# BOMBARDIER INC.

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS
## (Unaudited)

**For the three- and six-month periods ended June 30, 2019**

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended June 30, 2019**
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

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

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

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

| | | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|---|
| | Notes | **2019** [(1)] | 2018 | **2019** [(1)] | 2018 |
| Revenues | | **$ 4,314** | $ 4,262 | **$ 7,830** | $ 8,290 |
| Cost of sales | 11 | **3,818** | 3,709 | **6,878** | 7,248 |
| **Gross margin** | | **496** | 553 | **952** | 1,042 |
| SG&A | | **263** | 309 | **531** | 595 |
| R&D | 4 | **69** | 48 | **117** | 95 |
| Share of income of joint ventures and associates | 25 | **(23)** | (30) | **(40)** | (50) |
| Other income | 5 | **(19)** | (45) | **(33)** | (70) |
| Special items | 6 | **(165)** | 80 | **(678)** | 80 |
| **EBIT** | | **371** | 191 | **1,055** | 392 |
| Financing expense | 7 | **269** | 163 | **560** | 325 |
| Financing income | 7 | **(22)** | (31) | **(102)** | (69) |
| **EBT** | | **124** | 59 | **597** | 136 |
| Income taxes | | **160** | (11) | **394** | 22 |
| **Net income (loss)** | | **$ (36)** | $ 70 | **$ 203** | $ 114 |
| Attributable to | | | | | |
| Equity holders of Bombardier Inc. | | **$ (83)** | $ 68 | **$ 112** | $ 106 |
| NCI | | **47** | 2 | **91** | 8 |
| | | **$ (36)** | $ 70 | **$ 203** | $ 114 |
| **EPS (in dollars)** | 8 | | | | |
| Basic | | **$ (0.04)** | $ 0.03 | **$ 0.04** | $ 0.04 |
| Diluted | | **$ (0.04)** | $ 0.02 | **$ 0.04** | $ 0.04 |

(1) Refer to Note 2 - Changes in accounting policies for the impact of the adoption of IFRS 16, *Leases*.

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

**BOMBARDIER INC.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(Unaudited)
(in millions of U.S. dollars)

| | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Net income (loss)** | **$ (36)** | $ 70 | **$ 203** | $ 114 |
| **OCI** | | | | |
| **Items that may be reclassified to net income** | | | | |
| **Net change in cash flow hedges** | | | | |
| Foreign exchange re-evaluation | **—** | — | **(1)** | (1) |
| Net gain (loss) on derivative financial instruments | **65** | (125) | **62** | (177) |
| Reclassification to income or to the related non-financial assets | **18** | (33) | **12** | (49) |
| Income taxes | **(7)** | 35 | **(14)** | 45 |
| | **76** | (123) | **59** | (182) |
| **FVOCI financial assets** | | | | |
| Net unrealized gain (loss) | **3** | (1) | **7** | (2) |
| **CCTD** | | | | |
| Net investments in foreign operations | **(67)** | 9 | **33** | 28 |
| **Items that are never reclassified to net income** | | | | |
| **FVOCI equity instruments** | | | | |
| Net unrealized gain (loss) | **—** | — | **3** | (3) |
| **Retirement benefits** | | | | |
| Remeasurement of defined benefit plans | **(229)** | 530 | **(693)** | 494 |
| Income taxes | **(5)** | (56) | **34** | (42) |
| | **(234)** | 474 | **(656)** | 449 |
| **Total OCI** | **(222)** | 359 | **(557)** | 293 |
| **Total comprehensive income (loss)** | **$ (258)** | $ 429 | **$ (354)** | $ 407 |
| Attributable to | | | | |
| Equity holders of Bombardier Inc. | **$ (327)** | $ 531 | **$ (434)** | $ 465 |
| NCI | **69** | (102) | **80** | (58) |
| | **$ (258)** | $ 429 | **$ (354)** | $ 407 |

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

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

| | Notes | June 30 2019 [1] | December 31 2018 | January 1 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | **$ 2,957** | $ 3,187 | $ 2,988 |
| Trade and other receivables | | **1,655** | 1,575 | 1,174 |
| Contract assets | 10 | **3,002** | 2,617 | 2,460 |
| Inventories | 11 | **4,782** | 4,402 | 3,429 |
| Other financial assets | 12 | **189** | 210 | 415 |
| Other assets | 13 | **482** | 357 | 427 |
| Assets held for sale | 18 | **571** | — | 4,150 |
| **Current assets** | | **13,638** | 12,348 | 15,043 |
| PP&E | 14 | **2,053** | 1,557 | 1,696 |
| Aerospace program tooling | | **4,584** | 4,519 | 3,581 |
| Goodwill | | **1,930** | 1,948 | 2,042 |
| Deferred income taxes | | **458** | 746 | 595 |
| Investments in joint ventures and associates | 25 | **2,212** | 2,211 | 491 |
| Other financial assets | 12 | **1,220** | 1,030 | 825 |
| Other assets | 13 | **593** | 599 | 643 |
| **Non-current assets** | | **13,050** | 12,610 | 9,873 |
| | | **$ 26,688** | $ 24,958 | $ 24,916 |
| **Liabilities** | | | | |
| Trade and other payables | | **$ 4,641** | $ 4,634 | $ 3,964 |
| Provisions | 15 | **1,084** | 1,390 | 1,630 |
| Contract liabilities | 10 | **4,827** | 4,262 | 3,820 |
| Other financial liabilities | 16 | **1,145** | 607 | 342 |
| Other liabilities | 17 | **1,422** | 1,499 | 1,723 |
| Liabilities directly associated with assets held for sale | 18 | **576** | — | 2,686 |
| **Current liabilities** | | **13,695** | 12,392 | 14,165 |
| Provisions | 15 | **677** | 1,110 | 781 |
| Contract liabilities | 10 | **1,804** | 1,933 | 1,272 |
| Long-term debt | 21 | **9,344** | 9,093 | 9,200 |
| Retirement benefits | | **3,007** | 2,381 | 2,633 |
| Other financial liabilities | 16 | **1,551** | 1,526 | 965 |
| Other liabilities | 17 | **962** | 537 | 595 |
| **Non-current liabilities** | | **17,345** | 16,580 | 15,446 |
| | | **31,040** | 28,972 | 29,611 |
| **Equity (deficit)** | | | | |
| Attributable to equity holders of Bombardier Inc. | | **(5,980)** | (5,563) | (6,608) |
| Attributable to NCI | | **1,628** | 1,549 | 1,913 |
| | | **(4,352)** | (4,014) | (4,695) |
| | | **$ 26,688** | $ 24,958 | $ 24,916 |
| Commitments and contingencies | 27 | | | |

[1] Refer to Note 2 - Changes in accounting policies for the impact of the adoption of IFRS 16, *Leases*.

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

**BOMBARDIER INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
(Unaudited)
For the three-month periods ended
(in millions of U.S. dollars)

| | Attributable to equity holders of Bombardier Inc. | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | | | Retained earnings (deficit) | | | Accumulated OCI | | | | | |
| | Preferred shares | Common shares | Warrants | Other retained earnings (deficit) | Remea-surement losses | Contributed surplus | FVOCI | Cash flow hedges | CCTD | Total | NCI | Total equity (deficit) |
| As at March 31, 2019 | $ 347 | $ 2,624 | $ 343 | $ (6,106) | $ (2,730) | $ 192 | $ 6 | $ (85) | $ (251) | $ (5,660) | $ 1,560 | $ (4,100) |
| Total comprehensive income | | | | | | | | | | | | |
| Net income (loss) | — | — | — | (83) | — | — | — | — | — | (83) | 47 | (36) |
| OCI | — | — | — | — | (234) | — | 3 | 76 | (89) | (244) | 22 | (222) |
| | — | — | — | (83) | (234) | — | 3 | 76 | (89) | (327) | 69 | (258) |
| Options exercised | — | 1 | — | — | — | (1) | — | — | — | — | — | — |
| Dividends | — | — | — | (7) | — | — | — | — | — | (7) | — | (7) |
| Dividends to NCI | — | — | — | — | — | — | — | — | — | — | (1) | (1) |
| Share-based expense | — | — | — | — | — | 14 | — | — | — | 14 | — | 14 |
| **As at June 30, 2019** | **$ 347** | **$ 2,625** | **$ 343** | **$ (6,196)** | **$ (2,964)** | **$ 205** | **$ 9** | **$ (9)** | **$ (340)** | **$ (5,980)** | **$ 1,628** | **$ (4,352)** |
| As at March 31, 2018 | $ 347 | $ 2,629 | $ 73 | $ (6,423) | $ (2,596) | $ 187 | $ — | $ 68 | $ (515) | $ (6,230) | $ 1,946 | $ (4,284) |
| Total comprehensive income | | | | | | | | | | | | |
| Net income | — | — | — | 68 | — | — | — | — | — | 68 | 2 | 70 |
| OCI | — | — | — | — | 471 | — | (1) | (116) | 109 | 463 | (104) | 359 |
| | — | — | — | 68 | 471 | — | (1) | (116) | 109 | 531 | (102) | 429 |
| Options exercised | — | 4 | — | — | — | (1) | — | — | — | 3 | — | 3 |
| Dividends | — | — | — | (7) | — | — | — | — | — | (7) | — | (7) |
| Dividends to NCI | — | — | — | — | — | — | — | — | — | — | (1) | (1) |
| Share-based expense | — | — | — | — | — | 31 | — | — | — | 31 | — | 31 |
| Change in NCI | — | — | — | (76) | — | — | — | — | — | (76) | 76 | — |
| As at June 30, 2018 | $ 347 | $ 2,633 | $ 73 | $ (6,438) | $ (2,125) | $ 217 | $ (1) | $ (48) | $ (406) | $ (5,748) | $ 1,919 | $ (3,829) |

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

**BOMBARDIER INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
(Unaudited)
For the six-month periods ended
(in millions of U.S. dollars)

| | Attributable to equity holders of Bombardier Inc. | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | | | Retained earnings (deficit) | | | Accumulated OCI | | | | | |
| | Preferred shares | Common shares | Warrants | Other retained earnings (deficit) | Remea-surement losses | Contributed surplus | FVOCI | Cash flow hedges | CCTD | Total | NCI | Total equity (deficit) |
| As at December 31, 2018 | $ 347 | $ 2,623 | $ 343 | $ (6,294) | $ (2,305) | $ 176 | $ (1) | $ (68) | $ (384) | $ (5,563) | $ 1,549 | $ (4,014) |
| Total comprehensive income | | | | | | | | | | | | |
| Net income | — | — | — | 112 | — | — | — | — | — | 112 | 91 | 203 |
| OCI | — | — | — | — | (659) | — | 10 | 59 | 44 | (546) | (11) | (557) |
| | — | — | — | 112 | (659) | — | 10 | 59 | 44 | (434) | 80 | (354) |
| Options exercised | — | 2 | — | — | — | (1) | — | — | — | 1 | — | 1 |
| Dividends | — | — | — | (14) | — | — | — | — | — | (14) | — | (14) |
| Dividends to NCI | — | — | — | — | — | — | — | — | — | — | (1) | (1) |
| Share-based expense | — | — | — | — | — | 30 | — | — | — | 30 | — | 30 |
| **As at June 30, 2019** | **$ 347** | **$ 2,625** | **$ 343** | **$ (6,196)** | **$ (2,964)** | **$ 205** | **$ 9** | **$ (9)** | **$ (340)** | **$ (5,980)** | **$ 1,628** | **$ (4,352)** |
| | | | | | | | | | | | | |
| As at January 1, 2018 | $ 347 | $ 2,154 | $ 73 | $ (6,414) | $ (2,577) | $ 171 | $ 4 | $ 127 | $ (493) | $ (6,608) | $ 1,913 | $ (4,695) |
| Total comprehensive income | | | | | | | | | | | | |
| Net income | — | — | — | 106 | — | — | — | — | — | 106 | 8 | 114 |
| OCI | — | — | — | — | 452 | — | (5) | (175) | 87 | 359 | (66) | 293 |
| | — | — | — | 106 | 452 | — | (5) | (175) | 87 | 465 | (58) | 407 |
| Options exercised | — | 4 | — | — | — | (1) | — | — | — | 3 | — | 3 |
| Issuance of share capital | — | 475 | — | — | — | — | — | — | — | 475 | — | 475 |
| Dividends | — | — | — | (14) | — | — | — | — | — | (14) | — | (14) |
| Dividends to NCI | — | — | — | — | — | — | — | — | — | — | (52) | (52) |
| Share-based expense | — | — | — | — | — | 47 | — | — | — | 47 | — | 47 |
| Change in NCI | — | — | — | (116) | — | — | — | — | — | (116) | 116 | — |
| As at June 30, 2018 | $ 347 | $ 2,633 | $ 73 | $ (6,438) | $ (2,125) | $ 217 | $ (1) | $ (48) | $ (406) | $ (5,748) | $ 1,919 | $ (3,829) |

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

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

| | Notes | Three-month periods ended June 30 | | | | Six-month periods ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2019** [(1)] | | 2018 | | **2019** [(1)] | | 2018 | |
| **Operating activities** | | | | | | | | | |
| Net income (loss) | | **$** | **(36)** | $ | 70 | **$** | **203** | $ | 114 |
| Non-cash items | | | | | | | | | |
| Amortization[(2)] | | | **106** | | 64 | | **197** | | 126 |
| Impairment charges (reversals) on PP&E and intangible assets | 5, 6 | | **(4)** | | 9 | | **(4)** | | 11 |
| Deferred income taxes | | | **105** | | (29) | | **309** | | (23) |
| Gains on disposals of PP&E and intangible assets | 5, 6 | | **(6)** | | (560) | | **(7)** | | (564) |
| Losses (gains) on disposals of businesses | 5, 6 | | **(219)** | | 599 | | **(739)** | | 599 |
| Share of income of joint ventures and associates | 25 | | **(23)** | | (30) | | **(40)** | | (50) |
| Share-based expense | 22 | | **14** | | 31 | | **30** | | 47 |
| Loss on repurchase of long-term debt | 6, 7 | | **4** | | — | | **84** | | — |
| Dividends received from joint ventures and associates | | | **18** | | 2 | | **19** | | 19 |
| Net change in non-cash balances | 23 | | **(248)** | | (236) | | **(1,248)** | | (830) |
| **Cash flows from operating activities** | | | **(289)** | | (80) | | **(1,196)** | | (551) |
| **Investing activities** | | | | | | | | | |
| Additions to PP&E and intangible assets | | | **(151)** | | (310) | | **(293)** | | (577) |
| Proceeds from disposals of PP&E and intangible assets | | | **11** | | 622 | | **16** | | 639 |
| Investments in non-voting units of ACLP | | | **(125)** | | — | | **(235)** | | — |
| Net proceeds from disposal of businesses | 19 | | **294** | | — | | **826** | | — |
| Other | | | **(15)** | | (1) | | **—** | | 37 |
| **Cash flows from investing activities** | | | **14** | | 311 | | **314** | | 99 |
| **Financing activities** | | | | | | | | | |
| Net proceeds from issuance of long-term debt | 21 | | **—** | | — | | **1,956** | | — |
| Repayments of long-term debt | 21 | | **(176)** | | (1) | | **(1,762)** | | (8) |
| Net change in short-term borrowings | 16 | | **204** | | — | | **488** | | — |
| Payment of lease liabilities[(3)] | | | **(34)** | | — | | **(56)** | | — |
| Dividends paid - Preferred shares | | | **(5)** | | (4) | | **(10)** | | (10) |
| Issuance of Class B Shares | | | **—** | | — | | **—** | | 476 |
| Dividends to NCI | | | **(1)** | | (1) | | **(1)** | | (52) |
| Other | | | **(4)** | | (64) | | **1** | | (64) |
| **Cash flows from financing activities** | | | **(16)** | | (70) | | **616** | | 342 |
| Effect of exchange rates on cash and cash equivalents | | | **(31)** | | (40) | | **36** | | 27 |
| **Net increase (decrease) in cash and cash equivalents** | | | **(322)** | | 121 | | **(230)** | | (83) |
| **Cash and cash equivalents at beginning of period[(4)]** | | | **3,279** | | 2,853 | | **3,187** | | 3,057 |
| **Cash and cash equivalents at end of period[(4)]** | | **$** | **2,957** | $ | 2,974 | **$** | **2,957** | $ | 2,974 |
| **Supplemental information** | | | | | | | | | |
| Cash paid for | | | | | | | | | |
| Interest | | **$** | **168** | $ | 188 | **$** | **342** | $ | 338 |
| Income taxes | | **$** | **49** | $ | 52 | **$** | **69** | $ | 71 |
| Cash received for | | | | | | | | | |
| Interest | | **$** | **7** | $ | 8 | **$** | **13** | $ | 16 |
| Income taxes | | **$** | **2** | $ | 2 | **$** | **2** | $ | 3 |

(1) Refer to Note 2 - Changes in accounting policies for the impact of the adoption of IFRS 16, *Leases.*
(2) Includes $26 million and $51 million representing amortization charge related to right-of-use of assets for the three-and six-month periods ended June 30, 2019.
(3) Lease payments related to the interest portion, short term leases, low value assets and variable lease payments not included in lease liabilities are classified as cash outflows from operating activities. The total cash outflows for the three- and six-month periods ended June 30, 2019 amounted to $51 million and $88 million.
(4) For the purpose of the statement of cash flows, cash and cash equivalents comprise the cash reclassified as asset held for sale. Cash and cash equivalents related to ACLP was $151 million as at June 30, 2018 and was $69 million as at January 1, 2018.

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended June 30, 2019**
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

## 1. BASIS OF PREPARATION

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

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IAS 34, *Interim financial reporting*, as issued by the IASB. The interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements except for the changes in accounting policies described in Note 2 – Changes in accounting policies. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Financial Report for the fiscal year ended December 31, 2018.

These interim consolidated financial statements for the three- and six-month periods ended June 30, 2019 were authorized for issuance by the Board of Directors on July 31, 2019.

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

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

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

| | | | **Exchange rates as at** |
|---|---|---|---|
| | **June 30, 2019** | December 31, 2018 | January 1, 2018 |
| Euro | **1.1370** | 1.1450 | 1.1993 |
| Canadian dollar | **0.7617** | 0.7337 | 0.7975 |
| Pound sterling | **1.2714** | 1.2800 | 1.3517 |

| | **Average exchange rates for the three-month periods ended** | | **Average exchange rates for the six-month periods ended** | |
|---|---|---|---|---|
| | **June 30, 2019** | June 30, 2018 | **June 30, 2019** | June 30, 2018 |
| Euro | **1.1240** | 1.1948 | **1.1303** | 1.2116 |
| Canadian dollar | **0.7475** | 0.7765 | **0.7499** | 0.7845 |
| Pound sterling | **1.2863** | 1.3644 | **1.2930** | 1.3772 |

## 2. CHANGES IN ACCOUNTING POLICIES

**Leases**

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

IFRS 16 was adopted effective January 1, 2019, and the Corporation elected to use the modified retrospective approach whereby comparative periods were not restated. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Corporation applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application and did not reassess contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. In addition, the Corporation elected to apply recognition exemptions available in the standard for lease contracts where the lease term ends within 12 months of the date of initial application or lease commencement date and that do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

On initial application, the Corporation also applied the practical expedients to use a single discount rate to a portfolio of leases with reasonably similar characteristics, to rely on its assessment of whether leases are onerous immediately before the date of initial application instead of performing an impairment review and to exclude initial direct costs from the measurement of the right-of-use asset.

Where the Corporation is a lessee, IFRS 16 resulted in on-balance sheet recognition of most of its leases that were considered operating leases under IAS 17. This resulted in the gross-up of the balance sheet through the recognition of a right-of-use asset, adjusted for lease incentives received and onerous contract provisions previously recognized, and a lease liability for the present value of the remaining future lease payments, discounted using the incremental borrowing rate at the date of initial application. Depreciation expense on the right-of-use asset and interest expense on the lease liability replaced the previously recognized operating lease expense. The impact of adopting this standard on the cash flow statement is neutral, however the principal repayment of the lease liabilities will be presented in financing activities under IFRS 16, whereas previously it was presented in operating activities.

This change in policy resulted in the recognition of right-of-use assets, in PP&E, and lease liabilities, in Other liabilities, amounting to $554 million and $568 million, respectively as of January 1, 2019. See Note 14 - PP&E and Note 17 - Other liabilities for more details. In addition, the Corporation had existing capital leases amounting to $41 million that were recorded in long-term debt and that were reclassified to lease liabilities on January 1, 2019 with the corresponding cost of assets and accumulated amortization of $121 million and $61 million, respectively, being reclassified to right-of-use assets.

The undiscounted operating lease commitments of the Corporation as of December 31, 2018 amounted to $875 million, as presented in the audited consolidated financial statements and notes thereto included in the Corporation’s Financial Report for the fiscal year ended December 31, 2018. The undiscounted value of lease liabilities as at January 1, 2019 (excluding the $41 million of reclassified capital leases) was $844 million (discounted to $568 million as at January 1, 2019). The difference between the previously disclosed $875 million undiscounted operating lease commitments and the $844 million undiscounted value of lease liabilities as at January 1, 2019 is due to short term leases and low value leases which are excluded from lease liability, but were part of the operating lease commitments.

The accounting policies related to the right-of-use assets and lease liabilities are as follows:

Leases are recognized as a right-of-use asset in PP&E and a corresponding lease liability in Other liabilities at the date at which the leased asset is available for use by the Corporation. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Right-of-use assets are subject to impairment.

The lease liability is measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily available. Lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Corporation and payment of penalties for termination of a lease. Each lease payment is allocated between the repayment of the principal portion of lease liability and the interest portion. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statement of income.

The Corporation periodically enters into sale and leaseback transactions, typically for aircraft and properties, whereby the Corporation sells an asset to a lessor and immediately leases it back. In a sale and leaseback transaction the transfer of an asset is recognized as a sale when the customer has obtained control of the aircraft, which is aligned with the Corporation’s revenue recognition policy, otherwise the Corporation continues to recognize the transferred asset on the balance sheet and record a financial liability equal to the proceeds transferred. When the transfer of an asset satisfies the Corporation’s revenue recognition policy to be accounted for as a sale, a partial recognition of the profit from the sale is recorded immediately after the sale, which is equivalent to the proportion of the asset not retained by the Corporation through the lease. The proportion of the asset retained by the Corporation through the lease is recognized as a right-of-use asset and the lease liability is measured as the present value of future lease payments.

**Income taxes**
In June 2017, the IASB released IFRIC 23, *Uncertainty over income tax treatm*ents. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 was adopted effective January 1, 2019 and resulted in no significant adjustments.

**Retirement and other long-term employee benefits**
In February 2018, the IASB released an amendment to IAS 19, *Employee Benefits*, effective on January 1, 2019. The amendment relates to accounting for plan amendments, curtailments and settlements on defined benefit plans. The amendment requires the use of updated actuarial assumptions to determine current service cost and net interest for the period after a plan amendment, curtailment or settlement. This amendment was adopted effective January 1, 2019, with no earlier application and resulted in no adjustments as of January 1, 2019. This amendment will apply to plan amendments, curtailments or settlements occurring after January 1, 2019.

## 3. SEGMENT DISCLOSURE

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

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

***Commercial Aircraft***
Commercial Aircraft designs and manufactures a broad portfolio of commercial aircraft in the 50- to 100-seat categories, including the *CRJ550*, *CRJ700*, *CRJ900* and *CRJ1000* regional jets and the Q400 turboprop, and participates in a partnership with Airbus on the A220 Family aircraft. Commercial Aircraft provides aftermarket services and support for its large installed base.

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

***Transportation***
Transportation offers a wide-ranging portfolio of innovative and efficient solutions in the rail industry and cover the full spectrum of rail solutions, ranging from global mobility solutions to a variety of trains and sub-systems, services, system integration and signalling to meet the market's needs and expectations.

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

The segmented information is prepared using the same accounting policies as those described in the annual consolidated financial statements for the fiscal year ended December 31, 2018, except for the changes in accounting policies described in Note 2 – Changes in accounting policies.

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

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | **Three-month period ended June 30, 2019** |
| | | **Transportation** | | **Business Aircraft** | | **Commercial Aircraft** | | **Aerostructures and Engineering Services** | | **Corporate and Elimination** | **Total** |
| **Results of operations** | | | | | | | | | | | |
| External revenues | $ | **2,193** | $ | **1,382** | $ | **515** | $ | **223** | $ | **1** | $ **4,314** |
| Intersegment revenues | | **1** | | **—** | | **1** | | **342** | | **(344)** | **—** |
| Total revenues | | **2,194** | | **1,382** | | **516** | | **565** | | **(343)** | **4,314** |
| **EBIT before special items** | | **111** | | **97** | | **12** | | **37** | | **(51)** | **206** |
| Special items[(1)] | | **24** | | **13** | | **(214)** | | **12** | | **—** | **(165)** |
| **EBIT** | $ | **87** | $ | **84** | $ | **226** | $ | **25** | $ | **(51)** | **371** |
| Financing expense | | | | | | | | | | | **269** |
| Financing income | | | | | | | | | | | **(22)** |
| **EBT** | | | | | | | | | | | **124** |
| Income taxes | | | | | | | | | | | **160** |
| **Net loss** | | | | | | | | | | | $ **(36)** |
| **Other information** | | | | | | | | | | | |
| R&D[(2)] | $ | **30** | $ | **32** | $ | **4** | $ | **3** | $ | **—** | $ **69** |
| Share of loss (income) of joint ventures and associates | $ | **(32)** | $ | **—** | $ | **9** | $ | **—** | $ | **—** | $ **(23)** |
| Net additions (proceeds) to PP&E and intangible assets[(3)] | $ | **36** | $ | **97** | $ | **(2)** | $ | **4** | $ | **5** | $ **140** |
| Amortization | $ | **35** | $ | **49** | $ | **6** | $ | **13** | $ | **3** | $ **106** |
| Impairment charges (reversals) on PP&E and intangible assets[(1)] | $ | **(4)** | $ | **—** | $ | **(1)** | $ | **—** | $ | **1** | $ **(4)** |

(1) See Note 6 – Special items for more details.
(2) Includes tooling amortization. See Note 4 – Research and development for more details.
(3) As per the consolidated statements of cash flows.

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Three-month period ended June 30, 2018 |
| | | Transportation | | Business Aircraft | | Commercial Aircraft | | Aerostructures and Engineering Services | | Corporate and Elimination | Total |
| **Results of operations** | | | | | | | | | | | |
| External revenues | $ | 2,257 | $ | 1,306 | $ | 616 | $ | 81 | $ | 2 | $ 4,262 |
| Intersegment revenues | | 2 | | 1 | | — | | 374 | | (377) | — |
| Total revenues | | 2,259 | | 1,307 | | 616 | | 455 | | (375) | 4,262 |
| **EBIT before special items** | | 207 | | 111 | | (66) | | 57 | | (38) | 271 |
| Special items[(1)] | | 44 | | 3 | | 602 | | (8) | | (561) | 80 |
| **EBIT** | $ | 163 | $ | 108 | $ | (668) | $ | 65 | $ | 523 | 191 |
| Financing expense | | | | | | | | | | | 163 |
| Financing income | | | | | | | | | | | (31) |
| **EBT** | | | | | | | | | | | 59 |
| Income taxes | | | | | | | | | | | (11) |
| **Net income** | | | | | | | | | | | $ 70 |
| **Other information** | | | | | | | | | | | |
| R&D[(2)] | $ | 26 | $ | 17 | $ | 3 | $ | 2 | $ | — | $ 48 |
| Share of loss (income) of joint ventures and associates | $ | (32) | $ | 2 | $ | — | $ | — | $ | — | $ (30) |
| Net additions (proceeds) to PP&E and intangible assets[(1)(3)] | $ | 46 | $ | 232 | $ | 30 | $ | (1) | $ | (619) | $ (312) |
| Amortization | $ | 25 | $ | 31 | $ | 5 | $ | 12 | $ | (9) | $ 64 |
| Impairment charges on PP&E and intangible assets[(1)] | $ | 8 | $ | — | $ | — | $ | — | $ | 1 | $ 9 |

(1) See Note 6 – Special items for more details.
(2) Includes tooling amortization. See Note 4 – Research and development for more details.
(3) As per the consolidated statements of cash flows.

| | | | | | | Six-month period ended June 30, 2019 |
|---|---|---|---|---|---|---|
| | **Transportation** | **Business Aircraft** | **Commercial Aircraft** | **Aerostructures and Engineering Services** | **Corporate and Elimination** | **Total** |
| **Results of operations** | | | | | | |
| External revenues | $ 4,299 | $ 2,351 | $ 756 | $ 423 | $ 1 | $ 7,830 |
| Intersegment revenues | 2 | 1 | 1 | 612 | (616) | — |
| Total revenues | 4,301 | 2,352 | 757 | 1,035 | (615) | 7,830 |
| **EBIT before special items** | 194 | 171 | 34 | 103 | (125) | 377 |
| Special items[1] | 24 | (507) | (214) | 12 | 7 | (678) |
| **EBIT** | $ 170 | $ 678 | $ 248 | $ 91 | $ (132) | 1,055 |
| Financing expense | | | | | | 560 |
| Financing income | | | | | | (102) |
| **EBT** | | | | | | 597 |
| Income taxes | | | | | | 394 |
| **Net income** | | | | | | $ 203 |
| **Other information** | | | | | | |
| R&D[2] | $ 55 | $ 52 | $ 6 | $ 4 | $ — | $ 117 |
| Share of loss (income) of joint ventures and associates | $ (49) | $ 1 | $ 8 | $ — | $ — | $ (40) |
| Net additions (proceeds) to PP&E and intangible assets[3] | $ 64 | $ 181 | $ (3) | $ 29 | $ 6 | $ 277 |
| Amortization | $ 67 | $ 89 | $ 9 | $ 25 | $ 7 | $ 197 |
| Impairment charges (reversals) on PP&E and intangible assets[1] | $ (5) | $ — | $ (1) | $ — | $ 2 | $ (4) |

[1] See Note 6 – Special items for more details.
[2] Includes tooling amortization. See Note 4 – Research and development for more details.
[3] As per the consolidated statements of cash flows.

| | | | | | | Six-month period ended June 30, 2018 |
|---|---|---|---|---|---|---|
| | Transportation | Business Aircraft | Commercial Aircraft | Aerostructures and Engineering Services | Corporate and Elimination | Total |
| **Results of operations** | | | | | | |
| External revenues | $ 4,611 | $ 2,416 | $ 1,079 | $ 182 | $ 2 | $ 8,290 |
| Intersegment revenues | 3 | 1 | — | 719 | (723) | — |
| Total revenues | 4,614 | 2,417 | 1,079 | 901 | (721) | 8,290 |
| **EBIT before special items** | 396 | 209 | (139) | 104 | (98) | 472 |
| Special items[1] | 42 | 4 | 602 | (7) | (561) | 80 |
| **EBIT** | $ 354 | $ 205 | $ (741) | $ 111 | $ 463 | 392 |
| Financing expense | | | | | | 325 |
| Financing income | | | | | | (69) |
| **EBT** | | | | | | 136 |
| Income taxes | | | | | | 22 |
| **Net income** | | | | | | $ 114 |
| **Other information** | | | | | | |
| R&D[2] | $ 54 | $ 31 | $ 7 | $ 3 | $ — | $ 95 |
| Share of loss (income) of joint ventures and associates | $ (53) | $ 3 | $ — | $ — | $ — | $ (50) |
| Net additions (proceeds) to PP&E and intangible assets[1][3] | $ 71 | $ 420 | $ 46 | $ 9 | $ (608) | $ (62) |
| Amortization | $ 50 | $ 47 | $ 6 | $ 25 | $ (2) | $ 126 |
| Impairment charges on PP&E and intangible assets[1] | $ 8 | $ — | $ — | $ — | $ 3 | $ 11 |

[1] See Note 6 – Special items for more details.
[2] Includes tooling amortization. See Note 4 – Research and development for more details.
[3] As per the consolidated statements of cash flows.

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

| | June 30, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Total assets | **$ 26,688** | $ 24,958 | $ 24,916 |
| Assets not allocated to segments | | | |
| Cash and cash equivalents | **2,957** | 3,187 | 3,057 |
| Income tax receivable[(1)] | **46** | 49 | 60 |
| Deferred income taxes | **458** | 746 | 595 |
| **Segmented assets** | **23,227** | 20,976 | 21,204 |
| **Liabilities** | | | |
| Total liabilities | **31,040** | 28,972 | 29,611 |
| Liabilities not allocated to segments | | | |
| Interest payable[(2)] | **164** | 138 | 139 |
| Income taxes payable[(3)] | **186** | 173 | 187 |
| Long-term debt[(4)] | **9,344** | 9,102 | 9,218 |
| **Segmented liabilities** | **$ 21,346** | $ 19,559 | $ 20,067 |
| **Net segmented assets** | | | |
| Transportation | **$ (180)** | $ (412) | $ (1,106) |
| Business Aircraft | **$ 1,866** | $ 2,162 | $ 2,178 |
| Commercial Aircraft | **$ 1,170** | $ 870 | $ 311 |
| Aerostructures and Engineering Services | **$ (614)** | $ (612) | $ 190 |
| Corporate and Elimination | **$ (361)** | $ (591) | $ (436) |

(1) Included in other assets.
(2) Included in trade and other payables.
(3) Included in other liabilities.
(4) The current portion of long-term debt is included in other financial liabilities.

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

| | **Three-month periods ended June 30** | | **Six-month periods ended June 30** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Business Aircraft** | | | | |
| Manufacturing and Other[(1)] | **$ 1,065** | $ 1,001 | **$ 1,711** | $ 1,840 |
| Services[(2)] | **317** | 306 | **641** | 577 |
| | **1,382** | 1,307 | **2,352** | 2,417 |
| **Commercial Aircraft[(3)]** | **516** | 616 | **757** | 1,079 |
| **Aerostructures and Engineering Services** | | | | |
| External revenues | **223** | 81 | **423** | 182 |
| Intersegment revenues | **342** | 374 | **612** | 719 |
| | **565** | 455 | **1,035** | 901 |
| **Transportation** | | | | |
| Rolling stock and systems[(4)] | **1,490** | 1,475 | **2,897** | 3,082 |
| Services[(5)] | **510** | 522 | **998** | 1,059 |
| Signalling[(6)] | **194** | 262 | **406** | 473 |
| | **2,194** | 2,259 | **4,301** | 4,614 |
| **Corporate and Elimination** | **(343)** | (375) | **(615)** | (721) |
| | **$ 4,314** | $ 4,262 | **$ 7,830** | $ 8,290 |

(1) Includes revenues from sale of new aircraft, specialized aircraft solutions and pre-owned aircraft.
(2) Includes revenues from aftermarket services including parts, *Smarts Services*, service centres, training and technical publication.
(3) Includes manufacturing, services and other.
(4) Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls, bogies, mass transit and airport systems, and mainline systems.
(5) Comprised of revenues from fleet management, asset life management, component re-engineering and overhaul, material solutions, and operations and maintenance of systems.
(6) Comprised of revenues from mass transit signalling, mainline signalling, industrial signalling and *OPTIFLO* service solutions for signalling.

## 4. RESEARCH AND DEVELOPMENT

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

| | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| R&D expenditures | **$ 117** | $ 249 | **$ 215** | $ 486 |
| Less: development expenditures capitalized to aerospace program tooling | **(80)** | (217) | **(149)** | (420) |
| | **37** | 32 | **66** | 66 |
| Add: amortization of aerospace program tooling | **32** | 16 | **51** | 29 |
| | **$ 69** | $ 48 | **$ 117** | $ 95 |

## 5. OTHER INCOME

Other income was as follows:

| | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Changes in estimates and fair value[(1)] | **$ (14)** | $ (48) | **$ (29)** | $ (71) |
| Losses (gains) on disposals of PP&E | **(6)** | 1 | **(7)** | (3) |
| Impairment of PP&E and Intangible assets[(2)] | **—** | 1 | **4** | 3 |
| Gain on sale of a business[(2)] | **—** | — | **(4)** | — |
| Severance and other involuntary termination costs (including changes in estimates)[(2)] | **—** | 1 | **1** | 1 |
| Other | **1** | — | **2** | — |
| | **$ (19)** | $ (45) | **$ (33)** | $ (70) |

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

## 6. SPECIAL ITEMS

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

Special items were as follows:

| | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Gain on disposal of a business - Training business(1) | **$ —** | $ — | **$ (516)** | $ — |
| Gain on disposal of a business - Q Series business(2) | **(219)** | — | **(219)** | — |
| Loss on repurchase of long-term debt(3) | **4** | — | **84** | — |
| Restructuring charges(4) | **57** | 15 | **62** | 16 |
| Reversal of *Learjet 85* aircraft program cancellation provisions(5) | **(3)** | — | **(12)** | (1) |
| *Primove* impairment and other costs(6) | **—** | — | **7** | — |
| C Series transaction with Airbus(7) | **—** | 599 | **—** | 599 |
| Gain on disposal of PP&E(8) | **—** | (561) | **—** | (561) |
| Impairment of non-core operations(9) | **—** | 17 | **—** | 17 |
| Purchase of pension annuities(10) | **—** | 10 | **—** | 10 |
| Income taxes | **106** | (70) | **239** | (70) |
| | **$ (55)** | $ 10 | **$ (355)** | $ 10 |
| **Of which is presented in** | | | | |
| Special items in EBIT | **$ (165)** | $ 80 | **$ (678)** | $ 80 |
| Financing expense - loss on repurchase of long-term debt | **4** | — | **84** | — |
| Income taxes - effect of special items | **106** | (70) | **239** | (70) |
| | **$ (55)** | $ 10 | **$ (355)** | $ 10 |

1. The sale of Business Aircraft's flight and technical training activities for a total net consideration of $532 million resulted in a pre-tax accounting gain of $516 million ($383 million after deferred tax impact of $133 million). See Note 19 - Disposal of businesses.
2. The sale of the Q Series Aircraft program assets for gross proceeds of $298 million resulted in a pre-tax accounting gain of $219 million ($193 million after tax impact). See Note 19 - Disposal of businesses.
3. Represents the loss related to the redemption of the $850-million Senior Notes due 2020, and the partial redemption of the €780-million Senior Notes due 2021 and $1,400-million Senior Notes due 2021. See Note 21 - Long-term debt.
4. For the three- and six-month periods ended June 30, 2019, represents severance charges of $47 million and $58 million partially offset by curtailment gains of nil and $2 million and by the reversal of previously-recorded impairment charges of $4 million and $8 million, related to previously-announced restructuring actions. For the three- and six-month periods ended June 30, 2018, represents severance charges of $11 million and $12 million partially offset by curtailment gains of $4 million, and impairment charges of PP&E of $8 million, all related to previously-announced restructuring actions.

   Following the announcement that the *CRJ* production is expected to conclude in the second half of 2020, following the delivery of the current backlog of aircraft, the Corporation has recorded severance charges of $7 million partially offset by curtailment gains of $3 million, and has recorded $10 million of other related charges for the three- and six-month periods ended June 30, 2019. In addition, the Corporation has recorded a write down of deferred tax assets of $84 million to reflect the expected impact of the conclusion of the *CRJ* announcement.
5. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by $3 million and $12 million for the three- and six-month periods ended June 30, 2019 ($1 million for the six-month period ended June 30, 2018). The reduction in provisions is treated as a special item since the original provisions were also recorded as special items in 2014 and 2015.

6. Following a reassessment of the value of the *Primove* e-mobility technology and the status of existing contractual obligations, the Corporation recorded an additional contract provision of $7 million.
7. The acquisition by Airbus of 50.01% of ACLP, the entity that manufactures and sells the C Series aircraft (rebranded A220) resulted in a pre-tax accounting charge of $599 million ($535 million after tax) that was recorded in the three- and six-month periods ended June 30, 2018, reflected as a reduction of the ACLP assets held for sale balance. The pre-tax accounting charge reflects all elements of the transaction, including: (i) the $269 million fair value of warrants issued by Bombardier to Airbus on July 1, 2018, (ii) a $310 million derivative liability which is associated with the expected off-market return on units to be issued to Bombardier by ACLP under Bombardier's funding commitments, and (iii) other Bombardier obligations towards ACLP, which mainly comprise supply chain obligations for Aerostructures and Engineering Services. In addition, the transaction resulted in $64 million tax recoveries.
8. Related to the sale of the Downsview property to the Public Sector Pension Investment Board (PSP Investments) during the three- and six-month periods ended June 30, 2018.
9. An impairment charge related to non-core operations of $17 million recorded in three- and six-month periods ended June 30, 2018 with respect to the expected sale of legal entities, as part of the Transportation transformation plan.
10. Represents the non-cash loss on the settlement of defined benefit pension plans resulting from the purchase of annuities with insurance companies. As part of its ongoing de-risking strategies, the Corporation has an initiative for the buy-out of annuities payable to pensioners or deferred pensioners for certain plans to the extent they are fully funded on a buy-out basis, subject to compliance with certain conditions including applicable pension legislations.

## 7. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

| | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Financing expense** | | | | |
| Loss on repurchase of long-term debt[1] | **$ 4** | $ — | **$ 84** | $ — |
| Accretion on net retirement benefit obligations | **15** | 15 | **33** | 34 |
| Accretion on other financial liabilities | **14** | 20 | **25** | 38 |
| Accretion on advances | **9** | 6 | **17** | 12 |
| Interest expense on lease liabilities[2] | **8** | — | **16** | — |
| Changes in discount rates of provisions | **9** | — | **12** | — |
| Accretion on provisions | **3** | 7 | **8** | 13 |
| Amortization of letter of credit facility costs | **4** | 4 | **8** | 8 |
| Net loss on certain financial instruments[3] | **20** | — | **—** | — |
| Other | **20** | 24 | **44** | 42 |
| | **106** | 76 | **247** | 147 |
| Interest on long-term debt, after effect of hedges | **163** | 87 | **313** | 178 |
| | **$ 269** | $ 163 | **$ 560** | $ 325 |
| **Financing income** | | | | |
| Net gain on certain financial instruments[3] | **$ —** | $ (2) | **$ (62)** | $ (18) |
| Changes in discount rates of provisions | **—** | (8) | **—** | (18) |
| Other | **(6)** | (12) | **(11)** | (14) |
| | **(6)** | (22) | **(73)** | (50) |
| Interest on cash and cash equivalents | **(9)** | (6) | **(19)** | (11) |
| Interest on loans and lease receivables, after effect of hedges | **(5)** | — | **(6)** | (2) |
| Income from investment in securities | **(2)** | (3) | **(4)** | (6) |
| | **(16)** | (9) | **(29)** | (19) |
| | **$ (22)** | $ (31) | **$ (102)** | $ (69) |

(1) Represents the loss related to the redemption of the $850-million Senior Notes due 2020, and the partial redemption of the €780-million Senior Notes due 2021 and $1,400-million Senior Notes due 2021, which was recorded as a special item. See Note 6 – Special items and see Note 21 - Long-term debt for more details.
(2) Following the adoption of IFRS 16 - *Leases*, effective January 1, 2019, the Corporation presented the interest expense on lease liabilities as part of financing expense. See Note 2 - Changes in accounting policies for more details.
(3) Net losses (gains) on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.

Borrowing costs capitalized to PP&E and intangible assets totalled $3 million and $8 million for the three- and six-month periods ended June 30, 2019, using an average capitalization rate of 6.66% ($63 million and $122 million for the three- and six-month periods ended June 30, 2018, respectively using an average capitalization rate of 6.61%). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

## 8. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

| | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| (Number of shares, stock options, PSUs, DSUs, RSUs and warrants, in thousands) | | | | |
| Net income (loss) attributable to equity holders of Bombardier Inc. | **$ (83)** | $ 68 | **$ 112** | $ 106 |
| Preferred share dividends, including taxes | **(7)** | (7) | **(14)** | (14) |
| Net income (loss) attributable to common equity holders of Bombardier Inc. | **$ (90)** | $ 61 | **$ 98** | $ 92 |
| Weighted-average number of common shares outstanding | **2,375,581** | 2,328,262 | **2,375,223** | 2,271,095 |
| Net effect of stock options, PSUs, DSUs, RSUs and warrants | **—** | 224,630 | **60,615** | 204,330 |
| Weighted-average diluted number of common shares | **2,375,581** | 2,552,892 | **2,435,838** | 2,475,425 |
| **EPS (in dollars)** | | | | |
| Basic | **$ (0.04)** | $ 0.03 | **$ 0.04** | $ 0.04 |
| Diluted | **$ (0.04)** | $ 0.02 | **$ 0.04** | $ 0.04 |

The effect of the exercise of stock options, PSUs, DSUs, RSUs and warrants was included in the calculation of diluted EPS in the above table, except for 526,426,083 and 254,620,139 for the three- and six-month periods ended June 30, 2019, respectively (12,258,234 and 20,795,364 for the three- and six-month periods ended June 30, 2018, respectively) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation’s Class B Shares (subordinate voting) or predetermined financial performance targets had not been met or the effect of the exercise would be antidilutive. The calculation of diluted EPS did not include the impact of the CDPQ conversion option as this was antidilutive. This is because CDPQ’s minimum return entitlement was greater than their share of the BT Holdco net income on an as converted basis assuming the maximum CDPQ ownership on conversion if Transportation does not achieve its performance targets.

## 9. FINANCIAL INSTRUMENTS

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

| | FVTP&L | | | | | | |
|---|---|---|---|---|---|---|---|
| | FVTP&L | Designated | FVOCI | Amortized cost | DDHR | Total carrying value | Fair value |
| **June 30, 2019** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | **$ —** | **$ —** | **$ —** | **$ 2,957** | **$ —** | **$ 2,957** | **$ 2,957** |
| Trade and other receivables | **—** | **—** | **—** | **1,655** | **—** | **1,655** | **1,655** |
| Other financial assets | **946** | **—** | **243** | **104** | **116** | **1,409** | **1,409** |
| | **$ 946** | **$ —** | **$ 243** | **$ 4,716** | **$ 116** | **$ 6,021** | **$ 6,021** |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | **$ —** | **$ —** | **n/a** | **$ 4,641** | **$ —** | **$ 4,641** | **$ 4,641** |
| Long-term debt(1) | **—** | **—** | **n/a** | **9,344** | **—** | **9,344** | **9,497** |
| Other financial liabilities | **524** | **460** | **n/a** | **1,555** | **157** | **2,696** | **2,733** |
| | **$ 524** | **$ 460** | **n/a** | **$ 15,540** | **$ 157** | **$ 16,681** | **$ 16,871** |
| **December 31, 2018** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | $ — | $ — | $ — | $ 3,187 | $ — | $ 3,187 | $ 3,187 |
| Trade and other receivables | — | — | — | 1,575 | — | 1,575 | 1,575 |
| Other financial assets | 846 | — | 230 | 35 | 129 | 1,240 | 1,237 |
| | $ 846 | $ — | $ 230 | $ 4,797 | $ 129 | $ 6,002 | $ 5,999 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | $ — | $ — | n/a | $ 4,634 | $ — | $ 4,634 | $ 4,634 |
| Long-term debt(1) | — | — | n/a | 9,102 | — | 9,102 | 8,750 |
| Other financial liabilities | 597 | 438 | n/a | 801 | 288 | 2,124 | 2,412 |
| | $ 597 | $ 438 | n/a | $ 14,537 | $ 288 | $ 15,860 | $ 15,796 |

| | FVTP&L | | | | | | |
|---|---|---|---|---|---|---|---|
| | HFT | Designated | AFS | Amortized cost | DDHR | Total carrying value | Fair value |
| **January 1, 2018** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | $ 2,988 | $ — | $ — | $ — | $ — | $ 2,988 | $ 2,988 |
| Trade and other receivables | — | — | — | 1,174 | — | 1,174 | 1,174 |
| Other financial assets | 79 | 216 | 361 | 331 | 253 | 1,240 | 1,278 |
| | $ 3,067 | $ 216 | $ 361 | $ 1,505 | $ 253 | $ 5,402 | $ 5,440 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | $ — | $ 6 | n/a | $ 3,958 | $ — | $ 3,964 | $ 3,964 |
| Long-term debt(1) | — | — | n/a | 9,218 | — | 9,218 | 9,354 |
| Other financial liabilities | 354 | 74 | n/a | 677 | 184 | 1,289 | 1,329 |
| | $ 354 | $ 80 | n/a | $ 13,853 | $ 184 | $ 14,471 | $ 14,647 |

(1) Includes the current portion of long-term debt.
n/a: Not applicable

## 10. CONTRACT BALANCES

Contract assets were as follows, as at:

| | June 30, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| Long-term contracts | | | |
| Production contracts | | | |
| Cost incurred and recorded margins | **$ 9,991** | $ 8,882 | $ 8,306 |
| Less: advances and progress billings | **(7,445)** | (6,707) | (6,171) |
| | **2,546** | 2,175 | 2,135 |
| Service contracts | | | |
| Cost incurred and recorded margins | **543** | 506 | 367 |
| Less: advances and progress billings | **(87)** | (64) | (42) |
| | **456** | 442 | 325 |
| | **$ 3,002** | $ 2,617 | $ 2,460 |

Contract liabilities were as follows, as at:

| | June 30, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| Advances on aerospace programs | **$ 3,710** | $ 3,075 | $ 2,120 |
| Advances and progress billings in excess of long-term contract cost incurred and recorded margin | **2,050** | 2,124 | 1,981 |
| Other deferred revenues | **871** | 996 | 991 |
| | **$ 6,631** | $ 6,195 | $ 5,092 |
| Of which current | **$ 4,827** | $ 4,262 | $ 3,820 |
| Of which non-current | **1,804** | 1,933 | 1,272 |
| | **$ 6,631** | $ 6,195 | $ 5,092 |

In connection with certain long-term contracts, Transportation enters into arrangements whereby amounts are received from third-party advance providers in exchange for the rights to customer payments. There is no recourse to Transportation if the customer defaults on its payment obligations assigned to the third-party advance provider. Amounts received under these arrangements are included as advances and progress billings in reduction of long-term contracts (production contracts) in contract assets and amounted to €652 million ($742 million) as at June 30, 2019 (€624 million ($714 million) as at December 31, 2018 and €434 million ($520 million) as at January 1, 2018). The third-party advance providers could request repayment of these amounts if Transportation fails to perform its contractual obligations such as delivery delays beyond a specified date.

## 11. INVENTORIES

Inventories were as follows, as at:

| | | June 30, 2019 | | December 31, 2018 | | January 1, 2018 |
|---|---|---|---|---|---|---|
| Aerospace programs | $ | **4,040** | $ | 3,546 | $ | 2,472 |
| Finished products(1) | | **597** | | 733 | | 749 |
| Other | | **145** | | 123 | | 208 |
| | $ | **4,782** | $ | 4,402 | $ | 3,429 |

(1) Finished products include $161 million of new aircraft not associated with a firm order and pre-owned aircraft, as at June 30, 2019 ($53 million as at December 31, 2018 and $93 million as at January 1, 2018).

The amount of inventories recognized as cost of sales totalled $1,589 million and $2,565 million for the three- and six-month periods ended June 30, 2019, respectively ($1,523 million and $2,802 million for the three- and six-month periods ended June 30, 2018, respectively). These amounts include $40 million and $68 million of write-downs and $7 million of reversal of write-downs for the three- and six-month periods ended June 30, 2019, respectively ($73 million and $160 million of write-downs and $9 million of reversal of write-downs for the three- and six-month periods ended June 30, 2018, respectively).

## 12. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

| | | June 30, 2019 | | December 31, 2018 | | January 1, 2018 |
|---|---|---|---|---|---|---|
| Receivables from related party(1) | $ | **460** | $ | 385 | $ | — |
| ACLP non-voting units | | **316** | | 150 | | — |
| Investments in securities(2)(3) | | **243** | | 230 | | 361 |
| Derivative financial Instruments | | **213** | | 168 | | 332 |
| Long-term contract receivables | | **94** | | 75 | | 253 |
| Restricted cash | | **69** | | 21 | | 12 |
| Aircraft loans and lease receivables(3) | | **2** | | 26 | | 49 |
| Investments in financing structures(3) | | **—** | | 173 | | 219 |
| Other | | **12** | | 12 | | 14 |
| | $ | **1,409** | $ | 1,240 | $ | 1,240 |
| Of which current | $ | **189** | $ | 210 | $ | 415 |
| Of which non-current | | **1,220** | | 1,030 | | 825 |
| | $ | **1,409** | $ | 1,240 | $ | 1,240 |

(1) This receivable from ACLP represents a back-to-back agreement that the Corporation has with ACLP related to certain government refundable advances. See Note 16 - Other financial liabilities for more information.
(2) Includes nil of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at June 30, 2019 ($16 million as at December 31, 2018, and $51 million as at January 1, 2018).
(3) Carried at fair value, except for $2 million of aircraft loans and lease receivables at amortized cost as at June 30, 2019. Carried at fair value, except for $2 million of aircraft loans and lease receivables, nil of investments in securities and nil of investment in financing structures carried at amortized cost as at December 31, 2018 ($2 million, nil and $50 million, respectively, as at January 1, 2018).

## 13. OTHER ASSETS

Other assets were as follows, as at:

| | | June 30, 2019 | | December 31, 2018 | | January 1, 2018 |
|---|---|---|---|---|---|---|
| Sales tax and other taxes | **$** | **315** | $ | 212 | $ | 262 |
| Intangible assets other than aerospace program tooling and goodwill | | **218** | | 195 | | 120 |
| Retirement benefits | | **182** | | 200 | | 290 |
| Prepaid expenses | | **130** | | 107 | | 107 |
| Prepaid sales concessions and deferred contract costs | | **122** | | 131 | | 174 |
| Income taxes receivable | | **46** | | 49 | | 60 |
| Deferred financing charges | | **44** | | 38 | | 40 |
| Other | | **18** | | 24 | | 17 |
| | **$** | **1,075** | $ | 956 | $ | 1,070 |
| Of which current | **$** | **482** | $ | 357 | $ | 427 |
| Of which non-current | | **593** | | 599 | | 643 |
| | **$** | **1,075** | $ | 956 | $ | 1,070 |

## 14. PROPERTY, PLANT AND EQUIPMENT

The carrying value of right-of-use assets was as follows, as at:

| | | June 30, 2019 | | January 1, 2019 |
|---|---|---|---|---|
| Buildings | **$** | **401** | $ | 405 |
| Equipment | | **69** | | 156 |
| Land | | **42** | | 42 |
| Others | | **11** | | 11 |
| | **$** | **523** | $ | 614 |

The expense related to short term leases and low value leases amounted to $9 million and $16 million for the three- and six-month periods ended June 30, 2019, respectively.

## 15. PROVISIONS

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

| | Product warranties | Credit and residual value guarantees | Restructuring, severance and other termination benefits | Onerous contracts | Other[1] | Total |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2018 | $ 515 | $ 456 | $ 226 | $ 1,146 | $ 157 | $ 2,500 |
| Additions | 38 | — | 11 [2] | 13 [3] | 10 | 72 |
| Utilization | (48) | (96) [4] | (24) | (70) | — | (238) |
| Reversals | (25) | (11) | (1) | (16) [5] | (6) | (59) |
| Accretion expense | 1 | 3 | — | 1 | — | 5 |
| Effect of changes in discount rates | 1 | — | — | 2 | — | 3 |
| Effect of foreign currency exchange rate changes | (5) | — | (3) | (5) | (1) | (14) |
| Balance as at March 31, 2019 | $ 477 | $ 352 | $ 209 | $ 1,071 | $ 160 | $ 2,269 |
| Additions | 22 | — | 61 [2] | 18 | 20 | 121 |
| Utilization | (32) | (208) [4] | (59) | (115) | (45) | (459) |
| Reversals | (10) | (16) | (6) | (2) [5] | (9) | (43) |
| Accretion expense | — | 2 | — | — | 1 | 3 |
| Effect of changes in discount rates | — | 2 | — | 7 | — | 9 |
| Reclassified as liabilities directly associated with assets held for sale[6] | (7) | (132) | — | (7) | (2) | (148) |
| Effect of foreign currency exchange rate changes | 3 | — | 2 | 4 | — | 9 |
| **Balance as at June 30, 2019** | $ 453 | $ — | $ 207 | $ 976 | $ 125 | $ 1,761 |
| Of which current | $ 361 | $ — | $ 159 | $ 476 | $ 88 | $ 1,084 |
| Of which non-current | 92 | — | 48 | 500 | 37 | 677 |
| | $ 453 | $ — | $ 207 | $ 976 | $ 125 | $ 1,761 |

(1) Mainly comprised of claims and litigations.
(2) See Note 6 – Special items for more details on additions related to restructuring charges.
(3) See Note 6 – Special items for more details on the addition related to the *Primove* impairment and other costs.
(4) When Credit and residual value guarantees become due, the respective amounts are re-classified to Credit and residual value guarantees payable within other financial liabilities.
(5) See Note 6 – Special items for more details on the reversal of *Learjet 85* aircraft program cancellation provisions.
(6) See Note 18 - Assets held for sale for more details.

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

(1) Mainly comprised of claims and litigations.
(2) Opening balances are before the assets and liabilities held for sale reclassification related to ACLP.
(3) See Note 6 – Special items for more details on additions and reversals related to restructuring charges.
(4) Represent liabilities reclassified as held for sale related to the sale of ACLP.

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## 16. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

| | June 30, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| Government refundable advances[1] | **$ 836** | $ 759 | $ 550 |
| Derivative financial instruments | **681** | 885 | 538 |
| Short-term borrowings under BT facilities[2] | **491** | — | — |
| Credit and residual value guarantees payable | **412** | 172 | 53 |
| Vendor non-recurring costs | **118** | 136 | 13 |
| Lease subsidies | **—** | 53 | 74 |
| Current portion of long-term debt | **—** | 9 | 18 |
| Other | **158** | 119 | 61 |
| | **$ 2,696** | $ 2,133 | $ 1,307 |
| Of which current | **$ 1,145** | $ 607 | $ 342 |
| Of which non-current | **1,551** | 1,526 | 965 |
| | **$ 2,696** | $ 2,133 | $ 1,307 |

(1) Of which $460 million has a back-to-back agreement with ACLP. Refer to Note 12 - Other financial assets for the receivables from related party. The Corporation is required to pay amounts to governments based on the number of deliveries of aircraft.
(2) Of which $284 million is under the unsecured revolving credit facility and $207 million under the uncommitted short term facilities. See Note 24 - Credit facilities for more details.

## 17. OTHER LIABILITIES

Other liabilities were as follows, as at:

| | June 30, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| Employee benefits | **$ 601** | $ 643 | $ 690 |
| Lease liabilities[1] | **522** | — | — |
| Accruals for long-term contract costs | **410** | 443 | 640 |
| Supplier contributions to aerospace programs | **386** | 389 | 388 |
| Income taxes payable | **186** | 173 | 187 |
| Other taxes payable | **92** | 181 | 234 |
| Other | **187** | 207 | 179 |
| | **$ 2,384** | $ 2,036 | $ 2,318 |
| Of which current | **$ 1,422** | $ 1,499 | $ 1,723 |
| Of which non-current | **962** | 537 | 595 |
| | **$ 2,384** | $ 2,036 | $ 2,318 |

(1) Following the adoption of IFRS 16 - *Leases*, effective January 1, 2019, the Corporation presented lease liabilities under the line item “Other liabilities”. Lease liabilities as at January 1, 2019 amounted to $609 million. See Note 2 - Changes in accounting policies for more details.

## 18. ASSETS HELD FOR SALE

On June 25, 2019, the Corporation and Mitsubishi Heavy Industries Ltd (MHI), announced they have entered into a definitive agreement, whereby MHI will acquire the Corporation's regional jet program for a cash consideration of $550 million, payable to the Corporation upon closing, and the assumption by MHI of liabilities related to credit and residual value guarantees and lease subsidies amounting to approximately $200 million, at the time of signing. Under the agreement, the Corporation's net beneficial interest in the Regional Aircraft Securitization Program (RASPRO), which was valued at approximately $180 million, at the time of signing, will be transferred to MHI.

Pursuant to the agreement, MHI will acquire the maintenance, support, refurbishment, marketing, and sales activities for the *CRJ Series* aircraft, including the related services and support network located in Montréal, Québec, and Toronto, Ontario, and its service centres located in Bridgeport, West Virginia, and Tucson, Arizona, as well as the type certificates.

The *CRJ* production facility in Mirabel, Québec will remain with Bombardier. Bombardier will continue to supply components and spare parts and will assemble the current *CRJ* backlog on behalf of MHI. *CRJ* production is expected to conclude in the second half of 2020, following the delivery of the current backlog of aircraft.

Bombardier will also retain certain liabilities representing a portion of the credit and residual value guarantees totalling $412 million. Aside from the accrual of interest, this amount is fixed and not subject to future changes in aircraft value, and is payable by Bombardier over the next four years. The amount is included in other financial liabilities. The agreement contemplates a reverse break fee payable by MHI under certain circumstances.

The transaction is currently expected to close during the first half of 2020 and remains subject to regulatory approvals and customary closing conditions.

**Assets held for sale**

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

| | | June 30, 2019 |
|---|---|---|
| Current assets [1] | $ | 338 |
| Non-current assets [2] | | 233 |
| **Total assets** | $ | 571 |
| Current liabilities [3] | $ | 366 |
| Non-current liabilities [4] | | 210 |
| **Total liabilities** | $ | 576 |

[1] Mainly comprised of inventories and trade and other receivables.
[2] Mainly comprised of RASPRO assets.
[3] Mainly comprised of trade and other payables and contract liabilities.
[4] Mainly comprised of credit and residual value guarantees provisions, lease subsidies, credit and residual value guarantees payable as well as contract liabilities and other financial liabilities.

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

## 19. DISPOSAL OF BUSINESSES

Training business

On November 7, 2018, the Corporation entered into a definitive agreement to sell Business Aircraft's flight and technical training activities carried out principally in training centres located in Montréal, Québec, and Dallas, Texas to CAE, a long-time Bombardier training partner. This transaction provides Bombardier's Business Aircraft customers the benefit of CAE's training expertise, while Bombardier focuses on aircraft development and services.

On March 14, 2019, the Corporation completed the sale of the main assets of the Business Aircraft's flight and technical training activities to CAE for an enterprise value of $645 million. These non-core assets were previously reported in Business Aircraft segment.

The net proceeds received were $532 million. A gain of $516 million ($383 million after deferred tax impact) was recognized in Special items, see Note 6 - Special items.

Q400

On November 7, 2018, the Corporation entered into a definitive agreement for the sale of the Q Series Aircraft program assets, including aftermarket operations and assets, to De Havilland Aircraft of Canada Limited (formerly Longview Aircraft Company of Canada Limited), an affiliate of Longview Aviation Capital Corp. The agreement covers all assets and intellectual property and Type Certificates associated with the Dash 8 Series 100, 200 and 300 as well as the Q400 program operations at the Downsview manufacturing facility in Ontario, Canada.

On May 31, 2019, the Corporation completed the sale of the Q Series Aircraft program assets, including aftermarket operations and assets to De Havilland Aircraft of Canada Limited (DHA). These non-core assets were previously reported in Commercial Aircraft segment.

The details of the impact of the transaction with DHA at closing were as follows:

| | | | | |
|---|---|---|---|---|
| Proceeds received at closing | | | $ | 298 |
| Transaction costs | | | | 4 |
| Net proceeds | | | $ | 294 |
| Bombardier obligations[1] | $ | 93 | | |
| Curtailment gains | | (23) | | |
| Carrying value of net assets disposed | | 5 | | |
| | $ | 75 | | |
| Pre-tax gain | | | $ | 219 |
| Tax impact | | | | (26) |
| After-tax gain | | | $ | 193 |

[1] Furthermore, upon closing of the transaction, the Corporation recorded net liabilities of $93 million in respect of obligations resulting from the transaction which represents indemnification for $61 million to DHA as well as certain other obligations under service agreements.

## 20. ACQUISITION OF A BUSINESS

On February 6, 2019, the Corporation acquired the *Global 7500* aircraft wing program operations and assets from Triumph Group Inc., for a nominal cash consideration. This transaction will strengthen Bombardier's position as a leading aerostructures manufacturer, to enable the company to leverage its extensive technical expertise to support the ramp-up of the *Global 7500* aircraft, and secure its long-term success. Bombardier will continue to operate the production line and integrate the employees currently supporting the program at Triumph's Red Oak, Texas facility.

The Corporation acquired net assets valued at approximatively $100 million, consisting primarily of work in progress inventory and PP&E, and settled certain preexisting relationships. No gain or goodwill was recorded on the transaction. The assets acquired and liabilities assumed by the Corporation were measured at their estimated fair value.

## 21. LONG-TERM DEBT

In March 2019, the Corporation issued, at 99.246% of par, unsecured Senior Notes of $2 billion, bearing an interest of 7.875%, due on April 15, 2027.

The Corporation used the net proceeds to redeem all of its outstanding 7.75% Senior Notes due 2020 of $850 million for a total consideration of $890 million as of June 30, 2019, of which $176 million was paid in the three-month period ended June 30, 2019. In addition, the Corporation redeemed, €366 million ($414 million) aggregate principal amount of the 6.13% Notes due 2021 of €780 million for a total aggregate purchase price consideration of €401 million ($450 million) and $382 million aggregate principal amount of the 8.75% Notes due 2021 of $1,400 million for a total aggregate purchase price consideration of $422 million along with any related fees and expenses. The remaining net proceeds were used for general corporate purposes.

## 22. SHARE-BASED PLANS

**PSU, DSU and RSU plans**

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

| | | | | | | Three-month periods ended June 30 |
|---|---|---|---|---|---|---|
| | | | **2019** | | | 2018 |
| | **PSU** | **DSU** | **RSU** | PSU | DSU | RSU |
| Balance at beginning of period | **87,396,331** | **1,101,849** | **—** | 66,325,351 | 1,154,381 | 20,596,123 |
| Granted | **35,858,474** | **—** | **—** | 21,995,038 | — | — |
| Forfeited | **(2,452,317)** | **—** | **—** | (508,708) | — | (96,922) |
| Balance at end of period | **120,802,488** | **1,101,849** (1) | **—** | 87,811,681 | 1,154,381 (1) | 20,499,201 |

| | | | | | | Six-month periods ended June 30 |
|---|---|---|---|---|---|---|
| | | | **2019** | | | 2018 |
| | **PSU** | **DSU** | **RSU** | PSU | DSU | RSU |
| Balance at beginning of period | **88,243,098** | **1,101,849** | **—** | 67,131,352 | 1,154,381 | 20,798,101 |
| Granted | **37,275,637** | **—** | **—** | 22,163,609 | — | — |
| Forfeited | **(4,716,247)** | **—** | **—** | (1,483,280) | — | (298,900) |
| Balance at end of period | **120,802,488** | **1,101,849** (1) | **—** | 87,811,681 | 1,154,381 (1) | 20,499,201 |

(1) Of which 1,101,849 DSUs are vested as at June 30, 2019 (1,154,381 as at June 30, 2018).

The compensation expense, with respect to the PSU, DSU and RSU plans, amounted to $9 million and $21 million during the three- and six-month periods ended June 30, 2019, respectively ($25 million and $36 million during the three- and six-month periods ended June 30, 2018, respectively).

**Share option plans**

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

| | | Three-month periods ended June 30 | | Six-month periods ended June 30 |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Balance at beginning of period | **110,038,407** | 116,156,992 | **111,545,290** | 116,307,725 |
| Granted | **27,134,344** | 15,421,524 | **29,169,916** | 15,421,524 |
| Exercised | **(394,736)** | (877,836) | **(1,281,498)** | (941,133) |
| Forfeited | **(1,685,069)** | **—** | **(4,340,762)** | **—** |
| Expired | **—** | (1,168,756) | **—** | (1,256,192) |
| Balance at end of period | **135,092,946** | 129,531,924 | **135,092,946** | 129,531,924 |

A compensation expense of $5 million and $10 million was recorded during the three- and six-month periods ended June 30, 2019, respectively, with respect to share option plans ($6 million and $11 million for the three- and six-month periods ended June 30, 2018, respectively).

## 23. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows:

| | Three-month periods ended June 30 | | Six-month periods ended June 30 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Trade and other receivables | **$ (149)** | $ (91) | **$ (143)** | $ (203) |
| Inventories | **(182)** | (63) | **(950)** | (419) |
| Contract assets | **(151)** | 22 | **(392)** | (172) |
| Contract liabilities | **391** | 544 | **657** | 499 |
| Other financial assets and liabilities, net | **193** | (4) | **132** | 45 |
| Other assets | **(51)** | (92) | **(104)** | 2 |
| Trade and other payables | **133** | (262) | **306** | 105 |
| Provisions | **(364)** | (161) | **(589)** | (501) |
| Retirement benefit liability | **28** | 17 | **17** | 39 |
| Other liabilities | **(96)** | (146) | **(182)** | (225) |
| | **$ (248)** | $ (236) | **$ (1,248)** | $ (830) |

**Off-balance sheet sale of receivables**
In the normal course of its business, Transportation has facilities, to which it can sell, without credit recourse, qualifying receivables. Receivables of €781 million ($888 million) were outstanding under such facilities as at June 30, 2019 (€799 million ($914 million) as at December 31, 2018 and €907 million ($1,088 million) as at January 1, 2018). Receivables of €520 million ($584 million) and €1,039 million ($1,174 million) were sold to these facilities during the three- and six-month periods ended June 30, 2019, respectively (€363 million ($435 million) and €629 million ($762 million) during the three- and six-month periods ended June 30, 2018, respectively).

**Trade and other payables**
The Corporation negotiated extended payment terms of 240 to 310 days after delivery with certain of its suppliers. Trade payables with these extended terms totalled $836 million and bore interest at a weighted average rate of 4.74% as at June 30, 2019 ($839 million and 3.83%, respectively, as at December 31, 2018 and $575 million and 1.96%, respectively, as at January 1, 2018). Suppliers generally have the right to return to original payment terms for future payables upon providing a minimum notice period.

**Contract balances**
See Note 10 - Contract balances for more details regarding arrangements whereby amounts are received from third-party advance providers in exchange for the rights to customer payments.

## 24. CREDIT FACILITIES

In January 2019, the committed amount under Transportation's €3,940 million letter of credit facility was increased to €3,958 million. In March 2019, the availability periods of Transportation's €3,958 million ($4,500 million) letter of credit facility and the $361-million letter of credit facility, which is available for the Corporation excluding Transportation, were extended by one year to May 2022 and June 2022, respectively. In addition, the maturity dates of Transportation's €689 million ($783 million) unsecured revolving credit facility and the $397 million unsecured revolving credit facility, which is available for the Corporation excluding Transportation, were also extended by one year to May 2022 and June 2022, respectively.

Effective in March 2019, the minimum liquidity required by the $361 million letter of credit facility and the $397 million unsecured revolving credit facility, which are available for the Corporation excluding Transportation, is now varying between $750 million and $1 billion at the end of each quarter. The remaining covenants continue to require a minimum EBITDA to fixed charges ratio, a maximum gross debt and minimum EBITDA thresholds at the end of each quarter, all calculated based on an adjusted consolidated basis (i.e. excluding Transportation). In addition, the minimum liquidity required by the Transportation letter of credit and revolving credit facilities is €750 million ($853 million) at the end of each quarter. The remaining covenants continue to require a minimum equity and a maximum debt to EBITDA ratio at the end of each quarter, all calculated based on Transportation stand-alone financial data.

In addition, in the three-month period ended June 30, 2019, the Corporation entered into new Uncommitted Short Term Credit Facilities amounting to €225 million ($256 million), also available to BT for cash drawings.

In May 2019, the committed amount under Transportation's €3,958 million letter of credit facility was decreased to €3,953 million.

In addition, see note 16 - Other financial liabilities.

## 25 . INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Corporation's aggregate pro rata shares of assets and liabilities of its joint ventures and associates was as follows, as at June 30, 2019:

| | | ACLP [1] | | Other | | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 27 | $ | 270 | $ | 297 |
| Other current assets | $ | 300 | $ | 989 | $ | 1,289 |
| Non-current assets | $ | 3,230 | $ | 275 | $ | 3,505 |
| Current liabilities | $ | (566) | $ | (869) | $ | (1,435) |
| Non-current liabilities | $ | (1,150) | $ | (140) | $ | (1,290) |

[1] As of June 30, 2019, the Corporation invested $460 million in ACLP in exchange for non-voting units of ACLP.

The Corporation's pro rata share of net income of its joint ventures and associates was as follows:

| | Three-month period ended June 30, 2019 | | | | | | Six-month period ended June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (Gain)/loss | | ACLP | | Other | | Total | | ACLP | | Other | | Total |
| Net income | $ | 9 | $ | (32) | $ | (23) | $ | 8 | $ | (48) | $ | (40) |

| | Three-month period ended June 30, 2018 | | | | | | Six-month period ended June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (Gain)/loss | | ACLP | | Other | | Total | | ACLP | | Other | | Total |
| Net income | n/a | | $ | (30) | $ | (30) | | n/a | $ | (50) | $ | (50) |

n/a: Not applicable

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

***Government refundable advances*** – The Corporation uses discounted cash flow analysis to estimate the fair value using market data for interest rates and credit spreads.

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

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

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

Airbus benefits from a call option, exercisable any time before the end of 2025 in respect of the non-voting units of ACLP held by Bombardier, for an amount equal to the invested amount plus the cumulative annual preferred return capped at 2%.

*Funding commitments* - The cap on the Corporation's return from any future investments in non-voting units of ACLP represents a derivative liability which is accounted for at fair value and is re-measured each period through financing expense. To estimate the fair value of the derivative liability the Corporation uses an internal valuation model based on stochastic simulations considering Bombardier's expected investments in non-voting units due to ACLP cash shortfalls, the timing of such investments, the fair value of ACLP, expected volatility of ACLP's fair value and the relative values of different classes of ACLP units.

*ACLP non-voting units* - The Corporation's investment in ACLP non-voting units is accounted for at fair value and re-measured each period through financing income. The fair value reflects the Corporation's return on the units being capped at 2% and Airbus' call right thereon. To estimate the fair value of the non-voting units the Corporation uses an internal valuation model based on stochastic simulations considering the fair value of ACLP, expected volatility of ACLP's fair value and the relative values of different classes of ACLP units.

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

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

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

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

**Fair value hierarchy**

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

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment.

The fair value of financial assets and liabilities by level of hierarchy was as follows, as at June 30, 2019:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments[1] | $ 213 | $ — | $ 213 | $ — |
| Investments in securities | 243 | 31 | 212 | — |
| Receivable from related party[2] | 460 | — | — | 460 |
| ACLP non-voting rights | 316 | — | — | 316 |
| Long-term contract receivable | 73 | — | 73 | — |
| | $ 1,305 | $ 31 | $ 498 | $ 776 |
| **Financial liabilities** | | | | |
| Government refundable advance[2] | $ (460) | $ — | $ — | $ (460) |
| Derivative financial instruments[1] | (681) | — | (206) | (475) |
| | $ (1,141) | $ — | $ (206) | $ (935) |

[1] Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements and embedded derivatives.
[2] The receivable from related party represents a back-to-back agreement that the Corporation has with ACLP related to certain government refundable advances.

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

| | Aircraft loans and lease receivables | ACLP non-voting units | Investments in financing structures | Lease subsidies | Conversion option | Funding commit-ments |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2018 | $ 24 | $ 150 | $ 173 | $ (53) | $ (314) | $ (235) |
| Net gains (losses) and interest included in net income | 1 | — | 7 | (2) | (8) | — |
| Issuances | — | 73 | — | — | — | — |
| Settlements | — | — | 1 | 4 | — | 37 |
| Effect of foreign currency exchange rate changes | — | — | — | — | 6 | — |
| Balance as at March 31, 2019 | $ 25 | $ 223 | $ 181 | $ (51) | $ (316) | $ (198) |
| Net gains (losses) and interest included in net income | 2 | 10 | 8 | (1) | (10) | 10 |
| Issuances | — | 83 | — | — | — | — |
| Settlements | — | — | (2) | 4 | — | 42 |
| Effect of foreign currency exchange rate changes | — | — | — | — | (3) | — |
| **Balance as at June 30, 2019** | **$ 27** | **$ 316** | **$ 187** | **$ (48)** | **$ (329)** | **$ (146)** |
| Reclassified as assets held for sale[1] | (27) | — | (187) | 48 | — | — |
| **Balance as at June 30, 2019** | **$ —** | **$ 316** | **$ —** | **$ —** | **$ (329)** | **$ (146)** |

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

[1] Represent liabilities reclassified as held for sale related to the sale of ACLP.

**Main assumptions developed internally for Level 3 hierarchy**

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

These main assumptions are as follows as at June 30, 2019:

| Main assumptions (weighted average) | Aircraft loans and lease receivables | Investments in financing structures | Lease subsidies |
|---|---|---|---|
| Internally assigned credit rating | Between B- to CCC+ (B-) | Between BB- to CCC+ (B+) | Between BB- to B- (BB-) |
| Discount rate adjustments for marketability | 11.11% | Between 2.13% and 9.95% (6.68%) | n/a |

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

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

**Sensitivity to selected changes of assumptions for Level 3 hierarchy**
These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at June 30, 2019:

| **Impact on EBT** | | | | | |
|---|---|---|---|---|---|
| **Change in fair value recognized in EBT for the :** | | | **Change of assumptions** | | |
| Gain (loss) | **Three-month period ended June 30, 2019** | **Six-month period ended June 30, 2019** | **Decrease in aircraft residual value curves by 5%** | **Downgrade the internally assigned credit rating of unrated customers by 1 notch** | **Increase the marketability adjustments by 100 bps** |
| Aircraft loans and lease receivables | $ 2 | $ 2 | $ (1) | $ (1) | $ (1) |
| Investment in financing structures | $ 3 | $ 6 | $ (4) | $ (10) | $ (7) |
| Lease subsidies | $ — | $ (2) | n/a | $ 1 | n/a |

n/a: Not applicable

**Conversion option**
*Sensitivity analysis*
A 5% decrease in the expected future performance of the Transportation segment would have resulted in a decrease in the fair value with a corresponding gain recognized in EBT for the six-month period ended June 30, 2019 of $55 million.

A 5% increase in the expected future performance of the Transportation segment would have resulted in an increase in the fair value with a corresponding loss recognized in EBT for the six-month period ended June 30, 2019 of $57 million.

**Funding commitments and ACLP non-voting units**
*Sensitivity analysis*
A 5% change in value of ACLP would have resulted in a combined change in the fair value with a corresponding impact recognized in financing expense and financing income for the six-month period ended June 30, 2019 of $2 million.

A 5% change in volatility of ACLP value would have resulted in a combined change in the fair value with a corresponding impact recognized in financing expense and financing income for the six-month period ended June 30, 2019 of $42 million.

## 27. COMMITMENTS AND CONTINGENCIES

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

| | June 30, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| **Aircraft sales** | | | |
| Residual value | **$ 231** | $ 695 | $ 1,060 |
| Credit | **781** | 1,034 | 1,221 |
| Mutually exclusive exposure(1) | **(165)** | (473) | (540) |
| Total credit and residual value exposure | **$ 847** | $ 1,256 | $ 1,741 |
| Trade-in commitments | **$ 1,196** | $ 1,165 | $ 1,437 |
| Conditional repurchase obligations | **$ 82** | $ 100 | $ 143 |
| **Other** | | | |
| Credit | **$ 48** | $ 48 | $ 52 |

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

Provisions for anticipated losses amounting to $132 million as at June 30, 2019 ($456 million as at December 31, 2018 and $554 million as at January 1, 2018) have been established to cover the risks from credit and residual value guarantees. When credit and residual value guarantees become due the respective amounts are re-classified from provision to credit and residual value guarantees payable within other financial liabilities. Credit and residual value guarantees payable amounted to $436 million as at June 30, 2019 ($172 million as at December 31, 2018 and $53 million as at January 1, 2018). In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $48 million as at June 30, 2019 ($53 million as at December 31, 2018 and $122 million as at January 1, 2018). All of the above are included in the assets held for sale related to the CRJ announcement, except for $412 million of credit and residual value guarantees payable, as at June 30, 2019.

The Corporation has committed to fund the cash shortfalls of ACLP, if required, during 2019, up to a maximum of $350 million; and up to a maximum aggregate amount of $350 million over the following two years, the whole in consideration for non-voting units of ACLP with cumulative annual dividends of 2%. Any excess shortfall during such periods will be shared proportionately amongst the Corporation, Airbus and IQ, but in the latter case, at its discretion. As of June 30, 2019, the Corporation invested $460 million in ACLP of the original $925 million commitment in exchange for non-voting units of ACLP.

**Litigation**

In the normal course of operations, the Corporation is a defendant in certain legal proceedings before various courts or other tribunals including in relation to product liability and contractual disputes with customers and other third parties. The Corporation’s approach is to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of all legal proceedings pending as at June 30, 2019, 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.

Sweden

Since the fourth quarter of 2016, the Swedish police authorities have been conducting an investigation in relation to allegations concerning a 2013 contract for the supply of signalling equipment and services to Azerbaijan Railways ADY (the “ADY Contract”). In October 2016, the Corporation launched an internal review into the allegations which is conducted by external forensic advisors, under the supervision of the General Counsel and external counsel. Both the investigation and the internal review are on-going. On August 18, 2017, charges were laid against a then employee of the Swedish subsidiary of the Corporation for aggravated bribery and, alternatively, influence trafficking. The trial on these charges took place from August 29 to September 20, 2017. No charges were laid against the subsidiary of the Corporation. In a decision rendered on October 11, 2017, the then employee was acquitted of all charges. The decision was appealed regarding all charges on October 25, 2017 by the Prosecution Authority. A trial on appeal is not expected to commence before January 2020. However, on June 19, 2019, the Prosecution Authority confirmed that the acquittal on charge of influence trafficking is no longer being appealed; accordingly, this acquittal on this charge stands as a final judgment.

The ADY Contract is being audited by the World Bank Group pursuant to its contractual audit rights. The audit is on-going. The Corporation's policy is to comply with all applicable laws and it is cooperating to the extent possible with the investigation and the audit.

On November 15, 2018, the World Bank Integrity Vice Presidency ("INT") issued a 'show cause' letter to Bombardier, outlining INT's position regarding alleged collusion, corruption, fraud and obstruction in the ADY Contract. The Corporation was invited to respond to these preliminary findings and has done so. As the World Bank's audit process is governed by strict confidentiality requirements, the Corporation can only reiterate that it strongly disagrees with the allegations and preliminary conclusions contained in the letter.

The Corporation's internal review about the reported allegations is on-going but based on information known to the Corporation at this time, there is no evidence that suggests a corrupt payment was made or offered to a public official or that any other criminal activity involving Bombardier took place.

In connection with this on-going review, the Corporation has requested information and documents from the World Bank's audit and continues to wait for such information and documents.

Investigation in Brazil

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

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

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

In December 2018, the Superintendent-General of CADE filed a formal opinion finding BT Brazil had engaged in anti-competitive behaviour. On February 18, 2019, CADE's Attorney General issued its opinion, substantially supporting with General Superintendence's recommendations. On June 20, 2019, the Brazil Superior Court of Justice granted an extraordinary recourse brought by CADE to overcome the effects of certain injunctions instituted by the defendants (including BT Brazil) and the matter was added to the following plenary session of the CADE Board, a quasi-judicial competition tribunal. On July 8, 2019, the CADE Board issued a bench ruling supporting the Superintendent-General of CADE's formal opinion filed in December 2018. This opinion found all the defendants (including BT Brazil) had engaged in anti-competitive behaviour and recommended the conviction of all the investigated parties. In the case of BT Brazil, the conviction includes a fine of 22 million Brazilian Real ($6 million), but no debarment. BT Brazil was not declared ineligible to participate in future public bids.

In parallel with the proceedings described above, the Corporation conducted an internal review to determine whether any kind of anti-competitive conduct had occurred. This review did not reveal any evidence of participation in an illicit agreement to allocate markets and influence the outcome of competitive bidding procedures as alleged by the competition authority.

The Corporation strongly disagrees with the conclusions of the CADE Board and BT Brazil intends to contest its decision before tribunals of competent jurisdiction and continues to vigorously defend itself against the allegations.

<u>Transnet</u>
The Corporation learned through various media reports of the appointment of a Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector, including organs of state (the “Zondo Commission”) for which the terms of reference were published by presidential proclamation on January 25, 2018. Before and after the Zondo Commission, the media reported allegations of irregularities with respect to multiple procurements regarding the supply of 1,064 locomotives by South African train operator Transnet Freight Rail. On September 7, 2018, Bombardier Transportation South Africa (Pty.) Ltd. (“BTSA”) was informed that the Special Investigation Unit (“SIU”), a forensic investigation agency under the Department of Justice in South Africa, had opened an investigation with respect to the relocation, in 2014, of the manufacturing site from Pretoria to Durban and the costs claimed in regard to this relocation. The Corporation strongly disagrees with these allegations and will continue to vigorously defend itself.

On February 4, 2019, at the request of the head legal advisor to the Zondo Commission, BTSA submitted a confidential written statement with supporting documents that sets out its position on public allegations and requested the opportunity to publicly present evidence to the Zondo Commission. The Zondo Commission has reviewed the submission and related documents. In June 2019, BTSA was requested by SIU to provide information and explanation about the costs of the relocation to Durban. Although the written statement previously communicated to the Zondo Commission could not be shared with SIU, BTSA did provide SIU with the information in its possession regarding the relocation as well as explanation about the costs for same.

The Corporation is conducting an internal review into the allegations by external advisors under the supervision of counsel. The review is still ongoing but based on information known to the Corporation at this time, there is no reason to believe that the Corporation has been involved in any wrongdoing with respect to the procurement by Transnet of 240 *TRAXX* locomotives from Bombardier Transportation. Contrary to what has been reported by the media, the contract is still in full force and continues to be executed.

<u>Spain</u>
In December 2017, the Spanish Competition Authority (“CNMC”) conducted an inspection at the offices of Bombardier European Investments, S.L.U. (“BEI”) in Madrid. According to the Inspection Order, CNMC’s inspection follows information it learned about possible irregularities in public tenders with the Railway Infrastructures Administrator (“ADIF”). On January 2, 2018, BEI received an information request from the CNMC regarding the legal and operational organization of BEI. BEI is cooperating with the authorities to the extent possible and responded to the information request. There are currently no charges nor allegations that BEI breached any law.

On August 28, 2018, BEI was informed that the CNMC was opening formal proceedings against eight competing companies active on the Spanish signalling equipment market and four directors, including BEI and its parent company, Bombardier Transportation (Global Holding) UK Limited. No Bombardier directors were named. The inclusion of the parent company is typical of European competition authorities at the early stage of the proceedings. The CNMC now has until February 28, 2020 to investigate and adopt a final decision on the case.

The Corporation's policy is to comply with all applicable laws, including antitrust and competition laws. In light of the early stage of the preliminary investigation, management is unable to predict its duration or outcome, including whether any operating division of the Corporation could be found liable for any violation of law or the extent of any fine, if found to be liable.

The Corporation is conducting an internal review into the allegations by external advisors under the supervision of counsel. The review is still ongoing but based on information known to the Corporation at this time, no irregularity has been found.

Review by the Autorité des marchés financiers (Québec)

In August 2018, following the release by Bombardier of its financial results for the second quarter ended June 30, 2018, Bombardier announced the establishment of an Automatic Securities Disposition Plan ("ASDP") allowing for the orderly exercise and sale over a two-year period of vested securities earned by certain senior executives. The purpose of the ASDP (similar to a 10b5-1 plan) was to allow senior executives who would otherwise have limited trading windows to sell securities and realize earned long-term incentive compensation in an orderly manner. Eligible senior executives are those most likely to have restrictions on trading due to trading restrictions under applicable securities laws and Bombardier's internal trading guidelines.

The ASDP was established in accordance with applicable Canadian securities legislation and guidance, at a time when (i) no blackout period was in effect regarding trading in securities of Bombardier, and (ii) participants under the ASDP were not in possession of any material undisclosed information with respect to Bombardier or its securities and, as such, were permitted to trade in securities of Bombardier in accordance with applicable laws and Bombardier's trading policies. Trading did not commence under the ASDP until at least 30 days had elapsed after the ASDP was established.

On November 15, 2018, Bombardier publicly acknowledged the announcement by the Autorité des marchés financiers (Québec) (AMF) confirming that it was reviewing matters surrounding the establishment of the ASDP and subsequent announcements by Bombardier.

Bombardier and its employees (including the participants under the ASDP) fully cooperated with the AMF in its review.

On April 26, 2019, the AMF issued a further press release announcing that it had concluded its review and found that Bombardier and its senior executives participating in the ASDP had not violated or breached securities laws in the context of the establishment of the ASDP. The AMF noted the cooperation and transparency offered by Bombardier throughout its review.

In establishing the ASDP, Bombardier was assisted by external counsel and sought to ensure that the ASDP was based on best practices and sound corporate governance principles and consistent with applicable securities laws and guidance. Nonetheless, in light of the rapid evolution of Bombardier's situation following the establishment of the ASDP, the AMF recommended that Bombardier reconsider the merit of maintaining the ASDP in effect. Further to this recommendation, the Board of Directors of Bombardier, upon the recommendation of its Human Resources and Compensation Committee, has terminated the ASDP in accordance with its terms.

Class action

On February 15, 2019, the Corporation was served with a Motion for authorization to bring an action pursuant to Section 225.4 of the Québec Securities Act and application for authorization to institute a class action before the Superior Court of Québec in the district of Montréal against Bombardier Inc. and Messrs. Alain Bellemare and John Di Bert ("Motion") to claim monetary damages in an unspecified amount in connection with alleged false and misleading representations about the Corporation's business, operations, revenues and free cash flow, including an alleged failure to make timely disclosure of material facts concerning its guidance for 2018. In the class action component of the Motion, the Plaintiff Denis Gauthier seeks to represent all persons and entities who have purchased or acquired Bombardier's securities during the period of August 2, 2018 to November 8, 2018, inclusively and held all or some of these securities until November 8, 2018. Both the action pursuant to the Québec Securities Act and the class action require an authorization from the Court before they can move forward. Until they are authorized, there are no monetary claims pending against the defendants in the context of these Court proceedings.

Bombardier Inc. and Messrs. Bellemare and Di Bert are contesting this Motion. The Corporation's preliminary view at this juncture is that the possibility that these Court proceedings will cause the Corporation to incur material monetary liability appears to be remote.