.

General Information

1. The address of Bombardier Inc.'s registered office is 800 René-Lévesque Boulevard West, Montreal, Québec, H3B 1Y8, Canada.

2. Bombardier Inc. was incorporated by letters patent under the laws of Canada on June 19, 1902 and was continued under the *Canada Business Corporations Act* by a certificate

of continuance dated June 23, 1978, which was subsequently the subject of certain amendments.

3. So long as the notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules of such exchange so require, copies of our articles of incorporation and the indentures will be available for inspection at the specified office of our paying agent in Luxembourg referred to under "—Listing" above. So long as the notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules of such exchange so require, copies of all our audited annual financial statements and our most recent interim financial statements, if produced, will be available, free of charge, during normal business hours on any weekday at the offices of such paying agent in Luxembourg referred to under "—Listing" above.

We publish audited consolidated financial statements annually and interim consolidated financial statements on a quarterly basis. We also prepare unconsolidated financial statements for internal use which are not publicly available.

AUDITORS

Our consolidated financial statements for the two years ended January 31, 2006 are included in this offering memorandum and have been audited by Ernst & Young LLP, Chartered Accountants, as indicated in their report, which is also included in this offering memorandum.

LEGAL MATTERS

The validity of the notes and certain legal matters in connection with the issuance and sale of the notes offered by this offering memorandum will be passed upon for us by Ogilvy Renault LLP, Montreal, Québec and by Sidley Austin LLP, New York, New York. In connection with the offering, the initial purchasers have been represented by Davis Polk & Wardwell, New York, New York, and Stikeman Elliott LLP, Montreal, Québec. Ogilvy Renault LLP and Sidley Austin LLP regularly perform legal services for Bombardier.

AVAILABLE INFORMATION

We have agreed so long as the notes offered hereby are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, unless it is subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, to furnish, upon request, to holders and beneficial owners of the notes and the prospective purchasers designated by such holders the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act (or any successor regulation or statute) to permit compliance with Rule 144A in connection with the resales of the notes. Requests for such information should be directed to us at 800 René-Lévesque Boulevard West, Montreal, Québec, Canada H3B 1Y8, Telephone: (514) 861-9481, Attention: Corporate Secretary.

Our equity securities are publicly traded on the Toronto Stock Exchange in Canada. We are a reporting issuer under the securities laws of the provinces in Canada (including Québec and Ontario) and therefore make various public filings with the securities commissions and the other securities regulatory authorities of such provinces, as well as filings with the exchange on which our securities are traded. Any or all of the documents which are incorporated herein, or deemed incorporated herein, and that we file electronically can be retrieved (see "Incorporation of Certain Documents by Reference") on the SEDAR website at http://www.sedar.com. However, any information available at such website, other than the documents specifically incorporated herein or deemed incorporated herein by reference, shall not form part of this offering memorandum.

We maintain an exemption from the reporting requirements of Sections 13 and 15(d) of the Exchange Act by furnishing to the SEC certain information pursuant to Rule 12g3-2(b) of the Exchange Act. Any information furnished by us to the SEC may be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of such material may also be obtained by mail from the public reference room at prescribed rates.

In addition, certain of the above documents will be available at the offices of the paying agent in Luxembourg, as described above in "Listing and General Matters."

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AUDITORS' CONSENT

We have read the offering memorandum of Bombardier Inc. [the "Corporation"] dated November 10, 2006 relating to the offering of €800,000,000 Floating Rate Senior Notes due November 15, 2013, US$385,000,000 8.00% Senior Notes due November 15, 2014, and €800,000,000 7.25% Senior Notes due November 15, 2016 of the Corporation. We have complied with Canadian generally accepted standards for auditors' involvement with offering documents.

We consent to the use in the above-mentioned Offering Memorandum of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at January 31, 2006 and 2005, and the consolidated statements of income, shareholders' equity and cash flows for each of the years then ended. Our report is dated March 21, 2006.

(signed) Ernst & Young LLP
Chartered Accountants

Montreal
November 10, 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and Management discussion and analysis ("MD&A") of Bombardier Inc. and all other information in this Annual Report are the responsibility of Management and have been reviewed and approved by its Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

Bombardier's Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Corporation has been made known to them and has been properly disclosed in the Consolidated Financial Statements and MD&A. Bombardier's Chief Executive Officer and Chief Financial Officer have also evaluated the effectiveness of such disclosure controls and procedures as of the end of fiscal year 2006. As at year end, Management believes that the disclosure controls and procedures effectively provide reasonable assurance that material information related to the Corporation has been disclosed in the Consolidated Financial Statements and MD&A. In compliance with Multilateral Instrument 52-109, Bombardier's Chief Executive Officer and Chief Financial Officer have provided to the Canadian Securities Administrators a certification related to Bombardier's annual disclosure documents, including the Consolidated Financial Statements and MD&A.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Consolidated Financial Statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with Management, as well as with the internal and external auditors, to review the Consolidated Financial Statements, the external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the Consolidated Financial Statements as presented by Management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the Consolidated Financial Statements and MD&A for issuance to shareholders.

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

(Signed by) Laurent Beaudoin, FCA
Chairman of the Board and
Chief Executive Officer
March 28, 2006

(Signed by) Pierre Alary, CA
Senior Vice President and
Chief Financial Officer
March 28, 2006

AUDITORS' REPORT

To the Shareholders of
BOMBARDIER INC.

We have audited the consolidated balance sheets of Bombardier Inc. as at January 31, 2006 and 2005 and the consolidated statements of income, shareholders' equity and cash flows 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 Canadian 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed by) ERNST & YOUNG LLP
Chartered Accountants

Montréal, Canada
March 21, 2006

BOMBARDIER INC.

CONSOLIDATED BALANCE SHEETS
As at January 31
(in millions of U.S. dollars)

	Notes	2006	2005 (restated—note 1)
ASSETS			
Cash and cash equivalents	8	$ 2,917	$ 2,344
Receivables	2	1,684	1,513
Aircraft financing	3	1,457	1,791
Inventories	4	3,805	4,013
Property, plant and equipment	5	3,090	3,412
Goodwill	6	2,142	2,357
Fractional ownership deferred costs		270	142
Deferred income taxes	16	653	522
Accrued benefit assets	21	384	353
Assets held for sale	1	237	2,582
Other assets	7	843	1,101
		$17,482	$20,130
LIABILITIES			
Accounts payable and accrued liabilities	9	$ 6,866	$ 7,085
Advances and progress billings in excess of related costs	4	2,191	2,359
Fractional ownership deferred revenues		325	163
Deferred income taxes	16	9	41
Long-term debt	10	4,747	5,716
Accrued benefit liabilities	21	877	897
Liabilities related to assets held for sale	1	42	1,571
		15,057	17,832
SHAREHOLDERS' EQUITY		2,425	2,298
		$17,482	$20,130
Commitments and contingencies	22		

The accompanying summary of significant accounting policies and notes are an integral part of these Consolidated Financial Statements and provide information on the financial statement presentation.

On behalf of the Board of Directors,

(Signed by) Laurent Beaudoin
Director

(Signed by) L. Denis Desautels
Director

BOMBARDIER INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the fiscal years ended January 31

(in millions of U.S. dollars)

		2006		2005	
	Notes	Number	Amount	Number	Amount
		(in thousands)		(in thousands)	
Share Capital	11				
Preferred shares					
Series 2		2,598	$ 51	2,598	$ 51
Series 3		9,402	148	9,402	148
Series 4		9,400	148	9,400	148
		21,400	347	21,400	347
Common Shares					
Class A shares (Multiple Voting)					
Balance at beginning of year		342,000	31	342,018	31
Converted to Class B		(22,740)	(2)	(18)	—
Balance at end of year		319,260	29	342,000	31
Class B shares (Subordinate Voting)					
Balance at beginning of year		1,408,467	1,411	1,407,567	1,408
Issued under the share option plans	12	—	—	882	3
Converted from Class A		22,740	2	18	—
		1,431,207	1,413	1,408,467	1,411
Purchased and held in trust under the performance share unit plan	12	(5,434)	(14)	—	—
Balance at end of year		1,425,773	1,399	1,408,467	1,411
Balance at end of year—common shares		1,745,033	1,428	1,750,467	1,442
Total—share capital			1,775		1,789
Contributed Surplus					
Balance at beginning of year			13		4
Stock-based compensation	12		7		9
Balance at end of year			20		13
Retained Earnings					
Balance at beginning of year			301		532
Net income (loss)			249		(85)
Dividends:					
Preferred shares			(25)		(23)
Common shares			—		(123)
Balance at end of year			525		301
Cumulative translation adjustment	13		105		195
Total—shareholders' equity			$2,425		$2,298

The accompanying summary of significant accounting policies and notes are an integral part of these Consolidated Financial Statements and provide information on the financial statement presentation.

BOMBARDIER INC.

CONSOLIDATED STATEMENTS OF INCOME
For the Fiscal Years Ended January 31
(in millions of U.S. dollars, except per share amounts)

	Notes	2006	2005 (restated—note 1)
Revenues			
Manufacturing		$10,708	$11,526
Services		2,537	2,386
Other		1,481	1,634
		14,726	15,546
Cost of sales		12,719	13,754
Selling, general and administrative		842	859
Research and development		175	148
Amortization		545	549
Special items	14	88	172
		14,369	15,482
Income from continuing operations before the following:		357	64
Financing income	15	(156)	(104)
Financing expense	15	363	328
Income (loss) from continuing operations before income taxes		150	(160)
Income tax expense (recovery)	16	15	(38)
Income (loss) from continuing operations		135	(122)
Income from discontinued operations, net of tax	1	114	37
Net income (loss)		$ 249	$ (85)
Earnings (loss) per share:	17		
Basic and diluted			
From continuing operations		$ 0.06	$ (0.08)
Net income (loss)		$ 0.13	$ (0.06)

The accompanying summary of significant accounting policies and notes are an integral part of these Consolidated Financial Statements and provide information on the financial statement presentation.

BOMBARDIER INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended January 31
(in millions of U.S. dollars)

	Notes	2006	2005 (restated—note 1)
Operating activities			
Income (loss) from continuing operations		$ 135	$ (122)
Non-cash items:			
Amortization		545	549
Provision for credit losses	3	11	27
Deferred income taxes	16	(138)	(123)
Loss (gain) on disposals of property, plant and equipment		6	(5)
Stock-based compensation	12	7	9
Special items	14	88	172
Net change in non-cash balances related to operations	19	100	(27)
Cash flows from operating activities		754	480
Investing activities			
Additions to property, plant and equipment		(329)	(305)
Disposals of property, plant and equipment		107	31
Settlement of the Adtranz claim	6	—	209
Disposal of discontinued operations, net of cash disposed	1	1,363	(31)
Other		193	310
Cash flows from investing activities		1,334	214
Financing activities			
Proceeds from issuance of long-term debt		8	826
Repayments of long-term debt		(876)	(632)
Issuance of shares, net of related costs	12	—	3
Purchase of common shares—held in trust	12	(14)	—
Dividends paid		(25)	(146)
Cash flows from financing activities		(907)	51
Effect of exchange rate changes on cash and cash equivalents		(174)	101
Cash flows from continuing operations		1,007	846
Cash flows from discontinued operations	1	(440)	288
Net increase in cash and cash equivalents		567	1,134
Cash and cash equivalents at beginning of year		2,355	1,221
Cash and cash equivalents at end of year [(1)]		$2,922	$2,355

(1) Included the following:

	Notes	2006	2005
Cash and cash equivalents related to:			
Continuing operations		$ 2,917	$ 2,344
Discontinued operations	1	5	11
		$ 2,922	$ 2,355

Supplemental information

		2006	2005
Cash paid for:			
Interest		$ 425	$ 380
Income taxes		$ 56	$ 19

The accompanying summary of significant accounting policies and notes are an integral part of these Consolidated Financial Statement and provide information on the financial statement presentation.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
For the Fiscal Years Ended January 31, 2006 and January 31, 2005

Bombardier Inc. ("the Corporation") is incorporated under the laws of Canada and is a manufacturer of transportation equipment, including business and regional aircraft and rail transportation equipment.

Basis of Presentation

The Consolidated Financial Statements are expressed in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

During fiscal year 2006, the Corporation continued with its strategy of reducing Bombardier Capital's ("BC") operations and several portfolios have been sold or put up for sale. The remaining portfolios are essentially related to the Corporation's aerospace segment ("Aerospace"). As a result, they are now included in Aerospace and BC ceased to be reported as a separate segment, effective the fourth quarter of fiscal year 2006 (see note 25—Segment disclosure to the Consolidated Financial Statements). Significant additional changes in the basis of presentation of the Corporation's Consolidated Financial Statements have been made as a consequence of the above, with retroactive effect for all periods presented. These changes had no impact on the legal structure and on the consolidated shareholders' equity of the Corporation. The most significant changes include the following:

- *Discontinued Operations and Assets Held for Sale*—BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows, and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets (see note 1—Discontinued operations and assets held for sale to the Consolidated Financial Statements).

- *Aircraft Financing*—BC's core operations consisting of commercial aircraft financing, and business aircraft lending operations, are now managed by Aerospace and therefore, these operations are part of the aerospace segment's results. BC's portfolios related to aircraft financing operations are included in a new balance sheet caption, Aircraft financing, together with other assets related to aircraft financing of Aerospace. The remainder of BC's operations are not significant and the related assets are included in Other assets in the consolidated balance sheets.

- *Presentation of BC*—The financial position, results of operations and cash flows of BC are no longer presented in separate columns in the consolidated balance sheets, statements of income and statements of cash flows.

- *Financing Income and Financing Expense*—Interest income, including interest income generated from the portfolios of the former BC segment, is now classified in Financing income, a new caption in the consolidated statements of income. BC's interest income was previously included in Financing revenues and other interest income was included in Interest expense, net. The interest expense on the long-term debt of the former BC segment, previously included in Cost of sales, is now classified in Financing expense, a new caption in the consolidated statements of income. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense.

Bombardier Inc. and its subsidiaries now carry out their operations in two distinct segments, Aerospace and the Corporation's transportation segment ("Transportation"), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified.

The impact on the consolidated statements of income of the reallocation of BC's portfolios to Aerospace, as well as certain other reclassifications referred to above under "Financing income and Financing expense" are as follows for fiscal years:

	2006 [(1)]	2005 [(1)]
Revenues		
Financing	$ (79)	$ (91)
Other	10	36
	(69)	(55)
Cost of sales	(106)	(126)
	37	71
Interest expense, net	(170)	(153)
Financing income	156	104
Financing expense	363	328
Income from continuing operations before income taxes	$ —	$ —

(1) Parenthesis represent a decrease of the related income statement item.

Basis of Consolidation

The Consolidated Financial Statements include:

- the accounts of Bombardier Inc. and its subsidiaries, substantially all of which are wholly owned;
- the accounts of variable interest entities ("VIEs") when the Corporation is the primary beneficiary; and
- the Corporation's proportionate share of the assets, liabilities and results of operations and cash flows of its joint ventures.

Subsidiaries—The principal subsidiaries of the Corporation, whose revenues represent more than 10% of total segmented revenues of each respective segment, are as follows:

Subsidiary	Location
Learjet Inc.	U.S.A.
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Bombardier Transportation GmbH	Germany
Short Brothers plc	U.K.
Bombardier Transportation (Bahntechnologie) Germany GmbH & Co. KG	Germany

Most legal entities of Transportation use a December-31 fiscal year end. As a result, the Corporation consolidates the operations of Transportation with a one-month lag with the remainder of its operations. To the extent that significant transactions or events occur during the one-month lag period, the Corporation's Consolidated Financial Statements are adjusted accordingly.

VIEs—Effective November 1, 2004, the Corporation consolidates VIEs in accordance with AcG-15 "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 requires the consolidation of VIEs if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the enterprise became the primary beneficiary. However, for variable interest entities created prior to the initial adoption of AcG-15, the assets, liabilities and non-controlling interest of these entities must be initially consolidated as if the entities were consolidated as of the date the Corporation became the primary beneficiary. See note 23—Variable interest entities, for additional information on VIEs. The Corporation revises its initial determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions, particularly as they relate to accounting for long-term contracts, average cost accounting, sales incentives, including credit and residual value guarantees offered in Aerospace, employee future benefits, goodwill, variable interest entities, product warranties and income taxes. Management's best estimates are based on the facts and circumstances available at the time estimates are made, historical experience, general economic conditions and trends, and Management assessments of probable future outcomes of these matters. These estimates and assumptions 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 period. Actual results could differ from these estimates, and such differences could be material.

Translation of Foreign Currencies

The Corporation's functional currencies are mainly the U.S. dollar in Aerospace and various western European currencies and the U.S. dollar in Transportation.

All significant foreign operations are classified as self-sustaining operations.

Self-Sustaining Foreign Operations—All assets and liabilities are translated using the exchange rates in effect at year-end. Revenues and expenses are translated using the average exchange rates for the period. Translation gains or losses are included in Cumulative translation adjustment in the consolidated statements of shareholders' equity.

Accounts Denominated in Foreign Currencies—Accounts denominated in foreign currencies are translated using the temporal method. Under this method, monetary balance sheet items are translated using the exchange rates in effect at year-end and non-monetary items are translated using the historical exchange rates. Revenues and expenses (other than amortization, which is translated using the same exchange rates as the related assets) are translated using the average exchange rates for the period.

Long-Term Debt and Intercompany Loans Designated as Hedges of the Net Investment in Self-Sustaining Foreign Operations—Translation gains or losses, net of tax, related to the long-term debt and intercompany loans designated as hedges of the Corporation's net investment in self-sustaining foreign operations are included in Cumulative translation adjustment in the consolidated statements of shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment grade financial institutions, with maturities of three months or less from the date of acquisition (see note 8—Short-term borrowings).

Securitization Transactions

Transfers of loans and receivables in securitization transactions are recognized as sales when control over these assets has been surrendered, and consideration other than beneficial interests in the transferred assets was received. Assets retained may include subordinated interests, servicing rights and over-collateralization amounts, all of which are included in Receivables or Aircraft financing.

When the transfer is considered a sale, all assets sold are derecognized. Assets received and the liabilities incurred, such as those arising from credit enhancement support, are recognized at fair value. Gains and losses are recognized upon the sale of assets. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair values as at the date of transfer. Fair values are generally estimated based on the present value of future expected cash flows using Management's best estimates for credit losses, forward yield curves, and discount rates commensurate with the risks involved.

Retained interests are accounted for as loans, lease receivables or investments in accordance with their substance. When the carrying value exceeds the fair value of the retained interests accounted for as investments, and the decline in fair value is other than temporary, the retained interest is written down to its fair value. Other retained interests are accounted for in accordance with applicable accounting policies for similar asset classifications.

Lease Receivables

Assets leased under terms that transfer substantially all of the benefits and risks of ownership to customers are accounted for as sales-type or direct financing leases.

Allowance for Credit Losses

Loans and lease receivables are classified as impaired when, in the opinion of Management, there is reasonable doubt as to the ultimate collectibility of a portion of principal and interest, generally when contractually due payments are 90 days in arrears or customers have filed for bankruptcy.

The Corporation maintains an allowance for credit losses in an amount sufficient to absorb losses. The level of allowance is based on Management's assessment of the risks associated with each of the Corporation's portfolios, including loss and recovery experience, industry performance and the impact of current and projected economic conditions.

Long-Term Investments

Investments in entities, when the Corporation exercises significant influence on their activities, are accounted for under the equity method and are presented in Other assets in the consolidated balance sheets. Other long-term investments are carried at cost, including investments in financing structures, which are presented in Aircraft financing. All other investments are presented in Other assets in the consolidated balance sheets.

When the carrying value exceeds the fair value and the decline in fair value is other than temporary, long-term investments are written-down to their fair value.

Inventory Valuation

Aerospace Programs—Inventory, determined under the average cost accounting method, is recorded at the lower of cost or net recoverable value. It includes materials, direct labour and manufacturing overhead.

Average cost accounting is a method of accounting that reflects the economic reality of higher unit production costs at the early phase of a program and lower unit production costs at the end of the program (learning curve concept). The difference between actual and average costs in the early stage of a program is recorded as excess-over-average production costs ("EOAPC") and is included in Inventories.

To the extent that inventory costs are expected to exceed their recoverable amount, charges are recorded to income to reduce inventoried costs to their estimated net recoverable value.

Long-Term Contracts—Long-term contract inventory accounted for under the percentage-of-completion method includes materials, direct labour and manufacturing overhead as well as estimated contract margins. Inventory related to long-term service contracts accounted for as services are rendered, includes materials, direct labour and manufacturing overhead.

Other Inventories—Finished product inventories, other than those included in aerospace programs and long-term contracts, are valued at the lower of cost or net realizable value. The cost of finished products includes the cost of materials, direct labour and related manufacturing overhead.

Pre-owned aircraft available for sale are valued at the lower of cost or net realizable value. The Corporation estimates net realizable value by using third-party appraisals of aircraft value and by reviewing current and future market conditions, including information developed from the sale of similar aircraft in the secondary market.

Advances and Progress Billings—Advances received and progress billings on long-term contracts and aerospace programs are deducted from related costs in inventories. Advances and progress billings in excess of related costs are shown as liabilities.

Long-Lived Assets

Long-lived assets comprise assets under operating leases, property, plant and equipment, and finite-life intangible assets.

Assets Under Operating Leases—Assets under operating leases are recorded at cost. Amortization is computed under the straight-line method over periods representing their estimated useful lives. Assets under operating leases related to aircraft, mainly pre-owned aircraft, are presented in Aircraft financing. All other assets under operating leases are presented in Other assets in the consolidated balance sheets.

Property, Plant and Equipment—Property, plant and equipment are recorded at cost. In addition, equipment leases where the risks and rewards of ownership are transferred to the Corporation are included in Property, plant and equipment. Costs related to aerospace programs incurred once technical feasibility is proven and program launch takes place, including prototype design, development and testing costs, are accounted for as aerospace program tooling. Aerospace program tooling is mostly comprised of engineering labour and manufacturing overhead costs, testing and certification costs and purchased tooling. Self-constructed aerospace program tooling includes interest charges incurred during construction.

Amortization is computed under the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Equipment	2 to 15 years
Aerospace program tooling	10 years
Other	3 to 20 years

Amortization of assets under construction begins when they are ready for their intended use. Amortization of aerospace program tooling costs begins at the date of delivery of the first aircraft of the program.

Improvements to existing property, plant and equipment that significantly extend the useful life or utility of the asset are capitalized, while maintenance and repair costs are charged to expense when incurred.

Finite-Life Intangible Assets—Finite-life intangible assets represent the cost of acquired licenses, patents and trademarks and are amortized on a straight-line basis over their estimated useful lives, not exceeding 20 years.

Impairment—Long-lived assets are reviewed for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets and is recorded in Amortization in the consolidated statements of income.

Long-lived assets held for sale are stated at the lower of cost or fair value, less cost to sell.

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of the identifiable net assets acquired.

Goodwill is tested for impairment using a two-step test annually, or more frequently if events or circumstances, such as significant declines in expected sales, earnings or cash flows, indicate that it is more likely than not that the asset might be impaired. Under the first step, the fair value of a reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income.

Stock-Based Compensation and Other Stock-Based Payments

Share Option Plans—All awards granted or modified after January 31, 2003, are accounted for under the fair value method. Under this method, the value of the compensation is measured at the grant date using a modified Black-Scholes option pricing model. The value of the compensation expense is recognized over the vesting period of the stock options with a corresponding increase to Contributed surplus in shareholders' equity.

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. No compensation expense is recorded in the consolidated statements of income for these awards.

Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

Performance Stock Unit Plan ("PSUs")—The value of the compensation for PSUs that are expected to vest is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange on the date of grant. The value of the compensation expense is recognized on a straight-line basis over the vesting period with a corresponding increase to Contributed surplus in shareholders' equity. The effect of any change in the number of PSUs that are expected to vest is accounted for in the period in which the estimate is revised.

Employee Share Purchase Plan—The Corporation's contributions to the employee share purchase plan are accounted for in the same manner as the related employee payroll costs.

Revenue Recognition

Aerospace Programs—Revenues from the sale of commercial aircraft and narrow-body business aircraft (*Learjet* Series) are recognized upon final delivery of products and presented in Manufacturing revenues.

Wide-body business aircraft (*Challenger 300, Challenger 604, Challenger 605,* Global *Express* and *Bombardier Global 5000*) contracts are segmented between green aircraft (i.e. before interiors and optional avionics are installed) and completion of interiors. Revenues are recognized based on green aircraft deliveries when certain conditions are met, and upon final acceptance of interiors and optional avionics by customers and presented in Manufacturing revenues.

Fractional Shares—Revenues from the sale of aircraft fractional shares are recognized over the period during which the related services are rendered to the customer, generally five years, and are included in Manufacturing revenues. At the time of sale, the proceeds from the sale are recorded as Fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to Fractional ownership deferred costs and is charged to cost of sales over the same period. Other revenues from the fractional share ownership program, including flight crew and maintenance support, are recognized at the time the service is rendered to the customer and are presented in Service revenues in the consolidated statements of income.

Long-Term Contracts—Revenues from long-term contracts related to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method of accounting consistent with Statement of Position 81-1 "*Accounting for Performance of Construction-Type and Certain Production-Type Contracts*" ("SOP 81-1") published by the American Institute of Certified Public Accountants. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Vehicle and component overhaul revenues are presented in Services revenues. System and signalling revenues are presented in Other revenues. All other long-term manufacturing contract revenues are presented in Manufacturing revenues in the consolidated statements of income.

Revenues from maintenance service contracts entered into on or after December 17, 2003 are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract and are presented in Services revenues. Maintenance service contracts entered into before this date are recognized using the percentage-of-completion method of accounting.

Revenues from other long-term service contracts are generally recognized as services are rendered and are presented in Services revenues in the consolidated statements of income.

Estimated revenues from long-term contracts include revenues from change orders and claims when it is probable that they will result in additional revenues in an amount that can be reliably estimated.

Other—Revenues from the sale of pre-owned aircraft and spare parts are recognized upon delivery. Pre-owned aircraft revenues are presented in Other revenues and spare parts revenues are included in Services revenues in the consolidated statements of income. Operating lease income, mainly from pre-owned aircraft, is recognized on a straight-line basis over the term of the lease and is included in Other revenues in the consolidated statements of income. Interest income related to aircraft financing is recognized over the terms of the applicable loans or leases in a manner that produces a constant rate of return on the investment and is included in Financing income in the consolidated statements of income.

Cost of Sales

Aerospace Programs—Average unit cost for commercial and business aircraft is determined based on the estimated total production costs for a predetermined program quantity. Estimates of total production costs and of program quantities are an integral component of average cost accounting. Program quantities are established based on Management's assessment of market conditions and foreseeable demand at the beginning of the production stage for each program, taking into consideration, among other factors, existing firm orders. Production costs include material, direct labour and manufacturing overhead costs. Total production costs are estimated based on actual and forecasted costs of materials, foreign exchange rates, labour productivity and employment levels and salaries. Cost estimates are based mainly on historical performance trends, economic trends, labour agreements and information provided by suppliers.

The average unit cost is recorded to Cost of sales at the time of each aircraft delivery. Under the learning curve concept, which anticipates a decrease in costs as tasks and production techniques become more efficient through repetition and management action, EOAPC during the early stages of a program are deferred in inventories and recovered from sales of aircraft to be produced later at lower-than-average costs.

Management conducts quarterly reviews as well as a detailed annual review in the fourth quarter, as part of its annual budget process, of its cost estimates and program quantities. The effect of any revision is accounted for by way of a cumulative catch-up adjustment to Cost of sales in the period in which the revision takes place.

Long-term Contracts—Cost of sales for long-term contracts is established based on actual costs incurred, including materials, direct labour, manufacturing overhead costs and other costs such as warranty and freight costs. If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in the period in which the negative gross margin is identified.

Management conducts quarterly reviews as well as a detailed annual review in the fourth quarter, as part of its annual budget process, of its cost estimates. The effect of any revision is accounted for by way of a cumulative catch-up adjustment to Cost of sales in the period in which the revision takes place.

Sales Incentives

In connection with the sale of new aircraft, the Corporation may provide sales incentives in the form of credit guarantees, residual value guarantees ("RVGs") and trade-in options to customers. The provision relating to credit guarantees and RVGs is recorded at the time of the sale based on the present value of expected net payments to be made under the guarantees. The provision relating to trade-in options is based on the anticipated losses. Non-cash sales incentives are included in Cost of sales and cash sales incentives are presented as a reduction of Manufacturing revenues in the consolidated statements of income.

The Corporation determines expected future net payments to be made under the guarantees or anticipated losses under trade-in options using, when available, third-party appraisals of expected aircraft value, expected default ratios based on external credit ratings of guaranteed parties, current and future market outlook, the age and condition of the aircraft, expected availability levels for the aircraft in the market and the likelihood that the trade-in options will be exercised.

The provisions are reviewed quarterly and the effect of any revision is recognized in the period in which the revision takes place.

Research and Development

Development costs are capitalized when certain criteria are met for deferral and their recovery is reasonably assured. Capitalized development costs related to aerospace programs are included in Property, plant and equipment under aerospace program tooling. Research and development costs related to long-term contracts are recorded as inventory costs and charged to Cost of sales under long-term contract accounting. When the capitalized costs are no longer reasonably assured of recovery, these costs are written off. Research and development expenses presented in the consolidated statements of income exclude those incurred under long-term contracts and development costs capitalized to program tooling.

Government Assistance

Government assistance, including investments tax credits, relating to the acquisition of inventory and/or property, plant and equipment is recorded as a reduction of the cost of the related asset. Government assistance, including investment tax credits, related to current expenses is recorded as a reduction of the related expenses.

Product Warranties

A provision for warranty cost is recorded when revenue for the underlying product is recognized. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and counter-warranty coverage available from the Corporation's suppliers.

The Corporation reviews quarterly its recorded product warranty provisions and any adjustment is recognized to income. Warranty expense is recorded as a component of Cost of sales.

Income Taxes

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

A valuation allowance is recorded to reduce the carrying amount of deferred income tax assets, when it is more likely than not that such assets will not be realized.

Earnings Per Share

Basic earnings per share are computed based on net income less dividends on preferred shares, net of tax, divided by the weighted-average number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the fiscal year.

Diluted earnings per share are computed using the treasury stock method, giving effect to the exercise of all dilutive elements.

Derivative Financial Instruments

In accordance with its risk management strategy, the Corporation uses derivative financial instruments to manage its foreign currency and interest rate exposures. The derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements. The Corporation does not use derivative financial instruments for trading or speculative purposes.

Forward Foreign Exchange Contracts—The Corporation uses forward foreign exchange contracts to hedge foreign currency exposures arising from forecasted foreign currency cash flows. Unrealized gains or losses on forward foreign exchange contracts designated and effective as hedges of forecasted foreign currency cash flows are not recognized in the Consolidated Financial Statements until the anticipated transactions occur.

The Corporation also uses forward foreign exchange contracts to hedge foreign currency exposures arising from third-party long-term debt, and intercompany loans and receivables. Unrealized gains or losses on these forward foreign exchange contracts are immediately recognized to income, offsetting unrealized gains or losses arising from foreign currency fluctuations on the hedged items.

Interest-Rate Swap Agreements—The Corporation enters into interest-rate swap agreements in order to achieve an appropriate mix of fixed and variable interest rate long-term debt. In addition, the Corporation enters into interest-rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments and to manage the interest rate exposure arising from aircraft financing support provided to regional aircraft customers. Swap agreements involve the exchange of interest payments, based on a predetermined notional amount for a specified period of time. Swap agreements designated and effective as hedges are accounted for using the accrual method. Under this method, unrealized gains or losses are not recognized and net payments due or receivable on the derivative financial instruments are accounted for as an adjustment to financing income or expense in the consolidated statements of income.

Cross-Currency Interest-Rate Swap Agreements—The Corporation enters into cross-currency interest-rate swap agreements to hedge foreign currency exposures, and to modify the interest rate characteristics of its long-term debt from fixed to variable interest rates. These swap agreements involve the exchange of fixed and variable interest payment obligations, as well as principal amounts in two different currencies for a specified period of time. Gains and losses related to these cross-currency interest-rate swap agreements designated and effective as hedges are accounted for on the same basis as the above-described accounting rules for forward exchange contracts and interest-rate swap agreements.

The Corporation also enters into cross-currency interest-rate swap agreements to manage foreign currency exposures on its net foreign investment. These swap agreements involve the exchange of principal amounts in two different currencies for a specified period of time. Gains and losses related to these cross-currency interest-rate swap agreements designated and effective as hedges are accounted for in the Currency translation adjustment ("CTA") in the consolidated balance sheets.

Interest-Rate Cap Agreements—The Corporation entered into interest-rate cap agreements to hedge its exposure to interest-rate increases arising from protection granted to certain customers in connection with the sale of aircraft. Gains and losses related to interest-rate cap agreements are recognized at the time the aircraft is sold.

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

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

Gains and losses related to derivative financial instruments, which have been settled prior to maturity, are deferred and included in Other assets or Accounts payable and accrued liabilities in the consolidated balance sheets. If the underlying hedged item is still probable of occurring, these gains or losses are recognized to income as an adjustment to the related revenues or costs, in the same period in which the related hedged transaction is recognized. If the underlying hedged item is not probable of occurring, these gains or losses are recognized to income immediately.

A hedging relationship is terminated if the hedge ceases to be effective and the unrealized gain or loss on the related derivative financial instrument is recognized to income along with subsequent changes in the fair value of the derivative financial instruments.

Employee Future Benefits

The defined benefit plans are accounted for as follows:

- Plan assets are measured at fair value.
- With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values.
- The net actuarial gains and losses, based on the market-related value of plan assets, over 10% of the greater of the projected benefit obligation and the market-related value of plan assets as well as prior service costs are amortized to income over the estimated weighted-average remaining service life of plan participants of approximately 16 years.
- Plan obligations are determined based on expected future benefit payments discounted using current market interest rates.
- When an event, such as the sale of a segment, gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan’s obligation.
- The cost of pension and other benefits earned by employees is actuarially determined using the projected benefit method prorated on services, and Management’s best estimate of expected plan investment performance, salary escalation, retirement ages, mortality and health care costs.
- Benefit cost is capitalized as part of labour costs and included in inventories and aerospace program tooling or is recognized directly to income.
- The Corporation uses a December-31 measurement date.

Environmental Obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable, and the costs can be reasonably estimated. Environmental costs that relate to current operations are expensed or capitalized, as appropriate. Environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent environmental contamination that has yet to occur are included in property, plant and equipment and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations, and which do not contribute to future revenue generation, are expensed.

1. Discontinued Operations and Assets Held for Sale

The following events took place during fiscal year 2006, in connection with the former BC segment:

- In May 2005, the Corporation sold the inventory finance operations to GE Commercial Finance ("GE") for cash proceeds of $1.3 billion ($732 million after repayment by BC of its bank-sponsored securitized floorplan conduits not transferred to GE). The sale resulted in a pre-tax gain of $191 million ($121 million after tax). GE assumed the future servicing obligations of BC under current public securitized floorplan facilities. A total of 280 employees have been transferred to GE.
- In July 2005, the Corporation sold its on-balance sheet manufactured housing operations to Vanderbilt Mortgage and Finance, Inc. for cash proceeds of $119 million, which resulted in an after-tax loss of $18 million.
- In November 2005, the Corporation entered into an agreement to assign the servicing rights and obligations of its off-balance sheet manufactured housing operations to Green Tree Servicing LLC. The off-balance sheet portfolio amounted to approximately $869 million as at January 31, 2006. The transfer was completed in March 2006. After-tax charges of $10 million, mainly relating to asset impairment and severance charges, were recorded in fiscal year 2006.
- In January 2006, the Corporation decided to sell its consumer finance and on- and off-balance sheet freight car operations. As a result, after-tax charges of $3 million relating to severance costs were recorded in fiscal year 2006.

As a result, the related results of operations have been presented as discontinued operations in the consolidated statements of income and cash flows and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets for all periods presented.

The assets held for sale and the related liabilities were as follows as at January 31:

	2006	2005
Assets		
Cash and cash equivalents	$ 5	$ 11
Receivables	58	98
Property, plant and equipment	—	2
Deferred income taxes	33	106
Other assets [1]	141	2,365
	$237	$2,582
Liabilities		
Accounts payable and accrued liabilities	$ 40	$ 83
Short-term borrowings [2]	—	300
Long-term debt [2]	2	1,188
	$ 42	$1,571

[1] Includes $77 million of finance receivables and $31 million of assets under operating leases as at January 31, 2006 ($2,291 million and $35 million respectively as at January 31, 2005).

[2] Fiscal year 2005 figures include $588 million related to bank-sponsored securitized floorplan conduits, which were repaid with the proceeds from the sale of the inventory finance operations.

BC's off-balance sheet portfolio of freight cars consists of operating leases whereby BC is the lessee/sub-lessor. The net present value of BC's minimum lease payments was $580 million as at January 31, 2006 ($602 million as at January 31, 2005). BC's undiscounted minimum lease payments related to this portfolio are included in the sale and leaseback section of note 22—Commitments and contingencies.

Assets held for sale include $1,483 million of finance receivables and $1,483 million of liabilities related to consolidated VIEs as at January 31, 2005 (nil as at January 31, 2006). These VIEs consisted of securitization structures created to purchase, on a revolving basis, certain inventory finance receivables. Their assets were legally isolated from the Corporation's general creditors and their investors had no recourse to the Corporation's assets if debtors fail to pay other than for the Corporation's retained subordinated interests of $209 million as at January 31, 2005 (nil as at January 31, 2006). Prior to the adoption of AcG-15, BC was consolidating these entities under existing accounting rules.

The results of operations, including allocated interest expense, were as follows for fiscal years:

	2006	2005
Revenues—Other	$177	$238
Cost of sales	103	109
Selling, general and administrative	34	68
Amortization	2	2
	139	179
Income before income taxes	38	59
Income taxes	14	22
	24	37
Gain (loss), net of tax, on sale of:		
Inventory finance operations	121	—
On-balance sheet manufactured housing operations	(18)	—
Loss, net of tax, related to planned disposal of:		
Off-balance sheet manufactured housing operations	(10)	—
Consumer finance and on- and off-balance sheet freight car operations [1]	(3)	—
	$114	$ 37

[1] Represents estimated severance costs related to these operations, which are expected to be disposed of in fiscal year 2007.

The cash flows from discontinued operations were as follows for fiscal years:

	2006	2005
Operating activities	$ 76	$ 74
Investing activities	70	(79)
Financing activities	(586)	293
	$(440)	$288

Financial Instruments

In fiscal year 2005, the Corporation entered into basis swap agreements to convert certain of its securitized floorplan debt's base interest rate from LIBOR to US Prime minus 2.85%. These swaps were used to align the base interest rate of certain long-term debts to the same basis as the offsetting finance receivables. These swaps were terminated in fiscal year 2006 following the sale of the underlying asset. Total notional amount of the basis swap agreements was $900 million as at January 31, 2005.

In connection with its discontinued consumer finance portfolio, the Corporation entered into interest-rate swap agreements to convert the base interest rate of its finance receivables from fixed to variable interest rates. These swaps will mature in fiscal year 2008. The total notional amount of the interest-rate swap agreements was $13 million as at January 31, 2006 ($20 million as at January 31, 2005).

Sale of Recreational Products Segment

In connection with the sale of Bombardier recreational products segment ("BRP") in fiscal year 2004, the Corporation paid $31 million during fiscal year 2005 as an adjustment to the proceeds on the disposal of this segment, mainly in connection with its commitment towards pension plan funding. This commitment was provided for at the time of sale, and therefore this payment had no impact on the results of operations for fiscal year 2005.

2. Receivables

Receivables were as follows as at January 31:

	2006	2005
Trade receivables [(1)]		
Aerospace		
U.S. dollar	$ 603	$ 425
Other currencies	26	18
Transportation		
Euro	384	245
U.S. dollar	171	167
Sterling pound	145	166
Various western European currencies	67	92
Other currencies	123	90
	1,519	1,203
Retained interests	—	103
Sales tax	57	90
Other	209	191
	1,785	1,587
Allowance for doubtful accounts	(101)	(74)
	$1,684	$1,513

[(1)] Trade receivables are presented based on the invoicing currency.

The Corporation uses securitization facilities as a source of financing. Under these arrangements, the Corporation received proceeds of $408 million on the sale of receivables during fiscal year 2006 ($1,491 million during fiscal year 2005). As at January 31, 2006, the outstanding balance of the receivables transferred to securitization facilities amounted to $2 million ($321 million as at January 31, 2005), $2 million ($218 million as at January 31, 2005) of which were sold. The unsold portion of the receivables transferred is included in "retained interests" above. The retained interests provide credit enhancements for the receivables transferred. These receivables are not available to pay the Corporation's creditors.

3. Aircraft Financing

Aircraft financing was as follows as at January 31:

	2006				2005			
		Weighted-Average				Weighted-Average		
	Total	Maturity (in Months)	Rate[1] (in %)	Fixed/ Variable Rate[1]	Total	Maturity (in Months)	Rate[1] (in %)	Fixed/ Variable Rate[1]
Commercial aircraft								
Interim financing[2]								
Loans	$ 435	79	7.1	Variable	$ 661	71	5.9	Variable
Lease receivables	388	211	7.3	Variable	424	197	6.5	Fix./var.
	823				1,085			
Long-term financing								
Loans	278	109	6.0	Fix./var.	230	125	4.9	Fix./var.
Lease receivables[3]	104	21	6.0	Fix./var.	116	31	5.1	Fix./var.
	382				346			
Business aircraft loans[4]	58	41	5.7	Fix./var.	145	59	6.9	Fix./var.
Total loans and lease receivables	1,263				1,576			
Allowance for credit losses	(84)				(94)			
	1,179				1,482			
Assets under operating leases	230				271			
Investment in financing structures	48				38			
	$1,457				$1,791			

[1] Interest rates are before giving effect to the related derivative financial instruments.

[2] The commercial aircraft interim financing portfolio consists of bridge financing to customers until third-party permanent financing is put in place.

[3] Includes $67 million of lease receivables related to consolidated VIEs as at January 31, 2006 ($78 million as at January 31, 2005).

[4] This portfolio is being wound down.

Loans and Lease Receivables—Financing with three airlines represents approximately 41% of the total loans and lease receivables as at January 31, 2006. Loans and lease receivables are generally collateralized by the related assets.

Lease receivables consist of the following, before allowance for credit losses, as at January 31:

	2006	2005
Total minimum lease payments	$ 978	$ 974
Unearned income	(538)	(523)
Unguaranteed residual value	52	89
	$ 492	$ 540

Allowance for Credit Losses—Changes in the allowance for credit losses were as follows as at January 31:

	2006	2005
Balance at beginning of year	$ 94	$ 80
Provision for credit losses	11	27
Amounts charged off, net of recoveries	(22)	(13)
Effect of foreign currency exchange rate changes	1	—
Balance at end of year	$ 84	$ 94

Impaired loans and lease receivables amounted to $237 million as at January 31, 2006 ($245 million as at January 31, 2005).

Assets Under Operating Leases—Assets under operating leases were as follows as at January 31:

	2006		2005	
	Cost	Net Book Value	Cost	Net Book Value
Pre-owned commercial aircraft	$292	$190	$364	$241
Pre-owned business aircraft	42	40	28	27
Other	—	—	5	3
	$334	$230	$397	$271

Rental income from operating leases and amortization of assets under operating leases amounted to $44 million and $24 million respectively for fiscal year 2006 ($78 million and $48 million respectively for fiscal year 2005).

Off-Balance Sheet Securitizations and Other Transfers of Receivables—In January 2005, the Corporation established a 364-day $1.5 billion financing facility with a third party whereby it sold certain commercial aircraft interim finance receivables to a special-purpose entity ("SPE"). The third-party investor funded 55% of the original finance receivables balance transferred to the SPE. As at January 31, 2005, the Corporation had transferred $306 million of finance receivables to the SPE, in which it had retained a subordinated interest of $137 million and had provided limited credit enhancements. The retained interest portion is included in the commercial aircraft interim financing portfolio. In connection with this transaction, the Corporation provides administrative services to the SPE in return for a market fee. This transaction had no significant impact on the consolidated statements of income. This facility was terminated in fiscal year 2006 and replaced by the RASPRO structure (see note 23—Variable Interest Entities).

4. Inventories

The Corporation's inventories were as follows as at January 31:

	2006	2005
Long-term contracts	$1,517	$1,640
Aerospace programs	1,468	1,616
Finished products [1]	820	757
	$3,805	$4,013

[1] Finished products include six new aircraft not associated with a firm order and eight pre-owned aircraft, totalling $155 million as at January 31, 2006 (three new aircraft and 11 pre-owned aircraft, totalling $95 million as at January 31, 2005).

Aerospace Programs—Aerospace program inventories included the following excess-over-average production costs ("EOAPC") as at January 31:

	2006	2005
Business aircraft		
Learjet Series	$221	$254
Challenger 300	140	117
Global Series	319	411
Regional aircraft [1]		
CRJ Series	54	83
Q-Series	23	54
	$757	$919

[1] The *CRJ200* and *Q200* aircraft had no EOAPC balance outstanding as at January 31, 2006 and 2005.

Anticipated proceeds from future sales of aircraft for each program, net of estimated additional production costs to be incurred, exceeded the related costs in inventories as at January 31, 2006. However, substantial costs may eventually be charged to cost of sales in a given year if fewer than the aircraft program quantity are sold, the proceeds from future sales of aircraft are lower than those anticipated, or the costs to be incurred to complete the program exceed current estimates.

Net recoverable amounts of EOAPC, based solely on existing firm orders as at January 31, 2006, defined as expected net undiscounted cash flows from the sale of aircraft under firm orders, amounted to $614 million. The remaining balance of EOAPC, amounting to $143 million, is expected to be entirely recovered from future orders.

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

Costs incurred and recorded margins related to long-term contracts and costs incurred related to ongoing aerospace programs amounted to $3,378 million and $2,341 million respectively as at January 31, 2006 ($4,089 million and $2,433 million respectively as at January 31, 2005).

Advances received and progress billings on long-term contracts and ongoing aerospace programs amounted to $3,534 million and $1,391 million respectively as at January 31, 2006 ($4,276 million and $1,349 million respectively as at January 31, 2005), $1,673 million and $518 million of which respectively represent a liability disclosed as advances and progress billings in excess of related costs as at January 31, 2006 ($1,827 million and $532 million respectively as at January 31, 2005).

5. Property, Plant and Equipment

Property, plant and equipment were as follows as at January 31:

	2006		2005	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 112	$ 112	$ 131	$ 131
Buildings	1,759	885	1,818	981
Equipment	1,429	560	1,387	595
Aerospace program tooling				
Business aircraft	1,854	914	1,778	1,036
Regional aircraft	1,249	477	1,189	502
Other	168	142	197	167
	$6,571	$3,090	$6,500	$3,412

Included in the above table are capital lease assets with a cost and net book value amounting to $67 million and $56 million respectively as at January 31, 2006 ($73 million and $62 million respectively as at January 31, 2005).

Also included in the above table are assets under construction and development amounting to $37 million as at January 31, 2006 ($32 million as at January 31, 2005).

Amortization of property, plant and equipment was as follows for fiscal years:

	2006	2005
Aerospace program tooling	$254	$244
Buildings, equipment and other	220	224
	$474	$468

6. Goodwill

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (“Adtranz”) acquisition in May 2001. Changes in the goodwill balance were as follows for fiscal years:

	2006	2005
Balance at beginning of year	$2,357	$2,290
Purchase price adjustment	—	(25)
Recognition of previously unrecognized tax losses	(53)	(33)
Effect of foreign currency exchange rate changes	(162)	125
Balance at end of year	$2,142	$2,357

In fiscal year 2005, the Corporation reached a settlement with DaimlerChrysler AG on all outstanding disputes arising from the acquisition of Adtranz, resulting in a payment to the Corporation of €170 million ($209 million). In fiscal year 2002, the Corporation had recorded a purchase price adjustment of €150 million as a reduction of the goodwill in connection with these disputes. The additional €20 million ($25 million) has been recorded as a further reduction of goodwill.

The Corporation completed the required annual impairment test during the fourth quarter of fiscal year 2006 and did not identify any impairment.

7. Other Assets

Other assets were as follows as at January 31**:**

	2006	2005
Prepaid expenses	$178	$ 176
Finite-life intangible assets, net of accumulated amortization of $94 million as at January 31, 2006 ($64 million as at January 31, 2005)	148	195
Investment in companies subject to significant influence [(1)]	97	73
Investment in securities	91	99
Restricted cash [(2)]	81	64
Wind-down portfolios [(3)]	41	65
Investment in preferred shares of BRP	30	30
Derivative financial instruments	28	211
Deposits	14	33
Receivable financing [(4)]	—	59
Other	135	96
	$843	$1,101

[(1)] Related to Transportation.

[(2)] Includes $70 million of restricted cash related to consolidated VIEs as at January 31, 2006 ($61 million as at January 31, 2005).

[(3)] Comprised mainly of BC’s industrial equipment portfolio.

[(4)] Represents financing provided to the acquirer of the Corporation’s former recreational products segment, a related party (see note 18—Transactions with related parties).

Included in the amortization of finite-life intangible assets for fiscal year 2006 is an impairment charge of $17 million in connection with trademarks in Transportation.

8. Short-Term Borrowings

Under banking syndicate agreements, Bombardier Inc. must maintain certain financial covenants including, effective the second quarter of fiscal year 2006, a minimum liquidity of $1.0 billion in cash and cash equivalents at the end of each quarter. The applicable financial covenants (calculated excluding the former BC segment) were met as at January 31, 2006 and 2005.

Credit facilities, rates and maturities were as follows as at January 31, 2006:

	Amounts Committed	Amounts Drawn	Letters of Credit Drawn	Amounts Available	Year-End Rate	Average Rate for the Year	Maturity (Fiscal Year)
European [(1)]	$3,829	$ —	$3,160	$ 669	—	—	2008
European letters of credit [(2)]	353	n/a	327	26	n/a	n/a	2008-2009
North American	1,100	—	762	338	—	—	2008
	$5,282	$ —	$4,249	$1,033			

n/a: not applicable.

(1) €3,150 million.

(2) €290 million.

- In June 2005, the Corporation entered into a new $1.1-billion North American syndicated credit facility to refinance its $1.7-billion Cdn credit facility scheduled to mature in September 2005. The new facility is unsecured and matures in July 2007.
- During fiscal year 2006, the Corporation did not renew BC's sole credit facility, amounting to $600 million.
- During fiscal year 2006, the Corporation did not renew the 364-day portion of its European syndicated credit facility, amounting to €492 million, as the lower remaining credit facilities are consistent with its expected future requirements.

Credit facilities, rates and maturities were as follows as at January 31, 2005:

	Amounts Committed	Amounts Drawn	Letters of Credit Drawn	Amounts Available	Year-End Rate	Average Rate for the Year	Maturity (Fiscal Year)
European [(1)]	$4,753	$ —	$3,103	$1,650	—	—	2006-2008
European letters of credit [(2)]	378	n/a	89	289	n/a	n/a	2008-2009
North American	1,388	—	1,128	260	—	—	2006
BC credit facility	600	—	n/a	600	—	1.9%	2006
	$7,119	$ —	$4,320	$2,799			

n/a: not applicable.

(1) €3,642 million.

(2) €290 million.

- In November 2004, the Corporation entered into a €165-million three-year European letter of credit facility.
- In September 2004, the Corporation renewed the 364-day portion of its North American credit facility. This portion of the facility, totalling $718 million Cdn, replaced the $730-million Cdn short-term portion of the North American credit facility.
- In July 2004, the Corporation renewed the 364-day portion of its European credit facility. This portion of the facility, totalling €492 million, replaced the €560-million short-term portion of the European credit facility.
- In July 2004, the Corporation entered into a €125-million four-year European letter of credit facility.

In addition to the outstanding letters of credit shown in the above tables, the Corporation had bilateral facilities of $79 million as at January 31, 2006 ($287 million as at January 31, 2005).

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were as follows as at January 31:

	2006	2005
Trade accounts payable	$1,944	$2,014
Sales incentives [1]	1,252	1,190
Accrued liabilities	987	1,277
Product warranties	970	1,055
Payroll related liabilities	395	334
Income and other taxes	240	130
Interest	130	113
Severance and other involuntary termination costs	129	251
Provision for repurchase obligations [2]	70	61
Non-controlling interest	28	46
Other	721	614
	$6,866	$7,085

[1] Comprised of provision for credit and residual value guarantees and trade-in options as well as other related provisions and liabilities in connection with the sale of aircraft (see note 22—Commitments and contingencies).

[2] See note 22—Commitments and contingencies.

Product Warranties—Product warranties typically range from one to five years, except for aircraft structural warranties that extend up to 20 years.

Changes in the product warranty provision were as follows for fiscal years 2006 and 2005:

	Aerospace	Transportation	Total
Balance as at January 31, 2004	$ 260	$ 672	$ 932
Current expense	120	370	490
Changes in estimates	27	29	56
Cash paid	(150)	(304)	(454)
Effect of foreign currency exchange rate changes	—	31	31
Balance as at January 31, 2005	257	798	1,055
Current expense	122	332	454
Changes in estimates	15	(41)	(26)
Cash paid	(121)	(348)	(469)
Effect of foreign currency exchange rate changes	—	(44)	(44)
Balance as at January 31, 2006	$ 273	$ 697	$ 970

Severance and Other Involuntary Termination Costs and Other Related Costs—Changes in the provision for severance and other involuntary termination costs and other related costs were as follows for fiscal years 2006 and 2005:

	Severance and Other Involuntary Termination Costs	Other	Total
Balance as at January 31, 2004	$ 201	$ 47	$ 248
Current expense [1]	221	79	300
Changes in estimates [1]	(44)	(46)	(90)
Non-cash items	—	(37)	(37)
Cash paid	(137)	(26)	(163)
Effect of foreign currency exchange rate changes	10	—	10
Balance as at January 31, 2005	251	17	268
Current expense [2]	30	84	114
Changes in estimates [2]	7	(27)	(20)
Non-cash items	—	(4)	(4)
Cash paid	(146)	(40)	(186)
Effect of foreign currency exchange rate changes	(13)	—	(13)
Balance as at January 31, 2006	$ 129	$ 30	$ 159

[1] Of which $38 million has been recorded in cost of sales of Aerospace and $172 million in special items of Transportation (see note 14—Special items).

[2] Of which $6 million has been recorded in cost of sales of Aerospace and $88 million in special items of Transportation (see note 14—Special items).

10. Long-Term Debt

Long-term debt was as follows as at January 31:

	Amount in Currency of Origin 2006/2005	Currency	Fixed/ Variable [2]	Interest Rate [2] 2006 Rate/ 2005 Rate	Maturity	Payment of Interest [3]	2006 Amount	2005 Amount
BOMBARDIER [1]								
Debentures.	nil/150	USD	Fixed	nil/6.58%	Jan. 2006	SA	$ —	$ 150
	175	GBP	Fixed	6.25%	Feb. 2006	A	311	330
	150	CAD	Fixed	6.40%	Dec. 2006	SA	131	121
	500	EUR	Fixed	5.75%	Feb. 2008	A	608	653
	150	CAD	Fixed	7.35%	Dec. 2026	SA	131	121
Notes	29/34	CAD	Fixed	7.00%	2007-2012	A	26	27
	550	USD	Fixed	6.75%	May 2012	SA	550	550
	500	USD	Fixed	6.30%	May 2014	SA	500	500
	250	USD	Fixed	7.45%	May 2034	SA	250	250
Other [4]	59/94	USD	Fix./var.	4.92%/5.54%	2007-2027	Various	59	94
	76/86 (5)	Various	Fix./var.	4.82%/4.63%	2007-2018	Various	76	86
VIEs	80/246	USD	Fixed	5.98%/8.59%	2007-2014	Various	80	246
							$2,722	$3,128
BC [1]								
Medium-term notes	nil/300	USD	Variable	nil/5.44%	May 2005	M	$ —	$ 300
	nil/200	USD	Fixed	nil/7.50%	Oct. 2005	SA	—	200
	450	USD	Fixed	6.13%	Jun. 2006	SA	450	450
	200	CAD	Fixed	6.35%	Jul. 2006	SA	175	162
	220	USD	Fixed	7.09%	Mar. 2007	SA	220	220
Notes	500	EUR	Fixed	6.13%	May 2007	A	608	653
	300	GBP	Fixed	6.75%	May 2009	A	534	565
Other.	38/38 [5]	Various	Fix./var.	10.33%/7.23%	2007-2017	M	38	38
							2,025	2,588
							$4,747	$5,716

[1] Long-term debt related to the Corporation's two manufacturing segments (Aerospace and Transportation) is presented under the heading "Bombardier," while the long-term debt related to the former BC segment is presented under the heading BC.

[2] Interest rates are before giving effect to the related hedging derivative financial instruments (see note 20—Financial instruments) and, for variable-rate debt, represent the average rate for the fiscal year.

[3] Monthly (M), semi-annually (SA) and annually (A).

[4] Includes $68 million relating to obligations under capital leases as at January 31, 2006 ($94 million as at January 31, 2005).

[5] Amounts are expressed in U.S. dollars.

All long-term debt items rank pari-passu and are unsecured, except for the debt of consolidated VIEs which are secured borrowings.

The repayment requirements of the long-term debt during the next five fiscal years and thereafter are as follows:

	Bombardier		BC	
	Debt	Capital Leases	Debt	Total
2007	$ 524	$ 3	$ 627	$1,154
2008	34	3	830	867
2009	615	3	3	621
2010	9	3	537	549
2011	6	4	4	14
Thereafter	1,466	52	24	1,542
	$2,654	$68	$2,025	$4,747

11. Share Capital

Preferred Shares

An unlimited number of non-voting preferred shares, without nominal or par value, issuable in series are authorized. The following series have been issued as at January 31, 2006 and 2005:

12,000,000 Series 2 Cumulative Redeemable Preferred Shares

Redemption: Redeemable, at the Corporation's option, at $25.50 Cdn per share.

Conversion: Convertible on a one-for-one basis, at the option of the holder, on August 1, 2007 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Additionally, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.

Dividend: Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than $24.90 Cdn per share or more than $25.10 Cdn per share.

12,000,000 Series 3 Cumulative Redeemable Preferred Shares

Redemption: Redeemable, at the Corporation's option, at $25.00 Cdn per share on August 1, 2007 and on August 1 of every fifth year thereafter.

Conversion: Convertible on a one-for-one basis, at the option of the holder, on August 1, 2007 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Additionally, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.

Dividend: Until July 31, 2007, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.476% or $1.369 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.34225 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

9,400,000 Series 4 Cumulative Redeemable Preferred Shares

Redemption: Redeemable, at the Corporation's option, any time on or after March 31, 2007, at $26.00 Cdn per share if redeemed prior to March 31, 2008; $25.75 Cdn if redeemed on or after March 31, 2008 but prior to March 31, 2009; $25.50 Cdn if redeemed on or after March 31, 2009 but prior to March 31, 2010; $25.25 Cdn if redeemed on or after March 31, 2010 but prior to March 31, 2011; and $25.00 Cdn if redeemed on or after March 31, 2011.

Conversion: On or after March 31, 2007, the Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of $2.00 Cdn and 95% of the weighted-average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.

Dividend: The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or $1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.390625 Cdn per share.

Common Shares

The following classes of common shares, without nominal or par value, were authorized as at January 31, 2006 and 2005:

1,892,000,000 Class A Shares (Multiple Voting)

Voting rights: 10 votes each.

Conversion: Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

1,892,000,000 Class B Shares (Subordinate Voting)

Voting rights: One vote each.

Conversion: Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.

Dividend: Annual non-cumulative preferential dividend of $0.0015625 Cdn per share, in priority to the Class A Shares (Multiple Voting), payable quarterly on the last day of January, April, July and October of each year at a rate of $0.000390625 Cdn per share, if declared.

12. Share-Based Plans

Share Option Plans

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) initially reserved for issuance, 51,835,696 were available for issuance under these share option plans as at January 31, 2006. The Corporation issued nil Class B Shares (Subordinate Voting) during fiscal year 2006, following the exercise of stock options (882,050 Class B Shares during fiscal year 2005).

Current Performance Share Option Plan—Effective May 27, 2003, the Corporation amended prospectively the share option plan for key employees. This plan was further amended on

March 30, 2004 and is effective for all options granted under this plan. The significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted.
- The options granted vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the option had been granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective.
- As at January 31, 2006, target prices ranged between $4 Cdn and $11 Cdn per option.
- The options terminate no later than seven years after the grant date.

The summarized information on the performance share option plan is as follows as at January 31, 2006:

	Issued and Outstanding			Exercisable	
Exercise Price Range (Cdn$)	Number of Options	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price (Cdn$)	Number of Options	Weighted-Average Exercise Price (Cdn$)
2 to 4	11,828,000	5.59	3.05	2,296,625	3.86
4 to 6	11,029,000	5.35	4.33	2,784,500	4.34
6 to 7	359,000	5.08	6.83	89,750	6.83
	23,216,000			5,170,875	

The number of options has varied as follows for fiscal years:

	2006		2005	
	Number of Options	Weighted-Average Exercise Price (Cdn$)	Number of Options	Weighted-Average Exercise Price (Cdn$)
Balance at beginning of year	19,759,270	4.22	6,646,500	4.00
Granted	7,224,000	2.53	15,402,520	4.31
Exercised	—	—	(8,250)	3.93
Cancelled	(3,767,270)	4.08	(2,281,500)	4.20
Balance at end of year	23,216,000	3.72	19,759,270	4.22
Options exercisable at end of year	5,170,875	4.17	1,388,000	3.99

Prior Share Option Plans—For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options vest at 25% per year during a period beginning two years following the grant date, except for 140,000 outstanding options granted to directors, which vest at 20% per year beginning on the grant date. The options terminate no later than ten years after the grant date.

The summarized information on these options is as follows as at January 31, 2006:

	Issued and Outstanding			Exercisable	
Exercise Price Range (Cdn$)	**Number of Options**	**Weighted-Average Remaining Life (Years)**	**Weighted-Average Exercise Price**	**Number of Options**	**Weighted-Average Exercise Price**
			(Cdn$)		**(Cdn$)**
3 to 5	410,000	0.61	4.70	410,000	4.70
5 to 7	8,500,400	1.12	5.42	8,000,400	5.44
7 to 10	3,379,000	2.03	7.72	3,379,000	7.72
10 to 12	6,958,000	3.22	10.78	6,958,000	10.78
12 to 15	3,903,000	6.09	14.53	2,003,500	14.48
15 to 25	6,957,500	4.77	20.53	6,075,688	20.36
	30,107,900 [1]			26,826,588	

[1] Including three million options held by employees of BRP.

The number of options has varied as follows for fiscal years:

	2006		2005	
	Number of Options	**Weighted-Average Exercise Price**	**Number of Options**	**Weighted-Average Exercise Price**
		(Cdn$)		**(Cdn$)**
Balance at beginning of year	33,703,270	11.50	37,427,486	11.54
Exercised	—	—	(873,800)	3.86
Cancelled	(3,355,370)	11.32	(2,850,416)	14.39
Expired	(240,000)	3.77	—	—
Balance at end of year	30,107,900	11.58	33,703,270	11.50
Options exercisable at end of year	26,826,588	11.15	26,994,458	10.31

Stock-Based Compensation Expense for Options

The weighted-average grant date fair value of stock options granted during fiscal year 2006 was $0.81 per option ($1.06 per option for fiscal year 2005) and the fair value of each option granted was determined using a modified Black-Scholes option pricing model, which incorporates target prices related to the performance share option plan in the fair value calculation, and the following weighted-average assumptions for fiscal years:

	2006	2005
Risk-free interest rate	3.36%	4.16%
Expected life	5 years	5 years
Expected volatility in the market price of the shares	49.95%	49.08%
Expected dividend yield	1.20%	1.20%

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. No compensation expense is recorded in the consolidated statements of income for these awards.

Performance Share Unit Plan

During the second quarter of fiscal year 2006, the Board of Directors of the Corporation approved a performance share unit plan under which performance share units ("PSUs") may be granted to executives and other key employees. A total of 4,180,000 PSUs were authorized for issuance. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting).

During fiscal year 2006, the Corporation granted 4,165,500 PSUs to executives and other key employees (the "beneficiaries") and provided instructions to a trustee under the terms of a Trust Agreement to purchase 5,434,000 Class B Shares (Subordinate Voting) of the Corporation in the open market for $14 million. These shares are held in trust by the trustee for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of the purchase has been deducted from share capital. The PSUs vest on June 10, 2008, if certain financial performance targets are met. The conversion ratio for vested PSUs ranges from 70% to 130%.

The number of PSUs has varied as follows for fiscal year 2006:

	Number of PSUs
Balance at beginning of year	—
Granted	4,165,500
Cancelled	(151,418)
Balance at end of year	4,014,082

Compensation expense of $2 million was recorded during fiscal year 2006 with respect to the PSUs plan (nil for the same period last fiscal year).

Employee Share Purchase Plan

Under the employee share purchase plan, employees of the Corporation are eligible to purchase the Corporation's Class B Shares (Subordinate Voting) up to a maximum of 20% of their base salary to a yearly maximum of $30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but no less often than monthly. The Corporation's contribution to the plan amounted to $4 million for fiscal year 2006 ($6 million for fiscal year 2005). Shares purchased are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

13. Cumulative Translation Adjustment

The components of net change in the cumulative translation adjustment were as follows for fiscal years:

	2006	2005
Balance at beginning of year	$ 195	$128
Effect of changes in exchange rates during the year:		
On the net investment in self-sustaining foreign operations	(163)	97
On certain long-term debt and intercompany loans denominated in foreign currencies designated as hedges of the net investment in self-sustaining foreign operations, net of tax	73	(30)
Balance at end of year	$ 105	$195

14. Special Items

Special items were as follows for fiscal years:

	2006	2005
Severance and other involuntary termination costs	$ 35	$142
Other [(1)]	53	30
	88	172
Income tax recovery	(11)	(18)
	$ 77	$154

[(1)] Comprised of lease termination and environmental costs, as well as other costs, partially offset by non-taxable gains on the sale of land and buildings, amounting to $27 million for fiscal year 2006 (nil for fiscal year 2005).

Special items relate to restructuring activities to reduce the cost structure in Transportation. The restructuring plan contemplates workforce reductions of 7,600 positions, net of new hires, of which 7,300 are permanent positions, as well as site closures. Approximately 7,500 positions, net of new hires, including contractual employees, were eliminated as at January 31, 2006.

The total cost of the restructuring is estimated at $630 million, $609 million of which were recorded as at January 31, 2006.

15. Financing Income and Financing Expense

The Corporation's financing income and financing expense were as follows for fiscal years:

	2006	2005
Financing income		
Loans and lease receivables—after the effect of hedges	$ (93)	$ (58)
Cash and cash equivalents	(51)	(33)
Other	(12)	(13)
	$(156)	$(104)
Financing expense		
Interest on long-term debt [1]—after the effect of hedges	$ 276	$ 238
Accretion expense on sales incentives, including contingent liabilities	65	58
Financing costs in connection with the repurchase of call options [2]	—	19
Other	22	13
	$ 363	$ 328

[1] Includes $11 million for interest related to VIEs for fiscal year 2006 ($5 million for fiscal year 2005).

[2] Related to the Putable/Callable notes.

16. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred income tax asset (liability) were as follows as at January 31:

	2006	2005
Operating losses carried forward	$ 1,763	$ 1,895
Warranty and other provisions	558	403
Accrued benefit liabilities	155	171
Intangible assets	22	17
Inventories	196	108
Property, plant and equipment	(360)	(325)
Other	(1)	8
	2,333	2,277
Valuation allowance	(1,689)	(1,796)
Net amount	$ 644	$ 481

The net amount of deferred income tax is presented on the consolidated balance sheets as follows as at January 31:

	2006	2005
Deferred income tax asset	$653	$522
Deferred income tax liability	(9)	(41)
	$644	$481

Details of income tax expense (recovery) allocated to continuing operations were as follows for fiscal years:

	2006	2005
Current income taxes	$	$
Canada	81	55
Foreign	72	40
Recognition of previously unrecorded tax benefits—foreign	—	(10)
	153	85
Deferred income taxes		
Temporary differences and operating losses carried forward	(21)	(59)
Effect of substantively enacted income tax rate changes	(20)	—
Write down of deferred income tax assets	38	23
Recognition of previously unrecorded tax benefits	(135)	(87)
	(138)	(123)
Income tax expense (recovery)	$ 15	$ (38)

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

	2006		2005	
	$	%	$	%
Income tax expense (recovery) at statutory rates	48	32.0	(51)	31.9
Increase (decrease) resulting from:				
Income tax rates differential of foreign investees	(44)		(63)	
Foreign exchange revaluation of deferred income tax	(25)		(3)	
Non-recognition of tax benefits related to foreign investees' losses and temporary differences	41		106	
Write down of deferred income tax assets	38		23	
Recognition of previously unrecorded tax benefits	(135)		(97)	
Permanent differences	108		42	
Effect of substantively enacted income tax rate changes	(20)		—	
Other	4		5	
Income tax (recovery) expense	15		(38)	

The operating losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which a valuation allowance has been recognized, and the period in which they can be exercised, are as follows as at January 31, 2006:

Less than 1 year	$ 189
From 1 to 5 years	399
From 6 to 10 years	65
From 11 to 15 years	644
From 16 to 20 years	33
	$1,330

In addition, approximately $3.8 billion of operating losses carried forward and other temporary differences have no expiration date.

Approximately $1.7 billion of the above operating losses carried forward and other temporary differences relate to business acquisitions. Any subsequent recognition of these future tax benefits will be recorded as a reduction of the goodwill related to these acquisitions.

Approximately $2.0 billion of the above operating losses carried forward relate to the Corporation's operations in Germany, where a minimum income tax is payable on 40% of taxable income.

In addition, the Corporation has approximately $600 million of available capital losses, most of which can be carried forward indefinitely. Capital losses can only be used against future capital gains, and therefore no deferred tax benefit has been recognized.

Undistributed earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for income taxes has been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

17. Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share were computed as follows for fiscal years:

(Number of shares and stock options in thousands)	2006	2005
Income (loss) from continuing operations	$ 135	$ (122)
Preferred share dividends, net of tax	(25)	(23)
Income (loss) from continuing operations attributable to common shareholders	110	(145)
Income from discontinued operations, net of tax	114	37
Income (loss) attributable to common shareholders	$ 224	$ (108)
Weighted-average number of common shares outstanding	1,748,429	1,750,292
Net effect of stock options	—	59
Weighted-average diluted number of common shares outstanding	1,748,429	1,750,351
Basic and diluted earnings (loss) per share:		
From continuing operations	$ 0.06	$ (0.08)
From discontinued operations	0.07	0.02
	$ 0.13	$ (0.06)

The effect of the exercise of stock options was excluded from the calculation of diluted earnings per share in the above table, except for 1,582,438 stock options for fiscal year 2005, since the average market value of the underlying shares was less than the exercise price or the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) for the respective periods. For fiscal year 2005, the effect of the exercise of stock options on loss per common share from continuing operations was anti-dilutive.

18. Transactions With Related Parties

Transactions with BRP, a company with common significant shareholders with Bombardier Inc., were as follows for fiscal years:

	2006	2005
Volume of receivable financing	$36	$227
Inventory financing revenues [1]	$12	$ 30

[1] Included in Income from discontinued operations, net of tax.

Receivable Financing—BRP and the Corporation entered into a receivable financing agreement. In the ordinary course of business, the Corporation purchased receivables from BRP, from which it earned financing revenues. The financing agreement was for a maximum of $115 million and expired in June 2005.

Inventory Financing—BRP and the Corporation entered into a retail floorplan inventory financing agreement for retailers of BRP products. In the ordinary course of business, the Corporation earned financing revenues related to BRP sales incentive programs in connection with retailer financing provided by the Corporation. The inventory financing agreement was for a maximum amount of $750 million.

These transactions were measured at exchange amounts, which approximate fair value.

In May 2005, the Corporation sold the inventory finance operations to GE (see note 1—Discontinued Operations and assets held for sale).

19. Net Change in Non-Cash Balances Related to Operations

Net change in non-cash balances related to operations was as follows for fiscal years:

	2006	2005
Receivables	$(194)	$ 67
Aircraft financing	295	(386)
Inventories	143	424
Fractional ownership deferred costs	(128)	(142)
Accounts payable and accrued liabilities	(90)	84
Advances and progress billings in excess of related costs	(80)	(302)
Fractional ownership deferred revenues	162	163
Accrued benefit liabilities, net	(14)	(37)
Other (mainly "Other assets")	6	102
	$ 100	$ (27)

20. Financial Instruments

The Corporation is subject to foreign currency and interest rate fluctuations. The Corporation is party to a number of derivative financial instruments, mainly forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements to hedge a portion of its foreign currency and interest rate risk. These derivative financial instruments are used to manage foreign currency and interest-rate risks on assets, liabilities and financial commitments, as well as on forecasted foreign currency cash flows.

Foreign Currency Risk

Forward Foreign Exchange Contracts—The forward foreign exchange contracts, by major currency, were as follows as at January 31:

2006

Buy Currency	Notional Amount [1]	U.S. Dollar Equivalent	Sell Currency	Rate [2]	Maturity (Fiscal Year)
CAD	$3,679	$3,216	USD	1.2399	2007-2010
EUR	1,288	1,565	USD	0.8135	2007-2011
GBP	406	723	USD	0.5604	2007-2008
SEK	3,751	493	EUR	9.2754	2007-2010
EUR	383	466	GBP	1.4402	2007-2012
CHF	522	408	EUR	1.5264	2007-2010
USD	340	340	CAD	0.7664	2007-2008
SEK	2,496	328	GBP	12.847	2007-2011
USD	206	206	Other	—	2007-2010
USD	174	174	EUR	1.2331	2007-2011
Other	455	455	Other	—	2007-2011
Other	189	189	EUR	—	2007-2009

(1) Notional amounts are expressed in the buy currency, except for the categories "Other" that are expressed in U.S. dollars.

(2) The rate represents the weighted-average committed foreign exchange rate.

2005

Buy Currency	Notional Amount [1]	U.S. Dollar Equivalent	Sell Currency	Rate [2]	Maturity (Fiscal Year)
CAD	$3,749	$3,028	USD	1.3106	2006-2010
EUR	1,425	1,860	USD	0.7692	2006-2009
GBP	417	785	USD	0.5710	2006-2007
USD	609	609	EUR	1.2431	2006-2007
CHF	519	437	EUR	1.5229	2006-2010
USD	378	378	CAD	0.7594	2006-2008
SEK	1,959	281	EUR	9.1874	2006-2010
SEK	1,629	233	GBP	12.4524	2006-2011
USD	226	226	Other	—	2006-2010
EUR	157	204	GBP	1.4317	2006-2012
Other	424	424	Other	—	2006-2011
Other	301	301	EUR	—	2006-2009

(1) Notional amounts are expressed in the currency, except for the categories "Other" that are expressed in U.S. dollars.

(2) The rate represents the weighted-average committed foreign exchange rate.

- In Aerospace, forward foreign exchange contracts are mainly to sell U.S. dollars and buy Canadian dollars and sterling pounds to hedge forecasted foreign currency cash flows.

- In Transportation, forward foreign exchange contracts are mainly to sell or purchase U.S. dollars, sterling pounds, euros and other western European currencies to hedge forecasted foreign currency cash flows.

Interest-Rate Risk

Interest-Rate Swap Agreements—Interest-rate swap agreements were as follows as at January 31:

2006					
Notional Amount [1] (U.S. Dollar Equivalent)	**Currency**	**Receive Rate [2]**	**Pay Rate [2]**	**Maturity (Fiscal Year)**	**Hedged Item**
		Fixed Rate	**Variable Rate**		
$500(608)	EUR	6.13%	6-month EUROLIBOR + (3.01%–3.69)%	2008	Long-term debt–BC
550	USD	6.75%	3-month LIBOR + 2.28%	2013	Long-term debt–Bombardier
500	USD	6.30%	3-month LIBOR + 1.60%	2015	Long-term debt–Bombardier
450	USD	2.07%–2.15%	1-month LIBOR	2007	Long-term debt–BC
200(356)	GBP	6.75%	3-month LIBOR + 1.85%	2010	Long-term debt–BC
220	USD	4.96%	1-month LIBOR	2008	Long-term debt–BC
200(175)	CDN	6.35%	1-month CDOR + 3.42%	2007	Long-term debt–BC
		Variable Rate	**Fixed Rate**		
$120	USD	1-month LIBOR	5.24%–5.28%	2023	Aircraft financing–interim
89	USD	6-month LIBOR	6.61%	2014	Financial commitments
33(59)	GBP	3-month LIBOR	5.62%	2013	Financial commitments
19	USD	1-month LIBOR + 5.24%	8.69%	2016	Aircraft financing–long-term
17	USD	1-month LIBOR	5.02%	2019	Aircraft financing–interim
26	Other	CDOR, LIBOR or EUROLIBOR	5.08%–7.97%	2007-2014	Aircraft financing–long-term
18	Other	CDOR or LIBOR	6.13%–12.28%	2009-2012	Financial commitments

[1] Notional amounts are expressed in the currency of origin, except for the categories "Other" that are expressed in U.S. dollars.

[2] LIBOR: London Interbank offered rate; EUROLIBOR: Euro Area Interbank offered rate and CDOR: Canadian Deposit offered rate.

2005					
Notional Amount [1] (U.S. Dollar Equivalent)	Currency	Receive Rate	Pay Rate	Maturity (Fiscal Year)	Hedged Item
		Fixed Rate	Variable Rate		
$550	USD	6.75%	3-month LIBOR + 2.28%	2013	Long-term debt–Bombardier
500	USD	6.30%	3-month LIBOR + 1.60%	2015	Long-term debt–Bombardier
450	USD	2.07%–2.15%	1-month LIBOR	2007	Long-term debt–BC
250(326)	EUR	6.13%	Various	2008	Long-term debt–BC
220	USD	4.96%	Various	2008	Long-term debt–BC
200	USD	1.72%–1.78%	1-month LIBOR	2006	Long-term debt–BC
200(162)	CDN	6.35%	Various	2007	Long-term debt–BC
		Variable Rate	Fixed Rate		
$89	USD	6-month LIBOR	6.61%	2014	Financial commitments
33	USD	1-month LIBOR	5.90%	2009	Aircraft financing–long-term
28	USD	1-month LIBOR	3.90%	2018	Aircraft financing–long-term
19	USD	1-month LIBOR + 5.24%	8.69%	2016	Aircraft financing–long-term
18	USD	1-month LIBOR	6.13%	2010	Aircraft financing–long-term
13	USD	1-month LIBOR	4.14%	2017	Aircraft financing–long-term
33(62)	GBP	3-month LIBOR	5.62%	2013	Financial commitments
36	Other	CDOR, LIBOR or EUROLIBOR	5.19%–7.97%	2006-2014	Aircraft financing–long-term
18	Other	CDOR or LIBOR	6.13%–12.28%	2009-2012	Financial commitments

[1] Notional amounts are expressed in the currency of origin, except for the categories “Other” that are expressed in U.S. dollars.

Cross-Currency Interest-Rate Swap Agreements—Cross-currency interest-rate swap agreements were as follows as at January 31:

2006							
Buy Currency	Notional Amount	Pay Currency	Notional Amount	Receive Rate	Pay Rate	Maturity (Fiscal Year)	Hedged Item
GBP	$100	USD	$164	6.75%	1-month LIBOR + 2.28%	2010	Long-term debt—BC
USD	164	EUR	124	1-month LIBOR + 2.28%	6-month EUROLIBOR + 2.40%	2010	Net foreign investment

2005							
Buy Currency	Notional Amount	Pay Currency	Notional Amount	Receive Rate	Pay Rate	Maturity (Fiscal Year)	Hedged Item
EUR	$250	USD	$226	6.13%	1-month LIBOR + 1.31%	2008	Long-term debt–BC
GBP	300	USD	456	6.75%	1-month LIBOR + 1.61%	2010	Long-term debt–BC
USD	164	EUR	124	1-month LIBOR + 2.28%	6-month EUROLIBOR + 2.40%	2010	Net foreign investment

Interest-Rate Cap Agreements—The notional amount of the interest-rate cap agreements was $340 million as at January 31, 2006 ($359 million as at January 31, 2005). The interest-rate cap strike rates compare to one-month LIBOR and vary between 1.95% and 5.70%. The notional amounts amortize monthly until fiscal year 2013 when the last outstanding agreement (notional amount of $233 million) terminates.

Fair Value of Financial Instruments

The fair value of financial instruments for which the carrying amount reported is different from the fair value was as follows as at January 31:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans and lease receivables [(1)]	$1,263	$1,265	$1,576	$1,569
Long-term debt—Bombardier	2,722	2,561	3,128	2,904
Long-term debt—BC	2,025	2,028	2,588	2,579
Derivative financial instruments:				
Forwards				
Favourable	9	296	30	261
Unfavourable	(10)	(130)	—	(127)
Interest-rate cap	—	29	—	26
Swaps [(2)]				
Favourable	28	36	211	299
Unfavourable	—	(48)	(11)	(30)

[(1)] Included in Aircraft financing.

[(2)] Includes interest-rate and cross-currency interest-rate swap agreements.

The fair values disclosed are based on information available to management as at January 31, 2006 and 2005. The estimated fair value of certain financial instruments has been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Corporation could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair values of financial instruments have been established as follows:

- ***Cash and Cash Equivalents, Receivables and Accounts Payable and Accrued Liabilities***—The carrying amounts reported on the consolidated balance sheets approximate the fair values.
- ***Loans and Lease Receivables***—The fair values of variable-rate loans and lease receivables that reprice frequently and have no significant change in credit risk, approximate the carrying values. The fair values of fixed-rate loans and lease receivables are estimated based on discounted cash flow analyses, using discount rates applicable to financial assets with similar terms as those of the borrowers and similar credit quality.
- ***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.
- ***Derivative Financial Instruments***—The fair values generally reflect the estimated amounts that the Corporation would receive upon the settlement of favourable contracts or be required to pay to terminate unfavourable contracts at the reporting dates. Investment dealers' quotes from the Corporation's bankers are available for substantially all of the Corporation's derivative financial instruments.

Credit Risk

In addition to the credit risk described elsewhere in these Consolidated Financial Statements, the Corporation is subject to risks related to the off-balance sheet nature of derivative financial instruments, whereby counter-party failure would result in economic losses on favourable contracts. However, the counter-parties to these derivative financial instruments are investment grade financial institutions that the Corporation anticipates will satisfy their obligations under the contracts.

21. Employee Future Benefits

Defined Benefit Pension Plans—The Corporation sponsors several Canadian and foreign-funded and unfunded defined benefit pension plans covering a majority of its employees. Defined benefits under salaried plans are generally based on salary and years of service. Some of the hourly plans provide benefits based on stated amounts for each year of service.

The most recent actuarial valuation for funding purposes of the Corporation's funded pension plans, excluding U.K. plans, was prepared with an effective date of December 31, 2004. The next actuarial valuation will be completed during the second and third quarters of fiscal year 2007 with an effective date of December 31, 2005. The most recent actuarial valuation dates for funding purposes of the U.K. plans range between December 2004 and June 2005. The next required actuarial valuation dates range between December 2007 and June 2008.

Defined Contribution Pension Plans—The Corporation offers Canadian and foreign defined contribution pension plans covering a portion of its employees, mainly in Aerospace. Defined contributions are based on a percentage of salary.

Benefits Other Than Pension—The Corporation provides post-employment and post-retirement benefit plans. These benefit plans essentially consist of self-insured long-term disability plans in Canada and post-retirement health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the accrued benefit assets (liabilities) recognized in the consolidated balance sheets as at January 31:

	2006			2005		
Amounts Recognized	**Canada**	**Foreign**	**Total**	**Canada**	**Foreign**	**Total**
Accrued benefit assets						
Pension plans	$ 293	$ 91	$ 384	$ 235	$ 118	$ 353
Accrued benefit liabilities						
Pension plans	(56)	(539)	(595)	(55)	(585)	(640)
Benefits other than pension	(233)	(49)	(282)	(209)	(48)	(257)
	$(289)	$(588)	$(877)	$(264)	$(633)	$(897)

Defined Benefit Pension Plans

The significant actuarial assumptions adopted to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December-31 measurement date preceding the fiscal year end):

	2006			2005		
Actuarial Assumptions	**Canada**	**Foreign**	**Total**	**Canada**	**Foreign**	**Total**
(in percentage)						
Projected benefit obligation						
Discount rate	5.00	4.61	4.77	6.00	5.06	5.39
Rate of compensation increase	3.25	3.53	3.43	3.50	3.61	3.57
Benefit cost						
Discount rate	6.00	5.06	5.39	6.00	5.37	5.59
Expected long-term rate of return on plan assets	7.12	7.26	7.20	7.14	7.59	7.40
Rate of compensation increase	3.50	3.61	3.57	4.00	3.85	3.90

The following tables present the changes in the projected benefit obligation and fair value of plan assets for the 12-month period ended December 31, and their allocation by major countries as at the December-31 measurement date preceding the fiscal year end:

	2006			2005		
Projected Benefit Obligation	**Canada**	**Foreign**	**Total**	**Canada**	**Foreign**	**Total**
Obligation at beginning of period	$1,843	$3,404	$5,247	$1,637	$3,087	$4,724
Current service cost	60	106	166	61	98	159
Interest cost	112	171	283	105	173	278
Plan participants' contributions	21	28	49	21	28	49
Plan amendments	11	(3)	8	10	3	13
Actuarial loss (gain)	289	338	627	(32)	30	(2)
Benefits paid	(88)	(107)	(195)	(80)	(105)	(185)
Curtailment	—	(10)	(10)	(2)	(16)	(18)
Settlement	—	(10)	(10)	—	(9)	(9)
Special termination benefits	—	—	—	2	—	2
Effect of exchange rate changes	186	(184)	2	121	115	236
Obligation at end of period	$2,434	$3,733	$6,167	$1,843	$3,404	$5,247
U.K.			$2,530			$2,218
Canada			2,434			1,843
U.S.A.			445			386
Germany			382			401
Switzerland			220			235
Other			156			164
			$6,167			$5,247

	2006			2005		
Plan Assets	Canada	Foreign	Total	Canada	Foreign	Total
Fair value at beginning of period	$1,402	$1,919	$3,321	$1,111	$1,501	$2,612
Actual return on plan assets	159	228	387	83	153	236
Employer contributions	153	174	327	181	293	474
Plan participants' contributions	21	28	49	21	28	49
Benefits paid	(88)	(107)	(195)	(80)	(105)	(185)
Settlement	—	(10)	(10)	(2)	(10)	(12)
Other	—	—	—	—	(1)	(1)
Effect of exchange rate changes	136	(99)	37	88	60	148
Fair value at end of period	$1,783	$2,133	$3,916	$1,402	$1,919	$3,321
Canada			$1,783			$1,402
U.K.			1,664			1,513
U.S.A.			291			222
Switzerland			154			160
Other			24			24
			$3,916			$3,321

The reconciliation of the funded status of the pension plans to the amounts recorded on the consolidated balance sheets was as follows as at January 31:

	2006			2005		
Funded Status	Canada	Foreign	Total	Canada	Foreign	Total
Fair value of plan assets	$ 1,783	$ 2,133	$ 3,916	$ 1,402	$ 1,919	$ 3,321
Projected benefit obligation	(2,434)	(3,733)	(6,167)	(1,843)	(3,404)	(5,247)
Funded status—deficit	(651)	(1,600)	(2,251)	(441)	(1,485)	(1,926)
Unamortized net actuarial loss	812	1,145	1,957	556	1,014	1,570
Unamortized past service costs	64	(1)	63	57	(7)	50
Contributions paid in January	12	8	20	8	11	19
Accrued benefit assets (liabilities)	$ 237	$ (448)	$ (211)	$ 180	$ (467)	$ (287)

Included in the above table are plans with projected benefit obligation in excess of plan assets as follows:

	2006			2005		
Projected Benefit Obligation in Excess of Plan Assets	Canada	Foreign	Total	Canada	Foreign	Total
Fair value of plan assets	$ 1,300	$ 1,976	$ 3,276	$ 1,014	$ 1,719	$ 2,733
Projected benefit obligation	(1,996)	(3,603)	(5,599)	(1,490)	(3,230)	(4,720)
	$ (696)	$(1,627)	$(2,323)	$ (476)	$(1,511)	$(1,987)

Plan assets are held in trust and their weighted-average allocations were as follows as at the December-31 measurement date:

Plan Assets (in percentage)	Target Allocation	Actual Allocation	
Asset category	2007	2006	2005
Cash and cash equivalents	3	4	3
Publicly-traded equity securities	60	62	57
Publicly-traded fixed income securities	37	34	37
Privately-held equity securities and other	—	—	3

As at December 31, 2005 and 2004, the publicly-traded equity securities did not include any of the Corporation's shares.

The following table provides the components of the benefit cost for fiscal years:

	2006			2005		
Benefit Cost	Canada	Foreign	Total	Canada	Foreign	Total
Current service cost	$ 60	$ 106	$ 166	$ 61	$ 98	$ 159
Interest cost	112	171	283	105	173	278
Actual return on plan assets	(159)	(228)	(387)	(83)	(153)	(236)
Actuarial loss (gain)	289	338	627	(32)	30	(2)
Plan amendments	11	(3)	8	10	3	13
Curtailment loss (gain)	—	(6)	(6)	1	(15)	(14)
Settlement loss	—	—	—	2	—	2
Special termination benefits	—	—	—	2	—	2
Other	—	1	1	—	1	1
Benefit cost before adjustments to recognize the long-term nature of the plans	313	379	692	66	137	203
Difference between actual and expected return on plan assets	56	94	150	(12)	16	4
Difference between actual actuarial loss (gain) and the amount recognized	(265)	(288)	(553)	53	18	71
Amortization of past service costs	(5)	3	(2)	(6)	(2)	(8)
Benefit cost recognized	$ 99	$ 188	$ 287	$101	$ 169	$ 270

Defined Contribution Pension Plans

Cash contributions to the defined contribution pension plans, which correspond to the benefit cost recognized, amounted to $26 million for fiscal year 2006 ($27 million for fiscal year 2005).

Benefits Other Than Pension

The significant actuarial assumptions used to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December-31 measurement date preceding the fiscal year end):

Actuarial Assumptions	2006			2005		
(in percentage)	Canada	Foreign	Total	Canada	Foreign	Total
Projected benefit obligation						
Discount rate	5.00	5.32	5.04	6.00	5.75	5.96
Rate of compensation increase	3.25	3.92	3.43	3.50	4.00	3.64
Benefit cost						
Discount rate	6.00	5.75	5.96	6.00	5.90	5.98
Rate of compensation increase	3.50	4.00	3.64	4.00	4.00	4.00

As at December 31, 2005, the health care cost trend rate, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 9.5% and to decrease to 5.5% by fiscal year 2010 and then remain at that level for all participants. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on projected benefit obligation	$40	$(35)
Effect on benefit cost recognized	$ 4	$ (3)

The following table presents the changes in the projected benefit obligation for the 12-month period ended December 31, and its allocation by major countries as at the December-31 measurement date preceding the fiscal year end:

	2006			2005		
Projected Benefit Obligation	Canada	Foreign	Total	Canada	Foreign	Total
Obligation at beginning of period	$270	$58	$328	$228	$51	$279
Current service cost	9	2	11	9	2	11
Interest cost	15	3	18	14	3	17
Plan amendments	(1)	—	(1)	—	—	—
Actuarial loss	53	1	54	16	4	20
Benefits paid	(13)	(3)	(16)	(13)	(4)	(17)
Curtailment gain	—	(1)	(1)	—	(4)	(4)
Effect of exchange rate changes	28	(1)	27	16	6	22
Obligation at end of period	$361	$59	$420	$270	$58	$328
Canada			$361			$270
U.S.A.			40			39
U.K			12			12
Other			7			7
			$420			$328

The reconciliation of the funded status of the benefit plans other than pensions to the amounts recorded on the consolidated balance sheets was as follows for fiscal years:

	2006			2005		
Funded Status	**Canada**	**Foreign**	**Total**	**Canada**	**Foreign**	**Total**
Deficit	$(361)	$(59)	$(420)	$(270)	$(58)	$(328)
Unamortized net actuarial loss	129	10	139	61	10	71
Unamortized past service costs	(2)	—	(2)	(1)	—	(1)
Benefits paid in January	1	—	1	1	—	1
Accrued benefit liabilities	$(233)	$(49)	$(282)	$(209)	$(48)	$(257)

The following table provides the components of the benefit cost for fiscal years:

	2006			2005		
Benefit Cost	**Canada**	**Foreign**	**Total**	**Canada**	**Foreign**	**Total**
Current service cost	$ 9	$ 2	$ 11	$ 9	$ 2	$ 11
Interest cost	15	3	18	14	3	17
Actuarial loss	53	1	54	14	4	18
Plan amendments	(1)	—	(1)	—	—	—
Curtailment gain	—	(1)	(1)	—	(2)	(2)
Benefit cost before adjustments to recognize the long-term nature of the plans	76	5	81	37	7	44
Difference between actual actuarial loss for the year and the amount recognized	(39)	—	(39)	(9)	(4)	(13)
Amortization of past service costs	1	—	1	—	—	—
Benefit cost recognized	$ 38	$ 5	$ 43	$28	$ 3	$ 31

22. Commitments and Contingencies

In addition to the commitments and contingencies described elsewhere in these Consolidated Financial Statements, the Corporation is subject to other off-balance sheet risks. The table below presents the maximum potential exposure for each major group of exposure as at January 31. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

Certain of these off-balance sheet risks are also included in note 23—Variable interest entities.

	2006		2005	
	Maximum Potential Exposure	Provisions and Liabilities [1]	Maximum Potential Exposure	Provisions and Liabilities [1]
Aircraft sales				
Credit (a)	$1,409		$1,074	
Residual value (a)	2,565		2,481	
Mutually exclusive exposure [2]	(892)		(811)	
Total credit and residual value exposure	$3,082	$952	$2,744	$817
Trade-in options (b)	1,230	11	1,470	24
Fractional ownership put options (c)	1	—	21	5
Other [3]				
Credit and residual value (e)	170	—	181	—
Repurchase obligations (f)	165	70	175	61
Performance guarantees (g)	938	—	1,031	—

[1] Included in accounts payable and accrued liabilities.

[2] Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.

[3] In addition, the Corporation has also provided other guarantees (see section h).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. The provisions for anticipated losses have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third party evaluations, the anticipated proceeds from other assets covering such exposures, as well as liabilities available to mitigate the exposures. The anticipated proceeds from the collaterals are expected to cover the Corporation's total credit and residual value exposure, after taking into account the provisions and liabilities.

Aircraft Sales

a) Credit Guarantees and Residual Value Guarantees—The Corporation provides credit guarantees in the form of lease and loan payments guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2025. Substantially all financial support involving potential credit risk lies with commercial airline customers. The credit risk relating to three commercial airline customers accounted for 61% of the total maximum credit risk as at January 31, 2006. In most circumstances, a claim under a credit guarantee may be made only upon sale of the underlying aircraft to a third party.

In addition, the Corporation provides guarantees for the residual value of aircraft at the expiry date of certain financing and lease agreements. The guarantee provides for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under a residual value guarantee may be made upon resale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees as at January 31, 2006, and the period in which they can be exercised:

Less than 1 year	$ 25
From 1 to 5 years	157
From 6 to 10 years	573
From 11 to 15 years	984
Thereafter	826
	$2,565

b) Trade-in Options—In connection with the sale of new aircraft, the Corporation provides, from time to time, trade-in options to customers. These options allow customers to trade in their pre-owned aircraft at a predetermined amount and during a predetermined period, conditional upon purchase of a new aircraft.

The Corporation's commitment to purchase pre-owned aircraft, as at the earliest exercise date, was as follows as at January 31, 2006:

Less than 1 year	$ 873
From 1 to 3 years	141
From 4 to 5 years	181
Thereafter	35
	$1,230

The Corporation reviews its trade-in aircraft purchase commitments relative to the aircraft's anticipated fair value and records anticipated losses as a charge to income. Fair value is determined using both internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. Provisions relating to anticipated losses on trade-in options amounted to $11 million as at January 31, 2006 ($18 million as at January 31, 2005). These provisions were based on the likelihood that these options will be exercised. In addition, a provision related to trade-in commitments in connection with firm orders for new aircraft amounted to $1 million as at January 31, 2006 ($6 million as at January 31, 2005).

c) Fractional Ownership Put Options—Under the North American *Flexjet* Fractional ownership program, certain customers can trade in their fractional shares of aircraft at predetermined amounts for fractional shares of a larger model at predetermined amounts. The total commitment to repurchase fractional shares of aircraft, in exchange for fractional shares of a larger model, was $1 million as at January 31, 2006 ($21 million as at January 31, 2005). Provisions relating to anticipated losses based on the likelihood that these options will be exercised amounted to nil as at January 31, 2006 ($5 million as at January 31, 2005).

In addition, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled $573 million as at January 31, 2006 ($527 million as at

January 31, 2005). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

d) Financing Commitments—The Corporation has committed to provide financing in relation to the future sale of aircraft scheduled for delivery through fiscal year 2010 and in connection with a $296 million off-balance sheet financing facility, which, net of third party financing already arranged, amounted to $2.2 billion as at January 31, 2006. The Corporation mitigates its exposure to interest and credit risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment and by entering into interest-rate cap agreements.

Other Guarantees

e) Credit and Residual Value Guarantees—In connection with the sale of certain transportation rail equipment, Bombardier has provided a credit guarantee of lease payment amounting to $46 million as at January 31, 2006 ($45 million as at January 31, 2005). This guarantee matures in fiscal year 2026 and relates to one customer. In addition, at the expiry date of certain financing and other agreements, the Corporation provides residual value guarantees amounting to $124 million as at January 31, 2006 ($136 million as at January 31, 2005), mostly in Transportation. These guarantees are mainly exercisable in 2012.

f) Repurchase Obligations—The Corporation has provided certain financing providers in Transportation the right, under certain conditions, to sell back equipment to the Corporation at predetermined prices. An amount of $165 million as at January 31, 2006 ($175 million as at January 31, 2005), relates to two agreements whereby the Corporation may be required, beginning in fiscal year 2009, upon customer default on payments to the financing providers, to repurchase the equipment. In addition, on three separate dates, beginning in fiscal year 2009, the Corporation may also be required to repurchase the equipment. In connection with this commitment, funds have been deposited in cash collateral accounts by the customer, which, together with accumulated interest, are expected to entirely cover the Corporation's exposure. A provision for repurchase obligations amounting to $70 million is included in accounts payable and accrued liabilities as at January 31, 2006 ($61 million as at January 31, 2005).

g) Performance Guarantees—In certain projects carried out through consortia or other partnership vehicles in Transportation, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for a default by the other partner. These projects normally provide counter indemnities among the partners. These obligations and guarantees typically extend until final product acceptance by the customer. The Corporation's maximum exposure to projects for which the exposure of the Corporation is capped amounted to approximately $178 million as at January 31, 2006 ($228 million as at January 31, 2005). For projects for which the exposure of the Corporation is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's exposure would amount to approximately $760 million as at January 31, 2006 ($803 million as at January 31, 2005). Such joint and several obligations and guarantees have been rarely called upon in the past, and no significant liability has been recognized in the Consolidated Financial Statements in connection with these obligations and guarantees.

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

Sale and Leaseback

The Corporation concluded third-party sale and leaseback transactions mostly relating to freight cars, a discontinued operation (see Note 1—Discontinued operations and assets held for sale), and pre-owned aircraft.

Details of minimum lease payments for the next five fiscal years and thereafter are as follows:

	Rental Payments	Residual Value Guarantees	Total
2007	$ 73	$—	$ 73
2008	74	43	117
2009	63	—	63
2010	67	—	67
2011	73	—	73
Thereafter	672	—	672
	$1,022	$43	$1,065

Minimum lease payments include $978 million for freight cars, $45 million for pre-owned aircraft and $42 million for other equipment.

Expected minimum sub-lease rentals from operators and the net benefit of the estimated resale value of the equipment approximate the amount of minimum lease payments.

Rent expense related to sale and leaseback arrangements was $83 million for fiscal year 2006 ($89 million for fiscal year 2005).

Operating Leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations on the sale of new aircraft. The related minimum lease payments for the next five fiscal years and thereafter are as follows:

	Buildings and Equipment	Aircraft	Residual Value Guarantees	Total
2007	$ 92	$ 37	$—	$129
2008	62	27	—	89
2009	59	22	—	81
2010	42	15	—	57
2011	38	10	—	48
Thereafter	207	12	63	282
	$500	$123	$63	$686

Rent expense related to operating leases was $165 million for fiscal year 2006 ($178 million for fiscal year 2005).

Other Commitments

The Corporation has commitments under agreements to outsource a significant portion of its information technology function in Aerospace and Transportation with a logistic provider for the Corporation's centrally-located spare parts warehouses in Aerospace. The related minimum payments for the next five fiscal years and thereafter are as follows:

2007	$189
2008	176
2009	156
2010	137
2011	24
Thereafter	52
	$734

The Corporation receives government financial support from various levels of government, related to the development of aircraft. Certain financial support programs require the Corporation to pay amounts to governments, at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. The contingently repayable government support (undiscounted) mostly based on future deliveries of aircraft, amounted to $535 million as at January 31, 2006. The amount repayable based solely on the total of the remaining accounting aircraft program quantities was $226 million as at January 31, 2006.

Litigations

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. district court of the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others for alleged violations of federal securities laws relating to BCMSC's Senior/Subordinated Pass-Through Certificates, Series 2000-A due January 15, 2030. On April 15, 2005, the plaintiffs filed an amended complaint, such amendments include the inclusion of all open market purchasers of BCMSC's Senior/Subordinated Pass-Through Certificates, Series 1998-A, Series 1998-B, Series 1998-C, Series 1999-A, Series 1999-B, Series 2000-A and Series 2000-B as part of the putative class. While the Corporation cannot predict the outcome of any legal proceedings, based on information currently available, the Corporation believes that it has strong defences and it intends to vigorously defend its position.

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

While the Corporation cannot predict the final outcome of legal proceedings that were pending as at January 31, 2006, based on information currently available, Management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

23. Variable Interest Entities

The following table summarizes by segment the significant VIEs in which the Corporation has a variable interest as at January 31:

	2006		2005	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Aerospace				
Financing structures related to the sale of regional aircraft [(1)]	$ 6,946	$4,106	$ 5,306	$2,871
Sale of rights under manufacturing contracts	—	—	166	154
Sale and leaseback structure	15	15	16	16
Transportation				
Partnership arrangements	4,805	4,326	4,352	4,035
Sale support guarantee	529	523	663	662
Cash collateral accounts	70	70	61	61
	12,365	9,040	10,564	7,799
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	67	65	78	76
Sale of rights under manufacturing contracts	—	—	166	154
Sale and leaseback structure	15	15	16	16
Cash collateral accounts	70	70	61	61
	152	150	321	307
Assets and liabilities of non-consolidated VIEs	$12,213	$8,890	$10,243	$7,492

[(1)] Increase in fiscal year 2006, mainly relates to the closing of the RASPRO facility, a $1.7-billion securitization transaction related to the sale of 70 regional aircraft.

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. The consolidation of debt resulting from the application of AcG-15 is excluded from the computation of the Corporation's debt covenant ratio for structures existing prior to May 1, 2004. All consolidated debt is related to structures existing prior to May 1, 2004. Additionally, the consolidation of VIEs did not result in any change in the underlying tax, legal or credit exposure of the Corporation.

Aerospace

Financing Structures Related to the Sale of Regional Aircraft—The Corporation has provided credit and/or residual value guarantees to certain special purpose entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs' long-term debt. The Corporation's variable interests in these SPEs are in the form of credit and residual value guarantees and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only two of them, which were consolidated. For all other SPEs, consolidation is not appropriate under AcG-15. For purposes of determining whether the Corporation is the primary beneficiary, certain financing structures related to the sale of regional aircraft were grouped together when they had common characteristics, such as same customer, aircraft type, lease terms and financial support. The Corporation's maximum potential exposure relating to the non-consolidated SPEs was $2.1 billion, of which $551 million of provisions and liabilities were available to cover the Corporation's exposure as at January 31, 2006 ($1.6 billion and $295 million respectively as at January 31, 2005). The Corporation's maximum exposure under these guarantees is presented in note 22—Commitments and contingencies.

RASPRO Facility—In September 2005, a $1.7-billion securitization transaction was completed to provide permanent financing in the form of long-term leases for 70 regional aircraft. In connection with this transaction, the Corporation has provided certain credit enhancements and has acquired a subordinated beneficial interest. In addition, the Corporation provides administrative services in return for market fees. Of the $1.7-billion gross proceeds, approximately $500 million was used to pay third parties under off-balance sheet interim financing structures. After giving effect to the payment of expenses and other payments, the Corporation received approximately $1.0 billion for the assets transferred.

After the closing of the securitization, it was discovered that the cash flows of the RASPRO structure would be different than anticipated. As of March 28, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, are considering ways to adjust the cash flows of RASPRO. Various solutions are being considered, including the involvement of various parties, and these solutions could involve, in part, the Corporation purchasing assets for cash or providing other consideration, the implementation of which would not have a material adverse effect on the Corporation. Holders of the RASPRO securities benefit from various third-party guarantees.

RASPRO is subject to the consolidation rules applicable to VIEs, which require variable interest holders to reassess the appropriateness of consolidation when certain events take place. The contemplated adjustments to the RASPRO cash flows would be a reconsideration event under the VIEs rules and, the Corporation being a variable interest holder, an assessment of whether or not this entity should be consolidated by the Corporation will be performed if and when the adjustments to the cash flows are adopted.

Sale of Rights Under Manufacturing Contracts—In 1995, the Corporation entered into an agreement with LR Jet Corporation ("LR Jet"), a company created for the sole purpose of purchasing, on a revolving basis, rights under certain aircraft manufacturing contracts from the Corporation. The purchase price was essentially financed by long-term debt issued to third-party investors. The Corporation concluded that LR Jet is a VIE and the Corporation is the primary beneficiary; accordingly, LR Jet was consolidated. As of January 31, 2006, the long-term debt of LR Jet has been repaid in full.

Transportation

Partnership Arrangements—The Corporation entered into partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long-term services, such as the operation and maintenance of rail equipment.

The Corporation's involvement with entities created in connection with these partnership arrangements is mainly through investments in their equity and/or in subordinated loans and through manufacturing, selling and long-term service contracts. The Corporation concluded that certain of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement. As at January 31, 2006 and 2005, the Corporation's maximum off-balance sheet exposure to loss related to these non-consolidated VIEs, other than from its contractual obligations, was not material.

As at January 31, 2006 and 2005, the Corporation had the following involvement with significant partnership arrangements which qualify as VIEs:

- In April 2003, Metronet Rail BCV Holdings Ltd. and Metronet Rail SSL Holdings Ltd. (together "Metronet"), in which the Corporation has a 20% equity interest, were awarded contracts for the renewal, modernization and maintenance of two of the London Underground's infrastructure projects. As part of its involvement with Metronet, the Corporation was awarded firm supply contracts to provide metro cars, signalling, maintenance and management services to Metronet.
- The Corporation has a 20% equity interest in Consorzio Treno Veloce Italiano ("TREVI"), an entity which was awarded, starting in May 1992, a series of contracts, including the supply of ETR 500 locomotives and railcars as well as their maintenance and refurbishment, for which the Corporation was selected as a sub-supplier to TREVI.
- In May 2004, Arrow Light Rail Holdings Ltd. and Arrow Light Rail Ltd. (together "Arrow"), in which the Corporation has a 12.5% equity interest, were awarded contracts for the design, manufacture, operation and maintenance of the Nottingham Express Transit Line One System located in the U.K. As part of its involvement with Arrow, the Corporation was awarded the operation and maintenance service contract.
- In June 2004, Yong-In LRT Co., Ltd ("Yong-In"), in which the Corporation has a 26% interest, was established to build and operate a light rail system in the city of Yong-In, South Korea. As part of its involvement with Yong-In, the Corporation is responsible for project management, system integration, mobilization and test running, and providing vehicles and other equipment.

Sale Support Guarantee—In August 1998, the Corporation provided residual value guarantees on diesel electric multiple unit trains sold to Lombard Leasing Contracts Limited ("Lombard"). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of $124 million as at January 31, 2006 ($135 million as at January 31, 2005). The Corporation's maximum exposure under these guarantees is presented in note 22—Commitments and contingencies.

Cash Collateral Accounts—In connection with the sale of rail equipment by Adtranz prior to its acquisition by the Corporation in May 2001, the purchasers have been provided with the right, under certain conditions, to sell back the equipment to the Corporation at predetermined prices on three separate dates, beginning in fiscal year 2009. In addition, the Corporation may be required, beginning in fiscal year 2009, upon customer default on payments to the financing providers, to repurchase the equipment.

As a result of this commitment, Fabian Investments Limited and Lineal Investments Limited were created and cash was deposited in a cash collateral account by the lessee of the equipment. This cash, together with accumulated interest, is expected to entirely cover the Corporation's exposure. The Corporation concluded that these SPEs are VIEs and the Corporation is their primary beneficiary; accordingly, these SPEs were consolidated. Their assets, consisting of restricted cash, are presented in Other assets, and their liabilities, consisting of a provision for repurchase obligations, are presented in Accounts payable and accrued liabilities on the Corporation's consolidated balance sheets.

24. Reclassification

Certain of the comparative figures have been reclassified (see basis of presentation) to conform to the presentation adopted in fiscal year 2006.

25. Segment Disclosure

Effective the fourth quarter of fiscal year 2006, the operations of BC ceased to be reported as a distinct segment since they no longer meet the accounting definition of a reportable segment following an internal reorganization for purposes of decision making and performance assessment. This internal reorganization was triggered by the size and nature of BC's remaining operations.

BC's remaining portfolios, mainly related to interim and long-term financing of regional aircraft and the business aircraft lending operations, are now managed by Aerospace and, consequently, all revenues and expenses included in earnings (loss) before financing income and expense and income taxes ("EBIT") are part of the results of operations of this segment. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense. Comparative figures of Aerospace have been reclassified accordingly. See Basis of presentation for further information.

As a result of these changes, the Corporation now has two reportable segments: Aerospace and Transportation. Each reportable segment offers different products and services and requires different technology and marketing strategies.

Aerospace

Aerospace is a manufacturer of business, regional and amphibious aircraft and a provider of related services. It offers comprehensive families of regional jet and turboprop commercial aircraft and a wide range of business jets. It also provides the *Flexjet* Fractional ownership and hourly flight time entitlement programs, parts logistics, technical services, aircraft maintenance and pilot training.

Transportation

Transportation is the global leader in the rail equipment manufacturing and servicing industry and offers a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides electrical propulsion and control equipment, as well as complete rail transportation systems and rail control solutions. Transportation is also a provider of maintenance services.

The accounting policies of the segments are the same as those described in the Summary of significant accounting policies.

Management assesses the segment performance of its manufacturing segments based on EBIT.

Corporate charges are allocated to segments mostly based on each segment's revenues. Intersegment transactions are carried out in the normal course of business and are measured at the exchange value, which is the consideration determined and accepted by the related segments.

Net segmented assets exclude cash and cash equivalents, deferred income taxes and assets held for sale, and are net of accounts payable and accrued liabilities (excluding income taxes and interest payable), advances and progress billings in excess of related costs, fractional ownership deferred revenues and accrued benefit liabilities.

The tables containing the detailed segmented data are shown hereafter.

Bombardier, Bombardier Global 5000, Challenger, Challenger 300, Challenger 604, Challenger 605, CRJ, CRJ200, Flexjet, Global, Global Express, Learjet, Q200 and *Q-Series* are trademarks of Bombardier Inc. or its subsidiaries.

Segment Data

		Bombardier Inc. Consolidated		Aerospace		Transportation	
Industry Segments	**Notes**	**2006**	**2005** **(restated-note 1)**	**2006**	**2005** **(restated-note 1)**	**2006**	**2005**
External revenues							
Manufacturing		$10,708	$11,526	$6,352	$5,904	$4,356	$5,622
Services		2,537	2,386	1,208	1,116	1,329	1,270
Other		1,481	1,634	527	960	954	674
		14,726	15,546	8,087	7,980	6,639	7,566
Intersegment revenues		—	—	—	—	14	18
Segmented revenues		14,726	15,546	8,087	7,980	6,653	7,584
Cost of sales		12,719	13,754	6,925	6,922	5,808	6,850
Selling, general and administrative		842	859	398	382	444	477
Research and development		175	148	92	62	83	86
Amortization		545	549	406	411	139	138
Special items	14	88	172	—	—	88	172
		14,369	15,482	7,821	7,777	6,562	7,723
Income (loss) from continuing operations before financing income and expense, and income taxes		$ 357	$ 64	$ 266	$ 203	$ 91	$ (139)
Net segmented assets		$ 3,637	$ 4,352	$3,205	$4,115	$ 432	$ 237
Liabilities allocated to segments:							
Accounts payable and accrued liabilities [(1)]		6,645	6,911				
Advances and progress billings in excess of related costs		2,191	2,359				
Fractional ownership deferred revenues		325	163				
Accrued benefit liabilities		877	897				
Assets not allocated to segments:							
Cash and cash equivalents		2,917	2,344				
Deferred income tax asset		653	522				
Assets held for sale		237	2,582				
Total consolidated assets		$17,482	20,130				
Additions to property, plant and equipment		$ 329	$ 305	$ 228	$ 208	$ 101	$ 97

(1) Excluding interest and income taxes payable amounting to $130 million and $91 million respectively as at January 31, 2006 ($113 million and $61 million as at January 31, 2005) which are not allocated to segments.

Segment Data

Geographic Information	Revenues [1]		Property, Plant and Equipment, Intangible Assets and Goodwill [2]	
	2006	2005	2006	2005
United States	$ 5,810	$ 6,291	$ 391	$ 362
United Kingdom	1,573	2,167	714	723
Germany	1,529	1,585	1,287	1,423
Canada	825	458	1,975	2,222
France	707	541	34	35
Italy	387	391	127	138
Spain	346	407	8	9
Switzerland	250	609	279	303
Netherlands	245	323	—	—
Japan	219	100	—	—
Sweden	205	331	428	487
China	196	265	16	19
Austria	174	375	5	11
Portugal	76	100	9	9
Other—Europe	565	675	88	204
Other—Americas	649	383	10	9
Other—Asia	586	141	2	2
Other—Pacific	313	216	7	7
Other	71	188	—	1
	$14,726	$15,546	$5,380	$5,964

[1] Revenues are attributed to countries based on the location of the customer.

[2] Property, plant and equipment and intangible assets are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the purchase price.

BOMBARDIER INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions of U.S. dollars, except number of shares)

	Notes	July 31, 2006	January 31, 2006
ASSETS			
Cash and cash equivalents	6	$ 1,794	$ 2,917
Receivables		1,968	1,684
Aircraft financing	2	1,102	1,457
Inventories	3	4,000	3,805
Property, plant and equipment		3,048	3,090
Goodwill		2,247	2,142
Fractional ownership deferred costs		280	270
Deferred income taxes		702	653
Accrued benefit assets		385	384
Assets held for sale	4	101	237
Other assets	5	849	843
		$16,476	$17,482
LIABILITIES			
Accounts payable and accrued liabilities	7	$ 6,565	$ 6,866
Advances and progress billings in excess of related costs	3	2,182	2,191
Fractional ownership deferred revenues		339	325
Deferred income taxes		10	9
Long-term debt	8	3,867	4,747
Accrued benefit liabilities		919	877
Liabilities related to assets held for sale	4	19	42
		13,901	15,057
SHAREHOLDERS' EQUITY			
Preferred shares			
Issued and outstanding:			
Series 2: 2,597,907		51	51
Series 3: 9,402,093		148	148
Series 4: 9,400,000		148	148
Common shares			
Issued and outstanding:			
Class A: 317,178,736 (319,260,212 as at January 31, 2006)		29	29
Class B: 1,433,288,232 (1,431,206,756 as at January 31, 2006)		1,413	1,413
Purchased and held in trust under the performance share unit plan: 5,434,000 Class B		(14)	(14)
Contributed surplus		27	20
Retained earnings		593	525
Cumulative translation adjustment		180	105
		2,575	2,425
		$16,476	$17,482
Commitments and contingencies	15		

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

BOMBARDIER INC.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

(in millions of U.S. dollars, except per share amounts)

		Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	Notes	**2006**	**2005**	**2006**	**2005**
			(restated—note 1)		**(restated—note 1)**
Revenues					
Manufacturing		$2,454	$2,628	$4,970	$5,427
Services		663	600	1,290	1,224
Other		398	405	781	739
		3,515	3,633	7,041	7,390
Cost of sales		3,000	3,125	6,043	6,402
Selling, general and administrative		215	210	423	422
Research and development		41	51	86	91
Amortization		133	128	261	260
Special items	10	—	34	24	26
		3,389	3,548	6,837	7,201
Income from continuing operations before the following:		126	85	204	189
Financing income	11	(39)	(32)	(78)	(65)
Financing expense	11	88	91	176	178
Income from continuing operations before income taxes		77	26	106	76
Income taxes		20	16	28	25
Income from continuing operations		57	10	78	51
Income from discontinued operations, net of tax	4	1	107	4	121
Net income		$ 58	$ 117	$ 82	$ 172
Earnings per share:	12				
Basic and diluted					
From continuing operations		$ 0.03	$ —	$ 0.04	$ 0.02
Net income		$ 0.03	$ 0.06	$ 0.04	$ 0.09
Retained earnings at beginning of period		$ 542	$ 350	$ 525	$ 301
Net income		58	117	82	172
Dividends on preferred shares		(7)	(6)	(14)	(12)
Retained earnings at end of period		$ 593	$ 461	$ 593	$ 461

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

BOMBARDIER INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(in millions of U.S. dollars)

		Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	Notes	**2006**	**2005**	**2006**	**2005**
			(restated—note 1)		**(restated—note 1)**
Operating activities					
Income from continuing operations		$ 57	$ 10	$ 78	$ 51
Non-cash items:					
Amortization		133	128	261	260
Provision for credit losses	2	14	1	14	3
Deferred income taxes		(17)	(25)	(31)	(9)
Gain on disposals of property, plant and equipment		(1)	—	(1)	(1)
Stock-based compensation	9	4	3	7	5
Special items	10	—	34	24	26
Net change in non-cash balances related to operations	13	7	(367)	(585)	(691)
Cash flows from operating activities		197	(216)	(233)	(356)
Investing activities					
Additions to property, plant and equipment		(54)	(74)	(164)	(139)
Disposals of property, plant and equipment		3	35	4	37
Disposal of discontinued operations, net of cash disposed	4	67	1,363	67	1,363
Other		24	95	13	124
Cash flows from investing activities		40	1,419	(80)	1,385
Financing activities					
Proceeds from issuance of long-term debt		—	1	—	7
Repayment of long-term debt	8	(646)	(374)	(967)	(403)
Dividends paid		(7)	(6)	(14)	(12)
Cash flows from financing activities		(653)	(379)	(981)	(408)
Effect of exchange rate changes on cash and cash equivalents		50	(169)	116	(189)
Cash flows from continuing operations		(366)	655	(1,178)	432
Cash flows from discontinued operations	4	6	(492)	50	(481)
Net increase (decrease) in cash and cash equivalents		(360)	163	(1,128)	(49)
Cash and cash equivalents at beginning of period		2,154	2,143	2,922	2,355
Cash and cash equivalents at end of period (1)		$1,794	$2,306	$ 1,794	$2,306
(1) Included the following:					
Cash and cash equivalents related to:					
Continuing operations		$1,794	$2,302	$ 1,794	$2,302
Discontinued operations	4	—	4	—	4
		$1,794	$2,306	$ 1,794	$2,306
Supplemental information					
Cash paid for:					
Interest		$ 128	$ 139	$ 201	$ 228
Income taxes		$ 30	$ 12	$ 50	$ 23

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended July 31, 2006
(Unaudited)
(Tabular figures in millions of U.S. dollars, unless otherwise indicated)

Bombardier Inc. ("the Corporation") is incorporated under the laws of Canada and is a manufacturer of transportation equipment, including business and regional aircraft and rail transportation equipment.

1. Basis of Presentation

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim consolidated financial statements, and follow the same accounting policies and methods in their application as the most recent annual Consolidated Financial Statements. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim consolidated financial statements. Such adjustments are of a normal and recurring nature. The interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Corporation's annual report for fiscal year 2006.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full fiscal year. Historically, the aerospace segment ("Aerospace") has had higher aircraft deliveries during the fourth quarter compared to the first three quarters of the fiscal year, generating higher revenues and gross margin in this quarter.

During fiscal year 2006, the Corporation continued its strategy of reducing Bombardier Capital's ("BC") operations and BC ceased to be reported as a separate segment effective the fourth quarter of fiscal year 2006. The most significant changes in the basis of presentation of the Corporation's interim consolidated financial statements include the following:

- *Discontinued Operations and Assets Held for Sale*—BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows, and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets (see note 4—Discontinued operations and assets held for sale).

- *Aircraft Financing*—BC's core operations consisting of commercial aircraft financing, and business aircraft lending operations, are managed by Aerospace and therefore, these operations are part of the aerospace segment's results. BC's portfolios related to aircraft financing operations are included in Aircraft financing, together with other assets related to aircraft financing of Aerospace. The remainder of BC's operations is not significant and the related assets are included in Other assets in the consolidated balance sheets.

- *Presentation of BC*—The financial position, results of operations and cash flows of BC are no longer presented in separate columns in the consolidated balance sheets, statements of income and statements of cash flows.

- *Financing Income and Financing Expense*—Interest income, including interest income generated from the portfolios of the former BC segment, is classified in Financing income. BC's interest income was previously included in Financing revenues and other interest income was included in Interest expense, net. The interest expense on the long-term debt of the former BC segment, previously included in Cost of sales, is classified in Financing expense. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense.

Bombardier Inc. and its subsidiaries carry out their operations in two distinct segments, the aerospace segment and the transportation segment ("Transportation"), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified. Most legal entities of Transportation use a December 31 fiscal year end. As a result, the Corporation consolidates the operations of Transportation with a one-month lag with the remainder of its operations. To the extent that significant transactions or events occur during the one-month lag period, the Corporation's interim consolidated financial statements are adjusted accordingly.

Certain of the comparative figures were reclassified to conform to the presentation adopted in the current period.

2. Aircraft Financing

Aircraft financing was as follows as at:

	July 31, 2006	January 31, 2006
Commercial aircraft		
Interim financing [1]		
Loans	$ 180	$ 435
Lease receivables	233	388
	413	823
Long-term financing		
Loans	315	278
Lease receivables [2]	116	104
	431	382
Business aircraft loans [3]	47	58
Total loans and lease receivables	891	1,263
Allowance for credit losses	(99)	(84)
	792	1,179
Assets under operating leases	269	230
Investment in financing structures	41	48
	$1,102	$1,457

[1] The commercial aircraft interim financing portfolio consists of bridge financing to customers until third party permanent financing is put in place.

[2] Includes $44 million of lease receivables related to consolidated variable interest entities ("VIEs") as at July 31, 2006 ($67 million as at January 31, 2006).

[3] This portfolio is being wound down.

Loans and Lease Receivables—Financing with four airlines represents approximately 46% of the total loans and lease receivables as at July 31, 2006 (three airlines represented 41% as at January 31, 2006). Loans and lease receivables are generally collateralized by the related assets.

Allowance for Credit Losses—Changes in the allowance for credit losses were as follows:

	Three-Month Periods Ended July 31		Six-Month Periods Ended July 31	
	2006	2005	2006	2005
Balance at beginning of period	$84	$95	$84	$94
Provision for credit losses	14	1	14	3
Amounts charged off, net of recoveries	1	(3)	1	(4)
Balance at end of period	$99	$93	$99	$93

Impaired loans and lease receivables amounted to $61 million as at July 31, 2006 ($237 million as at January 31, 2006).

Assets Under Operating Leases—Assets under operating leases were as follows as at:

	July 31, 2006		January 31, 2006	
	Cost	Net Book Value	Cost	Net Book Value
Pre-owned commercial aircraft	$299	$215	$292	$190
Pre-owned business aircraft	61	54	42	40
	$360	$269	$334	$230

3. Inventories

Inventories were as follows as at:

	July 31, 2006	January 31, 2006
Long-term contracts		
Costs incurred and recorded margins	$ 3,380	$ 3,378
Less: payments received and progress billings [1]	(1,694)	(1,861)
	1,686	1,517
Aerospace programs		
Costs incurred	2,424	2,341
Less: payments received [2]	(1,016)	(873)
	1,408	1,468
Finished products [3]	906	820
	$ 4,000	$ 3,805

[1] Payments received, regarded as payments on account of work performed, amounting to $1,694 million as at July 31, 2006 ($1,861 million as at January 31, 2006), have been deducted from long-term contract inventories. Advances received and progress billings in excess of related costs, amounting to $1,695 million as at July 31, 2006 ($1,673 million as at January 31, 2006), represent a liability disclosed as advances and progress billings in excess of related costs on the consolidated balance sheets.

[2] Payments received, regarded as payments on account of work performed, amounting to $1,016 million as at July 31, 2006 ($873 million as at January 31, 2006), have been deducted from aerospace program inventories. Advances received in excess of related costs, amounting to $487 million as at July 31, 2006 ($518 million as at January 31, 2006), represent a liability disclosed as advances and progress billings in excess of related costs on the consolidated balance sheets.

[3] Finished products included four new aircraft not associated with a firm order and 11 pre-owned aircraft, totalling $149 million as at July 31, 2006 (six new aircraft and eight pre-owned aircraft, totalling $155 million as at January 31, 2006).

During the second quarter of fiscal year 2007, due to increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* programs as a result of changing scope clauses in the U.S., the Corporation decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a cumulative catch-up adjustment of $74 million was recorded in cost of sales.

4. Discontinued Operations and Assets Held for Sale

In May 2006, the Corporation sold its consumer finance operations for cash proceeds of $67 million, which resulted in an after-tax loss of $2 million.

Discontinued operations and assets held for sale include the following operations of BC:

- inventory finance, sold in May 2005;
- on-balance sheet manufactured housing, sold in July 2005;
- off-balance sheet manufactured housing, transfer of servicing rights and obligations completed in March 2006;
- consumer finance, sold in May 2006; and
- on- and off-balance sheet freight cars.

The related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets and the related results of operations have been presented as discontinued operations in the consolidated statements of income and cash flows for all periods presented.

The assets held for sale and the related liabilities were as follows as at:

	July 31, 2006	January 31, 2006
Assets		
Cash and cash equivalents	$ —	$ 5
Receivables	12	58
Deferred income taxes	31	33
Other assets [1]	58	141
	$101	$237
Liabilities		
Accounts payable and accrued liabilities	$ 19	$ 40
Long-term debt	—	2
	$ 19	$ 42

[1] Includes $31 million of assets under operating leases as at July 31, 2006 ($77 million of finance receivables and $31 million of assets under operating leases as at January 31, 2006).

The results of operations, including allocated interest expense, were as follows:

	Three-Month Periods Ended July 31		Six-Month Periods Ended July 31	
	2006	2005	2006	2005
Revenues—Other	$23	$ 47	$48	$125
Cost of sales	17	29	34	70
Selling, general and administrative	1	10	5	26
Amortization	—	1	—	2
	18	40	39	98
Income before income taxes	5	7	9	27
Income taxes	2	3	3	9
	3	4	6	18
Gain (loss), net of tax, on sale of:				
Inventory finance operations	—	121	—	121
On-balance sheet manufactured housing operations	—	(18)	—	(18)
Consumer finance operations	(2)	—	(2)	—
	$ 1	$107	$ 4	$121

The cash flows from discontinued operations were as follows:

	Three-Month Periods Ended July 31		Six-Month Periods Ended July 31	
	2006	2005	2006	2005
Operating activities	$ 6	$ (23)	$52	$ 37
Investing activities	—	109	—	70
Financing activities	—	(578)	(2)	(588)
	$ 6	$(492)	$50	$(481)

5. Other Assets

Other assets were as follows as at:

	July 31, 2006	January 31, 2006
Prepaid expenses	$164	$178
Finite-life intangible assets, net of accumulated amortization of $106 million as at July 31, 2006 ($94 million as at January 31, 2006)	147	148
Investment in companies subject to significant influence [1]	130	97
Investment in securities	88	91
Restricted cash [2]	85	81
Wind-down portfolios [3]	29	41
Derivative financial instruments	28	28
Loans	19	14
Deposits	19	14
Investment in preferred shares of the Corporation's former recreational products segment	—	30
Other	140	121
	$849	$843

[1] Related mostly to Transportation.

[2] Includes $70 million of restricted cash related to consolidated VIEs as at July 31, 2006 and January 31, 2006.

[3] Comprised mainly of BC's industrial equipment portfolio.

6. Short-Term Borrowings

Under banking syndicate agreements, the Corporation must maintain certain financial covenants, including a minimum liquidity of $1.0 billion in cash and cash equivalents at the end of each quarter. The applicable financial covenants (calculated excluding the former BC segment) were met as at July 31, 2006 and January 31, 2006.

Credit facilities and their maturities were as follows as at July 31, 2006:

	Amounts Committed	Amounts Drawn	Letters of Credit Drawn	Amounts Available	Maturity (Fiscal Year)
European	4,020 [1]	$ —	$2,825	$1,195	2008
European letters of credit	370 [2]	n/a	330	40	2008-2009
North American	1,100	—	843	257	2008
	5,490	$ —	$3,998	$1,492	

n/a: not applicable.

[1] €3,150 million.

[2] €290 million.

Credit facilities and their maturities were as follows as at January 31, 2006:

	Amounts Committed	Amounts Drawn	Letters of Credit Drawn	Amounts Available	Maturity (Fiscal Year)
European	3,829 [1]	$ —	$3,160	$ 669	2008
European letters of credit	353 [2]	n/a	327	26	2008-2009
North American	1,100	—	762	338	2008
	$5,282	$ —	$4,249	$1,033	

n/a: not applicable.

[1] €3,150 million.

[2] €290 million.

In addition to the outstanding letters of credit shown in the above tables, the Corporation had letters of credit of $102 million as at July 31, 2006 ($79 million as at January 31, 2006).

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were as follows as at:

	July 31, 2006	January 31, 2006
Trade accounts payable	$1,900	$1,944
Sales incentives [1]	1,062	1,252
Accrued liabilities	1,023	987
Product warranties	989	970
Payroll-related liabilities	402	395
Income and other taxes	212	240
Severance and other involuntary termination costs	98	129
Interest	71	130
Provision for repurchase obligations [2]	70	70
Non-controlling interest	42	28
Other	696	721
	$6,565	$6,866

[1] Comprised of provision for credit and residual value guarantees and trade-in options as well as other related provisions and liabilities in connection with the sale of aircraft (see note 15—Commitments and contingencies).

[2] See note 15—Commitments and contingencies.

Severance and Other Involuntary Termination Costs and Other Related Costs—Changes in the provision for severance and other involuntary termination costs and other related costs were as follows for the three- and six-month periods ended July 31, 2006 and 2005:

	Severance and Other Involuntary Termination Costs	Other	Total
Balance as at January 31, 2006	$129	$ 30	$159
Current expense [(1)]	4	20	24
Changes in estimates [(1)]	(12)	—	(12)
Cash paid	(15)	(27)	(42)
Effect of foreign currency exchange rate changes	3	1	4
Balance as at April 30, 2006	109	24	133
Cash paid	(12)	(4)	(16)
Effect of foreign currency exchange rate changes	1	—	1
Balance as at July 31, 2006	$ 98	$ 20	$118

(1) The charge of $24 million has been recorded in special items of Transportation (see note 10—Special items) and the changes in estimates of $12 million has been recorded in cost of sales of Aerospace.

	Severance and Other Involuntary Termination Costs	Other	Total
Balance as at January 31, 2005	$251	$ 17	$268
Current expense [(1)]	8	12	20
Changes in estimates [(1)]	—	(27)	(27)
Cash received (paid)	(37)	26	(11)
Effect of foreign currency exchange rate changes	(2)	—	(2)
Balance as at April 30, 2005	220	28	248
Current expense [(2)]	7	33	40
Changes in estimates [(2)]	(8)	—	(8)
Cash paid	(21)	(23)	(44)
Effect of foreign currency exchange rate changes	(10)	—	(10)
Balance as at July 31, 2005	$188	$ 38	$226

(1) Of which an income of $8 million has been recorded in special items of Transportation (see note 10—Special items) and a charge of $1 million has been recorded in cost of sales of Aerospace.

(2) Of which a charge of $34 million has been recorded in special items of Transportation (see note 10—Special items) and an income of $2 million has been recorded in cost of sales of Aerospace.

8. Long-Term Debt

The Corporation's long-term debt included $57 million related to consolidated VIEs as at July 31, 2006 ($80 million as at January 31, 2006), which relates to structures existing prior to May 1, 2004.

- In July 2006, BC repaid at maturity medium-term notes amounting to $200 million Cdn ($176 million).

- In June 2006, BC repaid at maturity medium-term notes amounting to $450 million.

- In February 2006, the Corporation repaid at maturity debentures amounting to £175 million ($305 million).

9. Share-Based Plans

Share Option Plans

The number of stock options granted to purchase Class B Shares (Subordinate Voting) and the related weighted-average grant date fair value were as follows:

	Three-Month Periods Ended July 31		Six-Month Periods Ended July 31	
	2006	2005	2006	2005
Number of stock options granted	7,367,500	6,944,000	7,367,500	6,974,000
Weighted-average grant date fair value	$ 1.44	$ 0.80	$ 1.44	$ 0.80

The fair value of each option granted was determined using an option pricing model and the following weighted-average assumptions:

	Three-Month Periods Ended July 31		Six-Month Periods Ended July 31	
	2006	2005	2006	2005
Risk-free interest rate	4.21%	3.35%	4.21%	3.35%
Expected life	5 years	5 years	5 years	5 years
Expected volatility in market price of shares	53.06%	50.06%	53.06%	50.06%
Expected dividend yield	—%	1.20%	—%	1.20%

There were 48,090,900 and 53,323,900 options issued and outstanding as at July 31, 2006 and January 31, 2006, respectively. No options were exercised during the three- and six-month periods ended July 31, 2006 and 2005.

Compensation expense of $2 million and $4 million respectively was recorded during the three- and six-month periods ended July 31, 2006 ($3 million and $5 million respectively during the same periods last fiscal year) with respect to share option plans.

All awards granted or modified prior to February 1, 2003 were accounted for as capital transactions. No compensation expense is recorded in the consolidated statements of income for these awards.

Performance Share Unit Plan

In June 2006, the Corporation granted 4,268,500 performance share units (“PSUs”) to executives and other key employees. The PSUs vest on June 7, 2009 if certain financial performance targets are met. The conversion ratio for vested PSUs ranges from 70% to 150%.

There were 8,127,029 and 4,014,082 PSUs issued and outstanding as at July 31, 2006 and January 31, 2006, respectively.

Compensation expense of $2 million and $3 million respectively was recorded during the three- and six-month periods ended July 31, 2006 (nil for the same periods last fiscal year) with respect to the PSU plan.

10. Special Items

Special items were as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	**2005**	**2006**	**2005**
Severance and other involuntary termination costs	$ —	$ 1	$ 4	$ 8
Other [1]	—	33	20	18
	—	34	24	26
Income tax recovery	—	(2)	(2)	(7)
	$ —	$32	$22	$19

[1] Comprised of lease termination and environmental costs, as well as other costs. For the six-month period ended July 31, 2005, also comprised of non-taxable gains on the sale of land and buildings, amounting to $27 million.

Special items relate to restructuring activities to reduce the cost structure in Transportation. The restructuring plan is essentially completed. All charges related to the restructuring plan, amounting to $633 million, were recorded as of April 30, 2006. Net cash outflows are expected to amount to $467 million, of which $374 million had been disbursed as of July 31, 2006. For the three- and six-month periods ended July 31, 2006, net cash outflows amounted to $16 million and $57 million ($37 million and $40 million for the same periods last fiscal year).

11. Financing Income and Financing Expense

The Corporation's financing income and financing expense were as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Financing income				
Loans and lease receivables—after effect of hedges	$(13)	$(21)	$ (35)	$ (42)
Cash and cash equivalents	(16)	(10)	(31)	(18)
Dividends on preferred shares	(7)	—	(7)	—
Other	(3)	(1)	(5)	(5)
	$(39)	$(32)	$ (78)	$ (65)
Financing expense				
Interest on long-term debt—after effect of hedges	$ 71	$ 71	$135	$139
Accretion expense on sales incentives, including contingent liabilities	13	16	29	32
Other	4	4	12	7
	$ 88	$ 91	$176	$178

12. Earnings per Share

Basic and diluted earnings per share were computed as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
(Number of Shares in Thousands)	2006	2005	2006	2005
Income from continuing operations	$ 57	10	$ 78	$ 51
Preferred share dividends, net of tax	(7)	(6)	(14)	(12)
Income from continuing operations attributable to common shareholders	50	4	64	39
Income from discontinued operations, net of tax	1	107	4	121
Net income attributable to common shareholders	$ 51	111	$ 68	$ 160
Weighted-average basic and diluted number of common shares outstanding	1,745,033	1,750,467	1,745,033	1,750,467
Basic and diluted earnings per share:				
From continuing operations	$ 0.03	$ —	$ 0.04	$ 0.02
From discontinued operations	—	0.06	—	0.07
	$ 0.03	$ 0.06	$ 0.04	$ 0.09

The effect of the exercise of stock options was excluded from the calculation of diluted earnings per share in the above table since the average market value of the underlying shares was less than the exercise price or the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) for the respective periods.

13. Net Change in Non-Cash Balances Related to Operations

Net change in non-cash balances related to operations was as follows:

	Three-Month Periods Ended July 31,		Six-Month Periods Ended July 31,	
	2006	2005	2006	2005
Receivables	$(197)	$(205)	$(253)	$(236)
Aircraft financing	264	(97)	159	(175)
Inventories	218	25	(152)	(151)
Fractional ownership deferred costs	(5)	(56)	(10)	(110)
Accounts payable and accrued liabilities	(181)	(37)	(296)	(88)
Advances and progress billings in excess of related costs	(94)	(74)	(72)	(101)
Fractional ownership deferred revenues	6	29	14	95
Accrued benefit liabilities, net	(9)	(1)	18	5
Other assets	5	49	7	70
	$ 7	$(367)	$(585)	$(691)

14. Employee Future Benefits

The components of the benefit cost were as follows for the three-month periods ended July 31:

	2006		2005	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost	$ 51	$ 8	$ 42	$ 2
Interest cost	77	5	71	5
Expected return on plan assets	(73)	—	(60)	—
Amortization of past service costs	3	(1)	2	—
Amortization of actuarial loss	31	4	18	4
Curtailment loss	1	—	1	—
Settlement loss	1	—	—	—
	$ 91	$16	$ 74	$11

The components of the benefit cost were as follows for the six-month periods ended July 31:

	2006		2005	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost	$ 102	$11	$ 84	$ 5
Interest cost	151	10	144	10
Expected return on plan assets	(143)	—	(120)	—
Amortization of past service costs	5	(1)	3	—
Amortization of actuarial loss	55	8	37	7
Curtailment loss (gain)	1	—	1	(1)
Settlement loss	1	—	—	—
	$ 172	$28	$ 149	$21

15. Commitments and Contingencies

In addition to the commitments and contingencies described elsewhere in these interim consolidated financial statements, the Corporation is subject to other off-balance sheet risks. The table below presents the maximum potential exposure for each major group of exposure. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

	July 31, 2006		January 31, 2005	
	Maximum Potential Exposure	Provisions and Liabilities [1]	Maximum Potential Exposure	Provisions and Liabilities [1]
Aircraft sales				
Credit (a)	$1,397		$1,409	
Residual value (a)	2,626		2,565	
Mutually exclusive exposure [2]	(907)		(892)	
Total credit and residual value exposure	$3,116	$762	$3,082	$952
Trade-in options (b)	1,446	14	1,230	12
Other [3]				
Credit and residual value (e)	176	—	170	—
Repurchase obligations (f)	173	70	165	70
Performance guarantees (g)	293	—	938	—

[1] Included in accounts payable and accrued liabilities.

[2] Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.

[3] The Corporation has also provided other guarantees (see h below).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. The provisions for anticipated losses have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third party evaluations, the anticipated proceeds from other assets covering such exposures, as well as liabilities available to mitigate the exposures. The anticipated proceeds from the collaterals are expected to cover the Corporation's total credit and residual value exposure, after taking into account the provisions and liabilities.

Aircraft sales

a) Credit Guarantees and Residual Value Guarantees—The Corporation provides credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to fiscal year 2026. Substantially all financial support involving credit risk lies with commercial airline customers. The credit risk relating to three commercial airline customers accounted for 62% of the total maximum credit risk as at July 31, 2006. In most circumstances, a claim under a credit guarantee may be made only upon the sale of the underlying aircraft to a third party.

In addition, the Corporation provides guarantees for the residual value of aircraft at the expiry date of certain financing and lease agreements. Such guarantees provide for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under a residual value guarantee may be made only upon the sale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees as at July 31, 2006, and the period in which they can be exercised:

Less than 1 year	$ 14
From 1 to 5 years	166
From 6 to 10 years	686
From 11 to 15 years	1,023
Thereafter	737
	$2,626

b) Trade-in Options—In connection with the sale of new aircraft, the Corporation provides, from time to time, trade-in options to customers. These options allow customers to trade in their pre-owned aircraft at a predetermined amount and during a predetermined period, conditional upon the purchase of a new aircraft.

The Corporation's commitment to purchase pre-owned aircraft, as at the earliest exercise date, was as follows as at July 31, 2006:

Less than 1 year	$1,119
From 1 to 3 years	198
From 4 to 5 years	94
Thereafter	35
	$1,446

The Corporation reviews its trade-in aircraft purchase commitments relative to the aircraft's anticipated fair value and records anticipated losses as a charge to income. Fair value is determined using both internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. Provisions relating to anticipated losses on trade-in options amounted to $9 million as at July 31, 2006 ($11 million as at January 31, 2006). These provisions were based on the likelihood that these options will be exercised. In addition, a provision related to trade-in commitments in connection with firm orders for new aircraft amounted to $5 million as at July 31, 2006 ($1 million as at January 31, 2006).

c) Fractional Ownership Put Options—Under the North American *Flexjet* Fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled $621 million as at July 31, 2006 ($573 million as at January 31, 2006). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

d) Financing Commitments—The Corporation has committed to provide financing in relation to the future sale of aircraft scheduled for delivery through fiscal year 2010 and in connection with a $135-million off-balance sheet financing facility. The Corporation's total financing commitment, net of third party financing already arranged, amounted to $1.9 billion as at July 31, 2006 ($2.2 billion as at January 31, 2006). The Corporation mitigates its exposure to interest and credit risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment and by entering into interest-rate cap agreements.

Other Guarantees

e) Credit and Residual Value Guarantees—In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to $46 million as at July 31, 2006 and January 31, 2006. This guarantee matures in 2026 and relates to one customer. In addition, at the expiry date of certain financing and other agreements, the Corporation has provided residual value guarantees amounting to $130 million as at July 31, 2006 ($124 million as at January 31, 2006), mostly in Transportation. These guarantees are mainly exercisable in 2012.

f) Repurchase Obligations—In Transportation, the Corporation has provided certain financing providers the right, under certain conditions, to sell back equipment to the Corporation at predetermined prices. An amount of $173 million as at July 31, 2006 ($165 million as at January 31, 2006), relates to two agreements whereby the Corporation may be required to repurchase the equipment, beginning in fiscal year 2009, upon customer default on payments to the financing providers. In addition, on three separate dates, beginning in fiscal year 2009, the Corporation may also be required to repurchase the equipment. In connection with this commitment, funds have been deposited in cash collateral accounts by the customer, which, together with accumulated interest, are expected to entirely cover the Corporation's exposure. A provision for repurchase obligations amounting to $70 million was included in accounts payable and accrued liabilities as at July 31, 2006 and January 31, 2006.

g) Performance Guarantees—In certain projects carried out through consortia or other partnership vehicles in Transportation, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for any default by the other partners. These projects normally provide counter indemnities among the partners. These obligations and guarantees typically extend until final product acceptance by the customer. The Corporation's maximum exposure to projects for which the exposure of the Corporation is capped amounted to approximately $50 million as at July 31, 2006 ($178 million as at January 31, 2006). For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's exposure would amount to approximately $243 million as at July 31, 2006 ($760 million as at January 31, 2006). Such joint and several obligations and guarantees have been rarely called upon in the past, and no significant liability has been recognized in the interim consolidated financial statements in connection with these obligations and guarantees.

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

Sale and Leaseback

The Corporation concluded third party sale and leaseback transactions mostly relating to freight cars, a discontinued operation (see Note 4—Discontinued operations and assets held for sale), and pre-owned aircraft. The freight cars are in most instances simultaneously leased to operators. Residual value guarantees, mainly related to pre-owned aircraft, amounted to $47 million as at July 31, 2006 ($43 million as at January 31, 2006).

Operating Leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations on the sale of new aircraft. The related residual value guarantees totalled $59 million as at July 31, 2006 ($63 million as at January 31, 2006).

Litigation and Claims

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. district court of the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others for alleged violations of federal securities laws relating to BCMSC's Senior/Subordinated Pass-Through Certificates, Series 2000-A, due January 15, 2030. On April 15, 2005, the plaintiffs filed an amended complaint. The amendments include the inclusion of all open market purchasers of BCMSC's Senior/Subordinated Pass-Through Certificates, Series 1998-A, Series 1998-B, Series 1998 C, Series 1999-A, Series 1999-B, Series 2000-A and Series 2000-B as part of the putative class. While the Corporation cannot predict the outcome of any legal proceedings, based on information currently available, the Corporation believes that it has strong defences and it intends to vigorously defend its position.

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

While the Corporation cannot predict the final outcome of legal proceedings pending as at July 31, 2006, based on information currently available, Management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

During the second quarter of fiscal year 2007, the Corporation reached an agreement with Mitsubishi Heavy Industries of Japan ("MHI"), a supplier of aircraft components, to transfer the production of certain components for the *Q400* turboprop program to the Corporation's manufacturing facilities in Belfast, Montréal and Mexico and to China's Shenyang Aircraft Corporation. In connection with this agreement, the parties agreed to a payment of $84 million to be made by MHI to the Corporation in connection with the production transfer. As a result, the Corporation recorded a gain of $84 million in cost of sales during the second quarter of fiscal year 2007.

16. Variable Interest Entities

RASPRO

As previously disclosed in the Corporation's annual report for fiscal year 2006, it was discovered, during the last fiscal year, that the cash flows of the RASPRO structure would be different from those anticipated. On July 13, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, agreed on certain actions to be taken to adjust the cash flows of RASPRO. These actions consist mainly of additional payments that were made or will be made to the RASPRO structure by various parties (including parties not affiliated with the Corporation). The Corporation's participation in these additional payments consisted of the purchase on July 13, 2006 of $23 million of rights to a portion of the residual value proceeds of certain aircraft financed by the RASPRO structure.

RASPRO is subject to the consolidation rules applicable to VIEs, which require variable interest holders to reassess the appropriateness of consolidation when certain events take place. The events described above create a reconsideration event under the VIE rules. In addition, the Corporation is finalizing the details of its indirect financial support to RASPRO through a government agency, which should be completed before the end of the current fiscal year. As a result, an assessment of whether or not RASPRO should be consolidated under the VIE rules will be performed when the details of the financial support to the government agency are finalized. The Corporation does not expect to consolidate RASPRO as a result of the events described above.

The impact of the above did not have a material effect on the provision for contingencies for the three- and six-month periods ended July 31, 2006.

Other

During the six-month period ended July 31, 2006, the Corporation entered into arrangements with VIEs relating to financing structures for the sale of regional aircraft. The assets and liabilities of these VIEs amounted to $268 million and $212 million respectively as at July 31, 2006. Management has determined that the Corporation is not the primary beneficiary for these structures and therefore consolidation of these VIEs is not required.

17. Segment Disclosure

The Corporation has two reportable segments: Aerospace and Transportation. Each reportable segment offers different products and services and requires different technology and marketing strategies.

Aerospace	Transportation
Aerospace is a manufacturer of business, regional and amphibious aircraft and a provider of related services. It offers comprehensive families of regional jet and turboprop commercial aircraft and a wide range of business jets. It also provides the *Flexjet* fractional ownership and hourly flight time entitlement programs, parts logistics, technical services, aircraft maintenance and pilot training	Transportation is the global leader in the rail equipment manufacturing and servicing industry and offers a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides electrical propulsion and control equipment, as well as complete rail transportation systems and rail control solutions. Transportation is also a provider of maintenance services.

The accounting policies of the segments are the same as those described in the Corporation's annual report for the fiscal year ended January 31, 2006.

Management assesses segment performance based on income before financing income, financing expense and income taxes.

Corporate charges are allocated to segments mostly based on each segment's revenues.

Net segmented assets exclude cash and cash equivalents, deferred income taxes and assets held for sale, and are net of accounts payable and accrued liabilities (excluding interest and income taxes payable), advances and progress billings in excess of related costs, fractional ownership deferred revenues and accrued benefit liabilities.

CRJ, CRJ700, CRJ900, Flexjet and *Q400* are trademarks of Bombardier Inc. or its subsidiaries.

Segmented Information

For the Three-Month Periods Ended July 31	Notes	Bombardier Inc. Consolidated 2006	Bombardier Inc. Consolidated 2005 (restated—note 1)	Aerospace 2006	Aerospace 2005 (restated—note 1)	Transportation 2006	Transportation 2005
Revenues							
Manufacturing		$2,454	$2,628	$1,462	$1,552	$ 992	$1,076
Services		663	600	322	276	341	324
Other		398	405	107	134	291	271
		3,515	3,633	1,891	1,962	1,624	1,671
Cost of sales		3,000	3,125	1,596	1,661	1,404	1,464
Selling, general and administrative		215	210	105	96	110	114
Research and development		41	51	18	27	23	24
Amortization		133	128	106	102	27	26
Special items	10	—	34	—	—	—	34
		3,389	3,548	1,825	1,886	1,564	1,662
Income from continuing operations before financing income and expense, and income taxes		$ 126	$ 85	$ 66	$ 76	$ 60	$ 9
Additions to property, plant and equipment		$ 54	$ 74	$ 37	$ 59	$ 17	$ 15

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the six-month period ended July 31, 2006

(Unaudited)

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

For the Six-Month Periods Ended July 31	Notes	Bombardier Inc. Consolidated 2006	Bombardier Inc. Consolidated 2005 (restated— note 1)	Aerospace 2006	Aerospace 2005 (restated— note 1)	Transportation 2006	Transportation 2005
Revenues							
Manufacturing		$4,970	$5,427	$2,961	$3,039	$2,009	$2,388
Services		1,290	1,224	624	569	666	655
Other		781	739	246	290	535	449
		7,041	7,390	3,831	3,898	3,210	3,492
Cost of sales		6,043	6,402	3,256	3,326	2,787	3,076
Selling, general and administrative		423	422	202	192	221	230
Research and development		86	91	43	46	43	45
Amortization		261	260	209	206	52	54
Special items	10	24	26	—	—	24	26
		6,837	7,201	3,710	3,770	3,127	3,431
Income from continuing operations before financing income and expense, and income taxes		$ 204	$ 189	$ 121	$ 128	$ 83	$ 61

As at	July 31, 2006	January 31, 2006	July 31, 2006	January 31, 2006	July 31, 2006	January 31, 2006
Net segmented assets	$ 4,019	$ 3,637	$3,318	$3,205	$701	$432
Liabilities allocated to segments:						
Accounts payable and accrued liabilities [(1)]	6,420	6,645				
Advances and progress billings in excess of related costs	2,182	2,191				
Fractional ownership deferred revenues	339	325				
Accrued benefit liabilities	919	877				
Assets not allocated to segments:						
Cash and cash equivalents	1,794	2,917				
Deferred income taxes	702	653				
Assets held for sale	101	237				
Total consolidated assets	$16,476	$17,482				

[(1)] Excluding interest and income taxes payable amounting to $71 million and $74 million respectively as at July 31, 2006 ($130 million and $91 million as at January 31, 2006) which were not allocated to segments.

Additions to property, plant and equipment	$164	$139	$139	$111	$25	$28

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BOMBARDIER

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This offering memorandum does not constitute any offer to sell or any request for offers to buy any of the notes in any jurisdiction where it is unlawful or where the person making the offer or request is not qualified to do so, or to any person who can not legally be offered or sold the notes.

The information in this offering memorandum is current only as of the day on cover page, and may change after that date. For any time after the cover date of this offering memorandum, we do not represent that our affairs are the same as described or that the information in this offering memorandum is correct, nor do we imply those things by delivering this offering memorandum or selling securities to you.

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OFFERING MEMORANDUM

BOMBARDIER

€800,000,000
Floating Rate Senior Notes due 2013

US$385,000,000
8% Senior Notes due 2014

€800,000,000
7¼% Senior Notes due 2016

Joint Lead and Joint Book-Running Managers

Deutsche Bank
JPMorgan
BNP PARIBAS

November 10, 2006