

**BOMBARDIER**

# FINANCIAL REPORT

Fiscal year ended  
December 31, 2019



**2019**

We are a leading manufacturer of both planes and trains, operating under two reportable segments: Aviation and Transportation. We provide efficient, sustainable and enjoyable transportation solutions. Our products, services, and most of all, our 60,000 dedicated and highly skilled employees are what makes us a global leader in mobility and innovation. As at the date of this report, we have over 70 production and engineering sites in over 25 countries and a worldwide network of service centres.



#### AVIATION

Designs, develops, manufactures, markets and provides aftermarket support for three class-leading families of business jets - *Learjet*, *Challenger* and *Global*, in addition to outfitting various aircraft platforms for specialized use.

Revenues<sup>(1)</sup>

**\$7.5 billion**

Order backlog<sup>(2)</sup>

**\$16.3 billion**

Employees<sup>(3)</sup>

**24,350**



#### TRANSPORTATION

Offers a wide-ranging portfolio of innovative and efficient solutions in the rail industry. Covers 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.

Revenues<sup>(1)</sup>

**\$8.3 billion**

Order backlog<sup>(2)</sup>

**\$35.8 billion**

Employees<sup>(3)</sup>

**36,050**

All amounts in this financial report are in US dollars unless otherwise indicated.

<sup>(1)</sup> For fiscal year 2019.

<sup>(2)</sup> As at December 31, 2019. Order backlog for Aviation includes \$14.4 billion for business aircraft and \$1.9 billion for other aviation.

<sup>(3)</sup> As at December 31, 2019, including contractual and 1,700 inactive employees. Approximately 200 Corporate office employees are not allocated to a reportable segment.

## SETTING A PATH TO COMPLETE THE TURNAROUND

*Bombardier has come a long way since launching its turnaround plan. We have addressed our underperforming aerospace assets, completed our heavy investment cycle, and put the company on a solid path toward organic growth and margin expansion, while prudently managing our liquidity and heavy debt. We enter 2020, focused on initiating the final phase of our turnaround plan, deleveraging our balance sheet and addressing our capital structure to provide Bombardier with the financial flexibility necessary to compete and win in the future.*

Dear Shareholders,

While 2019 was challenging from a financial performance standpoint, the actions taken by the team throughout the year moved us much closer to achieving our turnaround goals. Of course, this progress would not have been possible without the dedication and hard work of our more than 60,000 employees around the world, who have demonstrated exceptional talent in making our turnaround possible. On behalf of all our shareholders, I thank our employees for their many contributions, for embracing change and for making Bombardier a truly amazing company.

Since we launched our turnaround plan and given our high debt load, a fundamental objective was to protect shareholder value by having sufficient liquidity to manage all possible scenarios, contingencies and market conditions. In 2019, we took the right actions to ensure we maintained a minimum of \$2.5 billion to \$3.0 billion cash-on-hand. We successfully raised \$2 billion of debt, mainly used to push out maturities from 2020-21 to 2027; and we nearly doubled the size of our revolver credit facility at Transportation.

Over the past two years, we also announced M&A transactions, including the sale of the CRJ program and our Aerostructures business in 2019, which will collectively generate \$2 billion of gross proceeds and eliminate nearly \$1 billion of net liabilities.<sup>(1)</sup>

The significance of the CRJ and Aerostructures transactions should not be overlooked. They represent major steps in Bombardier's exit from the commercial aircraft business, a business that lost approximately \$400 million in 2016. While not reflected in the financial performance, Bombardier's exit from commercial aerospace has been widely recognized by all stakeholders, customers, employees, partners and governments for the responsible manner in which it was done and for the positive impact it will have on the aerospace sector in Québec and Canada, including preserving thousands of

jobs and attracting major OEM's (Airbus and MHI) to Montréal's aerospace cluster.

In 2019, we also successfully completed a number of important structural actions to streamline our operations and reduce costs across the portfolio. These actions included: (i) the consolidation of all our aerospace assets and engineering capabilities into a single Bombardier Aviation business unit; and (ii) the acquisition and successful integration of the *Global 7500* wing program from Triumph to secure our growth.

There were many notable accomplishments at Bombardier Aviation in 2019, including the production ramp-up of our new *Global 7500* business jet, which continues to lead the industry setting records for speed, distance, efficiency and cabin comfort. In addition, we significantly strengthened our portfolio with the successful completion and entry-into-service of the *Global 5500* and *Global 6500* aircraft; on-time, on-budget, and with better than promised performance capabilities. Aviation's aftermarket growth also remains on plan, delivering double-digit organic growth in 2019 and successfully executing on major expansion projects around the world, including new facilities in Singapore, London and Miami.

At Transportation, the focus in 2019 was on completing the transformation and reshaping of the business. While steady progress was made toward this goal, production ramp-up challenges and delays in achieving certain technical milestones and software certifications resulted in the company incurring additional costs and delayed cash flow, negatively impacting Bombardier's financial performance.

Among the actions taken to ensure improved execution and operating performance at Transportation was strengthening and reorganizing the Leadership team. This included naming a new President, a new Chief Commercial Officer, a new Chief Engineer and new regional Presidents, all of whom bring the strong technical, operational and customer focus

necessary for Transportation to deliver world-class project execution and sustained financial performance.

These actions resulted in a positive impact, most notably in the improved backlog and the major project wins, such as the Cairo Monorail, as well as progress made addressing the challenges associated with our legacy projects.

Transportation's 2019 backlog growth and margin improvement were impressive. Total order intake exceeded \$10 billion, a record level. Almost 70% of these orders came from service contracts, signalling projects, high reuse platforms and/or options on existing rolling stock contracts, which carry much lower execution risk.

Project execution in 2019 also improved as evidenced by the successful completion of several large legacy projects in New York City, London and Toronto. Significant progress was made - and continues to be made - on the remaining legacy projects, including London Overground's LoTrain project and the Swiss Federal Railways (SBB) trains. These remaining projects are expected to be largely completed along with final commercial resolutions by the end of 2020. At that time, Transportation's full earnings and cash generation ability will become clear as we reap the benefits of our refreshed product portfolio, higher-margin backlog and solid growth fundamentals.

In 2019, Bombardier reaffirmed its commitment to supporting the communities where it operates. In Canada, for example, we launched a refreshed internship program that included a commitment to providing more than 1,000 paid internship positions over the coming academic year. We also supported the education of the next generation of aerospace technicians with the recently announced donations of a *CRJ* regional jet and *Global 7500* Flight-Test Vehicle to Centennial College in Toronto, ensuring students will receive valuable hands-on-training before entering the workforce. Bombardier's ongoing commitment to innovation and R&D investment was also recognized by Canada's

Research Info Source, Inc. In their annual ranking of Canada's Innovation Leaders, Bombardier was named the leading corporate R&D investor for the seventh consecutive year.

Since the launch of our turnaround plan, every action taken has been with an eye towards the ultimate goals, de-leveraging of the balance sheet, addressing our capital structure and providing Bombardier with the financial flexibility to compete and win. In 2019, we proactively launched a comprehensive process to evaluate a range of alternatives that would allow the company to accelerate its deleveraging and position the business for long-term success.

Successfully concluding our strategic review and any resulting actions, while simultaneously driving improved operational and financial performance across the organization, are the key objectives for 2020.<sup>(1)</sup>

Consistent with these goals, in February 2020, we announced an agreement to transfer our remaining interests in the Airbus Canada Limited Partnership to Airbus and Investissement Québec. This transaction further strengthens liquidity with approximately \$600 million of cash proceeds and the elimination of capital requirements over the next two years.

In closing, we are confident that we are taking the right actions to place Bombardier in the best position for sustainable long-term growth and success and the entire leadership is very excited about the tremendous opportunities ahead. We look forward to updating shareholders on our progress throughout the coming year.



Alain Bellemare  
President and Chief Executive Officer

<sup>(1)</sup> Forward-looking statement. See the forward-looking statements assumptions on which the guidance is based and forward-looking statements disclaimer in Overview.



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# BOMBARDIER INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended  
December 31, 2019

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

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

The data presented in this MD&A is structured by reportable segment: Aviation and Transportation.

#### **IFRS and non-GAAP measures**

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

#### **Materiality for disclosures**

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

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

The Financial Report for fiscal year 2019 comprises the message from our President and Chief Executive Officer to shareholders, this MD&A and our consolidated financial statements.

The following table shows the abbreviations used in the MD&A and 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	GAAP	Generally accepted accounting principles
BT Holdco	Bombardier Transportation (Investment) UK Limited	GDP	Gross domestic product
CAGR	Compound annual growth rate	HFT	Held for trading
CCTD	Cumulative currency translation difference	IAS	International Accounting Standard(s)
CDPQ	Caisse de dépôt et placement du Québec	IASB	International Accounting Standards Board
CGU	Cash generating unit	IFRIC	International Financial Reporting Interpretation Committee
CIS	Commonwealth of Independent States	IFRS	International Financial Reporting Standard(s)
CSALP	C Series Aircraft Limited Partnership	Libor	London Interbank Offered Rate
DB	Defined benefit	MD&A	Management's discussion and analysis
DC	Defined contribution	N/A	Not applicable
DDHR	Derivative designated in a hedge relationship	NCI	Non-controlling interests
DSU	Deferred share unit	nmf	Information not meaningful
EBIT	Earnings (loss) before financing expense, financing income and income taxes	OCI	Other comprehensive income (loss)
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	PP&E	Property, plant and equipment
EBT	Earnings (loss) before income taxes	PSU	Performance share unit
EIS	Entry-into-service	R&D	Research and development
EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.	RSU	Restricted share unit
Euribor	Euro Interbank Offered Rate	RVG	Residual value guarantee
		SG&A	Selling, general and administrative
		U.K.	United Kingdom
		U.S.	United States of America

# OVERVIEW

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HIGHLIGHTS OF THE YEAR	KEY PERFORMANCE MEASURES AND METRICS	STRATEGIC PRIORITIES	SEGMENT REPORTING	GUIDANCE AND FORWARD-LOOKING STATEMENTS	CONSOLIDATED RESULTS OF OPERATIONS
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# HIGHLIGHTS OF THE YEAR

## Transitioning towards sustainable financial performance

RESULTS			
For the fiscal years ended December 31	2019 <sup>(1)</sup>	2018	Variance
Revenues	\$ 15,757	\$ 16,236	(3)%
Adjusted EBITDA <sup>(2)</sup>	\$ 896	\$ 1,304	(31)%
Adjusted EBITDA margin <sup>(2)</sup>	5.7 %	8.0 %	(230) bps
Adjusted EBIT <sup>(2)</sup>	\$ 470	\$ 1,029	(54)%
Adjusted EBIT margin <sup>(2)</sup>	3.0 %	6.3 %	(330) bps
EBIT	\$ (498)	\$ 1,001	nmf
EBIT margin	(3.2)%	6.2 %	(940) bps
Net income (loss)	\$ (1,607)	\$ 318	nmf
Diluted EPS (in dollars)	\$ (0.76)	\$ 0.09	\$ (0.85)
Adjusted net income (loss) <sup>(2)</sup>	\$ (396)	\$ 438	nmf
Adjusted EPS (in dollars) <sup>(2)</sup>	\$ (0.25)	\$ 0.14	\$ (0.39)
Cash flows from operating activities	\$ (680)	\$ 597	nmf
Net additions to PP&E and intangible assets	\$ 523	\$ 415 <sup>(3)</sup>	26 %
Free cash flow (usage) <sup>(2)</sup>	\$ (1,203)	\$ 182 <sup>(3)</sup>	nmf
<b>As at December 31</b>			
	<b>2019</b>	<b>2018</b>	<b>Variance</b>
Cash and cash equivalents <sup>(4)</sup>	\$ 2,629	\$ 3,187	(18)%
Available short-term capital resources <sup>(5)(6)</sup>	\$ 3,925	\$ 4,373	(10)%
Order backlog (in billions of dollars)			
Aviation			
Business aircraft	\$ 14.4	\$ 14.3	1 %
Other aviation <sup>(6)</sup>	\$ 1.9	\$ 4.3	(56)%
Transportation	\$ 35.8	\$ 34.5	4 %

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section and Liquidity and capital resources section for reconciliations to the most comparable IFRS measures. Prior to the first quarter of fiscal year 2019, the Corporation reported non-GAAP measures labelled "EBIT before special items" and "EBITDA before special items". Beginning in the first quarter of fiscal year 2019, the Corporation changed the label of these non-GAAP measures to "adjusted EBIT" and "adjusted EBITDA", respectively, without making any change to the composition of these non-GAAP measures. The Corporation believes that this new label aligns better with broad market practice in its industry and better distinguishes these measures from the IFRS measurement "EBIT".

<sup>(3)</sup> Included the proceeds from the sale of the Downsview property for approximately \$600 million in 2018.

<sup>(4)</sup> Includes cash and cash equivalents of the aerostructures businesses presented under Assets held for sale totalling \$51 million as of December 31, 2019. Refer to Reshaping the portfolio section in Aviation, Note 15 - Cash and cash equivalents and Note 30 - Assets held for sale in the Consolidated financial statements for more details on the transactions as well as the accounting treatments.

<sup>(5)</sup> Defined as cash and cash equivalents plus the amount available under our revolving credit facilities.

<sup>(6)</sup> Including 20 firm orders for CRJ900 as of December 31, 2019 and 45 firm orders for CRJ900 as of December 31, 2018. CRJ production is expected to conclude in the second half of 2020, following the delivery of the current backlog of the aircraft.

**Financial performance reflects ongoing turnaround of the businesses, as Aviation reshapes its portfolio and Transportation moves forward on completion of challenging projects.**

- Revenues totalled \$15.8 billion, led by an 8.5% growth in business aircraft activities, offset by the divestiture of commercial aircraft programs and lower revenues at Transportation, mainly on account of contract estimate revisions.
- Adjusted EBITDA<sup>(1)</sup> and adjusted EBIT<sup>(1)</sup> of \$896 million and \$470 million respectively reflect improvements at Aviation as it exits underperforming commercial programs and ramps-up production on the *Global 7500*, while Transportation's results were impacted by additional charges and investments to complete challenging projects. Reported EBIT loss for the year of \$498 million includes an impairment charge related to the ACLP investments.
- Free cash flow usage<sup>(1)</sup> for the year of \$1.2 billion was driven by additional investments made to address legacy rail projects as well as the deferral of deliveries, mainly at Transportation.
  - Fourth quarter cash generation reached \$1.0 billion, in line with the prior year but short of expectations due to delayed cash inflows.
  - Cash from operating activities amounted to \$(680) million for the full year, and to \$1.1 billion in the fourth quarter.
- Business Aircraft and Transportation backlog continued to increase in 2019, reaching over \$50 billion in aggregate, while the *CRJ* backlog declines as production winds down.
- Year-end cash on hand of approximately \$2.6 billion and \$1.3 billion available on revolving credit facility; liquidity to be further strengthened by the additional \$1.6 billion of proceeds expected by mid-year of 2020 from the sale of the remaining ACLP interests, *CRJ* program and the aerostructures business<sup>(2)</sup>

**Reshaping the Aviation portfolio with increased focus on Business Aircraft**

- Completed the sales of Business Aircraft's flight and technical training activities to CAE Inc. and the Q Series program assets and operations to De Havilland Aircraft of Canada for combined proceeds of approximately \$800 million.
- Entered into a definitive agreement with Mitsubishi Heavy Industries, Ltd. (MHI) in June 2019 for the sale of the *CRJ* program for a cash consideration of \$550 million payable upon closing, and the assumption by MHI of certain financial assets and liabilities, including credit and residual value guarantees and lease subsidies.
- Entered into a definitive agreement with Spirit AeroSystems Holding, Inc. (Spirit) in October 2019, whereby Spirit will acquire Bombardier's Belfast and Casablanca aerostructures operations and the Dallas maintenance, repair and overhaul (MRO) facility, for a cash consideration of \$500 million and the assumption of approximately \$700 million of liabilities, including government refundable advances and pension obligations.
- On February 12, 2020, Bombardier entered into an agreement with Airbus SE and the Government of Quebec, under which Bombardier transferred its shares in the Airbus Canada Limited Partnership (ACLP) to Airbus and the Government of Quebec, improving Bombardier's cash position. This includes cash proceeds of approximately \$600 million from Airbus, of which \$531 million was paid upon closing with the balance to be paid over 2020-21, and the elimination of all future capital requirements for the A220 program, estimated at approximately \$700 million.

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section and Liquidity and capital resources section for reconciliations to the most comparable IFRS measures.

<sup>(2)</sup> Forward-looking statement. See the forward-looking statements assumptions on which the guidance is based and forward-looking statements disclaimer in Overview.

## Positioning Transportation for Stronger Financial Performance

- Actions and initiatives undertaken in 2019 to progress Transportation challenging projects:
  - Completed delivery of several large legacy projects, including Metropolitan Transportation Authority (MTA) in New York City, Crossrail in the U.K. and Toronto Transit Commission (TTC) in Toronto.
  - Achieved key milestones on other major projects, including in-service reliability improvement on Swiss Federal Railways (SBB) in Switzerland and the homologation of the multi-unit software for LoTrain in the U.K., paving the way for train deliveries.
- Transportation continued to grow and improve the quality of its backlog with \$10.0 billion in new orders, and a book-to-bill ratio<sup>(1)</sup> of 1.2 for the year. Backlog reached \$35.8 billion at the end of 2019.
  - Approximately 70% of 2019 orders coming from service contracts, signalling projects and options on rolling stock contracts, carrying lower execution risk.
  - Backlog share of services and signalling contracts increased to 48% (42% a year ago).

## Acceleration of Deleveraging Phase of Turnaround

- Consistent with Bombardier's five-year turnaround plan, and following a comprehensive review of strategic alternatives, the Company is actively pursuing options to strengthen its balance sheet and enhance shareholder value. The objective is to position the business for long-term success with greater operating and financial flexibility.<sup>(2)</sup>

<sup>(1)</sup> Ratio of new orders over revenues.

<sup>(2)</sup> Forward-looking statement. See the forward-looking statements assumptions on which the guidance is based and forward-looking statements disclaimer in Overview.

## KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes key performance measures and associated metrics evaluated only on a consolidated basis. Our reportable segments use multiple other key performance measures to evaluate various key metrics. Refer to each reportable segment's Key performance measures and metrics section for further details.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
PROFITABILITY	<ul style="list-style-type: none"> <li>Diluted EPS and adjusted EPS<sup>(1)</sup>, as measures of global performance.</li> </ul>
LIQUIDITY	<ul style="list-style-type: none"> <li>Available short-term capital resources<sup>(2)</sup>, as a measure of liquidity adequacy.</li> <li>Free cash flow<sup>(1)</sup>, as a measure of liquidity generation.</li> </ul>
CAPITAL STRUCTURE	<ul style="list-style-type: none"> <li>Adjusted EBIT<sup>(1)</sup> to adjusted interest<sup>(1)</sup> ratio, as a measure of interest coverage.</li> <li>Adjusted debt<sup>(1)</sup> to adjusted EBITDA<sup>(1)</sup> ratio, as a measure of financial leverage.</li> <li>Weighted-average long-term debt maturity, as a measure of debt term structure.</li> </ul>

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures, Consolidated results of operations and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.

<sup>(2)</sup> Defined as cash and cash equivalents plus the amount available under our revolving credit facilities.



## FIVE-YEAR SUMMARY

For the fiscal years ended and as at  
December 31

	2019	(1)	2018	2017	2016	2015
				<i>restated</i> <sup>(2)</sup>		
<b>Profitability</b>						
Revenues	\$ 15,757		\$ 16,236	\$ 16,199	\$ 16,339	\$ 18,172
Adjusted EBITDA <sup>(3)(4)</sup>	\$ 896		\$ 1,304	\$ 1,046	\$ 798	\$ 992
Adjusted EBITDA margin <sup>(3)(4)</sup>	5.7 %		8.0%	6.5 %	4.9 %	5.5 %
Adjusted EBIT <sup>(3)(4)</sup>	\$ 470		\$ 1,029	\$ 725	\$ 427	\$ 554
Adjusted EBIT margin <sup>(3)(4)</sup>	3.0 %		6.3%	4.5 %	2.6 %	3.0 %
EBIT	\$ (498)		\$ 1,001	\$ 299	\$ (58)	\$ (4,838)
EBIT margin	(3.2)%		6.2%	1.8 %	(0.4)%	(26.6)%
Net income (loss)	\$ (1,607)		\$ 318	\$ (525)	\$ (981)	\$ (5,340)
Diluted EPS (in dollars)	\$ (0.76)		\$ 0.09	\$ (0.24)	\$ (0.48)	\$ (2.58)
Adjusted net income (loss) <sup>(3)</sup>	\$ (396)		\$ 438	\$ 91	\$ (268)	\$ 326
Adjusted EPS (in dollars) <sup>(3)</sup>	\$ (0.25)		\$ 0.14	\$ 0.04	\$ (0.15)	\$ 0.14
<b>Liquidity</b>						
Cash flows from operating activities	\$ (680)		\$ 597	\$ 531	\$ 137	\$ 20
Net additions to PP&E and intangible assets	\$ 523		\$ 415 <sup>(5)</sup>	\$ 1,317	\$ 1,201	\$ 1,862
Free cash flow (usage) <sup>(3)</sup>	\$ (1,203)		\$ 182 <sup>(5)</sup>	\$ (786)	\$ (1,064)	\$ (1,842)
Cash and cash equivalents <sup>(6)</sup>	\$ 2,629		\$ 3,187	\$ 3,057	\$ 3,384	\$ 2,720
Available short-term capital resources <sup>(7)</sup>	\$ 3,925		\$ 4,373	\$ 4,225	\$ 4,477	\$ 4,014
<b>Capital structure</b>						
Interest coverage ratio <sup>(8)</sup>	0.6		1.5	1.3	0.8	1.5
Financial leverage ratio <sup>(8)</sup>	10.9		6.6	7.9	9.7	7.3
Weighted-average long-term debt maturity (in years)	4.6		4.3	5.3	5.8	6.3

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> Restated due to the adoption of IFRS 15, *Revenue from contracts with customers*.

<sup>(3)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures, Consolidated results of operations and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.

<sup>(4)</sup> Refer to the Consolidated results of operations section for details of special items recorded in 2019 and 2018.

<sup>(5)</sup> Included the proceeds from the sale of the Downsview property for approximately \$600 million in 2018.

<sup>(6)</sup> Includes cash and cash equivalents of the aerostructures businesses presented under Assets held for sale totalling \$51 million as of December 31, 2019. Refer to Reshaping the portfolio section in Aviation, Note 15 - Cash and cash equivalents and Note 30 - Assets held for sale in the Consolidated financial statements for more details on the transactions as well as the accounting treatments. Also included cash and cash equivalents of the C Series aircraft program presented under Assets held for sale amounting to \$69 million as of December 31, 2017.

<sup>(7)</sup> Defined as cash and cash equivalents plus the amount available under the revolving credit facilities.

<sup>(8)</sup> Refer to the Capital structure and Non-GAAP financial measures sections for computations of these ratios. In 2019, the Corporation changed the definitions of these ratios as a result of adopting IFRS 16, *Leases*.

# STRATEGIC PRIORITIES

## Acceleration of deleveraging phase of turnaround

Since launching the turnaround plan, Bombardier has addressed underperforming aerospace assets, completed the heavy investment cycle, and set itself on a solid path toward organic growth and margin expansion while prudently managing liquidity and its heavy debt load.



By the end of 2020, Bombardier expects to start deploying excess cash on hand initiating the deleveraging phase of the plan. This strong liquidity position is supported by cash on hand of \$2.6 billion as of December 31, 2019, expected approximately \$1.6 billion proceeds from the ACLP remaining interest, *CRJ* program and Aerostructures sales. Deleveraging is expected to further accelerate as the Corporation transitions toward positive free cash flow generation expected by the end of the year.<sup>(1)</sup>

With the final phase of the plan in motion, Bombardier is also actively pursuing alternatives to accelerate debt paydown in order to position the business for long-term success with greater operating and financial flexibility.

<sup>(1)</sup> Forward-looking statement. See the forward-looking statements assumptions on which the guidance is based and forward-looking statements disclaimer in Overview.

## Forward-looking statements

Forward-looking statements<sup>(1)</sup> in this section of the MD&A are based on and subject to the following material assumptions:

### Overall business

- normal execution and delivery of current backlog;
- the ability to understand customer needs and portfolio of products and services to drive market demand and secure new orders;
- continued deployment and execution of leading initiatives to improve revenue conversion into higher earnings and free cash flow<sup>(2)</sup>, through improved procurement cost, controlled spending and labour efficiency;
- delivering on the transformation plan targets, through restructurings and other initiatives addressing the direct and indirect cost structure, focusing on sustained cost reductions and operational improvements, while reducing working capital consumption;
- the ability of the supply base to support product development and planned production rates on commercially acceptable terms in a timely manner;
- the ability to identify and enter into further risk sharing partnerships and initiatives;
- the effectiveness of disciplined capital deployment measures in new programs and products to drive revenue growth;
- the ability to recruit and retain highly skilled resources to deploy the product development strategy;
- the stability of the competitive global environment and global economic conditions;
- the stability of foreign exchange rates at current levels; and
- the ability to have sufficient liquidity to execute the strategic plan, to meet financial covenants and to pay down long-term debt or refinance bank facilities and maturities.

### Aviation

- closing of the sale of our regional jet program and Belfast and Morocco aerostructures businesses and Dallas MRO by mid-year 2020;
- the alignment of production rates to market demand;
- the ability to manage the learning curve as we ramp up production and deliveries of the *Global 7500* aircraft;
- continued deployment and execution of growth strategies, and continued growth of the aftermarket business;
- the ability to invest in our product portfolio;
- the accuracy of the analyses and assumptions underlying our business case including estimated cash flows and revenues over the expected life of our programs and thereafter;
- the accuracy of our assessment of anticipated growth drivers and sector trends; and
- new program aircraft prices, unit costs and ramp-up.

### Transportation

- our ability to execute and deliver business model enhancement initiatives;
- our ability to release working capital stemming from delivery challenges experienced;
- our ability to successfully move forward and complete challenging projects;
- our ability to meet project milestones on schedule and reach customer settlements on key projects;
- the ability to leverage the global manufacturing footprint and transfer best practices and technology across production;
- the realization of upcoming tenders and our ability to capture them based on market forecasts<sup>(3)</sup>, leading to estimated future order intake; and
- successful deployment and execution of growth strategies, including the value chain approach and the creation of ecosystems, site specialization and the creation of engineering centres of excellence, and the evolution of the backlog and revenue mix towards less challenging legacy projects and more lower-risk projects, signalling and systems and operations and maintenance contracts.

For a discussion of the material risk factors associated with the forward-looking information, refer to the Risks and uncertainties section in Other.

<sup>(1)</sup> Also refer to the Guidance and forward-looking statements section for the forward-looking statements disclaimer.

<sup>(2)</sup> Non-GAAP measure. Refer to the Non-GAAP measures for definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measures.

<sup>(3)</sup> For more details, refer to the market indicators in the Industry and economic environment section of the Transportation segment.

## SEGMENT REPORTING

During the second quarter of 2019, the Corporation announced the strategic formation of Bombardier Aviation, consolidating all aerospace assets into a single, streamlined and fully integrated business. As a result of our integration following this announcement, our reportable segments are now Aviation and Transportation. Business Aircraft, Commercial Aircraft and Aerostructures and Engineering Services are reported under Aviation. The Corporation's interest in ACLP is treated as a corporately held investment and therefore is included in Corporate and Others.

The restated results under the new reportable segments are as follows.

Three-month period ended March 31, 2019					
	Aviation	Transportation	Corporate and Others		Total
Revenues	\$ 1,410	\$ 2,107	\$ (1)	\$	3,516
Adjusted EBITDA <sup>(1)</sup>	\$ 202	\$ 118	\$ (54)	(2)	\$ 266 (2)
Adjusted EBIT <sup>(1)</sup>	\$ 144	\$ 83	\$ (56)	(2)	\$ 171 (2)
EBIT	\$ 664	\$ 83	\$ (63)	(2)	\$ 684 (2)
Adjusted EBITDA margin <sup>(1)</sup>	14.3%	5.6%			
Adjusted EBIT margin <sup>(1)</sup>	10.2%	3.9%			
EBIT margin	47.1%	3.9%			

Three-month period ended June 30, 2019					
	Aviation	Transportation	Corporate and Others		Total
Revenues	\$ 2,120	\$ 2,194	\$ —	\$	4,314
Adjusted EBITDA <sup>(1)</sup>	\$ 222	\$ 146	\$ (56)	(2)	\$ 312 (2)
Adjusted EBIT <sup>(1)</sup>	\$ 151	\$ 111	\$ (56)	(2)	\$ 206 (2)
EBIT	\$ 340	\$ 87	\$ (56)	(2)	\$ 371 (2)
Adjusted EBITDA margin <sup>(1)</sup>	10.5%	6.7%			
Adjusted EBIT margin <sup>(1)</sup>	7.1%	5.1%			
EBIT margin	16.0%	4.0%			

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

<sup>(2)</sup> Includes share of net gain (loss) from ACLP of \$1 million for the first quarter of 2019 and \$(9) million for the second quarter of 2019.



Three-month period ended March 31, 2018					
	Aviation	Transportation	Corporate and Others		Total
Revenues	\$ 1,675	\$ 2,355	\$ (2)	\$	4,028
Adjusted EBITDA <sup>(1)</sup>	\$ 91	\$ 214	\$ (40)	\$	265
Adjusted EBIT <sup>(1)</sup>	\$ 54	\$ 189	\$ (42)	\$	201
EBIT	\$ 52	\$ 191	\$ (42)	\$	201
Adjusted EBITDA margin <sup>(1)</sup>	5.4%	9.1%			
Adjusted EBIT margin <sup>(1)</sup>	3.2%	8.0%			
EBIT margin	3.1%	8.1%			

Three-month period ended June 30, 2018					
	Aviation	Transportation	Corporate and Others		Total
Revenues	\$ 2,003	\$ 2,259	\$ —	\$	4,262
Adjusted EBITDA <sup>(1)</sup>	\$ 144	\$ 232	\$ (40)	\$	336
Adjusted EBIT <sup>(1)</sup>	\$ 105	\$ 207	\$ (41)	\$	271
EBIT	\$ 69	\$ 163	\$ (41)	\$	191
Adjusted EBITDA margin <sup>(1)</sup>	7.2%	10.3%			
Adjusted EBIT margin <sup>(1)</sup>	5.2%	9.2%			
EBIT margin	3.4%	7.2%			

Three-month period ended September 30, 2018					
	Aviation	Transportation	Corporate and Others		Total
Revenues	\$ 1,504	\$ 2,140	\$ (1)	\$	3,643
Adjusted EBITDA <sup>(1)</sup>	\$ 166	\$ 212	\$ (45) <sup>(2)</sup>	\$	333 <sup>(2)</sup>
Adjusted EBIT <sup>(1)</sup>	\$ 129	\$ 187	\$ (45) <sup>(2)</sup>	\$	271 <sup>(2)</sup>
EBIT	\$ 132	\$ 184	\$ (49) <sup>(2)</sup>	\$	267 <sup>(2)</sup>
Adjusted EBITDA margin <sup>(1)</sup>	11.0%	9.9%			
Adjusted EBIT margin <sup>(1)</sup>	8.6%	8.7%			
EBIT margin	8.8%	8.6%			

Three-month period ended December 31, 2018					
	Aviation	Transportation	Corporate and Others		Total
Revenues	\$ 2,142	\$ 2,161	\$ —	\$	4,303
Adjusted EBITDA <sup>(1)</sup>	\$ 242	\$ 193	\$ (65) <sup>(2)</sup>	\$	370 <sup>(2)</sup>
Adjusted EBIT <sup>(1)</sup>	\$ 184	\$ 167	\$ (65) <sup>(2)</sup>	\$	286 <sup>(2)</sup>
EBIT	\$ 171	\$ 236	\$ (65) <sup>(2)</sup>	\$	342 <sup>(2)</sup>
Adjusted EBITDA margin <sup>(1)</sup>	11.3%	8.9%			
Adjusted EBIT margin <sup>(1)</sup>	8.6%	7.7%			
EBIT margin	8.0%	10.9%			

Fiscal year ended December 31, 2018					
	Aviation	Transportation	Corporate and Others		Total
Revenues	\$ 7,324	\$ 8,915	\$ (3)	\$	16,236
Adjusted EBITDA <sup>(1)</sup>	\$ 643	\$ 851	\$ (190) <sup>(2)</sup>	\$	1,304 <sup>(2)</sup>
Adjusted EBIT <sup>(1)</sup>	\$ 472	\$ 750	\$ (193) <sup>(2)</sup>	\$	1,029 <sup>(2)</sup>
EBIT	\$ 424	\$ 774	\$ (197) <sup>(2)</sup>	\$	1,001 <sup>(2)</sup>
Adjusted EBITDA margin <sup>(1)</sup>	8.8%	9.5%			
Adjusted EBIT margin <sup>(1)</sup>	6.4%	8.4%			
EBIT margin	5.8%	8.7%			

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

<sup>(2)</sup> Includes share of net loss from ACLP of \$13 million for the third quarter of 2018 and \$27 million for the fourth quarter of 2018.

## GUIDANCE AND FORWARD-LOOKING STATEMENTS

Starting in the third quarter of 2019, Bombardier's three existing aerospace units are consolidated into a single Bombardier Aviation business segment. As a result of this change, the Corporation updated its 2019 guidance.

		2019 guidance provided in our 2018 Financial Report <sup>(1)</sup>	Updated 2019 guidance <sup>(2)</sup>	2019 results
<b>Revenues</b>	Business Aircraft	~ \$6.25 billion	Aviation <sup>(3)</sup> ~ \$8.0 billion	\$7.5 billion
	Commercial Aircraft	~ \$1.4 billion		
	Aerostructures and Engineering Services	\$2.25-\$2.50 billion		
	Transportation	~ \$9.5 billion	~ \$8.75 billion	\$8.27 billion
	Consolidated	≥ \$18.0 billion	\$16.5-\$17.0 billion	\$15.8 billion
<b>Adjusted EBITDA<sup>(4)</sup></b>	Consolidated	\$1.65-\$1.80 billion	\$1.20-\$1.30 billion	\$0.90 billion
<b>Adjusted EBIT<sup>(4)</sup> and adjusted EBIT margin<sup>(4)</sup></b>	Business Aircraft	~ 7.5%	Aviation <sup>(3)</sup> ~ 7.0%	7.1%
	Commercial Aircraft	~ (\$125 million)		
	Aerostructures and Engineering Services	7.5%		
	Transportation	~ 9.0%	~ 5.0%	0.8%
	Consolidated	\$1.15-\$1.25 billion	\$700-\$800 million	\$470 million
<b>EBIT</b>	Consolidated	N/A	N/A	\$(498) million
<b>Free cash flow<sup>(4)</sup></b>	Consolidated	Breakeven ± \$250 million	~ (\$500 million)	\$(1,203) million
<b>Cash flows from operating activities</b>	Consolidated	N/A	N/A	\$(680) million
<b>Net additions to PP&amp;E and intangible assets</b>	Consolidated	N/A	N/A	\$523 million
<b>Aircraft deliveries (in units)</b>	Business Aircraft	150 - 155	Aviation <sup>(3)</sup> 175 - 180	175
	Commercial Aircraft	~30 CRJ and Q400		

<sup>(1)</sup> Refer to our 2018 Financial Report for further details.

<sup>(2)</sup> Refer to our First Quarterly Report for the period ended March 31, 2019, our Second Quarterly Report for the period ended June 30, 2019 and Segment Reporting section of this MD&A for further details.

<sup>(3)</sup> Refer to our Segment Reporting section of this MD&A for further details. The assumptions on which the guidance for the aerospace segments was based continue to apply to the guidance for the Aviation segment.

<sup>(4)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.

## **2019 guidance<sup>(1)</sup>**

### **CONSOLIDATED**

Revenue guidance for the year was revised to be in the range of \$16.5 to \$17.0 billion as a result of lower revenues at Transportation, driven by production ramp-up adjustments, unfavourable currency impact and earlier than anticipated closing of the sale of Business Aircraft's training activities and the Q400 program. Revenues for the full year of \$15.8 billion were below Guidance mainly as a result of revised estimates on certain rail contracts in the fourth quarter.

Adjusted EBITDA<sup>(2)</sup> and adjusted EBIT<sup>(2)</sup> guidance were revised down to \$1.2-\$1.3 billion and \$700-\$800 million, respectively, mainly reflecting revised margins at Transportation. Full year adjusted EBITDA<sup>(2)</sup> and adjusted EBIT<sup>(2)</sup> were \$896 million and \$470 million respectively as a result of additional charges related to certain projects in the U.K., Switzerland, and Germany recognized in the fourth quarter.

Free cash flow<sup>(2)</sup> guidance for the full year was revised to a usage of approximately \$500 million as a result of additional investments and costs at Transportation, and the timing risk on some key rail projects with delivery milestones near the end of the year. Full year free cash flow usage<sup>(2)</sup> was \$1.2 billion largely due to the timing of cash inflows from milestone payments on large Transportation projects, and the later-than-anticipated closing of certain orders and call-offs.

### **AVIATION**

Revenue guidance was reduced by \$250 million from the earlier than anticipated closing of the sale of Business Aircraft's training activities and the Q400 program. During the second quarter of 2019, as a result of the consolidation of the three existing aerospace units into a single Bombardier Aviation business segment, the corporation updated its 2019 guidance. Full year revenues guidance at Aviation was updated to approximately \$8.0 billion, net of eliminations. Revenues for 2019 at Aviation were \$7.5 billion mainly due to certain business aircraft deliveries shifting into 2020.

New segment adjusted EBIT margin<sup>(2)</sup> guidance was set at approximately 7% for the year, in line with the previous aerospace segments guidance, and excluding the Airbus Canada Limited Partnership contribution (reclassified as a corporately held investment). A total of 175 to 180 aircraft deliveries were expected for 2019. For 2019, Aviation's adjusted EBIT margin<sup>(2)</sup> and deliveries were largely in line with guidance.

### **TRANSPORTATION**

Revenue guidance was lowered to approximately \$8.75 billion driven by slower production ramp-up and unfavourable currency impact. 2019 revenues of \$8.3 billion were lower as a result of revised estimates on certain rail contracts in the fourth quarter.

On the earnings front, adjusted EBIT margin<sup>(2)</sup> guidance for the full year was revised from approximately 9% to approximately 5%, mainly as we made additional investments and incurred additional costs to both complete the legacy projects and to protect the delivery schedule for other projects. For 2019, adjusted EBIT margin<sup>(2)</sup> was 0.8% as a result of additional charges related to certain contracts in the U.K., Switzerland, and Germany. This resulted in approximately 30% of 2019 revenues recorded with neutral or negative margins.

<sup>(1)</sup> Forward-looking statement. See the forward-looking statements assumptions on which the guidance is based and forward-looking statements disclaimer in Overview.

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

### Other Objectives<sup>(1)</sup>

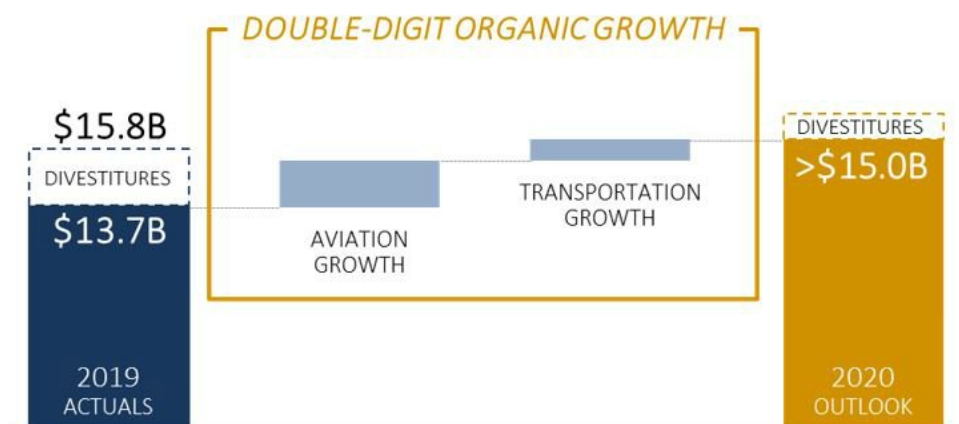
Cash and cash equivalents and liquidity<sup>(2)</sup> estimates for December 31, 2019 remained unchanged through the year at > \$3.0 billion and > \$4.0 billion, respectively. The Corporation ended the year with cash and cash equivalents of \$2.6 billion and liquidity<sup>(2)</sup> of \$3.9 billion reflecting delayed cash inflows mainly from Transportation in the fourth quarter.

Net additions to PP&E and intangible assets were estimated at approximately \$800 million for the full year. 2019 net additions to PP&E and intangible assets were favourable relative to expectations, at \$523 million.

### 2020 outlook<sup>(3)</sup>

Consolidated	2020 Outlook
Revenues	<b>&gt;\$15.0 billion</b> From sustaining businesses
Adjusted EBITDA <sup>(4)</sup>	<b>~7.0%</b>
Adjusted EBIT <sup>(4)</sup>	<b>~3.5%</b>
Free cash flow <sup>(4)</sup>	<b>Positive,</b> Excluding RVG Payments

### REVENUES



Revenues from sustaining business aircraft and Transportation activities in 2020 are expected to grow organically by double-digit percentage over the \$13.7 billion revenues recorded from these businesses in 2019. This strong growth is expected mainly from the acceleration of *Global 7500* deliveries contributing to a total of 160 aircraft or more for the year at Aviation. The anticipated consolidated revenue growth is also supported by the ongoing production ramp-up of Transportation, driven by the solid orders from the past few years.

The 2020 revenue outlook excludes the partial year contribution from the ongoing divestitures of the *CRJ* and *Aerostructures* businesses. In 2019, these businesses along with other non-recurring revenues from divested businesses (*Q400* and *Business Aircraft training*) generated \$2.1 billion of revenues. These revenues are expected to reduce to less than half of this amount in 2020 given expected transaction closing dates.

<sup>(1)</sup> Refer to our 2018 Financial Report for further details.

<sup>(2)</sup> Defined as available short-term capital resources.

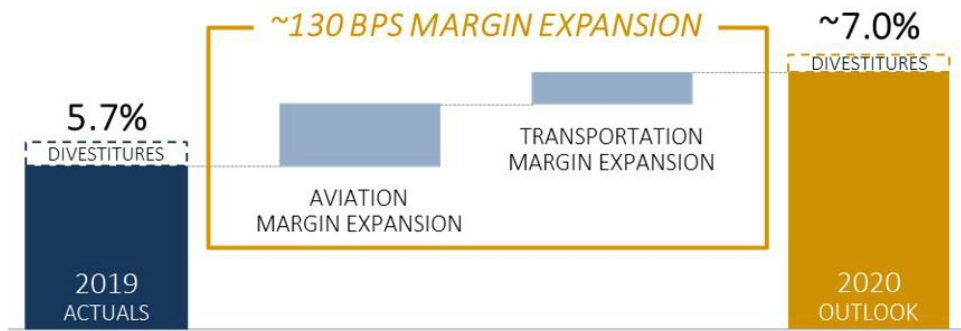
<sup>(3)</sup> Forward-looking statement. See the forward-looking statements assumptions on which the guidance is based and forward-looking statements disclaimer in Overview. Revenues guidance is based on the assumption that foreign exchange rates remain stable at 1.10 for the conversion of the amounts in Euro to U.S. dollars.

<sup>(4)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.

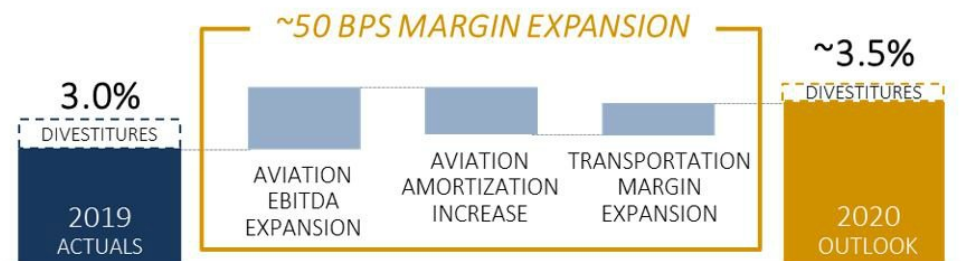


## EARNINGS

### Adjusted EBITDA<sup>(1)</sup>



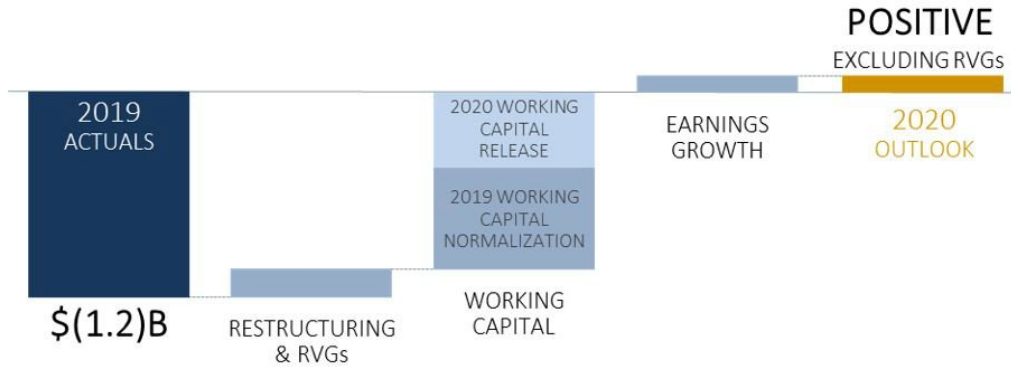
### Adjusted EBIT<sup>(1)</sup>



Adjusted EBITDA<sup>(1)</sup> and adjusted EBIT<sup>(1)</sup> are expected to increase by approximately 130 bps and 50 bps, respectively, mainly from the acceleration of *Global 7500* deliveries at Aviation and gradual margin normalization at Transportation. Adjusted EBITDA margin<sup>(1)</sup> is expected at approximately 7.0% for the year. This improvement in financial performance is largely driven by the progress on the *Global 7500* learning curve and continuous growth in aftermarket services at Aviation. Transportation margin is also expected to increase in 2020 as it normalizes from the 2019 contract estimate adjustments, while also continuing to carry a large share of projects with no margins. Adjusted EBIT margin<sup>(1)</sup> is expected to grow to approximately 3.5%, including a higher amortization expense as *Global 7500* deliveries increase. The full year outlook for earnings reflects partial year contribution from ongoing divestitures of the *CRJ* and *Aerostructures* businesses.

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

## FREE CASH FLOW<sup>(1)</sup>



Free cash flow<sup>(1)</sup> is expected to be positive in 2020, excluding credit and residual value guarantee (RVG) payments which are estimated at approximately \$200 million. These payments are expected to be paid from the CRJ transaction proceeds. We expect positive free cash flow<sup>(1)</sup> from both Transportation and business aircraft sustaining businesses, mainly from a shift towards working capital release and stable year over year investments in PP&E and intangible assets.

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

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, anticipations and outlook or guidance in respect of various financial and global metrics and sources of contribution thereto, targets, goals, priorities, market and strategies, financial position, market position, capabilities, competitive strengths, credit ratings, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business outlook, prospects and trends of an industry; expected growth in demand for products and services; growth strategy, including in the business aircraft aftermarket business; product development, including projected design, characteristics, capacity or performance; expected or scheduled entry-into-service of products and services, orders, deliveries, testing, lead times, certifications and project execution in general; competitive position; expectations regarding progress and completion of challenging Transportation projects and the release of working capital therefrom within the anticipated timeframe; expectations regarding revenue and backlog mix; the expected impact of the legislative and regulatory environment and legal proceedings on our business and operations; strength of capital profile and balance sheet, creditworthiness, available liquidities and capital resources, expected financial requirements and ongoing review of strategic and financial alternatives; the introduction of productivity enhancements, operational efficiencies and restructuring initiatives and anticipated costs, intended benefits and timing thereof; the expected objectives and financial targets underlying our transformation plan and the timing and progress in execution thereof, including the anticipated business transition to growth cycle and cash generation; expectations and objectives regarding debt repayments and refinancing of bank facilities and maturities; and intentions and objectives for our programs, assets and operations. As it relates to the pursuit of a divestiture of our operations in Belfast and Morocco and the sale of the CRJ aircraft program (collectively, the Pending Transactions), this MD&A also contains forward-looking statements with respect to: the expected terms, conditions, and timing for completion thereof; the respective anticipated proceeds and use thereof and/or consideration therefor, related costs and expenses, as well as the anticipated benefits of such transactions and their expected impact on our outlook, guidance and targets, operations, infrastructure, opportunities, financial condition, business plan and overall strategy; and the fact that closing of these transactions will be conditioned on certain events occurring, including the receipt of necessary regulatory approvals.

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

By their nature, forward-looking statements require management to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecast results set forth in forward-looking statements. While management considers these assumptions to be reasonable and appropriate based on information currently available, there is risk that they may not be accurate. The assumptions underlying the forward-looking statements made in this MD&A in relation to the Pending Transactions discussed herein include the following material assumptions: the satisfaction of all closing conditions (including receipt of regulatory approvals on acceptable terms within commonly experienced time frames) and successful completion of such transactions within the anticipated timeframe, the realization of the intended benefits therefrom (including receipt of expected proceeds) within the anticipated timeframe. For additional information, including with respect to the other assumptions underlying the forward-looking statements made in this MD&A, refer to the Strategic Priorities and Guidance and forward-looking statements sections in applicable reportable segment.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, risks associated with general economic conditions, risks associated with our business environment (such as risks associated with “Brexit”, the financial condition of the airline industry, business aircraft customers, and the rail industry; trade policy; increased competition; political instability and force majeure events or global climate change), operational risks (such as risks related to developing new products and services; development of new business and awarding of new contracts; book-to-bill ratio and order backlog; the certification and homologation of products and services; fixed-price and fixed-term commitments and production and project execution, including challenges associated with

challenging Transportation projects and the risk that actions and initiatives undertaken by Transportation to move forward and complete such projects may not be successful, and the intended outcome and release of working capital therefrom not being realized, within the timeframe anticipated or at all; pressures on cash flows and capital expenditures based on project-cycle fluctuations and seasonality; risks associated with our ability to successfully implement and execute our strategy, transformation plan, productivity enhancements, operational efficiencies and restructuring initiatives; doing business with partners; inadequacy of cash planning and management and project funding; product performance warranty and casualty claim losses; regulatory and legal proceedings; environmental, health and safety risks; dependence on certain customers, contracts and suppliers; supply chain risks; human resources; reliance on information systems; reliance on and protection of intellectual property rights; reputation risks; risk management; tax matters; and adequacy of insurance coverage), financing risks (such as risks related to liquidity and access to capital markets; retirement benefit plan risk; exposure to credit risk; substantial existing debt and interest payment requirements; certain restrictive debt covenants and minimum cash levels; financing support provided for the benefit of certain customers; and reliance on government support), market risks (such as risks related to foreign currency fluctuations; changing interest rates; decreases in residual values; increases in commodity prices; and inflation rate fluctuations). For more details, see the Risks and uncertainties section in Other in this MD&A. With respect to the Pending Transactions discussed herein specifically, certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to: the failure to receive or delay in receiving regulatory approvals on acceptable terms or at all, or otherwise satisfy the conditions to the completion of these transactions or delay in completing, and uncertainty regarding the length of time required to complete, such transactions, and all or part of the intended benefits therefrom not being realized and the anticipated proceeds therefrom not being available to Bombardier within the anticipated timeframe, or at all; and alternate sources of funding that would be used to replace the anticipated proceeds from such transactions may not be available when needed, or on desirable terms. For more details, see the Risks and uncertainties section in Other in this MD&A.

Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. Other risks and uncertainties not presently known to us or that we presently believe are not material could also cause actual results or events to differ materially from those expressed or implied in our forward-looking statements. The forward-looking statements set forth herein reflect management's expectations as at the date of this report and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

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# CONSOLIDATED RESULTS OF OPERATIONS

## Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019 <sup>(1)</sup>	2018	2019 <sup>(1)</sup>	2018
Revenues	\$ 4,205	\$ 4,303	\$ 15,757	\$ 16,236
Cost of sales	3,997	3,637	14,157	13,958
<b>Gross margin</b>	<b>208</b>	666	<b>1,600</b>	2,278
SG&A	235	292	1,013	1,156
R&D	125	72	292	217
Share of income of joint ventures and associates	(81)	(7)	(128)	(66)
Other expense (income)	(5)	23	(47)	(58)
<b>Adjusted EBIT<sup>(2)</sup></b>	<b>(66)</b>	286	<b>470</b>	1,029
Special items	1,630	(56)	968	28
<b>EBIT</b>	<b>(1,696)</b>	342	<b>(498)</b>	1,001
Financing expense	257	261	1,072	712
Financing income	(106)	(33)	(230)	(106)
<b>EBT</b>	<b>(1,847)</b>	114	<b>(1,340)</b>	395
Income taxes	(128)	59	267	77
<b>Net income (loss)</b>	<b>\$ (1,719)</b>	\$ 55	<b>\$ (1,607)</b>	\$ 318
Attributable to				
Equity holders of Bombardier Inc.	\$ (1,770)	\$ 15	\$ (1,797)	\$ 232
NCI	\$ 51	\$ 40	\$ 190	\$ 86
<b>EPS (in dollars)</b>				
Basic	\$ (0.74)	\$ 0.02	\$ (0.76)	\$ 0.10
Diluted	\$ (0.74)	\$ 0.02	\$ (0.76)	\$ 0.09
<b>As a percentage of total revenues</b>				
Adjusted EBIT <sup>(2)</sup>	(1.6)%	6.6%	3.0%	6.3%
EBIT	(40.3)%	7.9%	(3.2)%	6.2%

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

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

## Computation of diluted EPS

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019	2018	2019	2018
Net income (loss) attributable to equity holders of Bombardier Inc.	\$ (1,770)	\$ 15	\$ (1,797)	\$ 232
Preferred share dividends, including taxes	(7)	25	(21)	4
<b>Net income (loss) attributable to common equity holders of Bombardier Inc.</b>	<b>\$ (1,777)</b>	\$ 40	<b>\$ (1,818)</b>	\$ 236
<b>Weighted-average diluted number of common shares (in thousands of shares)</b>	<b>2,397,868</b>	2,477,954	<b>2,383,987</b>	2,501,047
<b>Diluted EPS (in dollars)</b>	<b>\$ (0.74)</b>	\$ 0.02	<b>\$ (0.76)</b>	\$ 0.09

## Other non-GAAP financial measure<sup>(1)</sup>

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019	2018	2019	2018
Adjusted EBITDA	\$ 63	\$ 370	\$ 896	\$ 1,304
Adjusted net income (loss)	\$ (172)	\$ 149	\$ (396)	\$ 438
Adjusted EPS	\$ (0.10)	\$ 0.05	\$ (0.25)	\$ 0.14

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

## Reconciliation of segment to consolidated results<sup>(1)</sup>

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019 <sup>(2)</sup>	2018	2019 <sup>(2)</sup>	2018
<b>Revenues</b>				
Aviation	\$ 2,413	\$ 2,142	\$ 7,501	\$ 7,324
Transportation	1,793	2,161	8,269	8,915
Corporate and Others	(1)	—	(13)	(3)
	\$ 4,205	\$ 4,303	\$ 15,757	\$ 16,236
<b>Adjusted EBIT<sup>(3)</sup></b>				
Aviation	\$ 143	\$ 184	\$ 531	\$ 472
Transportation	(234)	167	70	750
Corporate and Others <sup>(4)</sup>	25	(65)	(131)	(193)
	\$ (66)	\$ 286	\$ 470	\$ 1,029
<b>Special Items</b>				
Aviation	\$ 49	\$ 13	\$ (663)	\$ 48
Transportation	2	(69)	48	(24)
Corporate and Others	1,579	—	1,583	4
	\$ 1,630	\$ (56)	\$ 968	\$ 28
<b>EBIT</b>				
Aviation	\$ 94	\$ 171	\$ 1,194	\$ 424
Transportation	(236)	236	22	774
Corporate and Others <sup>(4)</sup>	(1,554)	(65)	(1,714)	(197)
	\$ (1,696)	\$ 342	\$ (498)	\$ 1,001

<sup>(1)</sup> Figures are restated as a result of the formation of Bombardier Aviation, our new reportable segment. Refer to the Segment reporting section in Overview for further details.

<sup>(2)</sup> Refer to Note 3 - Changes in accounting policies in our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(3)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for a definition of this metric.

<sup>(4)</sup> Includes share of net gains from ACLP of \$57 million and \$37 million for the fourth quarter and fiscal year ended December 31, 2019, respectively (share of net losses of \$27 million and \$40 million for the fourth quarter and fiscal year ended December 31, 2018, respectively). The share of net gains from ACLP in the fourth quarter of 2019 includes certain provision reversals within ACLP amounting to approximately \$60 million.

## Analysis of consolidated results

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

### Special items

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

The special items recorded as losses (gains) were as follows:

	Ref	Fourth quarters ended December 31		Fiscal years ended December 31	
		2019	2018	2019	2018
Impairment on ACLP investments	1	\$ 1,578	\$ —	\$ 1,578	\$ —
Gain on disposal of a business - Training business	2	—	—	(516)	—
Gain on disposal of a business - Q Series business	3	9	—	(210)	—
Restructuring charges	4	15	23	99	41
Loss on repurchase of long-term debt	5	—	—	84	—
Pension adjustments	6	26	28	26	28
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions	7	(3)	(28)	(18)	(29)
<i>Primove</i> impairment and other costs	8	1	—	5	4
Purchase of pension annuities	9	4	—	4	32
C Series transaction with Airbus	10	—	7	—	616
Gain on disposal of PP&E	11	—	—	—	(561)
Gains on disposal of PP&E under sale and leaseback transactions	12	—	(66)	—	(66)
Tax litigation	13	—	(31)	—	(35)
Changes in credit and residual value guarantees	14	—	—	—	(34)
Loss on sale of long-term contract receivables	15	—	31	—	31
Impairment of non-core operations	16	—	—	—	17
Income taxes		(20)	48	217	(23)
		\$ 1,610	\$ 12	\$ 1,269	\$ 21
<b>Of which is presented in</b>					
Special items in EBIT		\$ 1,630	\$ (56)	\$ 968	\$ 28
Financing expense - loss on repurchase of long-term debt	5	—	—	84	—
Financing expense - loss on sale of long-term contract receivables	15	—	31	—	31
Financing income - interest related to tax litigation	13	—	(11)	—	(15)
Income taxes		(20)	48	217	(23)
		\$ 1,610	\$ 12	\$ 1,269	\$ 21

- The Corporation performed an impairment test in the fourth quarter of 2019 on its investments in ACLP since there were indicators of impairment. The Corporation determined that the carrying amount of its investment in ACLP exceeded its recoverable amount, and accordingly recorded an impairment charge of \$1,578 million. See Note 40 - Investments in Joint ventures and Associates for more details.
- 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 31 - Disposal of a business for more details in respect of the transaction.
- The sale of the Q Series Aircraft program assets for net proceeds of \$285 million resulted in a pre-tax accounting gain of \$210 million (\$184 million after tax impact). See Note 31 - Disposal of a business for more details in respect of the transaction.

4. For fiscal year 2019, represents severance charges of \$86 million partially offset by curtailment gains of \$7 million and by the reversal of previously-recorded impairment charges of \$8 million, related to previously-announced restructuring actions. For fiscal year 2018, represents severance charges of \$43 million partially offset by curtailment gains of \$10 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 \$24 million of other related charges for fiscal year 2019. In addition, the Corporation has recorded a write down of deferred tax assets of \$87 million to reflect the expected impact of the conclusion of the *CRJ* announcement.

5. 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.
6. On October 26, 2018, the High Court in the United Kingdom ruled that pension schemes must equalize for the effect of unequal Guaranteed Minimum Pensions between male and female for benefits earned during specified periods (“GMP equalization”). The Corporation estimated the impact of the ruling on its pension plans and recognized an additional obligation of \$28 million as at December 31, 2018. The one-time P&L impact was recognized in fiscal year 2018 as a past service cost under IAS 19 - Employee Benefits. In fiscal year 2019, the Corporation adjusted the pension obligation related to equalization for an Aviation plan in the U.K. The adjustments of \$26 million was recorded as a past service cost under IAS 19 - Employee Benefits.
7. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by \$18 million for fiscal year 2019 (\$29 million for fiscal year 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.
8. Following a reassessment of the value of the *Primove* e-mobility technology and the status of existing contractual obligations, the Corporation recorded in fiscal year 2019 an additional contract provision of \$5 million (\$4 million for fiscal year 2018).
9. 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.
10. 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 \$616 million (\$552 million after tax). The pre-tax accounting charge reflects all elements of the transaction, including: (i) the \$270 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.
11. Related to the sale of the Downsview property to the Public Sector Pension Investment Board (PSP Investments).
12. The Corporation sold and leased back two facilities in Transportation in line with our transformation plan.
13. Represents a change in the estimates used to determine the provision related to tax litigation.
14. The provisions for credit and residual value guarantees were reduced following a change in credit risk assumption for an airline. The reduction of the provisions was treated as a special item since the original provisions were recorded as special items in 2015.

15. For fiscal year 2018, the Corporation sold long-term contract receivables in Transportation, which resulted in a loss of \$31 million recorded in financing expense.
16. An impairment charge related to non-core operations of \$17 million recorded in the fiscal year 2018 with respect to the expected sale of legal entities, as part of the Transportation transformation plan.

### **Net financing expense**

Net financing expense amounted to \$151 million and \$842 million, respectively, for the fourth quarter and fiscal year ended December 31, 2019, compared to \$228 million<sup>(1)</sup> and \$606 million<sup>(1)</sup> for the corresponding periods last fiscal year.

The \$77-million decrease for the fourth quarter is mainly due to:

- net gains on certain financial instruments classified as FVTP&L (\$142 million); and
- a loss related to the sale of long-term contract receivables in Transportation, which was recorded as a special item in 2018 (\$31 million).

Partially offset by:

- lower borrowing costs capitalized to PP&E and intangible assets following the entry-into-service of *Global 7500* (\$57 million);
- higher interest on long-term debt, after the effect of hedges (\$14 million);
- interest component as a result of a change in the estimates used to determine the provision related to tax litigation, recorded as special items in 2018 (\$11 million); and
- interest expense on lease liabilities, as a result of the adoption of IFRS 16, *Leases*, effective January 1, 2019 (\$8 million).

The \$236-million increase for the fiscal year is mainly due to:

- lower borrowing costs capitalized to PP&E and intangible assets following the entry-into-service of *Global 7500* (234 million);
- a 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 in 2019 (\$84 million);
- net losses from changes in discount rates of provisions (\$36 million);
- higher interest on long-term debt, after the effect of hedges (\$50 million); and
- interest expense on lease liabilities, as a result of the adoption of IFRS 16, *Leases*, effective January 1, 2019 (\$32 million).

Partially offset by:

- net gains on certain financial instruments classified as FVTP&L (\$202 million); and
- a loss related to the sale of long-term contract receivables in Transportation, which was recorded as a special item in 2018 (\$31 million).

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our interim consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

### **Income taxes**

The effective income tax rates for the fourth quarter and fiscal year ended December 31, 2019 were 6.9% and (19.9)%, respectively, compared to the statutory income tax rate in Canada of 26.6%.

The lower effective income tax rate recovery in the fourth quarter is mainly due to:

- the negative impact of the non-recognition of tax benefits related to tax losses and temporary differences; and
- the negative impact of the permanent differences.

The higher effective income tax rate for the fiscal year ended December 31, 2019 is mainly due to:

- the negative impact of the net non-recognition of tax benefits related tax losses and temporary differences;
- the negative impact of the net write-down of deferred income tax assets; and
- the negative impact of the permanent differences.



The effective income tax rates for the fourth quarter and fiscal year ended December 31, 2018 were 51.8% and 19.5%, respectively, compared to the statutory income tax rate in Canada of 26.7%.

The higher effective income tax rate in the fourth quarter is mainly due to:

- the negative impact of the write-down of deferred income tax assets; and
- the negative impact of the net non-recognition of tax benefits related tax losses and temporary differences.

Partially offset by:

- the positive impact of the permanent differences.

The lower effective income tax rate for the fiscal year ended December 31, 2018 is mainly due to:

- the positive impact of the permanent differences; and
- the positive impact of the net recognition of previously unrecognized tax losses and temporary differences.

Partially offset by:

- the negative impact of the write-down of deferred income tax assets.

## CONSOLIDATED FINANCIAL POSITION

The total assets increased by \$14 million in the fiscal year<sup>(1)</sup>, including a positive currency impact of \$135 million related to foreign exchange. The \$121-million decrease excluding currency impacts is mainly explained by:

- a \$1.1-billion decrease in investments in joint ventures and associates due to the impairment of the Corporation's investment in ACLP<sup>(2)</sup>; and
- a \$688-million decrease in cash and cash equivalents. See the Free cash flow usage and the Variation in cash and cash equivalents tables for details.

Partially offset by:

- a \$660-million net increase in inventories in Aviation mainly due to the ramp-up in production for business aircraft, partially offset by a decrease due to sale of the Q Series aircraft program;
- a \$518-million increase in PP&E mainly due to the impact of the adoption of IFRS16, *Leases*<sup>(3)</sup>;
- a \$329-million increase in trade and other receivables in Transportation and Aviation; and
- a \$169-million increase in other financial assets mainly due to changes in fair value of derivative financial instruments.

The total liabilities and equity increased by \$14 million in the fiscal year<sup>(1)</sup>, including a currency impact of \$135 million. The \$121-million decrease excluding currency impacts is mainly explained by:

- a \$2.1-billion decrease in equity mainly due to the impairment of the Corporation's investment in ACLP<sup>(2)</sup> and remeasurement of defined benefits plans of \$470 million; and
- a \$707-million decrease in provisions mainly due to utilization of provisions in Transportation and Aviation.

Partially offset by:

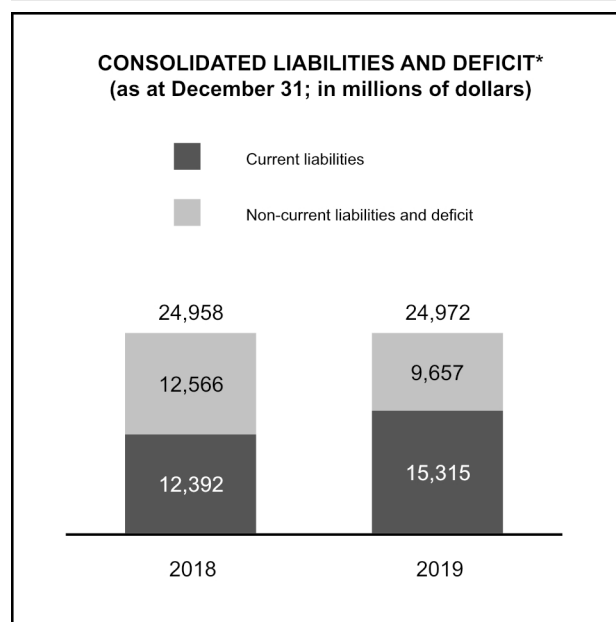
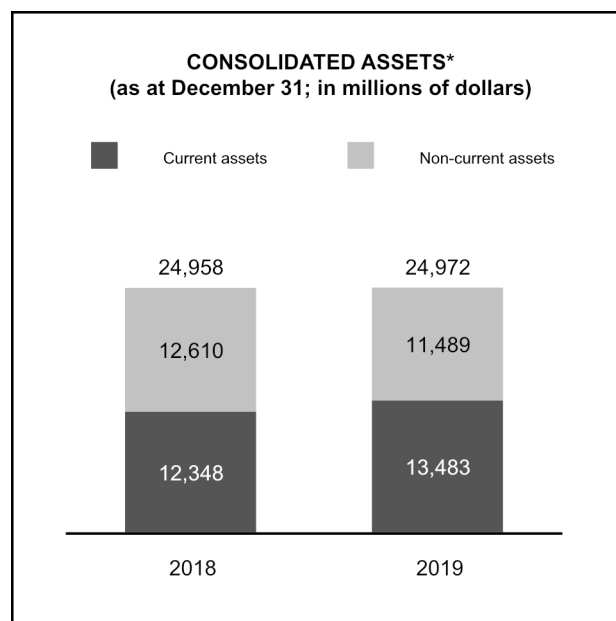
- a \$1.1-billion increase in contract liabilities mainly in Aviation mainly related to advances received on new and existing orders for business aircraft;
- a \$495-million increase in retirement benefit liability mainly due to remeasurement of defined benefits plans;
- a \$469-million increase in other liabilities mainly due to the impact of the adoption of IFRS16, *Leases*<sup>(3)</sup>;
- a \$319-million increase in trade and other payables mainly in Aviation; and
- a \$241-million increase in long-term debt.<sup>(4)</sup>

<sup>(1)</sup> For the purpose of the Consolidated financial position explanations included in this section, assets and liabilities include assets and liabilities reclassified as Assets held for sale. Refer to Note 30 - Assets held for sale in our Consolidated financial statements for further details.

<sup>(2)</sup> Refer to the Consolidated results of operations section for further details regarding special items.

<sup>(3)</sup> Refer to Note 3 - Changes in accounting policies in our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(4)</sup> Refer to Note 29 - Long-term debt in our Consolidated financial statements for further details.



\*The total assets and the total liabilities in the above graphs as at December 31, 2019 include \$1.3 billion and \$1.8 billion, respectively, related to the CRJ program and aerostructures businesses, which are presented under Assets held for sale. Refer to the Reshaping the Portfolio section in Aviation and to Note 30 - Assets held for sale in our Consolidated financial statements for further details.

# LIQUIDITY AND CAPITAL RESOURCES

## Free cash flow<sup>(1)</sup>

### Free cash flow (usage)<sup>(1)</sup>

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019 <sup>(2)</sup>	2018	2019 <sup>(2)</sup>	2018
<b>Net income (loss)</b>	\$ (1,719)	\$ 55	\$ (1,607)	\$ 318
Non-cash items				
Amortization	129	84	422	272
Impairment charges on ACLP investments	1,578	—	1,578	—
Impairment charges (reversals) on PP&E and intangible assets	—	—	(4)	11
Deferred income taxes	(173)	(1)	113	(74)
Gains on disposals of PP&E and intangible assets	(3)	(61)	(10)	(636)
Losses (gains) on disposals of businesses	9	7	(730)	616
Share of income of joint ventures and associates	(81)	(7)	(128)	(66)
Share-based expense (income)	(4)	(2)	30	65
Loss on repurchase of long-term debt	—	—	84	—
Loss on sale of long-term contract receivables	—	31	—	31
Dividends received from joint ventures and associates	29	23	49	72
Net change in non-cash balances <sup>(3)</sup>	1,308	1,160	(477)	(12)
<b>Cash flows from operating activities</b>	<b>1,073</b>	<b>1,289</b>	<b>(680)</b>	<b>597</b>
Net additions to PP&E and intangible assets	(121)	(248)	(523)	(415)
<b>Free cash flow (usage)<sup>(1)</sup></b>	<b>\$ 952</b>	<b>\$ 1,041</b>	<b>\$ (1,203)</b>	<b>\$ 182</b>

<sup>(1)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section for definitions of this metric.

<sup>(2)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(3)</sup> Refer to Note 35 - Net changes in non-cash balances, to our Consolidated financial statements for further details.

### Cash flows from operating activities

The \$216-million decrease in cash flows from operating activities for the fourth quarter is mainly due to:

- lower net income before non-cash items (\$370 million).

Partially offset by:

- a positive period-over-period variation in net change in non-cash balances (\$148 million) (see explanations below).

The \$1,277-million decrease in cash flows from operating activities for the fiscal year is mainly due to:

- lower net income before non-cash items (\$789 million), and
- a negative period-over-period variation in net change in non-cash balances (\$465 million) (see explanations below).

### **Net change in non-cash balances**

For the fourth quarter ended December 31, 2019, the \$1.3-billion inflow is mainly due to:

- a decrease in Transportation's net contract assets due to deliveries and advances received on new and existing orders;
- a decrease in inventories in Aviation mainly due to deliveries for business aircraft; and
- an increase in trade and other payables in Aviation and Transportation.

For the fourth quarter ended December 31, 2018, the \$1.2-billion inflow was mainly due to:

- an increase in contract liabilities in Aviation due to advances received on new and existing orders, as well as the prepayment of \$155 million of royalties by CAE under an extended Authorized Training Provider agreement;
- an increase in trade and other payables in Transportation and Aviation;
- a decrease in Transportation's other financial assets mainly due to the sale of long-term contract receivables for proceeds of \$133 million;
- a decrease in Transportation's contract assets following deliveries; and
- a decrease in trade and other receivables in Aviation, partially offset by an increase in Transportation.

Partially offset by:

- an increase in inventories in Aviation mainly due to ramp up in production for business aircraft.

For the fiscal year ended December 31, 2019, the \$477-million outflow is mainly due to:

- an increase in inventories in Aviation mainly due to the ramp-up in production for business aircraft;
- utilization of provisions in Transportation and Aviation;
- an increase in trade and other receivables in Transportation and Aviation; and
- a decrease in other liabilities mainly in Transportation.

Partially offset by:

- an increase in contract liabilities in Aviation mainly related to advances received on new and existing orders for business aircraft;
- an increase in trade and other payables in Aviation; and
- a decrease in Transportation's net contract assets.

For the fiscal year ended December 31, 2018, the \$12-million outflow was mainly due to:

- an increase in inventories in Aviation due to ramp up in production for business aircraft;
- an increase in Transportation's contract assets following ramp up in production ahead of deliveries;
- a decrease in provisions mainly in Transportation;
- a decrease in Transportation's other liabilities mainly due to a decrease in contract provisions and tax payable; and
- an increase in trade and other receivables in Transportation.

Partially offset by:

- an increase in contract liabilities in Aviation and Transportation due to advances received on new and existing orders, as well as the prepayment of \$155 million of royalties by CAE under an extended Authorized Training Provider agreement;
- an increase in trade and other payables in Aviation and Transportation; and
- a decrease in Transportation's other financial assets mainly due to the sale of long-term contract receivables for proceeds of \$133 million.

## Net additions to PP&E and intangible assets

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019	2018	2019	2018
Additions to PP&E and intangible assets	\$ (135)	\$ (334)	\$ (552)	\$ (1,164)
Proceeds from disposals of PP&E and intangible assets	14	86	29	749
<b>Net additions to PP&amp;E and intangible assets</b>	<b>\$ (121)</b>	<b>\$ (248)</b>	<b>\$ (523)</b>	<b>\$ (415)</b>

The \$127-million decrease in net additions to PP&E and intangible assets for the fourth quarter is mainly due to:

- lower investments in aerospace program tooling and lower capitalised borrowing costs following the entry-into-service of the *Global 7500* aircraft program.

Partially offset by:

- lower proceeds from disposals of PP&E due to the sale and leaseback of two facilities in Transportation for \$77 million during the fourth quarter of 2018.

The \$108-million increase in net additions to PP&E and intangible assets for the fiscal year is mainly due to:

- lower proceeds from disposals of PP&E due to the sale of the Downsview property for approximately \$600 million and the sale and leaseback of two facilities in Transportation for \$77 million during 2018.

Partially offset by:

- lower investments in aerospace program tooling and lower capitalised borrowing costs following the entry-into-service of the *Global 7500* aircraft program;

## Available short-term capital resources

We continuously monitor our level of liquidity, including available short-term capital resources and cash flows from operations, to meet expected requirements, including the support of product development initiatives and to ensure financial flexibility. In evaluating our liquidity requirements, we take into consideration historic volatility and seasonal needs, the maturity profile of long-term debt, the funding of product development programs, the level of customer advances, working capital requirements, the availability of working capital financing initiatives, the economic environment and access to capital markets. We use scenario analyses to stress-test cash flow projections.

### Variation in cash and cash equivalents

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019 <sup>(1)</sup>	2018	2019 <sup>(1)</sup>	2018
Balance at the beginning of period/fiscal year	\$ 2,255	\$ 2,318	\$ 3,187	\$ 3,057 <sup>(3)</sup>
Cash flows from operating activities	1,073	1,289	(680)	597
Net additions to PP&E and intangible assets	(121)	(248)	(523)	(415)
Deconsolidation of cash and cash equivalents of ACLP	—	—	—	(151)
Outflows related to a disposal of business	—	(11)	—	(36)
Investments in non-voting units of ACLP	—	(140)	(350)	(225)
Capital injection in ACLP	(52)	—	(64)	—
Net proceeds from disposal of businesses	—	—	826	—
Sale of investments in securities	—	133	—	133
Net proceeds from issuance of long-term debt	—	—	1,956	—
Repayments of long-term debt	—	(4)	(1,762)	(15)
Net change in short-term borrowings	(533)	—	—	—
Payment of lease liabilities <sup>(2)</sup>	(31)	—	(112)	—
Purchase of Class B shares held in trust under the PSU plans	—	—	—	(97)
Dividends paid - preferred shares	(5)	(5)	(20)	(20)
Issuance of Class B shares	—	2	—	506
Issuance of NCI	—	—	49	—
Dividends to NCI	—	(22)	(4)	(93)
Effect of exchange rates on cash and cash equivalents	47	(24)	130	13
Other	(4)	(101)	(4)	(67)
<b>Balance at the end of period/fiscal year</b>	<b>\$ 2,629</b>	<b>\$ 3,187</b>	<b>\$ 2,629</b>	<b>\$ 3,187</b>
Reclassified as assets held for sale <sup>(4)</sup>	51	—	51	—
<b>Balance at the end of period/fiscal year</b>	<b>\$ 2,578</b>	<b>\$ 3,187</b>	<b>\$ 2,578</b>	<b>\$ 3,187</b>

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> 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 fourth quarter and fiscal year ended December 31, 2019 amounted to \$41 million and \$168 million, respectively.

<sup>(3)</sup> Includes cash and cash equivalents of the C Series aircraft program presented under Assets held for sale amounting to \$69 million as of December 31, 2017.

<sup>(4)</sup> Includes cash and cash equivalents of the aerostructures businesses presented under Assets held for sale totalling \$51 million as of December 31, 2019. Refer to Reshaping the portfolio section in Aviation, Note 15 - Cash and cash equivalents and Note 30 - Assets held for sale in the Consolidated financial statements for more details on the transactions as well as the accounting treatments.

### Available short-term capital resources

	December 31, 2019	As at December 31, 2018
Cash and cash equivalents <sup>(1)</sup>	\$ 2,629	\$ 3,187
Available revolving credit facilities <sup>(2)</sup>	1,296	1,186
<b>Available short-term capital resources</b>	<b>\$ 3,925</b>	<b>\$ 4,373</b>

<sup>(1)</sup> Includes cash and cash equivalents of the aerostructures businesses presented under Assets held for sale totalling \$51 million as of December 31, 2019. Refer to Reshaping the portfolio section in Aviation, Note 15 - Cash and cash equivalents and Note 30 - Assets held for sale in the Consolidated financial statements for more details on the transactions as well as the accounting treatments.

<sup>(2)</sup> Includes undrawn amount under Transportation's €1,154 million unsecured revolving credit facility as of December 31, 2019; included undrawn amounts under Transportation's €689 million and the Corporation's \$397 million unsecured revolving credit facilities as of December 31, 2018.

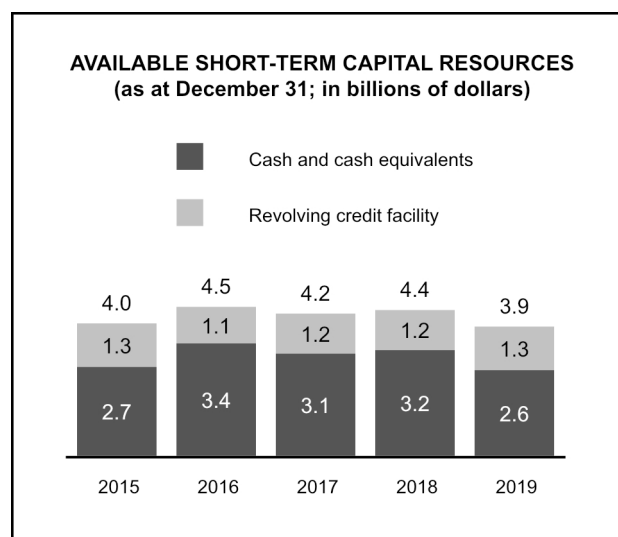
Our available short-term capital resources include cash and cash equivalents and the amounts available under our unsecured revolving credit facility. The facility is available for cash drawings for the general needs of Transportation. Under this facility, the same financial covenants must be met as for Transportation's letter of credit facility. Refer to the Financial covenants section for details.

The Corporation voluntarily cancelled the \$397 million unsecured revolving credit facility, in the third quarter of 2019, which was available for the Corporation excluding Transportation, in order to more efficiently manage the Corporation's short-term credit facility given the Corporation's strong cash position.

The Corporation has an unsecured revolving credit facility amounting to €1,154 million (\$1,296 million), available to Transportation for cash drawings. The facility matures in May 2022 and bears interest at Euribor plus a margin. That facility was unused as of December 31, 2019.

#### Uncommitted Short Term credit facilities

The Corporation has a €75 million (\$84 million) uncommitted Short Term credit facility. This facility is available to Transportation for cash drawings. This facility was unused as of December 31, 2019.



Some totals do not agree due to rounding.

### Letter of credit facilities

Letter of credit facilities are only available for the issuance of letters of credit. As these facilities are unfunded commitments from banks, they typically provide better pricing for the Corporation than credit facility that is available for cash drawings. Letters of credit are generally issued in support of performance obligations and advance payments received from customers.

	Amount committed	Letters of credit issued	Amount available	Maturity
<b>December 31, 2019</b>				
Transportation facility	\$ 5,052 <sup>(1)</sup>	\$ 4,846	\$ 206	2023 <sup>(2)</sup>
Corporation excluding Transportation facility	n/a	n/a	n/a	n/a
	<b>\$ 5,052</b>	<b>\$ 4,846</b>	<b>\$ 206</b>	
<b>December 31, 2018</b>				
Transportation facility	\$ 4,511 <sup>(1)</sup>	\$ 4,024	\$ 487	2022
Corporation excluding Transportation facility	361	188	173	2021
	<b>\$ 4,872</b>	<b>\$ 4,212</b>	<b>\$ 660</b>	

<sup>(1)</sup> €4,498 million as at December 31, 2019 (€3,940 million as at December 31, 2018).

<sup>(2)</sup> The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment amount of the facility, plus a one year amortization period during which new letters of credit cannot be issued. The final maturity date of the facility is 2023.

The Corporation voluntarily cancelled the \$361 million letter of credit facility, in the fourth quarter of 2019, which was available for the Corporation excluding Transportation. The issued letters of credit under this facility were replaced by various bilateral agreements.

In addition to the outstanding letters of credit shown in the above table, letters of credit of \$4,395 million were outstanding under various bilateral agreements as at December 31, 2019 (\$3,874 million as at December 31, 2018).

The Corporation also uses numerous bilateral bonding facilities with insurance companies to support Transportation's operations. An amount of \$3.8 billion was outstanding under such facilities as at December 31, 2019 (\$3.7 billion as at December 31, 2018).

See Note 36 – Credit facilities, to the consolidated financial statements, for additional information.

### ***Financial covenants***

The Corporation is subject to various financial covenants under the Transportation letter of credit facility and the Transportation revolving credit facility, which must be met on a quarterly basis. Those facilities include financial covenants requiring minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on Transportation stand-alone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics as described in Note 37 – Capital management or to the specific terms used in the MD&A. In addition, the Corporation must maintain a minimum Transportation liquidity of €750 million (\$843 million). Minimum liquidity required is not defined as comprising only cash and cash equivalents as presented in the consolidated statement of financial position.

The conditions were all met on a quarterly basis and as at December 31, 2019 and 2018 and January 1, 2018.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met.

### ***Future liquidity requirements***

Our Aviation segment requires capital to develop industry-leading products and to seize strategic opportunities to increase competitiveness and execute growth strategies. We take advantage of favourable capital market conditions when they materialize to extend debt maturity, reduce cost of funds and increase diversity of capital resources.

On an on-going basis, we manage our liabilities by taking into consideration expected free cash flow<sup>(1)</sup>, debt repayments and other material cash outlays expected to occur in the future. We have a financing plan to position ourselves with a flexible and strong financial profile whereby we opportunistically access capital markets, depending on market conditions, for the issuance of equity and new long-term debt capital.

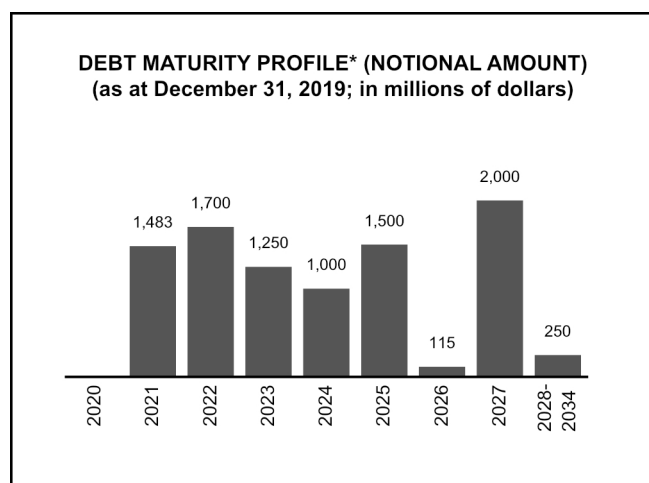
In March 2019, the Corporation issued, at 99.246% of par, unsecured Senior Notes of \$2 billion, bearing an interest of 7.875%, due on April 15, 2027. The Corporation used the net proceeds to redeem all of its outstanding 7.75% Senior Notes due 2020 of \$850 million for a total consideration of \$890 million as of September 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.

We continuously evaluate opportunities to strengthen our capital profile by improving leverage ratios, refinancing debt maturities, and reducing the overall cost of funds by diversifying sources of capital. Bombardier has the option to buy back CDPQ's investment in BT Holdco. The CDPQ instrument carries a 15% minimum return threshold under a Bombardier initiated buyback. Given the cost of this instrument, we may seek to opportunistically redeem this CDPQ security while preserving an appropriately capitalized balance sheet. There can be no assurances on the completion, the form, or the timing of such buyback.

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section and Liquidity and capital resources section for reconciliations to the most comparable IFRS measures.



The weighted average long-term debt maturity was 4.6 years as at December 31, 2019. There is no significant debt maturing before 2021. \$1,483 million of long-term debt due in 2021 is comprised of €414 million (\$465 million) due in May 2021 and \$1,008 million due in December 2021. See Note 29 - Long-term debt, to the consolidated financial statements, for more details.



\* Excludes other long-term debt amounting to \$26 million as at December 31, 2019. See Note 29 Long-term debt, to the Consolidated financial statements, for more details.

### Expected timing of future liquidity requirements

	December 31, 2019				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Long-term debt <sup>(1)</sup>	\$ 9,324	\$ 8	\$ 3,183	\$ 2,250	\$ 3,883
Interest payments	3,297	668	1,187	785	657
Purchase obligations <sup>(2)(3)</sup>	13,134	8,589	4,496	43	6
Trade and other payables	4,682	4,682	—	—	—
Other financial liabilities	2,140	444	347	367	982
Derivative financial liabilities	205	202	3	—	—
	\$ 32,782	\$ 14,593	\$ 9,216	\$ 3,445	\$ 5,528

<sup>(1)</sup> Includes principal repayments only.

<sup>(2)</sup> Purchase obligations represent contractual agreements to purchase goods or services in the normal course of business that are legally binding and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, variable or indexed price provisions; and the appropriate timing of the transaction. These agreements are generally cancellable with a substantial penalty. Purchase obligations are generally matched with revenues over the normal course of operations.

<sup>(3)</sup> The purchase obligations comprise approximately \$400 million of obligations related to the aerostructures businesses that are presented as assets held for sale.

The table above presents the expected timing of contractual liquidity requirements. Other payments contingent on future events, such as payments in connection with credit and residual value guarantees related to the sale of aircraft and product warranties have not been included in the above table. In addition, required pension contributions have not been reflected in this table as such contributions depend on periodic actuarial valuations for funding purposes. See the Retirement benefits section of this MD&A for more details on contributions to retirement benefit plans. The amounts presented in the table represent the undiscounted payments and do not give effect to the related hedging instruments, if applicable.

The Corporation leases buildings and equipment. The maturity analysis of lease liabilities, was as follows:

	December 31, 2019	As at December 31, 2019
Within 1 year	\$	129
Between 1 to 5 years		148
More than 5 years		243
	\$	520

We believe our available short-term capital resources of \$3.9 billion should give us sufficient liquidity to execute our plan in the short-term. We currently anticipate that these resources will enable the development of new products to enhance our competitiveness and support our growth; will enable us to meet currently anticipated financial requirements in the foreseeable future; and will allow the payment of dividends on preferred shares, if and when declared by the Board of Directors.<sup>(1)</sup>

<sup>(1)</sup> See the forward-looking statements disclaimer.

### **Creditworthiness**

We assess and manage creditworthiness using the global metrics as described in the Capital structure section. We continuously monitor our capital structure to ensure sufficient liquidity to fund product development programs. Our goal is to strengthen our global metrics and credit ratings. Our objective also includes improving our leverage metrics by de-leveraging the balance sheet with strategic long-term debt repayments in line with active management of consolidated liquidity, weighted-average cost of capital and term structure.

#### **Credit Ratings**

	Investment-grade rating	Bombardier Inc.'s rating	
		February 12, 2020	December 31, 2019
Fitch Ratings Ltd.	BBB-	<b>CCC+</b>	B-
Moody's Investors Service, Inc.	Baa3	<b>B3</b>	B3
Standard & Poor's Rating Services	BBB-	<b>B-</b>	B-

Over the long term, we strive for our credit ratings to improve as we progress towards profitability and cash flow targets in line with our strategic priorities. See the Strategic priorities section in Overview of the MD&A for more details.

# CAPITAL STRUCTURE

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

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

As a result of adopting IFRS 16, *Leases*, we changed the definitions and naming of adjusted interest, adjusted debt, adjusted EBIT and adjusted EBITDA, all of which are used in our global metrics. Refer to the Non-GAAP financial measures section for the definitions of these metrics and reconciliations to the most comparable IFRS measures.

Our objectives with regard to the global metrics are as follows:

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

## Interest coverage ratio

	For the fiscal year ended December 31	
		2019
Adjusted EBIT <sup>(1)</sup>	\$	470
Adjusted interest <sup>(2)</sup>	\$	732
<b>Adjusted EBIT to adjusted interest ratio</b>		<b>0.6</b>

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures. EBIT for the fiscal year 2019 is \$(498) million.

<sup>(2)</sup> Represents interest paid as per the supplemental information provided in the consolidated statements of cash flows.

## Financial leverage ratio

	As at and for the fiscal year ended December 31	
		2019
Adjusted debt <sup>(1)</sup>	\$	9,744
Adjusted EBITDA <sup>(1)</sup>	\$	896
<b>Adjusted debt to adjusted EBITDA ratio</b>		<b>10.9</b>

<sup>(1)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures. Long-term debt as at December 31, 2019 is \$9,333 million; EBIT for the fiscal year 2019 is \$(498) million.

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

In addition to the above global metrics, we separately monitor our net retirement benefit liability, which amounted to \$2.3 billion as at December 31, 2019 (\$2.2 billion as at December 31, 2018). The measurement of this liability is dependent on numerous key long-term assumptions such as discount rates, future compensation increases, inflation rates and mortality rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. We closely monitor the impact of the net retirement benefit liability on our future cash flows and we have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with the retirement benefit plans. See the Retirement benefits section for further details.

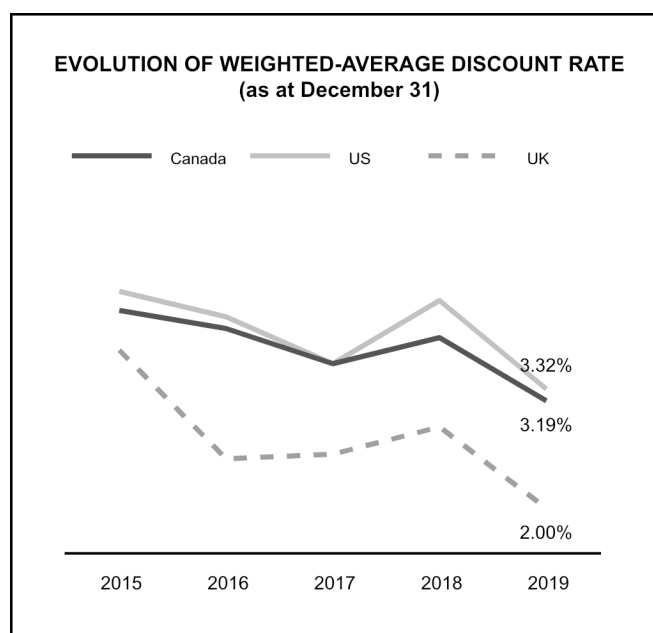
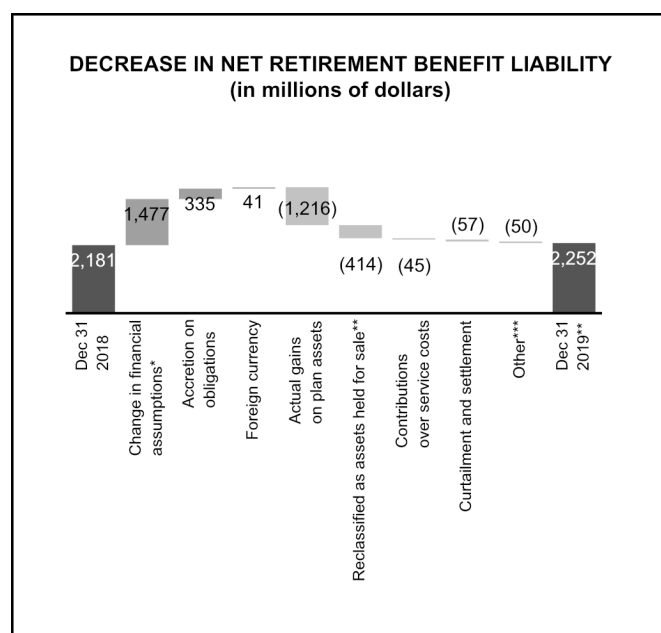
## RETIREMENT BENEFITS

Bombardier sponsors several Canadian and foreign retirement benefit plans consisting of funded and unfunded defined benefit pension plans, as well as other unfunded defined benefit plans. Funded plans are plans for which segregated plan assets are invested in trusts. Unfunded plans are plans for which there are no segregated plan assets, as the establishment of segregated plan assets is generally not permitted or not in line with local practice.

Pension plans are categorized as Defined benefit (DB) or Defined contribution (DC). DB plans specify the amount of benefits an employee is to receive at retirement, while DC plans specify how contributions

are determined. As a result, there is no deficit or surplus for DC plans. Hybrid plans are a combination of DB and DC plans.

In Canada and the U.S., since September 1, 2013, all new non-unionized employees join DC plans (joining DB or hybrid plans is no longer an option). In the U.K., all DB plans are closed to new members. Employees who are members of a DB or hybrid plan closed to new members continue to accrue service in their original plan. As a result of these changes, contributions to DC plans have increased over the past several years.



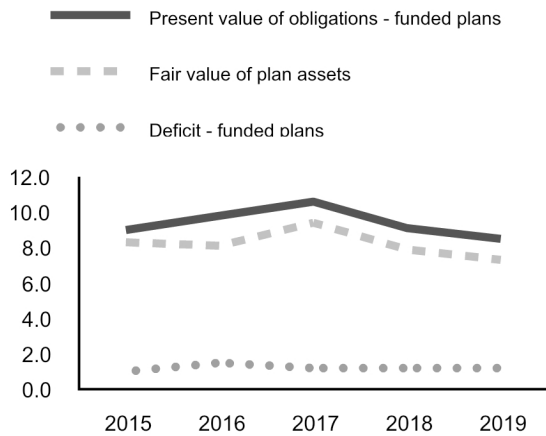
\* Mainly comprised of changes in discount rates.

\*\* Net retirement benefit liabilities amounting to \$414 million related to the aerostructures businesses to be sold to Spirit were reclassified as liabilities directly associated with assets held for sale.

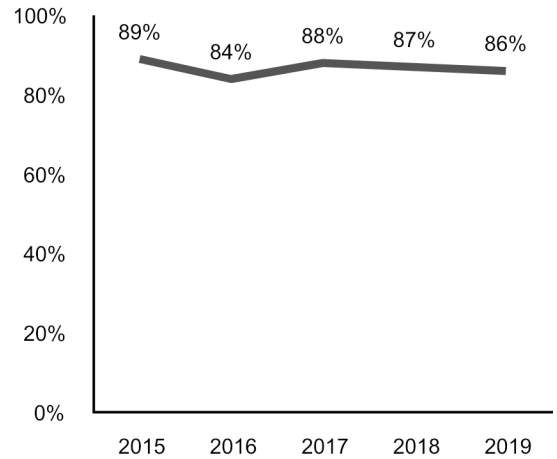
\*\*\* Other is mainly comprised of changes in other actuarial assumptions, experience adjustments and impact of asset ceiling.

The value of plan assets is highly dependent on the pension funds' asset performance and on the level of contributions. The performance of the financial markets is a key driver in determining the funds' asset performance as assets in the plans are composed mostly of publicly traded equity and fixed income securities. IFRS requires that the excess (deficit) of actual return on plan assets compared to the estimated return be reported as an actuarial gain or loss in OCI. The estimated return on plan assets must be calculated using the discount rate that is used to measure the net retirement benefit liability, which is derived using high-quality corporate bond yields. During 2019, as the actual gain on plan assets of \$1,216 million was above expected return, an actuarial gain of \$954 million was recognized.

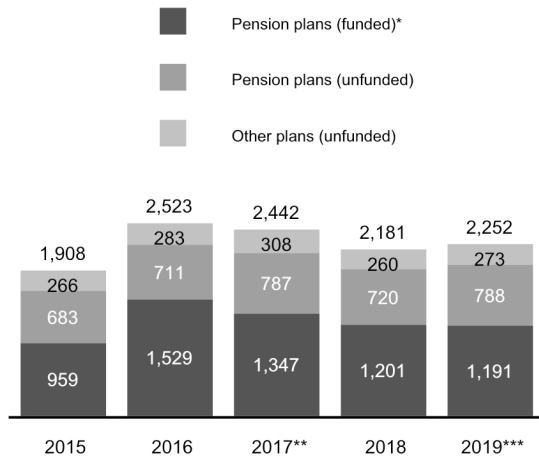
**EVOLUTION OF PENSION PLAN ASSETS, FUNDED PLAN OBLIGATIONS AND DEFICIT**  
(as at December 31; in billions of dollars)



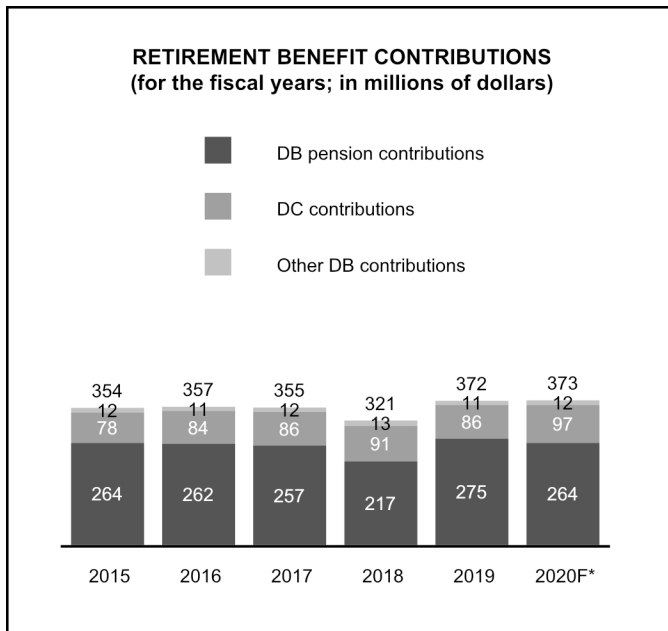
**EVOLUTION OF FUNDING RATIO OF FUNDED PLANS**  
(as at December 31)



**NET RETIREMENT BENEFIT LIABILITY**  
(as at December 31; in millions of dollars)



- \* Includes liability arising from minimum funding requirement and impact of asset ceiling test, if any.
- \*\* The balance includes net retirement benefit liability in the amount of \$99 million reclassified as liabilities directly associated with assets held for sale.
- \*\*\* Net retirement benefit liability amounting to \$414 million related to the aerostructures businesses to be sold to Spirit were reclassified as liabilities directly associated with assets held for sale.



F: Forecast

\* Includes the estimated total contribution for the aerostructures businesses amounting to approximately \$48 million for 2020.

DB plan contributions were at \$286 million in 2019, compared to \$230 million the previous year. DB plan contributions are estimated at \$276 million for 2020, including the estimated total contribution for the aerostructures businesses of approximately \$47 million for 2020. The future level of contributions will be impacted by the evolution of market interest rates and the actual return on plan assets.

In 2019, DC pension contributions totalled \$86 million. These contributions are estimated at \$97 million for 2020.

### ***Investment Policy and De-risking Strategies***

The investment policies are established to achieve a long-term investment return so that, in conjunction with contributions, the plans have sufficient assets to pay for the promised benefits while maintaining a level of risk that is acceptable given the tolerance of plan stakeholders. See below for more information about risk management initiatives.

The target asset allocation is determined based on expected economic and market conditions, the maturity profile of the plans' liabilities, the funded status of the respective plans and the plan stakeholders' tolerance to risk.

The plans' investment strategy is to invest broadly in fixed income and equity securities and to have a smaller portion of the funds' assets invested in real return asset securities (global infrastructure and real estate listed securities).

As at December 31, 2019, the average target asset allocation was as follows:

- 54%, 60% and 50% in fixed income securities, for Canadian, U.K. and U.S. plans, respectively;
- 38%, 31% and 50% in equity securities, for Canadian, U.K. and U.S. plans, respectively; and
- 8% and 9% in real return asset securities, for Canadian and U.K. plans, respectively.

In addition, to mitigate interest rate risk, interest rate hedging overlay portfolios (comprised of long-term interest rate swaps and long-term bond forwards) will be implemented for the pension plans when the market will be favourable and the plans' triggers will be reached.

The plan administrators have also established dynamic risk management strategies. As a result, asset allocation will likely become more conservative in the future and interest rate hedging overlay portfolios are likely to be established as plan funding status and market conditions continue to improve and the plans become more mature.

Under certain pension legislations, and subject to compliance with certain conditions, the buy-out of annuities with insurance companies would discharge the Corporation and administrators of their respective obligations. Accordingly, in 2018, annuities were purchased for pensioners of seven pension plans registered in Ontario, the U.K. and the U.S. Also, in 2019, annuities were purchased for pensioners of the three Bombardier Aviation pension plans registered in Ontario. Overall, in 2018 and 2019, annuities were purchased for 4,690 pensioners with total premiums paid to insurers by the pension funds of approximately \$676 million. The buy-out of annuities payable to pensioners of other pension plans will be contemplated in the coming years when these plans become fully funded on a buy-out basis.

Pension Asset Management Services monitors the de-risking triggers on an ongoing basis to ensure timely and efficient implementation of these strategies. The Corporation and administrators periodically undertake asset and liability studies to determine the appropriateness of the investment policies and de-risking strategies.

### ***Risk management initiatives***

The Corporation's pension plans are exposed to various risks, including equity, interest rate, inflation, foreign exchange, liquidity and longevity risks. Several risk management strategies and policies have been put in place to mitigate the impact these risks could have on the funded status of DB plans and on the future level of contributions by the Corporation. The following is a description of key risks together with the mitigation measures in place to address them.

#### **Equity risk**

Equity risk results from fluctuations in equity prices. This risk is managed by maintaining diversification of portfolios across geographies, industry sectors and investment strategies.

#### **Interest rate risk**

Interest rate risk results from fluctuations in the fair value of plan assets and liabilities due to movements in interest rates. This risk is managed by reducing the mismatch between the duration of plan assets and the duration of pension obligation. This is accomplished by having a portion of the portfolio invested in long-term fixed income securities and interest rate hedging overlay portfolios.

#### **Inflation risk**

Inflation risk is the risk that benefits indexed to inflation increase significantly as a result of changes in inflation rates. To manage this risk, the benefit indexation has been capped in certain plans and a portion of plan assets has been invested in real return fixed income securities and real return asset securities.

#### **Foreign exchange risk**

Currency risk exposure arises from fluctuations in the fair value of plan assets denominated in a currency other than the currency of the plan liabilities. Currency risk is managed with foreign currency hedging strategies as per plan investment policies.

#### **Liquidity risk**

Liquidity risk stems from holding assets which cannot be readily converted to cash when needed for the payment of benefits or to rebalance the portfolios. Liquidity risk is managed through investments in treasury bills, government bonds and equity futures and by having no investments in private placements or hedge funds.

#### **Longevity risk**

Longevity risk is the risk that increasing life expectancy results in longer-than-expected benefit payments. This risk is mitigated by using the most recent mortality and mortality improvement tables to set the level of contributions. The buy-out of annuities with insurance companies transfers all of the risks listed above to insurers for the annuities purchased.

## Retirement benefit cost

	2019			2018		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
<b>DB plans</b>	\$ 265	\$ (8)	\$ 257	\$ 357	\$ 16	\$ 373
<b>DC plans</b>	86	—	86	91	—	91
<b>Total retirement benefit cost</b>	<b>\$ 351</b>	<b>\$ (8)</b>	<b>\$ 343</b>	<b>\$ 448</b>	<b>\$ 16</b>	<b>\$ 464</b>
Related to						
Funded DB plans	\$ 231	n/a	\$ 231	\$ 321	n/a	\$ 321
Unfunded DB plans	\$ 34	\$ (8)	\$ 26	\$ 36	\$ 16	\$ 52
DC plans	\$ 86	n/a	\$ 86	\$ 91	n/a	\$ 91
Recorded as follows						
EBIT expense or capitalized cost	\$ 288	\$ (18)	\$ 270	\$ 393	\$ 6	\$ 399
Financing expense	\$ 63	\$ 10	\$ 73	\$ 55	\$ 10	\$ 65

n/a: Not applicable

The retirement benefit cost for fiscal year 2020 for DB plans<sup>(1)</sup> is estimated at \$331 million, of which \$263 million relates to EBIT expense or capitalized cost and \$68 million relates to net financing expense.

<sup>(1)</sup> Including plans for the aerostructures businesses.

## Sensitivity analysis

The net retirement benefit liability is highly dependent on discount rates, expected inflation rates, expected rates of compensation increase, life expectancy assumptions and actual return on plan assets. The discount rates represent the market rate for high-quality corporate fixed-income investments at the end of the reporting period consistent with the currency and estimated term of the benefit obligations. As a result, discount rates change based on market conditions.

A 0.25 percentage point increase in one of the following weighted-average actuarial assumptions would have the following effects, all other actuarial assumptions remaining unchanged:

Increase (decrease)	Retirement benefit cost for fiscal year 2020 (Forecast)	Net retirement benefit liability as at December 31, 2019
Discount rate	\$ (24)	\$ (514)
Inflation rate	\$ 4	\$ 126
Rate of compensation increase	\$ 6	\$ 83

A one-year increase in life expectancy for all DB plan beneficiaries would impact plans in major countries as follows:

Increase	Retirement benefit cost for fiscal year 2020 (Forecast)	Net retirement benefit liability as at December 31, 2019
Canada	\$ 7	\$ 114
U.K.	\$ 5	\$ 143
U.S.	\$ 2	\$ 35

Details regarding assumptions used are provided in Note 24 – Retirement benefits, to the consolidated financial statements.

<sup>(1)</sup> Including plans for the aerostructures businesses.



# RISK MANAGEMENT

Active risk management has been one of our priorities for many years and is a key component of our corporate strategy framework. To achieve our risk management objectives, we have embedded risk management activities in the operational responsibilities of management and made these activities an integral part of the overall governance, planning, decision making, organizational and accountability structure.

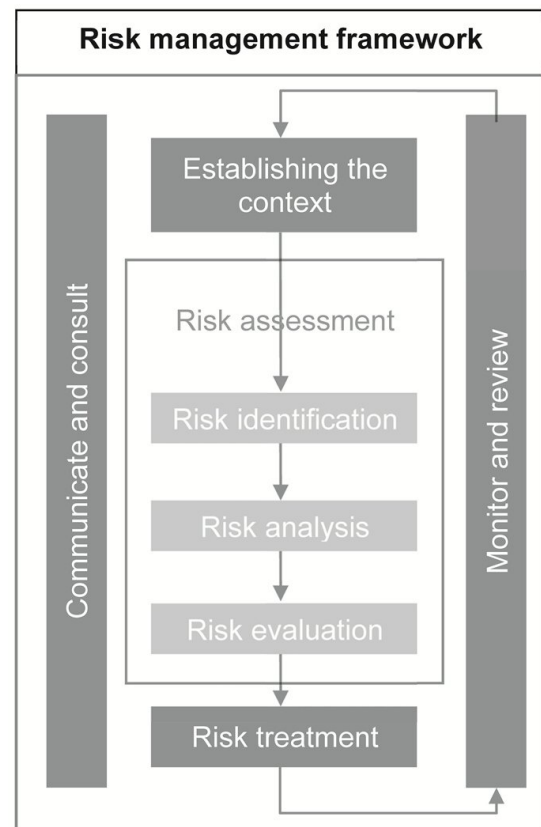
For each risk or category of risks, the risk management process includes activities performed in a continuous cycle. Risk assessment, including risk identification, analysis and evaluation, ensures that each risk is analyzed to identify the consequence and likelihood of the risk occurring and the adequacy of existing controls. Each reportable segment is responsible for implementing the appropriate structures, processes and tools to allow proper identification of risks. Once the risks have been identified, analyzed and evaluated, risk mitigation identifies the actions to be implemented by management. Each reportable segment has implemented risk management processes that are embedded in governance and activities to achieve the objectives of our Corporate Risk Management Policy.

In addition, every year, the Corporate Audit Services and Risk Assessment (CASRA) team assesses our major risks. Senior management reviews this risk assessment and develops action plans to address the identified risks.

The Board of Directors<sup>(1)</sup> is ultimately responsible for reviewing the overall risks faced by the Corporation. The Board exercises its duty through the Finance and Risk Management Committee, consisting of independent directors, which reviews material business risks and the measures that management takes to monitor, control and manage such risks, including the adequacy of policies, procedures and controls designed by management to assess and manage these risks. To complement the annual CASRA review of major risks, each reportable segment, in coordination with CASRA, has implemented an annual review process.

A primary area of focus is product development, where our biggest opportunities to create value reside, and also our most significant risks. Recognizing the long-term nature of product development activities and the significant human and financial resources required, we follow a rigorous gated product development process, designed to ensure early identification and efficient mitigation of potential risks. At the heart of this process is our Bombardier Engineering System, followed for all programs throughout the product development cycle. This process is regularly refined to integrate the lessons learned from our own programs and from the industry. Specific milestones must be met before a product can move from one stage of development to another. The gates consist of exit reviews with different levels of management and leading experts to demonstrate technical feasibility, customer acceptance and financial return.

<sup>(1)</sup> Refer to the Investor information section following the Notes to the consolidated financial statements for more information on Board members and Board Committees.



Source: International Organization for Standardization (ISO) 31000:2009

We continuously apply what we learn on one program to the other programs, by sharing ideas and learning in our various functional committees and through regular peer reviews, bringing together the expertise across all platforms to drive alignment and common approaches, establish best practices and leverage the knowledge and experience of our people. This review confirms the availability of human and financial resources, the maturity and manufacturing readiness of new technologies and the overall strength of the business case.

We have also designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is properly communicated and that information required to be disclosed in public filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. Refer to the Controls and procedures section in Other for more details.

## **Key exposures to financing and market risks and related mitigation strategies**

Our operations are exposed to various financing and market risks. The following is a description of our key exposures to those risks together with the strategies in place to mitigate them. Market risks associated with pension plans are discussed in the Retirement benefits section.

### ***Exposure to foreign exchange risk***

Our main exposures to foreign currencies are managed in accordance with the Foreign Exchange Risk Management Policy in order to mitigate the impact of foreign exchange rate movements. This policy requires each reportable segment's management to identify all actual and potential foreign currency exposures arising from their operations. This information is communicated to the Corporate office central treasury function, which has the responsibility to execute hedging transactions in accordance with policy requirements. In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching long-term debt in a foreign currency with assets denominated in the same currency.

## Foreign exchange management

Owner	Hedged exposures	Hedging policy <sup>(1)</sup>	Risk-mitigation strategies
AVIATION	Forecast cash outflows denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars and pounds sterling.	Hedge 85% of the identified exposures for the first three months, 75% for the next 15 months and up to 50% for the following six months.	Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars and pounds sterling.
TRANSPORTATION	Forecast cash inflows and outflows denominated in a currency other than the functional currency of the entity incurring the cash flows.	Hedge 100% of the identified exposures at the time of order intake.	Use of forward foreign exchange contracts, mainly to sell or purchase Canadian dollars, euros, U.S. dollars, Swiss francs, Swedish krona and other Western European currencies.
CORPORATE OFFICE	Forecast cash outflows other than interest, denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars.	Hedge 85% of the identified exposures for the first 18 months and up to 75% for the following six months.	Use of forward foreign exchange contracts mainly to sell U.S. dollars and buy Canadian dollars.
	Interest cash outflows in currencies other than the U.S. dollar, i.e. the euro and the Canadian dollar.	Hedge 100% of the identified exposure unless the exposure is recognized as an economic hedge of an exposure arising from the translation of financial statements in foreign currencies to the U.S. dollar.	Use of forward foreign exchange contracts mainly to sell U.S. dollars and buy euros and Canadian dollars.
	Balance sheet exposures, including long-term debt and net investments in foreign operations with non-U.S. dollar functional currencies.	Hedge 100% of the identified exposures affecting the Corporation's net income.	Asset/liability management techniques. Designation of long-term debt as hedges of our net investments in foreign operations with non-U.S. dollar functional currencies.

<sup>(1)</sup> Deviations from the policy are allowed, subject to pre-authorization and maximum pre-determined risk limits.

### Aviation

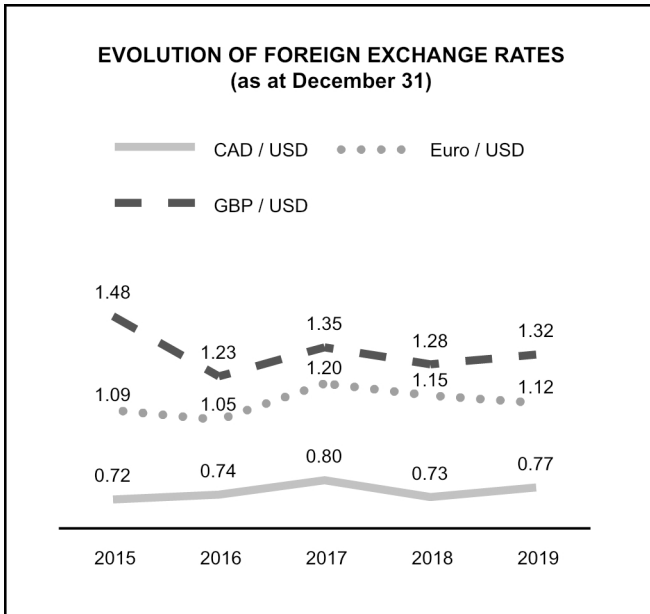
As at December 31, 2019, the hedged portion of our Aviation's significant foreign currency denominated costs for the fiscal years ending December 31, 2020 and 2021 was as follows:

For fiscal years	Canadian dollars		Pounds sterling	
	2020	2021	2020	2021
Expected costs denominated in foreign currency	\$2,384	\$2,364	£258	£248
Hedged portion of expected costs denominated in foreign currency	79%	33%	82%	12%
Weighted-average hedge rates – foreign currency/USD	0.7716	0.7575	1.3252	1.2464

### Sensitivity analysis

A U.S. one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact Aviation's expected costs for the year ending December 31, 2020 by approximately \$24 million, before giving effect to forward foreign exchange contracts (\$5 million, after giving effect to such contracts).

A U.S. one-cent change in the value of the pound sterling compared to the U.S. dollar would impact Aviation's expected costs for the fiscal year ending December 31, 2020 by approximately \$3 million, before giving effect to forward foreign exchange contracts (less than \$1 million impact after giving effect to such contracts).



### Transportation and Corporate office

Transportation's foreign currency exposure, arising from its long-term contracts, spreads over many years. Such exposures are generally entirely hedged at the time of order intake, contract-by-contract, for a period that is often shorter than the maturity of the cash flow exposure. Upon maturity of the hedges, Transportation enters into new hedges in a rollover strategy for periods up to the maturity of the cash flow exposure. As such, Transportation's results of operations are not significantly exposed to gains and losses from transactions in foreign currencies, but remain exposed to translation and cash flow risks on a temporary basis. On a cumulative basis, however, cash outflows or inflows upon rollover of these hedges are offset by cash inflows or outflows in opposite directions when the cash flow exposure materializes.

The identified cash flow exposures at our Corporate office are not significant and mainly arise from expenses denominated in Canadian dollars. Balance sheet exposure at Corporate office arises mainly from investments in foreign operations and long-term debt. Despite our risk mitigation strategies, the impact of foreign currency fluctuations on equity can be significant given the size of our investments in foreign operations with non-U.S. dollar functional currencies, mainly the euro.

#### *Sensitivity analysis*

For investments in foreign operations exposed to foreign currency movements, a 1% fluctuation of the relevant currencies as at December 31, 2019 would have impacted equity, before the effect of income taxes, by \$25 million.

## **Exposure to credit risk**

The effective monitoring and controlling of credit risk is a key component of our risk management activities. Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure.

### **Credit risk management**

Owner	Key risks	Risk mitigation measures initiated by management
<b>CORPORATE OFFICE</b>	Through normal treasury activities, we are exposed to credit risk through derivative financial instruments and investing instruments.	Credit risks arising from treasury activities are managed by a central treasury function in accordance with the Corporate Foreign Exchange Risk Management Policy and the Corporate Investment Policy. The objective of these policies is to minimize exposure to credit risk from treasury activities by ensuring that we transact strictly with investment-grade financial institutions and money market funds, based on pre-established consolidated counterparty risk limits per financial institution and fund.
<b>BOTH REPORTABLE SEGMENTS</b>	We are exposed to credit risk through trade receivables arising from normal commercial activities and lending activities, related primarily to aircraft loans, lease receivables, and investments in financing structures provided to customers in connection with the sale of commercial aircraft.	Credit risks arising from normal commercial activities and lending activities are managed and controlled by each reportable segment, in accordance with the Corporate office policy. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and our experience with the customers. The credit risk and credit limits are dynamically reviewed based on fluctuations in the customers' financial results and payment behaviour. These customer credit ratings and credit limits are critical inputs in determining the conditions under which credit or financing is extended to customers, including obtaining collateral to reduce exposure to losses. Specific governance is in place to ensure that credit risk arising from large transactions is analyzed and approved by the appropriate level of management before financing or credit support is offered to the customer.
<b>AVIATION</b>	In connection with the sale of certain products, mainly commercial aircraft, we have provided credit guarantees in the form of lease and loan payment guarantees. Substantially all financial support involving potential credit risk lies with regional airline customers.	<p>Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are usually triggered if customers do not perform during the term of the financing under the relevant financing arrangements. In the event of default, we usually act as agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets.</p> <p>This exposure arising from credit guarantees is partially mitigated by the net benefit expected from the estimated value of aircraft and other assets available to mitigate exposure under these guarantees. In addition, lease subsidy liabilities would be extinguished in the event of credit default by certain customers.</p>

## **Exposure to liquidity risk**

The management of exposure to liquidity risk requires a constant monitoring of expected cash inflows and outflows, which is achieved through maintenance of detailed forecasts of cash flows and liquidity position, as well as long-term operating and strategic plans. Liquidity adequacy is continually monitored, taking into consideration historical volatility, the economic environment, seasonal needs, the maturity profile of indebtedness, access to capital markets, the level of customer advances, working capital requirements, the availability of working capital financing initiatives and the funding of product development and other financial commitments. We engage in certain working capital financing initiatives that impact our cash flows from operating activities such as the sale of receivables, arrangements for advances from third parties and the negotiation of extended payment terms with certain suppliers (for more details, refer to Note 38 - Financial Risk Management, to the consolidated financial statements). We continually monitor any financing opportunities to optimize our capital structure and maintain appropriate financial flexibility.

## ***Exposure to interest rate risk***

Our future cash flows are exposed to fluctuations from changing interest rates, arising mainly from assets and liabilities indexed to variable interest rates, including fixed-rate long-term debt synthetically converted to variable interest rates. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. The Corporate office central treasury function manages these exposures as part of the overall risk management policy.

We are also exposed to gains and losses on certain assets and liabilities as a result of changes in interest rates, principally financial instruments carried at fair value and credit and residual value guarantees. The financial instruments carried at fair value include certain aircraft loans and lease receivables, investments in securities, investments in financing structures, lease subsidies and derivative financial instruments.

### ***Sensitivity analysis***

A 100-basis point increase in interest rates impacting the measurement of financial instruments carried at fair value and credit and residual value guarantees, excluding net retirement benefit liabilities, would have negatively impacted EBIT for fiscal year 2019 by \$107 million.

## NON-GAAP FINANCIAL MEASURES

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

Non-GAAP financial measures	
Adjusted EBIT <sup>(1)</sup>	EBIT excluding 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.
Adjusted EBITDA <sup>(1)</sup>	Adjusted EBIT plus amortization and impairment charges on PP&E and intangible assets.
Adjusted net income (loss)	Net income (loss) excluding special items, accretion on net retirement benefit obligations, certain net gains and losses arising from changes in measurement of provisions and of financial instruments carried at FVTP&L and the related tax impacts of these items.
Adjusted EPS	EPS calculated based on adjusted net income attributable to equity holders of Bombardier Inc., using the treasury stock method, giving effect to the exercise of all dilutive elements.
Free cash flow (usage)	Cash flows from operating activities less net additions to PP&E and intangible assets.
Adjusted debt	Long-term debt as presented in the consolidated statements of financial position adjusted for the fair value of derivatives (or settled derivatives) designated in related hedge relationships plus short-term borrowings and lease liabilities.

<sup>(1)</sup> Starting January 1, 2019, EBIT before special items and EBITDA before special items are replaced with adjusted EBIT and adjusted EBITDA, respectively. The definitions of both measures remain unchanged.

Non-GAAP financial measures are mainly derived from the consolidated financial statements but do not have standardized meanings prescribed by IFRS. The exclusion of certain items from non-GAAP performance measures does not imply that these items are necessarily non-recurring. Other entities in our industry may define the above measures differently than we do. In those cases, it may be difficult to compare the performance of those entities to ours based on these similarly-named non-GAAP measures.

Prior to the first quarter of fiscal year 2019, the Corporation reported non-GAAP measures labelled "EBIT before special items" and "EBITDA before special items". Beginning in the first quarter of fiscal year 2019, the Corporation changed the label of these non-GAAP measures to "adjusted EBIT" and "adjusted EBITDA", respectively, without making any change to the composition of these non-GAAP measures. The Corporation believes that this new label aligns better with broad market practice in its industry and better distinguishes these measures from the IFRS measurement "EBIT".

### Adjusted EBIT, adjusted EBITDA, adjusted net income (loss) and adjusted EPS

Management uses adjusted EBIT, adjusted EBITDA, adjusted net income (loss) and adjusted EPS for purposes of evaluating underlying business performance. Management believes these non-GAAP earnings measures in addition to IFRS measures provide users of our Financial Report with enhanced understanding of our results and related trends and increases the transparency and clarity of the core results of our business. Adjusted EBIT, adjusted EBITDA, adjusted net income (loss) and adjusted EPS exclude items that do not reflect our core performance or where their exclusion will assist users in understanding our results for the period. For these reasons, a significant number of users of the MD&A analyze our results based on these financial measures. Management believes these measures help users of MD&A to better analyze results, enabling better comparability of our results from one period to another and with peers.

### Free cash flow (usage)

Free cash flow is defined as cash flows from operating activities less net additions to PP&E and intangible assets. Management believes that this non-GAAP cash flow measure provides investors with an important perspective on the Corporation's generation of cash available for shareholders, debt repayment, and acquisitions after making the capital investments required to support ongoing business operations and long-term value creation. This non-GAAP cash flow measure does not represent the residual cash flow available for discretionary expenditures as it excludes certain mandatory expenditures such as repayment of maturing debt. Management uses free cash flow as a measure to assess both business performance and overall liquidity generation.

## Adjusted debt

We analyze our capital structure using global metrics, based on adjusted debt, adjusted EBIT, adjusted EBITDA and adjusted interest<sup>(1)</sup>. Refer to the Capital structure section for more detail.

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

- adjusted EBIT to EBIT – see the Results of operations tables in the reporting segments and Consolidated results of operations section; and
- free cash flow usage to cash flows from operating activities – see the Free cash flow usage table in the Liquidity and capital resources section.

<sup>(1)</sup> Represents interest paid as per the supplemental information provided in the consolidated statements of cash flows.

## Reconciliation of adjusted EBITDA to EBIT

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019	2018	2019	2018
<b>EBIT</b>	\$ (1,696)	\$ 342	\$ (498)	\$ 1,001
Amortization	129	84	422	272
Impairment charges (reversals) on PP&E and intangible assets <sup>(1)</sup>	—	—	(4)	11
Special items excluding impairment charges (reversals) on PP&E and intangible assets <sup>(1)</sup>	1,630	(56)	976	20
<b>Adjusted EBITDA</b>	\$ 63	\$ 370	\$ 896	\$ 1,304

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

	Fourth quarters ended December 31			
	2019		2018	
	(per share)		(per share)	
<b>Net income (loss)</b>	\$ (1,719)		\$ 55	
Adjustments to EBIT related to special items <sup>(1)</sup>	1,630	\$ 0.68	(56)	\$ (0.02)
Adjustments to net financing expense related to:				
Loss on sale of long-term contract receivables <sup>(1)</sup>	—	—	31	0.01
Accretion on net retirement benefit obligations	22	0.01	15	0.00
Net change in provisions arising from changes in interest rates and net loss on certain financial instruments	(84)	(0.04)	67	0.02
Interest portion of gains related to special items <sup>(1)</sup>	—	—	(11)	0.00
Tax impact of special <sup>(1)</sup> and other adjusting items	(21)	(0.01)	48	0.02
<b>Adjusted net income (loss)</b>	(172)		149	
Net income attributable to NCI	(51)		(40)	
Preferred share dividends, including taxes	(7)		25	
<b>Adjusted net income (loss) attributable to equity holders of Bombardier Inc.</b>	\$ (230)		\$ 134	
<b>Weighted-average adjusted diluted number of common shares (in thousands)</b>		2,397,868		2,477,954
<b>Adjusted EPS</b>		\$ (0.10)		\$ 0.05

## Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Fourth quarters ended December 31	
	2019	2018
<b>Diluted EPS</b>	\$ (0.74)	\$ 0.02
Impact of special <sup>(1)</sup> and other adjusting items	0.64	0.03
<b>Adjusted EPS</b>	\$ (0.10)	\$ 0.05

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



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

	Fiscal years ended December 31			
		2019		2018
		(per share)		(per share)
<b>Net income (loss)</b>	<b>\$ (1,607)</b>		<b>\$ 318</b>	
Adjustments to EBIT related to special items <sup>(1)</sup>	<b>968</b>	<b>\$ 0.41</b>	<b>28</b>	<b>\$ 0.01</b>
Adjustments to net financing expense related to:				
Loss on repurchase of long-term debt <sup>(1)</sup>	<b>84</b>	<b>0.03</b>	<b>—</b>	<b>—</b>
Loss on sale of long-term contract receivables <sup>(1)</sup>	<b>—</b>	<b>—</b>	<b>31</b>	<b>0.01</b>
Accretion on net retirement benefit obligations	<b>73</b>	<b>0.03</b>	<b>65</b>	<b>0.03</b>
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	<b>(130)</b>	<b>(0.05)</b>	<b>36</b>	<b>0.01</b>
Interest portion of gains related to special items <sup>(1)</sup>	<b>—</b>	<b>—</b>	<b>(15)</b>	<b>0.00</b>
Tax impact of special <sup>(1)</sup> and other adjusting items	<b>216</b>	<b>0.09</b>	<b>(25)</b>	<b>(0.01)</b>
<b>Adjusted net income (loss)</b>	<b>(396)</b>		<b>438</b>	
Net income attributable to NCI	<b>(190)</b>		<b>(86)</b>	
Preferred share dividends, including taxes	<b>(21)</b>		<b>4</b>	
<b>Adjusted net income (loss) attributable to equity holders of Bombardier Inc.</b>	<b>\$ (607)</b>		<b>\$ 356</b>	
<b>Weighted-average adjusted diluted number of common shares (in thousands)</b>		<b>2,383,987</b>		<b>2,501,047</b>
<b>Adjusted EPS</b>		<b>\$ (0.25)</b>		<b>\$ 0.14</b>

## Reconciliation of adjusted EPS to diluted EPS (in dollars)

	Fiscal years ended December 31	
	2019	2018
<b>Diluted EPS</b>	<b>\$ (0.76)</b>	<b>\$ 0.09</b>
Impact of special <sup>(1)</sup> and other adjusting items	<b>0.51</b>	<b>0.05</b>
<b>Adjusted EPS</b>	<b>\$ (0.25)</b>	<b>\$ 0.14</b>

## Reconciliation of adjusted debt to long-term debt

	As at December 31
	2019
Long-term debt	<b>\$ 9,333</b>
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	<b>(76)</b>
Long-term debt, net	<b>9,257</b>
Lease liabilities	<b>487</b>
<b>Adjusted debt</b>	<b>\$ 9,744</b>

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

# AVIATION

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KEY PERFORMANCE MEASURES AND METRICS	HIGHLIGHTS	GUIDANCE AND FORWARD-LOOKING STATEMENTS	PROFILE	INDUSTRY AND ECONOMIC ENVIRONMENT	ANALYSIS OF RESULTS	RESHAPING THE PORTFOLIO
<b>52</b>	<b>53</b>	<b>55</b>	<b>57</b>	<b>61</b>	<b>64</b>	<b>70</b>

## KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and related metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
GROWTH AND COMPETITIVE POSITIONING	<ul style="list-style-type: none"> <li>Order backlog, as a measure of future revenues.</li> <li>Revenues and delivery units, as measures of growth.</li> <li>Market share (in terms of revenues and units delivered), as measures of our competitive positioning.</li> </ul>
PROFITABILITY	<ul style="list-style-type: none"> <li>EBIT, EBIT margin, adjusted EBIT<sup>(1)</sup> and adjusted EBIT margin<sup>(1)</sup>, as measures of performance.</li> </ul>
LIQUIDITY	<ul style="list-style-type: none"> <li>Free cash flow<sup>(1)</sup>, as a measure of liquidity generation.</li> </ul>
CUSTOMER SATISFACTION	<ul style="list-style-type: none"> <li>On-time aircraft deliveries, as a measure of meeting our commitment to customers.</li> <li>Fleet dispatch reliability, as a measure of our products' reliability.</li> <li>Regional availability of parts and technical expertise to support customer requests in a timely manner, as a measure of meeting customer needs for the entire life of the aircraft.</li> <li>On-time return to service and high-quality workmanship at Bombardier-owned maintenance facilities, as a measure of efficiency.</li> </ul>
EXECUTION	<ul style="list-style-type: none"> <li>Achievement of program development milestones, as a measure of flawless execution.</li> </ul>

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

# HIGHLIGHTS

## Focused on growing business aircraft activities through new programs and network expansion

RESULTS <sup>(1)</sup>			
For the fiscal years ended December 31	2019 <sup>(2)</sup>	2018	Variance
Revenues	\$ 7,501	\$ 7,324	2 %
Aircraft deliveries (in units)			
Business aircraft	142	137	5
Commercial aircraft <sup>(3)</sup>	33	35	(2)
Adjusted EBITDA <sup>(4)</sup>	\$ 812	\$ 643	26 %
Adjusted EBITDA margin <sup>(4)</sup>	10.8%	8.8%	200 bps
Adjusted EBIT <sup>(4)</sup>	\$ 531	\$ 472	13 %
Adjusted EBIT margin <sup>(4)</sup>	7.1%	6.4%	70 bps
EBIT	\$ 1,194	\$ 424	182 %
EBIT margin	15.9%	5.8%	1010 bps
Net additions to PP&E and intangible assets	\$ 373	\$ 303 <sup>(5)</sup>	23 %
<b>As at December 31</b>	<b>2019</b>	<b>2018</b>	<b>Variance</b>
Order backlog (in billions of dollars)			
Business aircraft	\$ 14.4	\$ 14.3	1 %
Other aviation <sup>(6)</sup>	\$ 1.9	\$ 4.3	(56)%

<sup>(1)</sup> Figures are restated as a result of the formation of Bombardier Aviation, our new reportable segment. Refer to the Segment reporting section in Overview for further details.

<sup>(2)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(3)</sup> On May 31, 2019, the Corporation completed the previously announced 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). Hence, the 7 Q Series aircraft deliveries for the fiscal year ended December 31, 2019 are for the first five months only; the deliveries for the fiscal year ended December 31, 2018 included 15 Q Series aircraft.

<sup>(4)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section hereafter for reconciliations to the most comparable IFRS measures.

<sup>(5)</sup> Included the proceeds from the sale of the Downview property for approximately \$600 million in 2018.

<sup>(6)</sup> Including 20 firm orders for CRJ900 as of December 31, 2019 and 45 firm orders for CRJ900 as of December 31, 2018. CRJ production is expected to conclude in the second half of 2020, following the delivery of the current backlog of the aircraft.

## KEY HIGHLIGHTS AND EVENTS

**2019 marked a pivotal year for Aviation, starting with the consolidation of Bombardier's three aerospace segments into a single unit, Bombardier Aviation.**

### Stronger Financial Performance as Aviation Reshapes its Portfolio

- Revenues for Aviation totalled \$7.5 billion for 2019. This reflects an 8.5% revenue growth from business aircraft activities and continued double-digit organic growth from aftermarket.
- The segment achieved 175 aircraft deliveries during the year, comprised of 54 *Global*, 76 *Challenger*, 12 *Learjet*, as well as 33 commercial aircraft.
  - The fourth quarter's activity level was high, with deliveries reaching 52 business aircraft as *Global 7500* deliveries accelerated.
- Adjusted EBITDA margin<sup>(1)</sup> was 10.8% for the year, up 200 bps driven by the exit of the Q400 and C Series programs. This profitability was nonetheless diluted in 2019 by CRJ activities, accounting for \$1.2 billion in revenues for the year.

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

- The adjusted EBIT margin<sup>(1)</sup> of 7.1% is up 70 bps year-over-year, reflecting the early production ramp up and higher amortization associated with *Global 7500* deliveries, as well as the dilution from commercial aircraft activities.
- Business aircraft backlog increased slightly for the second consecutive year, reaching \$14.4 billion at year end, while the *CRJ* backlog declined as production winds down.

#### **Concentrating on Business Aircraft while Addressing Underperforming Programs**

- In February 2019, the Corporation acquired the *Global 7500* aircraft wing program operations and assets from Triumph Group Inc. This transaction enabled the company to leverage its extensive technical expertise to support the ramp-up of the *Global 7500* aircraft and secure its long-term success.
- In March 2019, we concluded the sale of Business Aircraft's flight and technical training activities to CAE Inc. for net proceeds of \$532 million.
- In May 2019, we completed the previously announced sale of the Q Series program assets, including aftermarket operations and assets, to De Havilland Aircraft of Canada for net proceeds of \$285 million.
- In June 2019, the Corporation entered into a definitive agreement with Mitsubishi Heavy Industries, Ltd. (MHI) for the sale of its regional jet program for a cash consideration of \$550 million payable upon closing, and the assumption by MHI of approximately \$200 million of liabilities related to credit and residual value guarantees and lease subsidies. The transaction is currently expected to close by mid-year 2020 and remains subject to regulatory approvals and customary closing conditions.<sup>(2)</sup>
- In October 2019, the Corporation and Spirit AeroSystems Holding, Inc. (Spirit) announced that they have entered into a definitive agreement, whereby Spirit will acquire Bombardier's aerostructures activities and aftermarket services operations in Belfast, U.K. and Casablanca, Morocco, and its aerostructures maintenance, repair and overhaul facility in Dallas, U.S. for a cash consideration of \$500 million and the assumption of approximately \$700 million of liabilities, including government refundable advances and pension obligations. The transaction is expected to close by mid-year 2020 and remains subject to regulatory approvals and customary closing conditions.<sup>(2)</sup>

#### **Positioned for Growth through certification and ramp up of New Programs and Service Network Expansion**

- Reaching full-scale production of the class-defining *Global 7500* aircraft. With increased deliveries, the *Global 7500* aircraft is expected to contribute significantly to revenues growth in 2020. As the aircraft progresses on the learning curve, it will also contribute to margin expansion.<sup>(2)</sup>
- Certified the new *Global 5500* and *Global 6500* aircraft, followed by the entry into service of the *Global 6500* aircraft in 2019, offering customers the perfect combination of range, speed, field performance and smooth ride.
- Continued and consistent growth of the aftermarket business, with further expansion of the service network in Singapore planned for 2020

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

<sup>(2)</sup> Forward-looking statement. See the forward-looking statements assumptions on which the guidance is based and forward-looking statements disclaimer in Overview.

## GUIDANCE AND FORWARD-LOOKING STATEMENTS

	2019 guidance provided in our 2018 Financial Report <sup>(1)</sup>	Updated 2019 guidance <sup>(2)</sup>	2019 results
Revenues	Business Aircraft ~ \$6.25 billion Commercial Aircraft ~ \$1.4 billion Aerostructures and Engineering Services \$2.25-\$2.50 billion including intersegment revenues	~ \$8.0 billion	\$7.5 billion
EBIT margin	N/A	N/A	15.9%
Adjusted EBIT <sup>(3)</sup> and adjusted EBIT margin <sup>(3)</sup>	Business Aircraft ~ 7.5% Commercial Aircraft ~ (\$125 million) Aerostructures and Engineering Services ~ 7.5%	~ 7.0%	7.1%
Aircraft deliveries (in units)	Business Aircraft 150-155 Commercial Aircraft ~ 35 CRJ and Q400	175-180	175

### **2019 guidance**

Revenue guidance was reduced by \$250 million from the earlier than anticipated closing of the sale of Business Aircraft's training activities and the Q400 program. During the second quarter of 2019, as a result of the consolidation of the three existing aerospace units into a single Bombardier Aviation business segment, the Corporation updated its 2019 guidance. Full year revenues guidance at Aviation was updated to approximately \$8.0 billion, net of eliminations. Revenues for 2019 at Aviation were \$7.5 billion mainly from lower Business Aircraft revenues.

New segment adjusted EBIT margin<sup>(3)</sup> was set at approximately 7.0% for the year, in line with the previous aerospace segments guidance, and excluding the Airbus Canada Limited Partnership contribution (reclassified as a corporately held investment). A total of 175 to 180 aircraft deliveries were expected for 2019. For 2019, Aviation's adjusted EBIT margin<sup>(3)</sup> and deliveries were largely in line with guidance.

<sup>(1)</sup> Refer to our 2018 Financial Report for further details.

<sup>(2)</sup> Refer to our First Quarterly Report for the period ended March 31, 2019, our Second Quarterly Report for the period ended June 30, 2019 and Segment Reporting section of this MD&A for further details.

<sup>(3)</sup> Profitability guidance is based on adjusted EBIT margin. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measures.

## Forward-looking statements

Forward-looking statements<sup>(1)</sup> in this section of the MD&A are based on and subject to the following material assumptions:

- normal execution and delivery of current backlog;
- the ability to understand customer needs and portfolio of products and services to drive market demand and secure new orders;
- continued deployment and execution of leading initiatives to improve revenue conversion into higher earnings and free cash flow<sup>(2)</sup>, through improved procurement cost, controlled spending and labour efficiency;
- delivering on the transformation plan targets, through restructurings and other initiatives addressing the direct and indirect cost structure, focusing on sustained cost reductions and operational improvements, while reducing working capital consumption;
- the ability of the supply base to support product development and planned production rates on commercially acceptable terms in a timely manner;
- the ability to identify and enter into further risk sharing partnerships and initiatives;
- the effectiveness of disciplined capital deployment measures in new programs and products to drive revenue growth;
- the ability to recruit and retain highly skilled resources to deploy the product development strategy;
- the stability of the competitive global environment and global economic conditions;
- the stability of foreign exchange rates at current levels;
- the ability to have sufficient liquidity to execute the strategic plan, to meet financial covenants and to pay down long-term debt or refinance bank facilities and maturities;
- closing of the sale of our regional jet program and Belfast and Morocco aerostructures businesses and Dallas MRO by mid-year 2020;
- the alignment of production rates to market demand;
- continued deployment and execution of growth strategies, and continued growth of the aftermarket business;
- the ability to invest in our product portfolio;
- the accuracy of the analyses and assumptions underlying our business case including estimated cash flows and revenues over the expected life of our programs and thereafter;
- the accuracy of our assessment of anticipated growth drivers and sector trends; and
- new program aircraft prices, unit costs and ramp-up.

<sup>(1)</sup> Also refer to the Guidance and forward-looking statements section in Overview.

<sup>(2)</sup> Non-GAAP measure. Refer to the Non-GAAP measures for definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measures.

## PROFILE

This section will focus on business aircraft, including specialized aircraft and customer services, following the announcements made by the Corporation during 2019 in relation to the definitive agreement with Spirit AeroSystems Holding, Inc. for the sale of Bombardier's aerostructures businesses in Belfast and Morocco, and the definitive agreement with Mitsubishi Heavy Industries, Ltd. for the sale of the regional jet program.

### Strong portfolio positioned for growth

We skillfully design, develop, manufacture, market and provide aftermarket support for three class-leading families of business jets - *Learjet*, *Challenger* and *Global*. Our business jet portfolio spans from the light to the large categories, in addition to outfitting various aircraft platforms for specialized use.

With approximately 4,900 aircraft in service worldwide, Bombardier Aviation has developed an aftermarket and support network of service facilities including wholly-owned service centres in the U.S., Europe and Asia, regional support office (RSO) locations, mobile repair trucks and world-class aircraft parts availability sustained by parts facilities, including depots, hubs and repair facilities worldwide.

### MARKET SEGMENT: BUSINESS AIRCRAFT

#### LIGHT BUSINESS JETS

**Models:** *Learjet 70*, *Learjet 75* and *Learjet 75 Liberty*<sup>(1)</sup>

**Market category:** Light business jets

**Key features**<sup>(2)</sup>: As part of the legendary *Learjet* family, of which more than 3,000 aircraft have been delivered to date, the class-defining *Learjet* aircraft continue to set the standard by bringing large jet features to a light jet platform. *Learjet* aircraft feature a flat floor throughout the cabin, offering a smooth ride and the ultimate in comfort.

The new *Learjet 75 Liberty* aircraft will offer the only Executive Suite in the light jet category featuring a spacious six-seat configuration with a standard pocket door between the cockpit and cabin for the quietest flight experience. The *Learjet 75 Liberty* aircraft will be certified to more stringent Part 25 regulations prescribed by U.S. Federal Aviation Administration (FAA), applicable to commercial airliners, unlike most competitors in the light jet category that are certified to Part 23 regulations.



*Learjet 75 Liberty* aircraft

<sup>(1)</sup> Currently under development. See the *Global 8000* and *Learjet 75 Liberty* aircraft disclaimer at the end of this MD&A.

<sup>(2)</sup> Under certain operating conditions, when compared to aircraft currently in service.

## MID-SIZE BUSINESS JETS

**Models:** *Challenger 350* and *Challenger 650*

**Market category:** Medium business jets

**Key features**<sup>(1)</sup>: A masterful expression of high-end craftsmanship and functionality, the *Challenger* family of aircraft features productivity-enhancing business tools, with the most comfortable cabins in its category. Each aircraft offers low operating costs, high reliability, and the ultimate in-flight experience with industry-leading connectivity, immersive sound system and cabin management system that effortlessly bring it all together.

Bombardier has continually invested in the *Challenger* platform. In 2019, Bombardier announced a suite of updates to its *Challenger 350* aircraft, further underscoring its leadership position in the super mid-size segment. New enhancements include a performance improvement package particularly effective for short runways, available compact Head-up Display (HUD) and Enhanced Vision System (EVS), along with improved cockpit aesthetics and cabin sound-proofing technology.

The *Challenger 300* Series has been the most delivered medium business jet for the last decade.

The *Challenger 600* Series has been the most delivered business jet in its segment for the last decade.



*Challenger 350* aircraft

## LARGE BUSINESS JETS

**Models:** *Global 5000*, *Global 5500*, *Global 6000*, *Global 6500*, *Global 7500* and *Global 8000*<sup>(2)</sup>

**Market category:** Large business jets

**Key features**<sup>(1)</sup>: Skillfully designed to leave a lasting impression, the flagship *Global* aircraft family covers the large jet category with six aircraft models that feature a smooth ride and intelligently crafted interiors with redesigned cabins that balance luxury with productivity and feature the industry's fastest worldwide inflight internet connectivity combined with comprehensive cabin management systems to keep passengers entertained and connected at all times.

The *Global 6000* aircraft family is the most delivered business jet in the large category. Bombardier's new performance-leading *Global 5500* and *Global 6500* aircraft received Transport Canada type certification in September 2019, followed by entry-into-service of the *Global 6500* business jet in the same month.

The segment-defining *Global 7500* aircraft extends the family with a true four-zone cabin, full crew-rest area and the longest range to link virtually any key city pair worldwide, non-stop. The *Global 7500* aircraft entered service in December 2018, and has since achieved several significant milestones, notably the longest non-stop city pair flight in business aviation history from Sydney, Australia, to Detroit, Michigan.



*Global 7500* aircraft

<sup>(1)</sup> Under certain operating conditions, when compared to aircraft currently in service.

<sup>(2)</sup> Currently under development. See the *Global 8000* and *Learjet 75 Liberty* aircraft disclaimer at the end of this MD&A.



## **BOMBARDIER SPECIALIZED AIRCRAFT**

**Models:** *Learjet*, *Challenger* and *Global* business jets

**Market category:** Special mission aircraft

**Key features:** Bombardier Specialized Aircraft designs, develops and delivers a range of capabilities to operators around the world, with more than 500 specialized aircraft in service. Bombardier's diverse fleet, which includes the *Learjet*, *Challenger* and *Global* business aircraft platforms, represents the ideal solution for government missions, from surveillance and reconnaissance to medical and dignitary transport. Solutions range from turnkey packages comprising the complete design, building, testing and certification activity, through to specialist engineering support and technical oversight of customer specific projects.

## **MARKET SEGMENT: CUSTOMER SERVICES**

### **MAINTENANCE: ADDING VALUE THROUGHOUT THE LIFECYCLE**

**Services portfolio:** Extensive, worldwide capabilities to maximize scheduled maintenance as well as value added packages, including refurbishment and modification of business aircraft, and component repair and overhaul services. Through original equipment manufacturer expertise, a wide variety of services can be performed in house, as well as through dispatching mobile repair teams to customers' aircraft.

**Key features:** Offering worldwide service and support through wholly-owned service centres, line maintenance stations, 30 Bombardier mobile response vehicles, two aircraft and a network of authorized service facilities.

### **OFFERING PEACE OF MIND THROUGH PARTS AND SMART SERVICES**

**Services portfolio:** Providing manufacturer approved parts backed by industry leading 2-year warranty, as well as repairs to customer owned parts, and a growing portfolio of innovative cost-per-flight-hour parts and maintenance plans available for *Learjet*, *Challenger* and *Global* aircraft. Options include the *Smart Services* offering, which can be tailored to include landing gear overhaul and unscheduled maintenance coverage, among other selections.

**Key features:** Supporting 24/7 parts support with parts facilities worldwide anchored by three major hubs in Chicago, Frankfurt and Singapore, as well as six regional depots. A sophisticated inventory management system ensures worldwide parts availability throughout the depot and hub network as well as the wholly-owned service centres. Repair facilities in North America and Europe provide repair services on customer-owned parts. Unlimited access to two Mobile Response Team aircraft to shuttle parts in support of aircraft-on-ground requirements. From coverage on exchanges and repairs of airframe components, including flight deck avionics, *Smart Services* provides budget predictability and worldwide parts availability.

## 24/7 CUSTOMER SUPPORT

**Services portfolio:** Comprehensive portfolio of business aircraft customer support including 24-hour customer response centres, customer services engineering, a network of field service personnel, customer response team trucks, regional support offices, technical publications, and EIS support.

**Key features:** Providing operators with a single point of contact, 24 hours a day, 365 days a year, for all critical and aircraft-on-the-ground requests and supporting all customer requirements from EIS throughout ownership of the aircraft by leveraging a global support network of strategically located teams. Bombardier is enhancing its customer support footprint around the world with service centre expansion announcements for Miami Opa-Locka and Singapore, new line maintenance stations in Van Nuys, Teterboro and Dubai. These initiatives underscore Bombardier’s ongoing, transformational commitment to providing the most comprehensive onsite, mobile and aircraft-on-ground resolution services in the industry.

With **over 100+ Facilities around the globe**, we are equipped to respond to your immediate & future needs.



## INDUSTRY AND ECONOMIC ENVIRONMENT

This section will focus on indices relevant for business aviation, following the announcements made by the Corporation during 2019 in relation to the definitive agreement with Spirit AeroSystems Holding, Inc. for the sale of Bombardier's aerostructures businesses in Belfast and Morocco, and the definitive agreement with Mitsubishi Heavy Industries, Ltd. for the sale of the regional jet program.

### New products elevated 2019 industry deliveries

Business aviation deliveries grew in 2019, driven by new product introductions and low pre-owned inventory levels. These factors offset the softening of certain key indicators for the industry. World GDP growth in 2019 slowed to 2.6%, from 3.2% in 2018.<sup>(1)</sup> The slowdown in global growth was due to the uncertainty arising from the U.S. trade dispute with China. Industry confidence, measured by the Barclays Business Jet Indicator, averaged just below the threshold of market stability for 2019.<sup>(2)</sup> Forecasted U.S. corporate profits for 2019 are expected to maintain stability compared to 2018, arriving at \$2.1 trillion.<sup>(3)</sup> Pre-owned aircraft inventory expressed as a percentage of the overall fleet has been decreasing and remains healthy at 10.2%.<sup>(4)</sup> Finally, the industry delivered an estimated total of 592 units in 2019, up 15% year-over-year, which is above the average of total annual deliveries over the past 10 years. Large category aircraft deliveries grew for the last 3 years, with their market share continuing to increase due to rising demand for large cabin and longer range aircraft.<sup>(5)</sup> Industry revenues also grew by 17% following the ramp-up of several new products introduced in larger categories.<sup>(6)</sup>

The following key indicators are used to monitor the health of the business aviation market in the short term:

INDICATOR	CURRENT SITUATION	STATUS
INDUSTRY CONFIDENCE	Based on the latest Barclays Business Jet Indicator, published in December 2019, the measure of industry confidence averaged at 49 points for 2019 <sup>(2)</sup> , and was just below the threshold of market stability.	▼
CORPORATE PROFITS	Forecasted U.S. corporate profits are expected to maintain stability at \$2.1 trillion for 2019. <sup>(3)</sup>	►
PRE-OWNED BUSINESS JETS INVENTORY LEVELS	The total number of pre-owned aircraft available for sale as a percentage of the total worldwide fleet has increased over the past year to 10.2%, but remains at healthy levels. <sup>(4)</sup>	►
AIRCRAFT UTILIZATION RATES	Business jet utilization in the U.S. decreased by 2.5% in 2019 compared to 2018. Business jet utilization in Europe decreased by 2.3% in 2019 compared to 2018. <sup>(7)</sup>	▼
AIRCRAFT SHIPMENTS AND BILLINGS	In the business aircraft market categories in which we compete, we estimate that business aircraft deliveries went up by 15% <sup>(5)</sup> and total billings by 17% <sup>(6)</sup> in 2019 compared to 2018.	▲

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

<sup>(1)</sup> According to Oxford Economics Global Economic Databank dated January 15, 2020.

<sup>(2)</sup> According to the Barclays Business Jet Survey dated December 11, 2019. Average has been calculated using the monthly data.

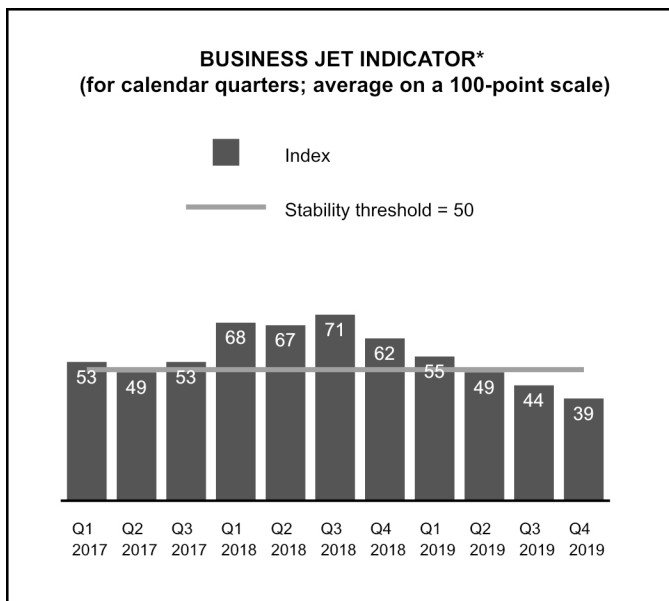
<sup>(3)</sup> According to the U.S. Bureau of Economic Analysis News Release dated December 20, 2019.

<sup>(4)</sup> According to JETNET and Ascend (by Cirium).

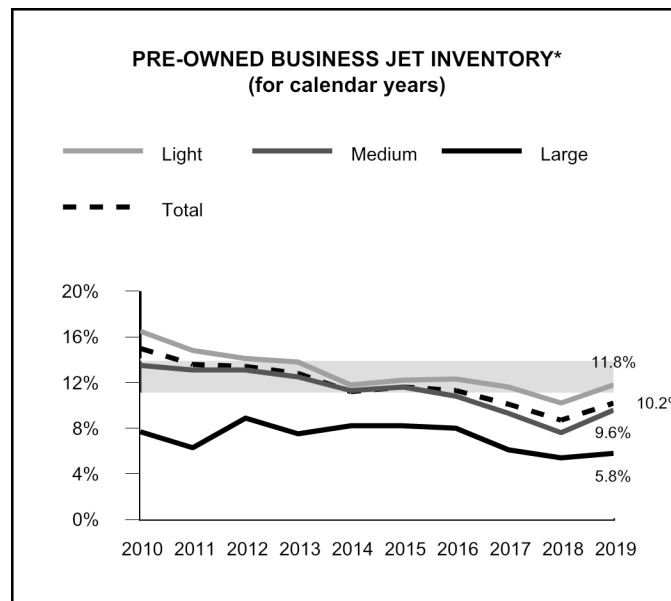
<sup>(5)</sup> Based on our estimates, public disclosure records of certain competitors, the General Aviation Manufacturers Association (GAMA) shipment reports and Ascend (by Cirium).

<sup>(6)</sup> Based on our estimates, public disclosure records of certain competitors, the General Aviation Manufacturers Association (GAMA) shipment reports, Ascend (by Cirium) and B&CA Magazine list prices.

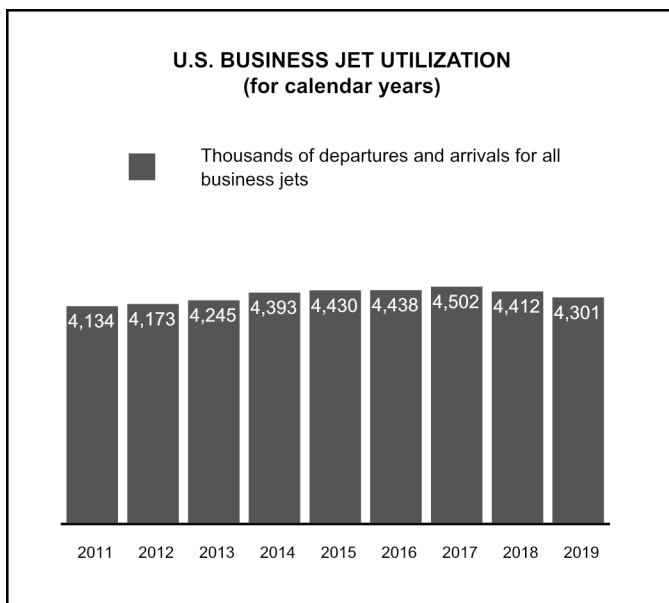
<sup>(7)</sup> According to the U.S. Federal Aviation Administration (FAA) and Eurocontrol websites.



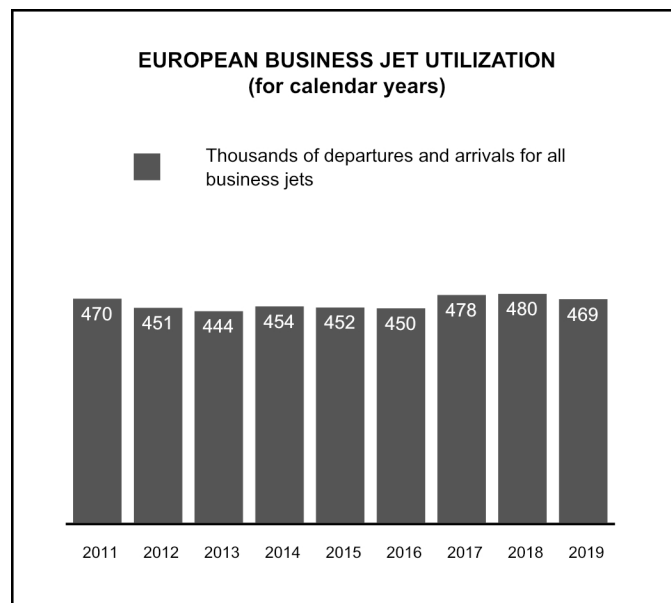
Source: Barclays from the start of 2018, previously UBS  
 \* The Business Jet Indicator is a measure of market confidence from industry professionals, gathered through regular surveys of brokers, dealers, manufacturers, fractional providers, financiers and others.  
 Methodologies used in the calculation of the Business jet Indicator may differ following a change in the source of the data. UBS did not issue a survey for Q4 2017.



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



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



Source: Eurocontrol

### Short-term outlook

Global growth is expected to reach 2.5% in 2020<sup>(1)</sup>, in line with recent years. This economic outlook combined with low pre-owned inventory levels and balanced aircraft backlog should continue to support a stable business jet market. The business environment for the year is reinforced by the Barclays Business Jet Indicator which jumped 8 points to 47 points for January 2020<sup>(2)</sup>, on the back of increasing customer interest. The potential exit of certain legacy platforms in the industry should offset the unit growth of new products. Industry revenues are expected to keep growing with the increasing contribution of large aircraft in the overall industry delivery mix.

<sup>(1)</sup> According to Oxford Economics Databank dated January 15, 2020.

<sup>(2)</sup> According to the Barclays Business Jet Survey dated January 23, 2020.

### Long-term outlook

In the longer term, all demand drivers are well-oriented. Wealth creation and the continued emergence of developing countries are expected to grow our customer base. The retirement of older models combined with the introduction of new models will help meet the needs of new customers. The evolution of new ownership models, such as fractional and charter businesses will make business aviation even more accessible.

Business aviation is poised for growth and with the industry's most comprehensive product portfolio, we believe we are well positioned.

### Customer services

Business Aircraft's worldwide customer services network includes wholly owned service centres, parts hubs, parts depots, line maintenance facilities, regional support offices, customer response centres, mobile customer response teams, as well authorized service facilities and authorized training providers.

The demand for service and support is driven by the size of the fleet of Bombardier business aircraft, by the number of hours flown by said fleet and the average age of the fleet. Based on the large installed base of business aircraft, we will continue to focus on these high margin activities.

### Market indicators

INDICATOR	CURRENT SITUATION	STATUS
INSTALLED BASE	The installed base for Bombardier business aircraft increased by approximately 2% to approximately 4,900 aircraft in 2019 when compared to 2018. <sup>(1)</sup>	▲
AVERAGE ANNUAL FLIGHTS HOURS	Based on our estimates, Bombardier business aircraft average annual flight hours decreased by 1.8% in 2019 compared to last year.	▼
AVERAGE AGE OF FLEET	Typically, aircraft direct maintenance costs increase as an aircraft ages. Therefore, the average age of the fleet of Bombardier aircraft will impact the size of the maintenance market. The average age of the Bombardier business aircraft fleet has increased by 1.0% in 2019 when compared to 2018. <sup>(1)</sup>	▲

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

<sup>(1)</sup> Based on data obtained from fleet database Ascend (by Cirium).

### Short-term outlook

Based on the market indicators above, the demand for parts and service programs is expected to grow significantly. We continue to actively seek out strategic locations for expansion in order to move closer to customers, further improve response times and build stronger relationships around the globe.

Historically, the U.S. represented the largest share of the fleet for business aircraft, however, wealth creation and economic development in non-traditional markets is driving a shift in the proportion of the business aircraft fleet outside of the U.S. This trend in demand impacts the geographical layout of our support network. In non-traditional markets, the strategy is to increase our local customer-support presence and leverage third parties to deploy the full span of services.

### Long-term outlook

The continued growth of the installed base is expected to stimulate demand for customer services. While traditional markets such as North America should dominate in terms of market size, the business aircraft fleet growth in non-traditional markets should create new opportunities for aftermarket services.

# ANALYSIS OF RESULTS

## Results of operations<sup>(1)</sup>

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019 <sup>(2)</sup>	2018	2019 <sup>(2)</sup>	2018
Revenues				
Business aircraft				
Manufacturing and other <sup>(3)</sup>	\$ 1,640	\$ 1,177	\$ 4,163	\$ 3,794
Services <sup>(4)</sup>	311	317	1,254	1,200
Commercial aircraft <sup>(5)</sup>	231	421	1,227	1,756
Aerostructures and engineering services <sup>(6)</sup>	231	227	857	574
Total revenues	\$ 2,413	\$ 2,142	\$ 7,501	\$ 7,324
Adjusted EBITDA <sup>(7)</sup>	\$ 234	\$ 242	\$ 812	\$ 643
Amortization	91	58	282	171
Impairment reversals on PP&E and intangible assets	—	—	(1)	—
Adjusted EBIT <sup>(7)</sup>	143	184	531	472
Special items	49	13	(663)	48
EBIT	\$ 94	\$ 171	\$ 1,194	\$ 424
Adjusted EBITDA margin <sup>(7)</sup>	9.7%	11.3%	10.8%	8.8%
Adjusted EBIT margin <sup>(7)</sup>	5.9%	8.6%	7.1%	6.4%
EBIT margin	3.9%	8.0%	15.9%	5.8%

<sup>(1)</sup> Figures are restated as a result of the formation of Bombardier Aviation, our new reportable segment. Refer to the Segment reporting section in Overview for further details.

<sup>(2)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(3)</sup> Represents revenues from sale of new aircraft, specialized aircraft solutions and pre-owned aircraft.

<sup>(4)</sup> Represents revenues from aftermarket services including parts, *Smart Services*, service centres, training and technical publication.

<sup>(5)</sup> Represents manufacturing, services and other.

<sup>(6)</sup> Represents external revenues.

<sup>(7)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.

## Revenues

The \$271-million increase for the fourth quarter is mainly due to:

- higher revenues from business aircraft manufacturing and other, mainly due to higher deliveries of large aircraft.

Partially offset by:

- lower revenues from commercial aircraft, mainly due to the sale of the Q Series aircraft program on May 31, 2019.

The \$177-million increase for the fiscal year is due to:

- higher revenues from business aircraft manufacturing and other, mainly due to higher deliveries and a favourable mix of large aircraft;
- higher revenues from aerostructures and engineering services, mainly due to revenues from contracts with ACLP<sup>(1)</sup> being presented as external revenues starting July 1, 2018, partially offset by lower volume for other external contracts; and
- higher revenues from business aircraft services, mainly due to an increase in sales of spares parts and increase in activities in service centres, partially offset by the sale of the business aircraft training activities on March 14, 2019.

Partially offset by:

- lower revenues from commercial aircraft, mainly due to the deconsolidation of ACLP<sup>(1)</sup> starting in the third quarter of 2018 and the sale of the Q Series aircraft program on May 31, 2019, partially offset by an increase in CRJ aircraft deliveries.

<sup>(1)</sup> Effective June 1, 2019, the name of CSALP is changed to ACLP.

## Special items

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

The special items recorded as (gains) losses in EBIT were as follows:

	Ref	Fourth quarters ended December 31		Fiscal years ended December 31	
		2019	2018	2019	2018
Gain on disposal of a business - Training business	1	\$ —	\$ —	\$ (516)	\$ —
Gain on disposal of a business - Q Series business	2	9	—	(210)	—
Restructuring charges	3	13	29	51	31
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions	4	(3)	(28)	(18)	(29)
C Series transaction with Airbus	5	—	7	—	616
Gain on disposal of PP&E	6	—	—	—	(561)
Purchase of pension annuities	7	4	2	4	22
Changes in credit and residual value guarantees	8	—	—	—	(34)
Pension adjustments	9	26	24	26	24
Tax litigation	10	—	(21)	—	(21)
		\$ 49	\$ 13	\$ (663)	\$ 48
EBIT margin impact		(2.0)%	(0.6)%	8.8%	(0.6)%

- 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 31 - Disposal of businesses.
- The sale of the Q Series Aircraft program assets for net proceeds of \$285 million resulted in a pre-tax accounting gain of \$210 million (\$184 million after tax impact). See Note 31 - Disposal of businesses.
- For the fourth quarter and fiscal year ended December 31, 2019, represents change in severance charges of \$(1) million and \$24 million, respectively, partially offset by curtailment gains of nil and \$2 million, respectively, 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 in the first quarter of 2019, and has recorded \$14 million and \$24 million of other related charges for the fourth quarter and the fiscal year of 2019, respectively.  
For the fourth quarter and the fiscal year ended December 31, 2018, represented severance charges of \$35 million and \$37 million, respectively, partially offset by curtailment gains of \$6 million related to the previously-announced restructuring actions.
- 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 \$18 million for the fourth quarter and fiscal year ended December 31, 2019 (\$28 million and \$29 million for the fourth quarter and fiscal year ended December 31, 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.
- 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 \$616 million (\$552 million after tax). The pre-tax accounting charge reflects all elements of the transaction, including: (i) the \$270 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.
- Related to the sale of the Downsview property to the Public Sector Pension Investment Board (PSP Investments).

7. 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.
8. The provisions for credit and residual value guarantees were reduced following a change in credit risk assumption for an airline. The reduction of the provisions was treated as a special item since the original provisions were recorded as special items in 2015.
9. On October 26, 2018, the High Court in the United Kingdom ruled that pension schemes must equalize for the effect of unequal Guaranteed Minimum Pensions between male and female for benefits earned during specified periods (“GMP equalization”). The Corporation estimated the impact of the ruling on its pension plans and recognized an additional obligation of \$24 million as at December 31, 2018. The one-time P&L impact was recognized in fiscal year 2018 as a past service cost under IAS 19 - Employee Benefits. In fiscal year 2019, the Corporation adjusted the pension obligation related to equalization for an Aviation plan in the U.K. The adjustments of \$26 million was recorded as a past service cost under IAS 19 - Employee Benefits.
10. Represents a change in the estimates used to determine the provision related to tax litigation.

### **EBIT margin**

Adjusted EBIT margin<sup>(1)</sup> for the fourth quarter decreased by 2.7 percentage points mainly due to:

- lower contribution from business aircraft sales which includes higher amortization of aerospace program tooling as a result of increased *Global 7500* deliveries.

Partially offset by:

- lower SG&A expenses.

Including the impact of special items (see explanation of special items above), the EBIT margin for the fourth quarter decreased by 4.1 percentage points compared to the same period last year.

Adjusted EBIT margin<sup>(1)</sup> for the fiscal year increased by 0.7 percentage points mainly due to:

- the net impact of the deconsolidation of C Series; and
- lower SG&A expenses.

Partially offset by:

- lower contribution from business aircraft sales which includes higher amortization of aerospace program tooling.

Including the impact of special items (see explanation of special items above), the EBIT margin for the fiscal year increased by 10.1 percentage points compared to last fiscal year.

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



## Product development

### Investment in product development<sup>(1)</sup>

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019	2018	2019	2018
Program tooling <sup>(2)</sup>	\$ 62	\$ 226	\$ 280	\$ 876
R&D expense <sup>(3)</sup>	6	7	24	25
	\$ 68	\$ 233	\$ 304	\$ 901
As a percentage of revenues	2.8%	10.9%	4.1%	12.3%

<sup>(1)</sup> Figures are restated as a result of the formation of Bombardier Aviation, our new reportable segment. Refer to the Segment reporting section in Overview for further details.

<sup>(2)</sup> Net amount capitalized in aerospace program tooling, as well as the amount that was paid to suppliers based on reception of parts or delivery of the aircraft for acquired development costs carried out by them.

<sup>(3)</sup> Excluding amortization of aerospace program tooling of \$59 million and \$132 million, respectively, for the fourth quarter and fiscal year ended December 31, 2019 (\$29 million and \$70 million, respectively, for the fourth quarter and fiscal year ended December 31, 2018), as the related investments are already included in aerospace program tooling.

The decrease in aerospace program tooling investment is mainly due to the entry-into-service of the *Global 7500* aircraft program in December 2018.

The carrying amount of aerospace program tooling<sup>(1)</sup> as at December 31, 2019 was \$4.6 billion, compared to \$4.5 billion as at December 31, 2018. The net carrying value of aerospace program tooling remains stable due to completion of major development programs.

### The *Global 5500* and *Global 6500* aircraft program

The first *Global 6500* business jet entered into service on September 30, 2019, on schedule. The *Global 5500* and *Global 6500* aircraft were awarded Transport Canada Type Certification on September 24, 2019, European Aviation Safety Agency (EASA) certification on October 15, 2019, and U.S. Federal Aviation Administration (FAA) certification on December 20, 2019.

The *Global 5500* and *Global 6500* jets are built on the success of the *Global 5000* and *Global 6000* aircraft offering 700 and 600 nautical miles of additional range, respectively, for a class-leading 5,900 and 6,600 nautical miles, top speeds of Mach 0.90 and Bombardier's advanced wing design for a comfortable and smooth ride. The two new business jets also provide an up to 13-per-cent fuel burn advantage in certain operating conditions, contributing to highly favourable operating costs versus smaller competing aircraft with less range.

### The *Learjet 75 Liberty* aircraft program<sup>(2)</sup>

Bombardier debuted the *Learjet 75 Liberty* mock-up on October 22, 2019 at National Business Aviation Association Convention and Exhibition (NBAA-BACE) in Las Vegas following the launch of the business jet on July 2, 2019. On January 20, 2020, Bombardier announced FAA certification of the Garmin G5000 avionics upgrade, a standard feature on the *Learjet 75 Liberty* aircraft.

Building on the industry's best light jet platform, the new *Learjet 75 Liberty* offers the largest cabin in its segment with a new Executive six-seat configuration. Standard features not found on other light jets in this segment include a flat floor and pocket door between the cockpit and Executive Suite for a quiet flight experience. With a lower price point than previous *Learjet* aircraft, the *Learjet 75 Liberty* offers better performance at the same operating costs as competitor aircraft.<sup>(3)</sup> First deliveries of the *Learjet 75 Liberty* aircraft are expected in 2020.

<sup>(1)</sup> Figures are restated as a result of the formation of Bombardier Aviation, our new reportable segment. Refer to the Segment reporting section in Overview for further details.

<sup>(2)</sup> Currently under development. See the *Global 8000* and *Learjet 75 Liberty* aircraft disclaimer at the end of this MD&A.

<sup>(3)</sup> Under certain operating conditions, when compared to aircraft currently in service.

## Aircraft deliveries and order backlog

### Aircraft deliveries

(in units)	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019	2018	2019	2018
<b>Business aircraft</b>				
Light	3	3	12	12
Medium	28	25	76	83
Large	21	13	54	42
	<b>52</b>	<b>41</b>	<b>142</b>	<b>137</b>
<b>Commercial aircraft<sup>(1)</sup></b>				
Regional jets <sup>(2)</sup>	6	6	26	20
Turboprops <sup>(3)</sup>	—	6	7	15
	<b>6</b>	<b>12</b>	<b>33</b>	<b>35</b>
	<b>58</b>	<b>53</b>	<b>175</b>	<b>172</b>

<sup>(1)</sup> Excluding 13 CS300 aircraft deliveries for the first six months of the fiscal year ended December 31, 2018. Subsequent to the C Series Partnership closing on July 1, 2018, Airbus rebranded CS100 and CS300 as A220-100 and A220-300, respectively.

<sup>(2)</sup> The Corporation entered into a definitive agreement announced on June 25, 2019 whereby Mitsubishi Heavy Industries, Ltd (MHI) will acquire the Corporation's regional jet program. See section - Reshaping portfolio for more details in respect of the transaction.

<sup>(3)</sup> On May 31, 2019, the Corporation completed the previously announced 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). Hence, the 7 Q Series aircraft deliveries for the fiscal year ended December 31, 2019 are for the first five months only.

### Order backlog

(in billions of dollars)	As at	
	December 31, 2019	December 31, 2018
Business aircraft	\$ 14.4	\$ 14.3
Other aviation <sup>(1)</sup>	1.9	4.3
	<b>\$ 16.3</b>	<b>\$ 18.6</b>

<sup>(1)</sup> Including 20 firm orders for CRJ900 as of December 31, 2019 and 45 firm orders for CRJ900 as of December 31, 2018.

For the three-year period ended December 31, 2019, we captured 26% of the market share based on business aircraft units delivered. During this period, we were the market leader in terms of business aircraft units delivered. This compares with a market share of 28% based on units delivered for the three-year period ended December 31, 2018 during which we were also the market leader.<sup>(1)</sup>

<sup>(1)</sup> Based on our estimates, competitors' public disclosure, the General Aviation Manufacturers Association (GAMA) shipment reports and Ascend (by Cirium).

## Workforce

### Total number of employees<sup>(1)</sup>

	December 31, 2019	As at December 31, 2018
Permanent <sup>(2)</sup>	22,150	24,900
Contractual <sup>(3)</sup>	2,200	2,050
	<b>24,350</b>	<b>26,950</b>
Percentage of permanent employees covered by collective agreements	<b>52%</b>	48%

<sup>(1)</sup> Figures are restated as a result of the formation of Bombardier Aviation, our new reportable segment. Refer to the Segment reporting section in Overview for further details.

<sup>(2)</sup> Including 750 inactive employees as at December 31, 2019 (800 inactive employees as at December 31, 2018).

<sup>(3)</sup> Including non-employees and sub-contractors personnel.

The workforce as at December 31, 2019 decreased by 2,600 employees, or 10%, when compared to the previous year. This decrease is mainly related to previously-announced restructuring actions, consolidation of all three aerospace segments into a single Aviation segment, the sale of the Q Series aircraft program assets and the sale of Business Aircraft's flight and technical training activities, partially offset by the acquisition of the *Global 7500* aircraft wing program operations from Triumph Group Inc.

Our incentive-based compensation plan for non-unionized employees across our sites rewards the collective efforts of our employees in achieving our objectives using performance indicator targets. A total of approximately 11,900 employees worldwide, or 54% of permanent employees, participate in the program. In 2019, as part of this program, incentive-based compensation is linked to the achievement of targeted results, based on adjusted EBIT and free cash flow.<sup>(1)</sup>

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

## RESHAPING THE PORTFOLIO

### **Acquisition of the *Global 7500* aircraft wing program from Triumph Group Inc.**

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 enabled 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 continues to operate the production line and integrated the employees currently supporting the program at Triumph's Red Oak, Texas facility.

The Corporation acquired net assets valued at approximately \$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.

For more details, refer to Note 32 - Acquisition of a business, to our consolidated financial statements.

### **Conclusion of the sale of Business Aircraft's flight and technical training activities with CAE**

On March 14, 2019, we concluded the sale of previously announced Business Aircraft's flight and technical training activities to CAE Inc. (CAE) for an enterprise value of \$645 million, with net proceeds of \$532 million after the assumption of certain liabilities, fees, and closing adjustments. A gain of \$516 million (\$383 million after deferred tax impact) was recognized in Special items.

Concurrently with the sale agreement, Bombardier and CAE also agreed to extend their Authorized Training Provider (ATP) relationship whereby CAE agreed to prepay all royalties thereunder. This prepayment amounted to \$155 million and was received by Bombardier in the fourth quarter of 2018.

For more details, refer to Note 31 - Disposal of businesses, to our consolidated financial statements.

### **Conclusion of the sale of the Q Series aircraft program with De Havilland Aircraft of Canada Limited**

On May 31, 2019, we completed the previously announced 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, for net proceeds of \$285 million. The sale includes 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. A gain of \$210 million (\$184 million after deferred tax impact) was recognized in Special items.

For more details, refer to Note 31 - Disposal of businesses, to our consolidated financial statements.

## **Definitive agreement to sell our regional jet program to Mitsubishi Heavy Industries, Ltd.**

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. Under the agreement, the Corporation's net beneficial interest in the Regional Aircraft Securitization Program (RASPRO), which was valued at approximately \$200 million 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 \$378 million. Aside from the accrual of interest, this amount is fixed and not subject to future changes in aircraft value, and is mainly 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 now expected to close by mid-year 2020 and remains subject to necessary approvals and customary closing conditions.<sup>(1)</sup> The Corporation has received most of the regulatory approvals required.

For more details, refer to Note 30 - Assets held for sale, to our consolidated financial statements.

<sup>(1)</sup> See the forward-looking statements disclaimer.

## **Sale of Belfast and Casablanca aerostructures businesses and Dallas MRO to Spirit AeroSystems Holding, Inc. (Spirit)**

On October 31, 2019, the Corporation and Spirit AeroSystems Holding, Inc. (Spirit) announced that they have entered into a definitive agreement, whereby Spirit will acquire Bombardier's aerostructures activities and aftermarket services operations in Belfast, U.K., and Casablanca, Morocco, and its aerostructures maintenance, repair and overhaul (MRO) facility in Dallas, U.S., for a cash consideration of \$500 million and the assumption of liabilities, including government refundable advances and pension obligations. Following the transaction, Spirit will continue to supply structural aircraft components and spare parts to support the production and in-service fleet of Bombardier Aviation's *Learjet*, *Challenger* and *Global* families of aircraft.

The transaction follows the formation of Bombardier Aviation earlier this year and streamlines its aerostructures footprint to focus on its core capabilities in Montreal, Mexico and its *Global 7500* wing operations in Texas. The transaction is expected to close by mid-year 2020 and remains subject to regulatory approvals and customary closing conditions.<sup>(1)</sup>

For more details, refer to Note 30 - Assets held for sale, to our consolidated financial statements.

<sup>(1)</sup> See the forward-looking statements disclaimer.

# TRANSPORTATION

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KEY PERFORMANCE MEASURES AND METRICS	HIGHLIGHTS	GUIDANCE AND FORWARD-LOOKING STATEMENTS	PROFILE	INDUSTRY AND ECONOMIC ENVIRONMENT	ANALYSIS OF RESULTS
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## KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and associated metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
GROWTH AND COMPETITIVE POSITIONING	<ul style="list-style-type: none"> <li>• Order backlog, as a measure of future revenues.</li> <li>• Book-to-bill ratio<sup>(1)</sup>, as an indicator of future revenues.</li> <li>• Revenues by product segments and the geographic diversification of revenues, as measures of growth and sustainability of competitive positioning.</li> <li>• Market position, as a measure of our competitive positioning.</li> </ul>
PROFITABILITY	<ul style="list-style-type: none"> <li>• EBIT, EBIT margin, adjusted EBIT<sup>(2)</sup> and adjusted EBIT margin<sup>(2)</sup>, as measures of performance.</li> </ul>
LIQUIDITY	<ul style="list-style-type: none"> <li>• Free cash flow<sup>(2)</sup>, as a measure of liquidity generation.</li> </ul>
CUSTOMER SATISFACTION	<ul style="list-style-type: none"> <li>• Various customer satisfaction metrics, focusing on the four main dimensions: sales and prices, customer orientation, project execution and product offering.</li> </ul>
EXECUTION	<ul style="list-style-type: none"> <li>• Achievement of product development and delivery milestones, as a measure of flawless execution.</li> </ul>

<sup>(1)</sup> Defined as new orders over revenues.

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

# HIGHLIGHTS

## Improving the backlog while working through challenging legacy projects

RESULTS			
For the fiscal years ended December 31	2019 <sup>(1)</sup>	2018	Variance
Revenues	\$ 8,269	\$ 8,915	(7)%
Order intake (in billions of dollars)	\$ 10.0	\$ 9.9	1 %
Book-to-bill ratio <sup>(2)</sup>	1.2	1.1	0.1
Adjusted EBITDA <sup>(3)(4)</sup>	\$ 212	\$ 851	(75)%
Adjusted EBITDA margin <sup>(3)(4)</sup>	2.6%	9.5%	(690) bps
Adjusted EBIT <sup>(3)(4)</sup>	\$ 70	\$ 750	(91)%
Adjusted EBIT margin <sup>(3)(4)</sup>	0.8%	8.4%	(760) bps
EBIT <sup>(3)</sup>	\$ 22	\$ 774	(97)%
EBIT margin <sup>(3)</sup>	0.3%	8.7%	(840) bps
Net additions to PP&E and intangible assets	\$ 157	\$ 108	45 %
<b>As at December 31</b>	<b>2019</b>	<b>2018</b>	<b>Variance</b>
Order backlog (in billions of dollars)	\$ 35.8	\$ 34.5	4 %

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies in our Consolidated financial statements, for the impact of the adoption of IFRS 16, Leases. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> Ratio of new orders over revenues.

<sup>(3)</sup> Including share of income from joint ventures and associates amounting to \$94 million for the fiscal year ended December 31, 2019 (\$111 million for the fiscal year ended December 31, 2018).

<sup>(4)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section for reconciliations to the most comparable IFRS measures.

## KEY HIGHLIGHTS AND EVENTS

### Full-year financial results reflect actions and initiatives undertaken to move forward and complete challenging projects

- During the past year, Transportation continued to progress through its turnaround, by re-synchronizing production and resetting certain project delivery schedules, while also investing to support in-service reliability improvements and funding additional manufacturing and engineering capacity. The higher than anticipated cost to implement these initiatives and to address late-stage legacy projects, mainly concentrated in the U.K., Switzerland and Germany, led to lower earnings and free cash flow<sup>(1)</sup> for the segment.
  - Over \$500 million in contract estimate changes embedded in 2019 earnings
- Completed delivery of several large legacy projects, including Metropolitan Transportation Authority (MTA) in New York City, Crossrail in the U.K. and Toronto Transit Commission (TTC) in Toronto.
- As Transportation exited the year, progress was also made in achieving key milestones on other major projects, including significant in-service reliability improvement on Swiss Federal Railways (SBB) in Switzerland and the homologation of the multi-unit software for LoTrain in the U.K., paving the way for the delivery of trains on this project and subsequent AVENTRA contracts in the U.K.

### Backlog Improvement Positions for Stronger Financial Results

- Transportation continued to grow and improve the quality of its backlog with \$10.0 billion in new orders, and a book-to-bill ratio<sup>(2)</sup> of 1.2 for the year. Backlog reached \$35.8 billion at year end.
- Approximately 70% of 2019 orders coming from service contracts, signalling projects and options on rolling stock projects, carrying lower execution risk. Backlog share of services and signalling contracts increased to 48% (42% a year ago).

<sup>(1)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and the Analysis of results section for reconciliations to the most comparable IFRS measure.

<sup>(2)</sup> Ratio of new orders over revenues.

### **Focused on Stronger Project Execution to Drive Sustainable Financial Performance**

- Appointment of Danny Di Perna as President, Bombardier Transportation, in February 2019 strengthened focus on customer relationships and disciplined project execution.
  - Strengthened Transportation's leadership team with appointments of new Head of Engineering and new Regional Presidents to better deliver on customer commitments.
- Clear management priorities - focus on significant production ramp-up in the U.K. and France, reliability in Germany, settlement of claims and acceptance of trains on the SBB project in Switzerland, and continuing to drive efficiency across the organization.

### **CDPQ Investments in Transportation**

- Transportation's results for 2019 did not reach the performance targets underlying CDPQ's investment in BT Holdco. Accordingly, for the 12-month period starting on February 12, 2020, Bombardier's percentage of ownership on conversion of CDPQ's shares will decrease by 2.5%, to 67.5%; and the preference return entitlement rate on liquidation of its shares will increase from 9.5% to 12.0% for this period. Any dividends paid by BT Holdco to its shareholders during this period will be distributed on the basis of each shareholder's percentage of ownership upon conversion, being 67.5% for Bombardier and 32.5% for CDPQ. These adjustments will become effective once the audited consolidated financial statements of BT Holdco are duly approved by its board of directors.



## GUIDANCE

	2019 guidance provided in our 2018 Financial Report <sup>(1)</sup>	Updated 2019 guidance <sup>(2)</sup>	2019 results
Revenues	~ \$9.5 billion	~ \$8.75 billion	\$8.3 billion
EBIT margin	N/A	N/A	0.3%
Adjusted EBIT margin <sup>(3)</sup>	~ 9.0%	~ 5.0%	0.8%

### **2019 guidance**

Revenue guidance was lowered to approximately \$8.75 billion driven by slower production ramp-up and unfavourable currency impact. 2019 revenues of \$8.3 billion were lower as a result of revised estimates on certain rail contracts in the fourth quarter.

On the earnings front, adjusted EBIT margin<sup>(3)</sup> guidance for the full year was revised from approximately 9.0% to approximately 5.0%, mainly as we made additional investments and incurred additional costs to both complete the legacy projects and to protect the delivery schedule for other projects. For 2019, adjusted EBIT margin<sup>(3)</sup> was 0.8% as a result of additional charges related to certain contracts in the U.K., Switzerland, and Germany. This resulted in approximately 30% of 2019 revenues recorded with neutral or negative margins.

<sup>(1)</sup> Refer to our 2018 Financial Report for further details.

<sup>(2)</sup> Refer to our First Quarterly Report for the period ended March 31, 2019 and to our Second Quarterly Report for the period ended June 30, 2019 for further details.

<sup>(3)</sup> Profitability guidance is based on adjusted EBIT margin. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric and to the Analysis of results section for a reconciliation to the most comparable IFRS measures.

# PROFILE

## World-class products and services portfolio positioned for growth

Transportation offers a wide-ranging portfolio of innovative and efficient solutions in the rail industry. We 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. We have won orders across all product segments and major geographies, underlining the competitiveness of our products and services worldwide.

We have production, engineering and service centres around the world. The global headquarters is located in Berlin, Germany.

### MARKET SEGMENT: ROLLING STOCK AND SYSTEMS

#### HIGH-SPEED AND VERY HIGH-SPEED TRAINS

**Application:** Equipment for medium and long-distance operations.

**Major products:** *ZEFIRO* family

**Key features:** Solutions offering very high operating flexibility, high comfort and safety standards for passengers in combination with high efficiency. Portfolio covers the full spectrum of speed requirements: high-speed (200-250 km/h) and very high-speed (250-380 km/h).



*ZEFIRO* very high-speed train

#### COMMUTER, REGIONAL AND INTERCITY TRAINS

**Application:** Suburban and regional rail transit for urban centres and surrounding regions and medium speed connections between cities.

**Major products:** *AVENTRA*, *TALENT*, *OMNEO*, *TWINDEXX* Vario, *BiLevel* and *MultiLevel* families

**Key features:** Broad product line featuring electric, diesel, dual mode and battery-powered multiple units, along with locomotive-hauled coaches in both single and double-deck configurations. Our modular train platforms offer very high flexibility to transit authorities and operators, as well as high levels of comfort and capacity. The train operates emission-free, thereby making a significant contribution towards environmentally-friendly mobility.



*AVENTRA* single deck train

## LIGHT RAIL VEHICLES

**Application:** Efficient surface transit in urban centres and surrounding suburban areas.

**Major products:** *FLEXITY* family

**Key features:** Our broad portfolio of *FLEXITY* vehicles feature innovative capabilities and performance while offering low lifecycle costs. Based on adaptable modular platforms, our vehicle range offers a full spectrum of smart light rail solutions to enhance the connectivity and identity of cities worldwide. Equipped with our award-winning Obstacle Detection Assistance System, our trams and light rail vehicles increase the safety of the driver, passengers and all other traffic participants.



*FLEXITY* tram for Toronto Transit Commission (TTC)

## METROS

**Application:** Broad range of high capacity mobility solutions for every urban environment

**Major products:** *MOVIA* and *INNOVIA* platforms (metros, monorails and people movers)

**Key features:** Wide variety of urban mobility solutions developed from proven and innovative technology. Maximum system value for every capacity, in any type of environment. Safety, lifecycle cost, passenger comfort and smart city integration, to name a few, all drive the designs and innovations of our portfolio, covering a wide range of system needs. This includes quick-to-build and minimally intrusive technology such as the *INNOVIA* Monorail 300. Bombardier products have a long history of automation and are serving numerous cities around the world with driverless systems.



*MOVIA* C30 metro car in Stockholm, Sweden

## LOCOMOTIVES

**Application:** Electric and diesel locomotives for intercity, regional and freight rail service.

**Major products:** *TRAXX* platform, *ALP* electric and dual-power locomotives

**Key features:** Versatile product platform offering electric, diesel-electric, dual-power and multi-system propulsion, last-mile diesel or battery drive features. Innovative solutions increase power and reliability in combination with high energy efficiency and low lifecycle costs. Homologated in several countries in Europe, enabling cross-border service. The *TRAXX* MS3 locomotive is the most advanced multi-systems locomotive on the market with the Last Mile function, letting it easily bridge non-electrified track sections often found in ports or freight terminals.



*TRAXX* MS3 locomotive in Kassel, Germany



## PROPULSION AND CONTROLS

**Application:** Complete propulsion and control product portfolio for all Bombardier and third-party rail vehicles and e-mobility applications, delivering electric power with strong reliability, power efficiency and high safety.

**Major products:** The *MITRAC* platform, which includes traction and auxiliary converters for underframe, rooftop and machine room mounting; drives (motors and gears), train control management systems (TCMS), high voltage equipment and complete system solutions. Innovative train to wayside communication solutions round off the portfolio.

**Key features:** A leader in reliability, modular design, energy safety (SIL 2 compliance), energy efficiency, integration of new technologies and ease of maintenance, which keep initial investments and lifecycle costs low.



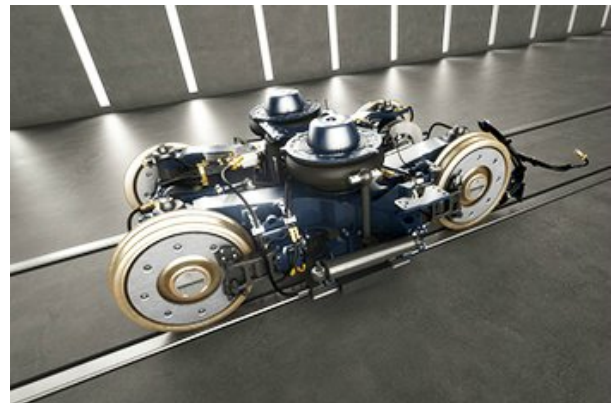
MITRAC converter

## BOGIES

**Application:** Complete spectrum of bogies, which match the entire range of Bombardier vehicles.

**Major products:** *FLEXX* bogies portfolio including latest technologies: *FLEXX Eco*, *FLEXX Urban*, *FLEXX Speed*, *FLEXX Power* and the award-winning *WAKO* Technology

**Key features:** Advanced product technology and complete aftermarket services covering the full spectrum of rolling stock applications. Our track-friendly bogies are designed to ensure safe and smooth operation and reduce wheel and rail wear, minimizing operational costs and noise.



FLEXX bogie built in Siegen, Germany

## MASS TRANSIT AND AIRPORT SYSTEMS

**Application:** Fully Automated People Mover (APM), metro, monorail and light rail systems.

**Major products:** *INNOVIA* APM 300 system, *INNOVIA* monorail 300 system, *MOVIA* metro system, *FLEXITY* tram system

**Key features:** Broad rolling stock portfolio for urban and airport applications that can be customized to provide a complete turnkey system solution. Strong track record for reliability and availability across 60 complete systems around the world.



INNOVIA APM system developed for LAX airport

## MAINLINE SYSTEMS

**Application:** System solutions for intercity and high-speed applications covering medium- to long-distance operations.

**Key features:** Turnkey system approach to provide reliable rail systems for mainline applications featuring very high passenger comfort and safety standards. Highly experienced in systems integration and engineering.

## MARKET SEGMENT: SIGNALLING

### MASS TRANSIT SIGNALLING

**Application:** Rail control and signalling solutions for mass transit systems such as metros, light rail or APMs.

**Major products:** *CITYFLO* solution

**Key features:** Complete portfolio of solutions ranging from manual applications (GoA 0) to fully automated Communication-Based Train Control (GoA 4), which helps to increase infrastructure capacity and can be installed without interruption to service.



*CITYFLO* 650 solution in Kuala Lumpur

### MAINLINE SIGNALLING

**Application:** Rail control and signalling solutions for mainline railways ranging from freight traffic to regional and commuter, intercity and high speed lines.

**Major products:** *INTERFLO* and *EBI* Cab Automatic Train Control onboard equipment

**Key features:** Complete portfolio of conventional signalling systems, which uses the European Rail Traffic Management System technology and is already functioning in several countries inside and outside of Europe.

### INDUSTRIAL SIGNALLING

**Application:** Rail control and signalling solutions for the industrial sector, major application in the surface and sub-surface mining and industrial freight industries.

**Major products:** *INTERFLO* 150 solution

**Key features:** Innovative signalling system technologies used to increase transport capacity in a secure and cost effective manner. Our technology covers the whole process, enhancing not only the underground operation, but also the transfer of ore from the excavation site to the transportation hub.

### OPTIFLO - SERVICE SOLUTIONS FOR SIGNALLING

**Application:** Comprehensive portfolio of services for mass transit, mainline and industrial sector rail infrastructure and signalling solutions.

**Key features:** Infrastructure management, technical support, cyber security assessment and other service solutions tailored to ensure the highest levels of availability and reliability as well as cost effective maintenance of rail control signalling solutions.

## MARKET SEGMENT: SERVICES

### MATERIAL SOLUTIONS

**Application:** Supply chain, spare parts inventory management, obsolescence management and technical support services for rail operators.

**Key features:** Advanced material supply solutions together with global engineering and purchasing power through global network of parts and components suppliers. Logistics capability to source and deliver what is needed, when needed, where needed.

### FLEET MANAGEMENT

**Application:** Comprehensive portfolio of fleet and operations management services.

**Key features:** Robust and effective 'back office' solutions support rail operators in delivering their 'front line' service every day. Engineering expertise, whole life maintenance techniques and tools (ORBITA, AVIS, EMS, etc.) optimize availability, reliability, punctuality, safety and cost over the whole life cycle of the fleet. Broad experience in operations and maintenance of commuter and regional trains.

## ASSET LIFE MANAGEMENT, COMPONENT RE-ENGINEERING AND OVERHAUL

**Application:** Upgrade, life extension and overhaul of rail vehicles and components.

**Key features:** Broad portfolio of system and component upgrades executed at our specialized facilities and customer sites. We leverage our engineering and supply chain strength to bring operational performance and whole life cost advantages.

## OPERATIONS AND MAINTENANCE OF SYSTEMS

**Application:** Complete operations and maintenance (O&M) services for fully automated transit and mass transit systems.

**Key features:** Strong O&M experience in automated, driverless technologies, including APM, metro and monorail systems as well as fleet management solutions for urban and intercity transportation systems.

# INDUSTRY AND ECONOMIC ENVIRONMENT

## Robust and positive growth outlook for the railway industry globally

The rail market remains strong with resilient growth opportunities and positive outlook mainly driven by long-term favourable megatrends in the rail industry. Population growth, urbanization, digitalization and environmental awareness are expected to lead to growing demand for sustainable public transportation, which requires long-term public spending in infrastructures and mobility solutions.

The following key indicators are used to monitor the health of the rail market:

INDICATOR	CURRENT SITUATION	STATUS
POPULATION GROWTH AND MASS URBANIZATION	The worldwide population is expected to grow from approximately 7.7 billion in 2019 to 8.5 billion by 2030 (10% increase compared to 2019) and further to 9.7 billion in 2050 (26% increase compared to 2019), together with the share of people living in urban areas growing from 55% in 2018 to 68% by 2050. <sup>(1)</sup> Population growth and urbanization create an increasing demand for high capacity public transport solutions especially in congested cities and areas.	▲
ENVIRONMENTAL AWARENESS	Governments increasingly commit to long-term climate and energy goals. Measures to reach these goals include investments in green mobility solutions. Rail transport is among the most energy efficient and eco-friendly modes of transport for freight and passengers with rail operations accounting for only 2% of the transport sector energy use and is responsible for only 0.3% of direct CO <sub>2</sub> emissions. <sup>(2)</sup>	▲
PUBLIC FUNDING	Most of the rolling stock business is conducted with rail operators backed by the public sector. Rail infrastructure investments are expected to grow, as governments and multilateral institutions continue to fund projects in the rail industry to support and foster economic development. However public indebtedness and austerity measures may impede public tender processes for some new rail projects.	▲
LIBERALIZATION	Liberalization attracts more private operators to enter the market and invest in new rail equipment and services. The European Commission supports the liberalization of domestic passenger rail services within the European Union.	▲
DIGITALIZATION	The rail industry is expecting positive change in the upcoming years due to the digital industry revolution especially in signalling and maintenance services. Using disruptive technologies such as Internet of things, automated trains and big data analytics, new business models are expected to revolve especially towards more service-oriented approach. To ensure that, original equipment manufacturers should monitor closely the 'ecosystems' they serve to meet their future's needs.	▲

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

<sup>(1)</sup> According to the United Nations: "World Population Prospects: The 2019 Revision" and "World Urbanization Prospects: The 2018 Revision".

<sup>(2)</sup> According to the International Energy Agency IEA (2019), "Tracking Transport".

In September 2018, The Association of the European Rail Industry (UNIFE) confirmed its positive outlook for the global rail industry based on expected orders in its World Rail Market Study published every two years. The study expects the overall accessible rail market<sup>(1)</sup> to continue to grow with a CAGR of 2.6%.<sup>(2)</sup> Transportation's relevant and accessible market<sup>(1)</sup> is expected to grow even faster with a CAGR of 2.7%.<sup>(2)</sup>

Overall, the robust prospect of the rail industry is mainly driven by macroeconomics factors such as liberalization, which opens markets to private operators and reduces government involvement leading to positive effects such as cost reduction, increased traffic volumes and growth of rail supply.

Similarly, other initiatives of the European Union Commission such as the Fourth Railway Package in 2016 and other regulations for technical standards have laid foundation for further improvement of the rail industry signalling solutions. Other initiatives of the European Commission such as Shift2Rail are set to drive research and development in all segments especially to enhance passenger experience, safety and interoperability of rail transportation.

In December 2019, the European Commission introduced the European Green Deal; a growth strategy to achieve climate neutrality by 2050 and reduce transport gas emissions by 90% through fostering the modal shift to sustainable transport modes; mainly rail and increasing the efficiency of the transport system with connected multimodal mobility.

The positive future market outlook is driven by large order volumes for rolling stock, which remains the largest segment. In particular, consistent future investments in mature rail markets such as Western Europe and North America are foreseen for modernization and replacement, as well as the expansion of existing rolling stock fleets.

In the signalling segment, the study expects further investments in Western Europe to upgrade and modernize signalling systems through the European Train Control System (ETCS) national implementation plans across different countries, which will positively contribute to the growth in this segment and the overall rail market. Accessible rail control market is also expected to pursue high growth in Africa and Middle East as well as Latin America, driven by a heavy investment in urban and interurban rail control solutions in response to rapid urbanization and congestion issues.

The services market is expected to further grow driven by gradual liberalization through private rail operators, particularly in mature markets. Unlike incumbents, who often perform maintenance and servicing in-house, private rail operators tend to outsource their maintenance and services needs.

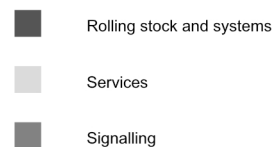
<sup>(1)</sup> The overall accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Transportation's relevant and accessible market also excludes the infrastructure, freight wagon and shunter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

<sup>(2)</sup> Based on data from UNIFE World Rail Market Study "Forecast 2018 to 2023" published in September 2018, based on 60 countries representing more than 95% of the world rail market. As large rail projects may significantly impact yearly volume, single year market volumes can be subject to a high degree of volatility. UNIFE therefore focuses on three-year average annual market volumes in order to facilitate comparison between different periods. UNIFE data is updated every two years and is published in euro. An exchange rate of 1€ = \$1.1435, the average cumulative exchange rate over the 2017-19 period, was used to convert all figures. Figures for 2017-19 were extrapolated based on UNIFE data for 2015-17 and 2018-20.

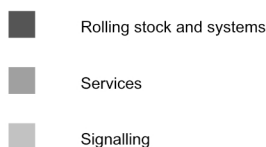
**TRANSPORTATION'S RELEVANT AND ACCESSIBLE MARKET\* BY REGION**  
(three-year average orders; in billions of dollars)



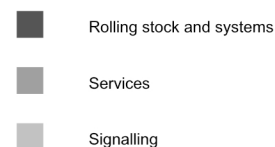
**TRANSPORTATION'S RELEVANT AND ACCESSIBLE MARKET\* BY PRODUCT SEGMENT**  
(three-year average orders; in billions of dollars)



**TRANSPORTATION'S RELEVANT AND ACCESSIBLE EUROPEAN MARKET\***  
(three-year average orders; in billions of dollars)



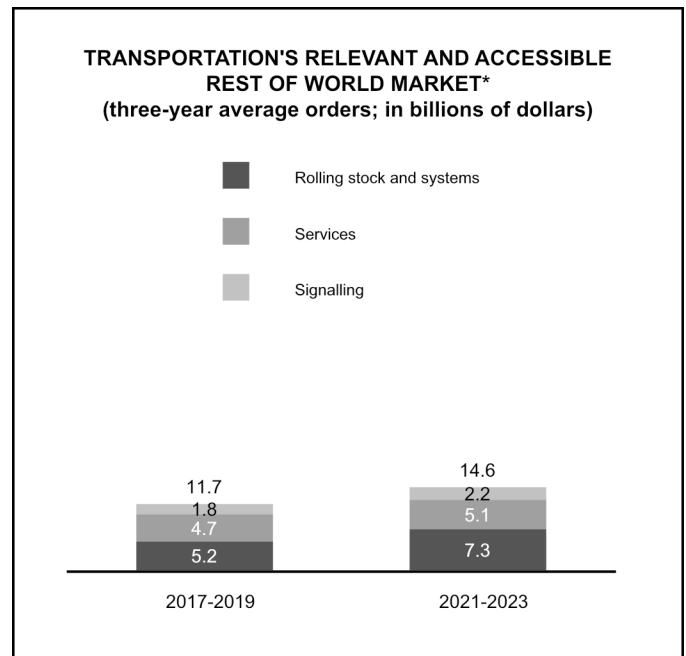
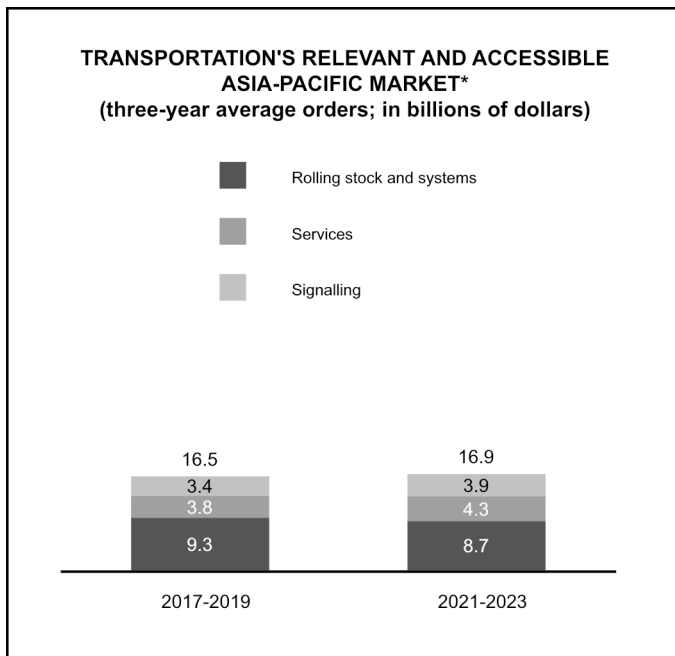
**TRANSPORTATION'S RELEVANT AND ACCESSIBLE NORTH AMERICAN MARKET\***  
(three-year average orders; in billions of dollars)



Source: UNIFE World Rail Market Study "Forecast 2018 to 2023" and extrapolated figures.

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





Source: UNIFE World Rail Market Study "Forecast 2018 to 2023" and extrapolated figures.

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

In line with common industry practice, and the methodology used by UNIFE for the global rail market, our relevant and accessible market is stated as the average of a three-year period. In certain years, large orders can be awarded particularly in rolling stock based on the availability of public funding.

## ***Year-over-year comparison by geographical area***

### **Europe**

The order volume in Europe during 2019 decreased compared to 2018, mainly due to large contracts awarded last year for very high-speed trains in France and for signalling in Norway. During 2019, order volume was driven by several contracts awarded across Western Europe for commuter, regional and intercity trains, primarily in Germany, France, the U.K. and Italy. In addition, significant orders were awarded for metro trains in France. In Eastern Europe, orders were mainly driven by investments in mainline mobility solutions, with major contracts for regional and intercity trains in Poland, Czech Republic and Hungary. Furthermore, sizeable contracts were awarded for light rail vehicles (LRVs) and metro trains in Poland. Many signalling and services contracts were awarded across the region with the most significant in Italy and Poland for mainline signalling, and in Germany and the U.K. primarily for asset life management and fleet management services.

A strong, positive outlook is expected for Europe with significant tenders foreseen for high-speed trains, as well as commuter and regional trains, in Germany, Spain, the U.K. and France. Multiple large and medium-sized projects are also foreseen for urban transit mobility solutions across the region, with the most sizeable opportunities expected in Germany and Turkey for metro cars and France for LRVs. In addition, the services segment is anticipated to grow with several opportunities for passenger fleet management and asset life management in Germany, Spain and the U.K. In the signalling segment, mainline signalling is anticipated to be the driver for order volume, specifically in Germany and Italy. In Eastern Europe, many opportunities are expected across all segments driven by further investments in freight, urban and mainline infrastructure, particularly in Poland and Turkey.

### **North America**

The North American order volume decreased in 2019 compared to 2018, mainly due to large contracts awarded last year in the U.S. and Canada for metro trains. In 2019, rolling stock order volume in this region was primarily driven by tenders awarded for regional and metro trains in the U.S. Several medium-sized signalling and services contracts were awarded across the region with the most significant orders placed for passenger fleet management for automated people mover (APM) trains in U.S. airports, as well as for urban signalling solutions for LRVs in Canada.

Strong growth is forecast in the coming years for North America, fuelled by increasing needs for both urban and mainline mobility solutions, especially in the U.S. In Canada, significant opportunities for commuter and regional trains are expected, along with long-term services contracts. In Mexico, urban transit will remain the main driver of order volume, with large investments expected for metro trains along with long-term services agreements. Additionally, in Mexico, a sizeable tender is foreseen for very high-speed trains. In the U.S., orders are expected across all solutions, especially in urban transit for APM trains, monorail and metro trains. Furthermore, large contracts are anticipated for very-high speed trains, as well for regional and commuter trains. In the signalling and services segments, several large and medium-sized projects are expected across the region.

### **Asia-Pacific**

In Asia-Pacific, overall order volume in 2019 remained stable compared to 2018. In 2019, the major investments driving the order volume were mainly rolling stock contracts for metro trains in China, Korea and Singapore, as well as commuter and regional trains in Australia and Taiwan. Furthermore, many sizeable contracts were awarded for intercity and very high-speed trains in China and significant signalling contracts were awarded in India and Australia. In the services segment, Australia was the main driver for orders with many large and medium-sized agreements awarded, particularly for passenger fleet management.

In the upcoming years, the level of activity in the region is forecast to be strong, with several tenders expected across all segments, particularly for urban mobility solutions driven by increasing urbanization in the region. The most significant orders are anticipated for metro trains in India, as well as for commuter and regional trains and LRVs in Australia. Moreover, many opportunities are expected for metro trains in China, Malaysia and Singapore, as well as for LRVs in Taiwan and Thailand. A noteworthy project is foreseen for commuter and regional trains in Indonesia. Significant orders are anticipated to be placed in the signalling and services segments across the region, with the most sizeable opportunities in Australia, India and Thailand.

### **Rest of World<sup>(1)</sup>**

In 2019, overall order volume in the Rest of World region increased significantly compared to the 2018 level. The higher order activity was mainly driven by large contracts for regional and commuter trains awarded in Russia and for LRVs in Israel. Additionally, a noteworthy large turnkey project was secured in Egypt for monorail trains along with signalling and long-term services agreements. Significant signalling contracts were also awarded, mainly in Panama for urban solutions and United Arab Emirates for mainline solutions. In the services segment, the most significant agreements were awarded for intercity trains and fleet management in Russia and Kazakhstan.

The overall investment outlook in the Rest of World region is expected to retain its positive trend with multiple opportunities anticipated in the upcoming years for both mainline and urban mobility solutions to address growing mobility needs. Large tenders are anticipated for metro trains in Egypt, Panama and Saudi Arabia. In addition, sizeable contracts are expected to be tendered for LRVs in Israel and Russia. Noteworthy large contracts for commuter trains are also foreseen to be issued in Colombia and Kenya. In the signalling segment large orders are forecast across the region particularly in Brazil, Zambia and Egypt. Several services agreements are also expected to be signed with the largest orders to be placed in Israel, Egypt and Peru.

<sup>(1)</sup> The Rest of World region includes South America, Central America, Africa, the Middle East and the CIS.

# ANALYSIS OF RESULTS

## Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019 <sup>(1)</sup>	2018	2019 <sup>(1)</sup>	2018
Revenues				
Rolling stock and systems <sup>(2)</sup>	\$ 890	\$ 1,316	\$ 5,192	\$ 5,844
Services <sup>(3)</sup>	587	562	2,140	2,096
Signalling <sup>(4)</sup>	316	283	937	975
Total revenues	\$ 1,793	\$ 2,161	\$ 8,269	\$ 8,915
Adjusted EBITDA <sup>(5)(6)</sup>	\$ (196)	\$ 193	\$ 212	\$ 851
Amortization	38	26	139	101
Impairment charge on PP&E and intangible assets	—	—	3	—
Adjusted EBIT <sup>(5)(6)</sup>	(234)	167	70	750
Special items	2	(69)	48	(24)
EBIT <sup>(5)</sup>	\$ (236)	\$ 236	\$ 22	\$ 774
Adjusted EBITDA margin <sup>(5)(6)</sup>	(10.9)%	8.9%	2.6%	9.5%
Adjusted EBIT margin <sup>(5)(6)</sup>	(13.1)%	7.7%	0.8%	8.4%
EBIT margin	(13.2)%	10.9%	0.3%	8.7%

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies in our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> 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.

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

<sup>(4)</sup> Comprised of signalling revenues from mass transit, mainline, industrial and *OPTIFLO* service solutions.

<sup>(5)</sup> Including share of income from joint ventures and associates amounting to \$25 million and \$94 million, respectively, for the fourth quarter and fiscal year ended December 31, 2019 (\$36 million and \$111 million for the fourth quarter and fiscal year ended December 31, 2018).

<sup>(6)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section for reconciliations to the most comparable IFRS measures.

## Revenues by geographic region

	Fourth quarters ended December 31				Fiscal years ended December 31			
	2019		2018		2019		2018	
Europe <sup>(1)</sup>	\$ 957	53%	\$ 1,377	64%	\$ 4,929	59%	\$ 5,522	62%
North America	426	24%	330	15%	1,955	24%	1,757	20%
Asia-Pacific <sup>(1)</sup>	294	16%	363	17%	986	12%	1,137	13%
Rest of World <sup>(1)(2)</sup>	116	7%	91	4%	399	5%	499	5%
	\$ 1,793	100%	\$ 2,161	100%	\$ 8,269	100%	\$ 8,915	100%

<sup>(1)</sup> The decreases in Europe in the fourth quarter and fiscal year ended December 31, 2019 reflect negative currency impacts of \$27 million and \$289 million, respectively. The decreases in Asia-Pacific and in the Rest of World region in the fiscal year reflect negative currency impacts of \$43 million and \$13 million, respectively.

<sup>(2)</sup> The Rest of World region includes South America, Central America, Africa, the Middle East and the CIS.

## Revenues

Total revenues for the fourth quarter and fiscal year ended December 31, 2019 have decreased by \$368 million and \$646 million, respectively, compared to the same periods last fiscal year. Excluding a negative currency impacts of \$31 million for the fourth quarter and \$345 million for the fiscal year, revenues for the fourth quarter have decreased by \$337 million, or 16%, while revenues for the fiscal year have decreased by \$301 million, or 3%, compared to the same periods last fiscal year.

The \$337-million decrease excluding currency impact for the fourth quarter is mainly explained by:

- revised estimates on certain contracts in the U.K., Switzerland and Germany that negatively affect revenues of rolling stock in Europe in the current year; and
- lower activities in rolling stock and systems mostly due to some contracts nearing completion. The affected contracts mainly relate to commuter and regional trains in Europe and Asia-Pacific, and light rail

vehicles (LRVs), very high-speed trains, automated people movers (APMs), intercity trains and high-speed trains in Europe.

Partially offset by:

- higher activities in rolling stock and systems in North America, mostly due to ramp-up in production related to some metro contracts, partially offset by some commuter and regional train contracts nearing completion;
- higher activities in signalling in Asia-Pacific and North America; and
- higher activities in services in Europe and North America.

The \$301-million decrease excluding currency impact for the fiscal year is mainly explained by:

- revised estimates on certain contracts in the U.K., Switzerland and Germany that negatively affect revenues of rolling stock in Europe in the current year; and
- lower activities in rolling stock and systems mostly due to some contracts nearing completion. The affected contracts mainly relate to commuter and regional trains in Europe and Asia-Pacific, mass transit systems in the Rest of World region and Asia-Pacific, and intercity trains, very high-speed trains, LRVs and APMs in Europe. The lower activities in Europe and Asia-Pacific are partially offset by ramp-up in production related to some metro contracts.

Partially offset by:

- higher activities in services in Europe, North America and Asia-Pacific; and
- higher activities in rolling stock and systems in North America, mostly due to ramp-up in production related to some LRV and metro contracts, partially offset by some APM contracts nearing completion.

### Special items

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

The special items recorded as losses (gains) in EBIT were as follows:

	Ref	Fourth quarters ended December 31		Fiscal years ended December 31	
		2019	2018	2019	2018
Restructuring charges	1	\$ 2	\$ (6)	\$ 48	\$ 10
Impairment of non-core operations	2	—	—	—	17
Purchase of pension annuities	3	—	—	—	12
Pension equalization	4	—	3	—	3
Gains on disposal of PP&E under sale and leaseback transactions	5	—	(66)	—	(66)
		\$ 2	\$ (69)	\$ 48	\$ (24)
EBIT margin impact		(0.1)%	3.2%	(0.5)%	0.3%

1. Represents severance charges related to previously-announced restructuring actions of \$61 million for the fiscal year ended December 31, 2019, partially offset by curtailment gains of \$5 million and reversals of previously-recorded asset write-downs of \$8 million recognized in previous quarters.

For the fiscal year ended December 31, 2018, represents severance charges of \$6 million and asset write-downs of \$8 million, partially offset by curtailment gains of \$4 million, all related to previously-announced restructuring actions.

2. Represents an impairment charge related to non-core operations with respect to the sale of legal entities as part of our transformation plan.
3. 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.

4. On October 26, 2018, the High Court in the United Kingdom ruled that pension schemes must equalize for the effect of unequal Guaranteed Minimum Pensions between male and female for benefits earned during specified periods (“GMP equalization”). The Corporation estimated the impact of the ruling on its pension plans and recognized an additional obligation of \$3 million for the fourth quarter and the fiscal year ended December 31, 2018. The one-time P&L impact was recognized in the fourth quarter of 2018 as a past service cost under IAS 19 - Employee Benefits.
5. Represents the impact from sale and leaseback of two facilities in line with our transformation plan.

### EBIT margin

The adjusted EBIT margin<sup>(1)</sup> for the fourth quarter decreased by 20.8 percentage points, mainly as a result of:

- lower margin in rolling stock and systems, mainly due to revised estimates on certain contracts in the U.K., Switzerland and Germany; and
- higher R&D expenses.

Partially offset by:

- higher margin in services, mainly due to a positive impact from revised estimates on certain contracts; and
- higher margin in signalling, mainly due to a favourable contract mix.

Including the impact of special items (see explanation of special items above), the EBIT margin for the fourth quarter decreased by 24.1 percentage points, compared to the same period last year.

The adjusted EBIT margin<sup>(1)</sup> for the fiscal year decreased by 7.6 percentage points, mainly as a result of:

- lower margin in rolling stock and systems, mainly due to revised estimates on certain contracts in the U.K., Switzerland and Germany in the fourth quarter;
- lower margin in signalling, mainly due to revised estimates on certain contracts; and
- higher R&D expenses.

Partially offset by:

- a positive impact of a pension amendment related to past service recorded in the first quarter of 2019; and
- higher margin in services, mainly due to a positive impact from revised estimates on certain contracts.

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

<sup>(1)</sup> Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric.

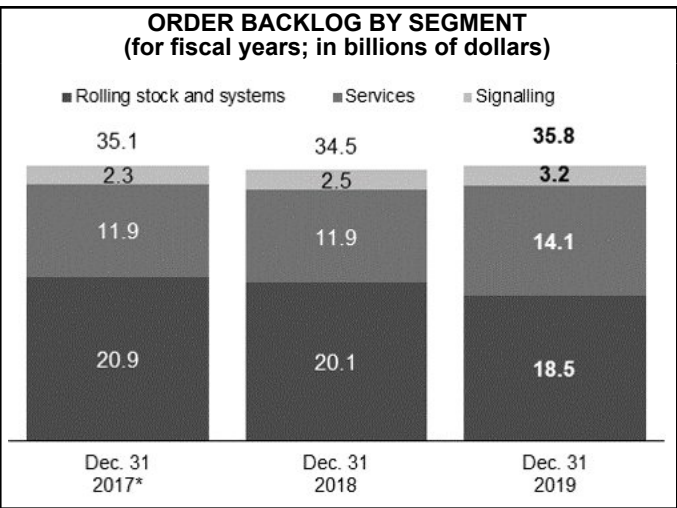
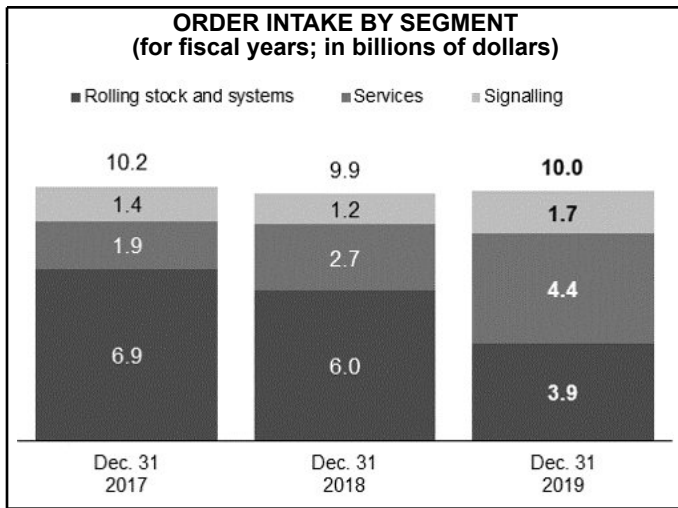
## Significant orders in 2019 for all segments resulting in book-to-bill of 1.2

### Order backlog

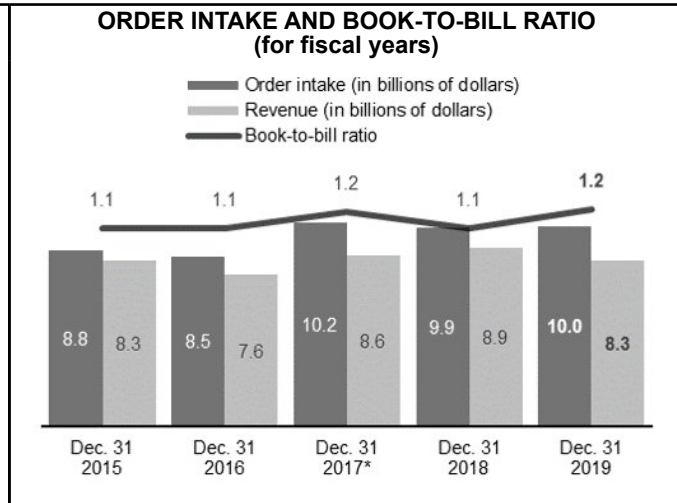
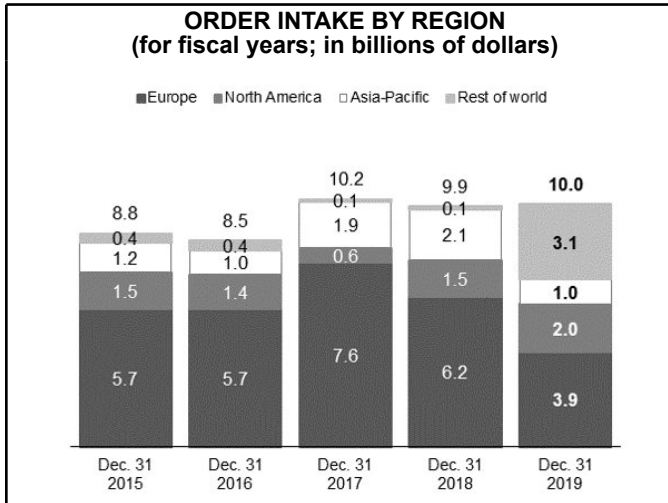
(in billions of dollars)	Fourth quarters ended December 31		Fiscal years ended December 31	
	2019	2018	2019	2018
Balance at the beginning of period	\$ 35.1	\$ 33.9	\$ 34.5	\$ 35.1 <sup>(1)</sup>
Order intake	1.8	3.3	10.0	\$ 9.9
Revenues	(1.8)	(2.2)	(8.3)	\$ (8.9)
Foreign currency impact and other adjustments	0.7	(0.5)	(0.4)	\$ (1.6)
<b>Balance at the end of period</b>	<b>\$ 35.8</b>	<b>\$ 34.5</b>	<b>\$ 35.8</b>	<b>\$ 34.5</b>
<b>Book-to-bill ratio<sup>(2)</sup></b>	<b>1.0</b>	<b>1.5</b>	<b>1.2</b>	<b>1.1</b>

<sup>(1)</sup> Backlog as at December 31, 2017 was restated due to the adoption of IFRS 15, *Revenue from contracts with customers*.

<sup>(2)</sup> Ratio of new orders over revenues.



\* Backlog as at December 31, 2017 was restated due to the adoption of IFRS 15, *Revenue from contracts with customers*.



\* 2017 revenue was restated during fiscal year ended 31 December 2018 due to the adoption of IFRS 15, *Revenue from contracts with customers*.

We have obtained several significant orders during the year which resulted in a book-to-bill ratio<sup>(1)</sup> of 1.2. The contribution of services and signalling to our order intake has increased over the past three years from 32% in fiscal year ended December 31, 2017, to 61% in fiscal year ended December 31, 2019, improving the quality of our backlog. We maintained a leading position<sup>(2)</sup> in our relevant and accessible rail market<sup>(3)</sup> with a cumulative order intake of \$30.1 billion over the past three years, including a higher share of orders in the Rest of World region, mostly driven by the contract signed with National Authority of Tunnels (NAT) in Cairo, Egypt, in the third quarter of 2019.

<sup>(1)</sup> Ratio of new orders over revenues.

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

<sup>(3)</sup> Our relevant and accessible rail market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition, and excluding the infrastructure, freight wagon and shunter segments.

The significant orders obtained during the fiscal year ended December 31, 2019 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value <sup>(1)</sup>
<b>Fourth quarter</b>					
Port Authority of New York and New Jersey (PANYNJ)	U.S.	Extension of operations and maintenance (O&M) services	N/A	Services	\$ 309
Régie Autonome des Transports Parisiens (RATP), on behalf of Île-de-France Mobilités	France	Metro cars	105	Rolling stock and systems	\$ 280 <sup>(2)</sup>
Transport for London (TfL)	U.K.	Extension of Train Services Agreement	N/A	Services	\$ 240
FirstGroup and Trenitalia	U.K.	Train Services Agreement	N/A	Services	\$ 154
<b>Third quarter</b>					
National Authority for Tunnels (NAT)	Egypt	<i>INNOVIA</i> 300 Monorail system and trains, <i>CITYFLO</i> 650 signalling and automatic train control technology and O&M services	280	Rolling stock and systems, Signalling, and Services	\$ 2,640 <sup>(3)</sup>
Undisclosed	Asia-Pacific	Undisclosed	N/A	Rolling stock and systems	\$ 247
Undisclosed	North America	Undisclosed	N/A	Services	\$ 247
Dresdner Verkehrsbetriebe (DVB)	Germany	<i>FLEXITY</i> trams, <i>FlexCare</i> maintenance management system and Obstacle Detection	30	Rolling stock and systems, and Services	\$ 219
Abellio UK and Eversholt Rail Ltd.	U.K.	Train Services Agreement	N/A	Services	\$ 161
Undisclosed	Europe	Undisclosed	N/A	Services	\$ 106
Undisclosed	North America	Undisclosed	N/A	Rolling stock and systems	\$ 104
<b>Second quarter</b>					
Trenitalia	Italy	Frecciarossa 1000 very high-speed trains (derived from V300 <i>ZEFIRO</i> platform) and related maintenance services	112	Rolling stock and systems, and Services	\$ 261 <sup>(4)</sup>
City and County of San Francisco	U.S.	O&M services for <i>INNOVIA</i> Automated People Mover (APM) 100 system	N/A	Services	\$ 220
Israel Railways (ISR)	Israel	Exercise of a call-off for <i>TWINDEXX</i> Vario double-deck coaches	74	Rolling stock and systems	\$ 166
Undisclosed	Asia-Pacific	Undisclosed	N/A	Rolling stock and systems	\$ 101
<b>First quarter</b>					
New Jersey Transit Corporation (NJ TRANSIT)	U.S.	Multilevel III commuter rail cars	113	Rolling stock and systems	\$ 669
Queensland Government	Australia	Modifications and redesign of the New Generation Rollingstock (NGR) trains and related maintenance services	N/A	Rolling stock and systems, and Services	\$ 255
Eurotunnel	France	Refurbishment services of nine passenger shuttle trains	N/A	Services	\$ 171

<sup>(1)</sup> Contract values exclude price escalation.

<sup>(2)</sup> Contract signed as part of a consortium with Alstom. The total contract is valued at \$593 million, and only our share of the contract is stated above.

<sup>(3)</sup> Contract signed as part of a consortium with Orascom Construction PLC and Arab Contractors. The total contract is valued at \$4.16 billion, and only our share of the contract is stated above.

<sup>(4)</sup> Contract signed in partnership with Hitachi Rail SpA. The total contract is valued at \$643 million, and only our share of the contract is stated above.

During the fourth quarter and fiscal year ended December 31, 2019, the following significant order was awarded to our joint venture, which is not included in our backlog since it is a joint venture:

- Our Chinese joint venture Bombardier Sifang (Qingdao) Transportation Ltd. (BST), in which we own 50% of the shares and which is consolidated by our partner CRRC Sifang Rolling Stock Co. Ltd., was awarded a contract for the supply of 160 CR400AF new Chinese standard high-speed train cars from China State Railway Group Co. Ltd., China, valued at \$427 million.

Subsequent to the end of the fiscal year, our Chinese joint venture BST, in which we own 50% of the shares and which is consolidated by our partner CRRC Sifang Rolling Stock Co. Ltd., was awarded a contract to provide maintenance services for 656 high-speed train cars from China State Railway Group Co. Ltd., China, valued at \$357 million. This order is not included in our backlog since it is a joint venture.

## Workforce

### Total number of employees

	December 31, 2019	As at December 31, 2018
Permanent <sup>(1)</sup>	31,750	35,050
Contractual	4,300	5,600
	<b>36,050</b>	<b>40,650</b>
Percentage of permanent employees covered by collective agreements	66%	62%

<sup>(1)</sup> Including 950 inactive employees as at December 31, 2019 (900 inactive employees as at December 31, 2018).

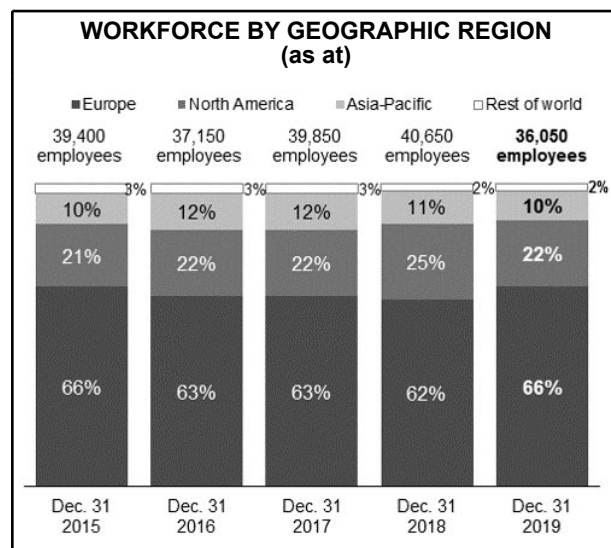
We continue to proceed with the deployment of our transformation initiatives with the goal of delivering increased value to customers and shareholders. These initiatives aim at improving productivity, setting up and exploring new partnerships and optimising our production and engineering worldwide footprint, while streamlining our administrative and non-production functions across the organization.

In 2019, the overall number of employees has decreased by 11%, or 4,600 employees, worldwide, as a result of these initiatives.

Both our permanent and our contractual workforce has decreased in all regions. While workforce in Europe decreased mostly as a result of optimisation and restructuring actions in line with our transformation plan, the decrease in our workforce in North America and Asia-Pacific also reflects the impact from ramp-down of production following the completion of some large contracts.

Our global incentive-based employee compensation rewards the collective and personal efforts of our employees in achieving our objectives, using performance indicator targets. At the end of 2019, a total of 2,100 employees worldwide, or 6.6% of permanent employees, were eligible to participate in the program. In 2019, as part of this program, incentive-based compensation was linked to the achievement of targeted results, based on adjusted EBIT and free cash flow.<sup>(1)</sup>

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





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## OFF-BALANCE SHEET ARRANGEMENTS

### ***Working capital financing initiatives***

The Corporation engages in certain working capital financing initiatives which impact cash flows from operating activities such as the sale of receivables (refer to Note 16 - Trade and other receivables, to the consolidated financial statements, for more details), arrangements for advances from third parties (refer to Note 17 - Contract balances, to the consolidated financial statements, for more details), and the negotiation of extended payment terms with certain suppliers (refer to Note 25 - Trade and other payables, to the consolidated financial statements, for more details).

### ***Credit and residual value guarantees***

In connection with the sale of certain of our products, mainly commercial aircraft, we have provided financing support in the form of credit and residual value guarantees to enhance the ability of certain customers to arrange third-party financing for their acquisitions.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing under the relevant financing arrangements. The remaining terms of these financing arrangements range from 1 to 6 years. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value at an agreed-upon date. In most cases, these guarantees are provided as part of a customer financing arrangement (these arrangements have remaining terms ranging from 1 to 8 years). The value of the underlying asset may be adversely affected by a number of factors. To mitigate the exposure, the financing arrangements generally require the aircraft used as collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically a specified maximum amount of the first losses incurred by the guaranteed party. A claim under the guarantee may typically be made only at the end of the financing arrangement, upon the sale of the underlying asset to a third party.

When credit and residual value guarantees are provided in connection with a financing arrangement for the same underlying asset, residual value guarantees can only be exercised if the credit guarantee expires without having been exercised and, as such, the guarantees are mutually exclusive.

For more details, refer to Note 43 – Commitments and contingencies, to the consolidated financial statements.

### ***Financing structures related to the sale of commercial aircraft***

In connection with the sale of commercial aircraft, we have provided credit and/or residual value guarantees and subordinated debt to, and retained residual interests in, certain entities created solely to provide financing related to the sale of commercial aircraft. Aviation also provides administrative services to certain of these entities in return for a market fee.

Typically, these entities are financed by third-party long-term debt and equity. The aircraft serve as collateral for the entities' long-term debt.

For more details, refer to Note 42 – Unconsolidated structured entities, to the consolidated financial statements.

# RISKS AND UNCERTAINTIES

We operate in industry segments which present a variety of risk factors and uncertainties. The risks and uncertainties described below are those that we currently believe could materially affect our business activities, financial condition, cash flows, results of operations and reputation, but are not necessarily the only risks and uncertainties that we face. If any of these risks, or any additional risks and uncertainties presently unknown to us or that we currently consider as being not material, actually occur or become material risks, our business activities, financial condition, cash flows, results of operations and reputation could be materially adversely affected.

OPERATIONAL RISK	Operational risk is the risk of potential loss due to the nature of our operations. Sources of operational risk include development of new products and services, development of new business and awarding of new contracts, book-to-bill ratio and order backlog, and the complexity of obtaining certification and homologation of products and services. In addition, the large and complex projects that are characteristic of our businesses are often structured as fixed-price contracts and thus exposed to production and project execution risks. Furthermore, our cash flows are subject to pressures based on project-cycle fluctuations and seasonality and our businesses are capital intensive, which require that we regularly incur significant capital expenditures and investment over multi-year periods prior to realizing cash flows under a project. Other sources of operational risk include our ability to successfully implement our strategy and transformation plan, productivity enhancements, operational efficiencies and restructuring initiatives, and actions of business partners, our ability to move forward and complete challenging Transportation projects and release working capital therefrom within the timeframe anticipated, product performance warranty and casualty claim losses, the use of estimates and judgments in accounting, regulatory and legal conditions, environmental, health and safety issues, as well as dependence on customers and contracts, suppliers (including supply chain management) and human resources. We are also subject to risks related to reliance on information systems, reliance on and protection of intellectual property rights, reputation risks, risks of impairments and asset write-downs, risk management, tax matters and adequacy of insurance coverage.
FINANCING RISK	Financing risk is the risk of potential loss due to the liquidity of our financial assets including counterparty credit risk, access to capital markets, restrictive debt covenants, financing support provided for the benefit of certain customers and government support.
GENERAL ECONOMIC RISK	General economic risk is the risk of potential loss due to unfavourable economic conditions. These factors include, but are not limited to, government budget compression, reduced levels of public and private capital expenditures, declining business confidence, political and economic pressures, including those arising from increasing government deficits and sovereign debt overruns, and crises in the credit markets.
BUSINESS ENVIRONMENT RISK	Business environment risk is the risk of potential loss due to external risk factors. These factors may include the financial condition of the airline industry (including scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates) and business aircraft customers, the financial condition of the rail industry, trade policy, as well as increased competition from other businesses including new entrants in market segments in which we compete. In addition, political instability and force majeure events such as acts of terrorism, global climate change, global health risks, or the outbreak of war or continued hostilities in certain regions of the world could result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of our products.
MARKET RISK	Market risk is the risk of potential loss due to adverse movements in market factors including foreign currency fluctuations, changing interest rates, decreases in residual values of assets, increases in commodity prices and inflation rate fluctuations.

## Operational risk

Delays in achieving technical milestones and execution of production ramp-up on certain Transportation projects resulted in charges in the fourth quarter of 2019; while the Corporation has undertaken actions and initiatives to move forward and complete such projects (including having entered into commercial negotiations with customers to reset schedules, resolve late delivery penalties, and address related provisions and costs), there can be no assurances that it will be successful in these negotiations, or that the outcome of any such actions, initiatives or negotiations will have the intended effect, within the anticipated timeframe or at all. The timing of cash inflows from milestone payments on large Transportation projects and the later-than-anticipated closing of certain orders and call-offs resulted in lower-than-anticipated free cash flow for the fourth quarter of 2019; there can be no assurance that the free cash flow shortfall will be recovered, in part or at all, in 2020 or later, or that free cash flow shortfalls will not be incurred again in the future; moreover, any recovery will be offset by the cash flow impact of

the incremental costs recognized in the fourth quarter adjustments at Transportation. Transportation's ability to move forward and complete such challenging projects within the anticipated timeframe is key to return to stronger financial performance. Any subsequent failure by Transportation to meet delivery or other contractual schedules or performance requirements or to execute projects efficiently may increase the volatility and unpredictability of revenue and profitability.

### ***The Pending Transactions may be delayed or may not be completed***

Completion of each of the Pending Transactions is subject to the receipt of required regulatory approvals. There is no certainty, nor can the Corporation provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied.

A substantial delay in obtaining regulatory or other approvals or the imposition of unfavourable terms or conditions in the approvals could have a material adverse effect on the Corporation's ability to complete the relevant Pending Transactions. If closing of any of the Pending Transactions does not take place as contemplated, the Corporation could suffer adverse consequences on its business, financial condition or results of operations, including the loss of investor confidence in connection with the Corporation's ability to execute its strategic plan. In addition, failure to complete any of the Pending Transactions for any reason could materially negatively impact the market price of the Corporation's securities.

If one or more Pending Transactions are not completed, we may undertake various other financing initiatives intended to solidify our liquidity position, and we plan to continue to explore various initiatives such as certain business activities' potential participation in industry consolidation to strengthen our balance sheet and enhance shareholder value.

### ***Developing new products and services***

Changes resulting from global trends such as climate change, volatile fuel prices, the growth of developing markets, urbanization, population growth and demographic factors influence customer demands in our main aerospace and rail transportation markets. To remain competitive and meet customers' needs, we are required to anticipate these changes and must continuously develop and design new products, improve existing products and services and invest in and develop new technologies. Introducing new products or technologies requires a significant commitment to R&D investment, including maintaining a significant level of highly skilled employees.

Furthermore, our investments in new products or technologies may or may not be successful. Our results may be impacted if we invest in products that are not accepted in the marketplace, if customer demand or preferences change, if new products are not approved by regulatory authorities (or if we fail to design or obtain homologation or accreditation for new products or technologies), are not brought to market in a timely manner, in particular, as compared to our competitors, or if our products become obsolete. We may incur cost overruns in developing new products and there is the risk that our products will not meet performance specifications to which we have committed to customers.

Our results could also be negatively impacted if we fail to design or obtain accreditation for new technologies and platforms on budget and in a timely manner. Further, our long-term growth, competitiveness and continued profitability are dependent on our ability to anticipate and adapt to changes in markets and to reduce the costs of producing high-quality, new and existing products, to continue to develop our product mix and to align our global presence with worldwide market opportunities.

In a highly competitive environment, we are and will remain exposed to the risk that more innovative or more competitive products, services or technologies are developed by competitors or introduced on the market more quickly or that the products we develop are not accepted by the market.

## ***Business development and awarding of new contracts***

Our businesses are dependent on obtaining new orders and customers, thus continuously replenishing our order backlog. Our results may also be negatively impacted if we are unable to effectively execute strategies to gain access to new markets, capture growth or successfully establish roots in new markets. Although we have developed and continue to develop our presence in many geographic markets, access to certain markets can prove to be difficult to secure, particularly if there is a local competitor benefiting from a stronghold in its home market. These types of situations could put us in an unfavourable position relative to some of our competitors and present challenges to our strategy and competitive strength in those zones.

In addition, fluctuating demand cycles are common in the industries in which we operate and can have a significant impact on the degree of competition for available projects and the awarding of new contracts. As such, fluctuations in demand or the ability of the private and/or public sector to fund projects in a depressed economic climate could adversely affect the awarding of new contracts and margin and thus our financial results.

A substantial portion of our revenue and profitability is generated from large-scale project awards. The timing of when project awards will be made is unpredictable and outside of our control. We operate in highly competitive markets where it is difficult to predict whether and when we will receive awards since these awards and projects often involve complex and lengthy negotiations and bidding processes. These processes can be impacted by a wide variety of factors including governmental approvals, financing contingencies, commodity prices, environmental conditions and overall market and economic conditions. In addition, we may not win contracts that we have bid upon due to price, a customer's perception of our reputation, ability to perform and/or perceived technology or other advantages held by competitors. Our competitors may be more inclined to take greater or unusual risks or accept terms and conditions in a contract that we might not otherwise deem market or acceptable. Furthermore, we may incur significant costs in order to bid on certain projects that may not be awarded to us, thus resulting in expenses that did not generate any profit for us.

Our estimates of future performance depend on, among other matters, whether and when we receive certain new contracts, including the extent to which we utilize our workforce. The rate at which we utilize our workforce is impacted by a variety of factors including: our ability to manage attrition; our ability to forecast our need for services which in turn allows us to maintain an appropriately sized workforce; our ability to transition employees from completed projects to new projects or between internal business groups; and our need to devote resources to activities such as training or business development. While our estimates are based upon our good faith judgment, these estimates can be unreliable and may frequently change based on newly available information. In the case of large-scale projects where timing is often uncertain, it is particularly difficult to predict whether and when we will receive a contract award. The uncertainty of contract award timing can present difficulties in matching our workforce size with our contract needs. If an expected contract award is delayed or not received, or if an ongoing contract is cancelled, we could incur costs resulting from reductions in staff or redundancy of facilities that would have the effect of reducing our operational efficiency, margins and profits.

## ***Our order book-to-bill ratio and our order backlog may not be indicative of future revenues***

Our book-to-bill ratio, which we define as new orders over revenues or units delivered, is an indicator that we use to track potential future revenues. Backlog represents management's estimate of the aggregate amount of the revenues expected to be realized in the future from partially or fully unsatisfied performance obligations as at December 31, 2019 as we perform under contracts at delivery or over time. Such orders may be subject to future modifications that might impact the amount and/or timing of revenue recognition. Backlog does not include constrained variable consideration, unexercised options or letters of intent. However, the realization of revenues from new orders is based on certain assumptions, including the assumption that our relevant contracts will be performed in full in accordance with their terms and applicable construction and technical standards. The termination, modification, delay, suspension or reduction in scope of any one or more major contracts may have a material and adverse effect on future revenues and profitability. We cannot guarantee that the revenues initially anticipated in our new orders will be realized in full, in a timely manner, or at all, or that, even if realized, such revenues will result in profits or cash generation as expected, and any shortfall may be significant. The materialisation of any of the risks described above could have a material adverse effect on our business, financial condition, cash flows and results of operations.

In addition, many of our contracts contain “termination for convenience” provisions, which permit the customer terminate or cancel the contract at its convenience upon providing us with notice a specified period of time before the termination date and/or paying us equitable compensation, depending on the specific contract terms. In the event a significant number of customers were to avail themselves of such “termination for convenience” provisions, or if one or more significant contracts were terminated for convenience, our reported backlog would be adversely affected with a corresponding adverse impact on expected future revenues and profitability.

### ***Certification and homologation process***

We are subject to stringent certification and approval requirements, as well as to the ability of regulatory bodies to perform these assessments on a timely basis, which vary by country and can delay the certification of our products. Non-compliance with current or future regulatory requirements imposed by Transport Canada (TC), the U.S. Federal Aviation Administration (FAA), the European Aviation Safety Agency (EASA), the Transport Safety Institute in the U.S. or other regulatory authorities could result in service interruption of our products, fewer sales or slower deliveries, an unplanned build-up of inventories, reduction in inventory values or impairment of assets.

The marketing and EIS of our rail products require compliance with rail transportation security standards that differ widely at the global level and are governed by various relevant regulatory authorities. This creates a complex process for securing the homologation of trains. The process for securing the homologation of trains is highly involved and may take longer and be more costly than initially anticipated due to the extent of testing and other supporting technical elements required by the relevant authorities, which elements may change over time. Our contracts increasingly include language that requires us to bear the risks and obligations associated with the homologation process, including risks relating to changes in law or regulation or the interpretation or application of regulations in respect of homologation.

Delays caused by the homologation process, or increased engineering or production costs relating to homologation, may lead to delays in our ability to deliver our products and complete our contracts, as well as contract cost overruns relative to our estimates and models and the payment of significant penalties or damages, service interruptions affecting the products, or even the risk of cancellation of all or a portion of the contract in extreme cases of prolonged delays. There can be no assurance regarding the time frame required for obtaining certification or homologation.

### ***Fixed-price and fixed-term commitments and production and project execution***

We have historically offered, and expect to continue to offer, a significant portion of our products through pre-agreed fixed-price contracts with a stipulated delivery schedule, rather than contracts under which payment is determined solely on a time-and-material basis. The revenue, cash flow and profitability of large, complex, long-term projects vary significantly in accordance with the progress of the project and depend on a variety of factors, some of which are beyond our control. Generally, we cannot terminate contracts unilaterally.

We are exposed to risks associated with these fixed-price contracts, including specification modifications and change orders demanded by customers, increasing regulatory requirements in relation to certification or homologation, unexpected technological problems, difficulties with partners, subcontractors and suppliers, logistical difficulties and other execution issues that could lead to cost and time overruns, late delivery penalties and liquidated damages payments, postponement or delays in contract execution or delays in receiving milestone payments. In the context of large, complex, long-term contracts, such overruns and issues can be material in terms of cost and time, may lead to restructuring of milestones and milestone payments, withholding of payment by customers or risk of cancellation of all or a portion of contract by the customer, and may have a material adverse impact on our business, results, cash flows, financial position and reputation. In addition, many of our contracts contain requirements to comply with mandatory performance levels for the equipment we deliver or a fixed delivery schedule. If we are unable to comply with these obligations, our clients could request the payment of contractual penalties, or terminate the contract in question, or even claim compensation. The profit margins generated by some of these contracts can, as a result, prove to be lower than those initially projected, or even be zero-margin or loss-making contracts.

Operational challenges impacting the production system for one or more of our programs could result in production delays and/or failure to meet customer demands, which would adversely affect our revenues and margins. Our production systems are extremely complex. Operational issues, including delays or defects in supplier components, failure to meet internal performance plans, or delays or failures to achieve required regulatory certifications or homologations, could result in significant out-of-sequence work and increased production costs, as well as delayed deliveries to customers, impacts to product performance and/or increased warranty or support costs. We may also incur late delivery penalties if we are unable to increase production rates sufficiently quickly to meet our commitments.

Moreover, due to the nature of the bidding process, long-term contract revenues are based, in part, on significant judgments and cost estimates. Our estimates of the costs for completing a project are subject to a number of assumptions, including future economic conditions, cost and availability of labour and raw materials, labour productivity, employment levels and salaries, facility utilization rates, inflation rates, foreign exchange rates and construction and technical standards to be applied to the project, and are influenced by the nature and complexity of the work to be performed. Due to the complexity and the length of many of the projects in which we participate, the actual investment, costs and productivity may differ materially from what we had initially modelled or anticipated. Because of the significance of our judgments and estimates described above, materially different revenues and profit margins could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future period financial performance.

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. However, the third-party advance providers could request repayment of these amounts if Transportation fails to perform its contractual obligations, such as delivery by a specified date. In such a case, there can be no assurance that Transportation will be successful in negotiating an extension with third-party advance providers. These repayment obligations are secured by external guarantees.

In addition, many of our long-term contracts are signed with customers that are governmental or quasi-public entities. These types of customers require that we comply with project bidding and open market specifications, which may limit our ability to negotiate certain contractual terms and conditions and can force us to accept less favourable conditions. For example, customers may require manufacturers to bear an increasing proportion of the homologation regulatory risk, may insist on payment schedules that reduce or eliminate advance payments or that lead to negative cash-flow during the execution of a project, and may require mandatory technical performance levels and requirements associated with the issuance of parent company guarantees and bonds. For the most part, our rail transportation business is subject to public procurement protocols, which often take the form of adherence contracts that cannot be amended in any meaningful sense, causing bidders to risk disqualification if they attempt to reflect contingencies or special considerations in their offers. Moreover, public procurement protocols often feature specifications that are subject to numerous change orders, which may result in disputes regarding allocation of costs in respect of such change orders or specification modifications. These particularities could potentially expose our business to significant additional risks or costs that could adversely affect the profitability of our projects.

Additionally, for certain projects, contracts in our rail transportation business impose manufacturing or purchasing requirements in the countries in which the project is being executed. Such contracts may require us to build local production capacities, partner with local entities, and/or secure third-party purchases from local suppliers. Such terms and conditions can lead to pressures on costs, target volumes and execution.

### ***Cash flows and capital expenditures***

Our businesses are cyclical and highly capital intensive due to their nature. In the ordinary course of our business, the structure and duration of many of our complex, long-term projects and product development programs require us to invest significantly in engineering, development and production for many years before deliveries are made and the product begins to generate cash flow. In addition, we are regularly required to incur capital expenditures in order to, among other matters, maintain equipment, increase operating efficiency, develop and design new products, improve existing products and services, invest in and develop new technologies and maintain a

significant level of highly skilled employees. Our ability to negotiate and collect customer advances and progress payments is therefore an important element of our cash flow and working capital management. However, intense competition in the markets in which we operate and demands by customers in the current economic environment have resulted in fewer and lower advance payments, which could place significant financial pressures on our operations. Discrepancies between our disbursements and amounts received on orders placed, or even any reduction in the overall volume of orders placed or a deterioration of the payment terms on these orders has an automatic adverse impact on the evolution in working capital requirements and results of operations.

### ***Seasonality and cyclicity of financial results***

Our cash flows are, to a certain degree, subject to periodic fluctuations and we expect a disproportionate amount of our cash flows from operations to be received or paid by us during our third and fourth quarter, and frequently in the last weeks of a given quarter. We expect this trend to continue. While the payment terms with certain of our vendors extend beyond the amount of time necessary to collect proceeds from our customers, no assurance can be given that we will be able to maintain such terms. As a result of fourth quarter cash receipts, at December 31 of each year, our cash and cash equivalents balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). Our interim and annual results can be affected by these periodic fluctuations, including as a result of timing variations that could push cash flows from one quarter to another.

Because a significant portion of our revenue is generated from large, complex, long-term projects with sculpted milestone payments, our results of operations can fluctuate significantly from quarter to quarter and year to year depending on whether and when project awards occur and the commencement and progress of work under awarded contracts. In addition, our customers may demand specification modifications, or change orders, milestones, milestone payments or delivery schedules. Given the cyclical nature of the industries in which we operate, our financial results, like others in such industries, may be impacted in any given period by a wide variety of factors beyond our control, and as a result there may, from time to time, be significant and unpredictable variations in our quarterly and annual financial results such that any historical results should not be considered indicative of the results to be expected for any future period.

### ***Deployment and execution of strategic initiatives related to cost reductions and working capital improvement***

In 2015, the Corporation launched its five-year turnaround plan focusing on three priorities: improve cash generation, reduce costs and drive performance. As with any large, company-wide transformation there are inherent risks in the timing of the deployment and in the planned value to be achieved. In early 2020, consistent with this plan, and following a comprehensive review of strategic alternatives, the Corporation indicated it was actively pursuing options to strengthen its balance sheet and enhance shareholder value. The timing and magnitude of the specific initiatives and associated benefits, if any, could be affected by a multitude of external and internal factors including, but not limited to: the evolution of the demands and requirements of our businesses, variations in planned production volumes and schedules, the outcome of negotiations with suppliers and unions, changing legislation, changes in socio-economic conditions in the countries in which we operate, evolutions in the labour market for key talent, and changes in the priorities of the business. There can be no assurance that these initiatives, or other initiatives, will enable us to reach our objectives, or that any such measures will be implemented successfully or within the set time frame. A failure to successfully implement our strategy and transformation initiatives, or if such measures prove insufficient, could have a material adverse impact on our business activities, financial condition, profitability and outlook.

### ***We may not be able to successfully execute our manufacturing strategy and productivity enhancement initiatives***

One of the priorities of the strategic plan and transformation initiatives established by management consists of sustained efforts in the areas of cost reduction and productivity enhancement / operational efficiencies. This priority aims in part at leveraging the strength of our engineering and manufacturing centres of excellence. In addition, our cost reduction and operational efficiencies / productivity enhancement efforts also focus on further implementing and leveraging our standardized product and service platforms. We believe that flexible



manufacturing is the key element to enable improvements in our ability to respond to customers in a cost-effective manner. Our success in implementing this priority of our strategic plan is dependent on the involvement of management, production employees and suppliers. Any failure to achieve cost reduction and operational efficiencies / productivity enhancement priorities (including the anticipated levels of productivity and operational efficiencies) in our manufacturing facilities, could have a material adverse impact on our business activities, financial condition, profitability and outlook.

### ***Business partners***

In some of the projects carried out through consortia or other partnership vehicles in which we participate, partners are jointly and severally liable to the customer. The success of these partnerships is dependent on satisfactory performance by us and our business partners. Failure of the business partners to fulfill their contractual obligations could result in additional financial and performance obligations, which could result in increased costs, unforeseen delays or impairment of assets. In addition, a partner withdrawing from a consortium during the bid phase may result in the loss of a potential order.

In order to penetrate new markets and strengthen our partnerships, we have implemented a number of joint ventures and partnerships in various countries and regions, such as Africa, the Middle East and Asia (in particular, China). These operations involve certain risks, in particular in relation to potential political or economic instability depending on the countries, in the difficulties that may arise in evaluating assets and liabilities relating to these operations, in integrating people, activities, technologies and products, as well as in implementing governance and compliance systems and procedures.

The failure by a business partner to comply with applicable laws, rules or regulations, or contract requirements, could negatively impact our business and, in the case of government contracts, could result in fines, penalties, suspension or even debarment being imposed on us, which could have a material adverse impact on our reputation, business, financial condition and results of operations.

### ***Product performance warranty and casualty claim losses***

The products that we manufacture are highly complex and sophisticated and may contain defects that are difficult to detect or correct. These products are subject to detailed specifications, which are listed in the individual contracts with customers, as well as to stringent certification or approval requirements. Defects may be found in products before and after they are delivered to the customer. When discovered, we may incur significant additional costs to modify and/or retrofit our products and we may not be able to correct defects in a timely manner or at all. The occurrence of defects and failures in our products could give rise to non-conformity costs, including warranty and damage claims, negatively affect our reputation and profitability and result in the loss of customers. Correcting such defects, if possible, could require significant investment.

In addition, due to the nature of our business, liability claims may arise from accidents, incidents or disasters involving products and services that we have provided, including claims for serious personal injuries or death. These accidents may be caused by climatic factors or human error. If any of our products is proven to have quality issues, fails to meet the national or industrial standards or has potential risks to the safety of human and properties, we may have to recall such products, be subject to penalties, have our operating licences or permits revoked, suspend production and sale of our products, or be ordered to take corrective measures. A product recall may also affect our reputation and brand name, result in a decreased demand for our products and lead to stricter scrutiny by regulatory agencies over our operations.

We cannot be certain that current insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that we will be able to obtain insurance coverage at acceptable levels and costs in the future.

## ***Regulatory and legal risks***

We are subject to numerous risks relating to current and future regulations, as well as legal proceedings, both present or that may arise in the future. For example, the harmonization of the European railway market through the new European standards will require investment to upgrade our existing products to comply with regulatory requirements, without which regulatory authorities and thus our customer may not accept our products. Unavailability of compliant products may lead to a loss of market share.

Given our size, investigations, claims and lawsuits seeking damages and other relief are regularly threatened or pending against us. We are, and may become, party to lawsuits in the ordinary course of business, including those involving allegations of late deliveries of goods or services, product liability, product defects, quality problems and intellectual property infringement. These matters may divert financial and management resources that would otherwise be used to benefit our operations, and the cost to defend litigation may be significant. Material losses may be incurred related to litigation beyond the limits or outside the coverage of current insurance and existing provisions for litigation-related losses may not be sufficient to cover the ultimate loss or expenditure. Moreover, legal proceedings resulting in judgments or findings against us may harm our reputation and place us at a disadvantage for future orders or contract awards. There also may be adverse publicity associated with litigation, including without limitation litigation related to product safety, which could negatively affect the public perception of our business or reputation, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation could materially adversely affect our business and financial results.

In addition, as part of the regulatory and legal environments in which we operate, we are subject to anti-bribery laws that prohibit improper payments directly or indirectly to government officials, authorities or persons defined in those anti-bribery laws in order to obtain business or other improper advantages in the conduct of business. Notably, sales to foreign customers are subject to such laws. Pursuant to such laws, a company may be found liable for violations resulting not only from actions of certain of its employees, but also in certain circumstances from actions of its contractors and third party agents.

Our Code of Ethics and other corporate policies mandate compliance with these laws and regulations and we have implemented training programs, internal monitoring and controls, and reviews and audits to ensure compliance with such laws. However, there can be no assurance that our internal control policies and procedures will protect us from recklessness, fraudulent behaviour, dishonesty or other inappropriate behaviour on the part of our employees, contractors, suppliers, affiliates, consultants, agents, and/or partners. Misconduct or failure by our employees, contractors, suppliers, affiliates, consultants, agents, and/or partners to comply with anti-bribery laws and other applicable laws and regulations could impact Bombardier in various ways that include, but are not limited to, criminal, civil and administrative legal sanctions, debarment from bidding for or performing government contracts, and negative publicity, and could have a negative effect on our business, reputation, results of operations, profitability, share price and financial condition. In recent years, there has been a general increase in both the frequency of enforcement and the severity of penalties under such laws, resulting in greater scrutiny of and punishment to companies convicted of violating anti-corruption and anti-bribery laws. See also "Supply chain risks" below.

Also refer to Note 43 – Commitments and contingencies to our consolidated financial statements.

## ***Environmental, health and safety risks***

Our products, as well as our manufacturing and service activities, are subject to environmental laws and regulations in each of the jurisdictions in which we operate, governing, among other things, product performance or materials content, energy use and greenhouse gas emissions, air, water and noise pollution, the use, storage, labelling, transportation and disposal or release of hazardous substances, human health and safety risks arising from the exposure to hazardous or toxic materials or defective products and the remediation of soil and groundwater contamination on or under our properties (whether or not caused by us), or on or under other properties and caused by our current or past operations, including our disposal of hazardous wastes at third party sites. These laws and regulations may cause us to incur costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations, and may negatively impact the market for our products.

Environmental, health and safety regulatory requirements, or enforcement thereof, may become more stringent in the future and we may incur additional costs to be compliant with such future requirements or enforcement. In addition, we may have contractual or other liabilities for environmental matters relating to businesses, products or properties that we have in the past closed, sold or otherwise disposed of, or will close, sell or dispose of in the future.

### ***Dependence on limited number of contracts and customers***

In any given period, a limited number of contracts or customers may account for a significant portion of our revenues and cash flows for some of our products. Although we constantly seek to expand our customer base, we believe that revenues and results for any given period may continue to be significantly affected by a limited number of contracts or customers due to the nature of some of our products. Consequently, the loss of such a customer or changes to their orders, milestones, milestone payments, cancellation of all or a portion of their contract, or significant operational risk materializing in one or several large contracts could result in fewer sales and/or a lower market share, and may have a material adverse impact on our business, results, cash flows and financial position. Since the majority of our rail transportation customers are governments or public-sector companies or operate under public contracts, our order intake is also dependent to a significant degree on public-sector budgets and spending policies.

### ***Supply chain risks***

Our manufacturing operations are dependent on a limited number of suppliers for the delivery of raw materials (mainly aluminum, advanced aluminum alloy and titanium) and major systems (such as engines, wings, nacelles, landing gear, avionics, flight controls and fuselages) for our aerospace products, and raw materials (mainly steel and aluminum), services (mainly engineering, civil and electrical subcontracts) and major systems (such as brakes, doors, heating, ventilation and air conditioning) for our rail transportation products.

Disruptions in our supply chain can impact our ability to deliver on schedule. Moreover, failure by one or more suppliers to meet performance specifications, quality standards or delivery schedules could adversely affect our ability to meet our commitments to customers, in particular if we are unable to purchase the key components and parts from those suppliers upon agreed terms or in a cost-effective manner and if we cannot find alternative suppliers on commercially acceptable terms in a timely manner. We may not be able to recover any costs or liability we incur (including liability to our customers) as a result of any such failure from the applicable supplier, which could have a material adverse effect on our financial condition and results of our operations.

Some of our suppliers participate in the development of products such as aircraft or rolling stock platforms. The advancement of many of our new product development programs also relies on the performance of these key suppliers and, therefore, supplier delays which go unmitigated could result in delays to a program as a whole. These suppliers subsequently deliver major components and own some of the intellectual property related to key components they have developed. Our contracts with these suppliers are therefore on a long-term basis. The replacement of such suppliers, if possible, could be costly and take a significant amount of time.

Our dependence on foreign suppliers and subcontractors and our global operations subject us to a variety of risks and uncertainties. All of our direct suppliers must comply with our Supplier Code of Conduct, which formalizes our expectations with respect to suppliers' business standards, and is designed to ensure that each of our suppliers' operations are conducted in a legal, ethical, and responsible manner. However, we do not control our independent suppliers or those indirect suppliers and companies with whom they do business and cannot guarantee their compliance with our Supplier Code of Conduct and with applicable laws and regulations or that violations will be reported to us in a timely manner. Any violation of applicable laws and regulations or failure to use ethical business practices by one or more third-party subcontractors or suppliers, including laws and regulations related to, among other things, labour practices, health and safety, and environmental protection, could also materially adversely affect our business and reputation and, in the case of government contracts, could result in fines, penalties, suspension or even debarment being imposed on us.

## ***Human resources (including collective agreements)***

Our senior executives have extensive experience in the industries in which we operate and with our business, suppliers, products and customers. The loss of management knowledge, expertise and technical proficiency as a result of the loss of one or more members of our core management team could result in a diversion of management resources or a temporary executive gap, and negatively affect our ability to develop and pursue other business strategies, which could materially adversely affect our business and financial results.

Employment market competition is fierce when it comes to hiring the highly qualified managers and specialists needed to complete the work we require, particularly in certain emerging countries. In many of our business areas we intend to expand our business activities, for which we will need highly skilled employees. The success of our development plans depends, in part, on our ability to develop skills, to retain employees, and to recruit and integrate additional managers and skilled employees. Human resource risk includes the risk of delays in the recruitment of or inability to retain and motivate highly skilled employees, including those involved in R&D and manufacturing activities that are essential to our success. There is no guarantee that we will be successful in recruiting, integrating and retaining such employees as needed to accompany our business development, in particular in emerging countries. Conversely, the measures to adapt headcount to evolution in demand may result in pressures from our workforce and social risks, which may have an adverse impact on our expected costs reductions and production capacities.

In addition, we are party to several collective agreements that are due to expire at various times in the future. An inability to renew these collective agreements on mutually agreeable terms, as they become subject to renegotiation from time to time, could result in work stoppages or other labour disturbances such as strikes, walkouts or lock-outs, and/or increased costs of labour, which could adversely affect our ability to deliver products and services in a timely manner and on budget and could adversely affect our financial condition and results.

Additionally, as a result of our continuing review of our businesses and processes to reduce cost, improve our manufacturing platform, and better position ourselves in the marketplace, it may be necessary to curtail production or permanently shut down facilities, leading to the transfer of employees to new production facilities and processes or to the reduction of our workforce. This could materially adversely impact our relationship with our employees, as well as result in asset write-downs at affected facilities.

## ***Reliance on information systems***

Like those of other large multinational companies, our technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, cyberattacks and cybersecurity threats, network communication failures, computer viruses and other security threats to the confidentiality, availability and integrity of our systems. Information security risks have increased in recent years due to the proliferation of new technologies and the increased sophistication of perpetrators of cyberattacks.

Information contained in our systems include proprietary or sensitive information on our customers, suppliers, partners, employees, business information, research and development activities and our intellectual property. Unauthorized third parties may be able to penetrate our network security and misappropriate or compromise our confidential information, deploy viruses, worms and other malware or phishing that would exploit any security vulnerabilities in our management information systems, create system disruptions or cause machinery or plant shutdowns. Such attacks could potentially lead to the publication, manipulation or leakage of information, improper use of our systems, defective products, production downtimes, and supply shortages. Our partners and suppliers also face risks of unauthorized access to their information systems which may contain our confidential information. The Cyber Security, Risk and Compliance team, under the direction of the Global CIO, and reporting to the Finance and Risk Management Committee of the Board of Bombardier, supervises and maintains technical and process controls, enforcement and comprehensive monitoring of systems and networks designed to prevent, detect and respond to unauthorized activity in our systems. Considering the complexity and evolving nature of the threats, as well as the unpredictability of the timing, nature and scope of disruptions from such threats, we cannot ensure that the measures taken will be sufficient to counter any such unauthorized access to information systems, nor that our assessment and mitigation measures are sufficient to avoid, or mitigate the impact of, a system failure.

The integrity, reliability and security of information in all forms are critical to our success. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, delayed reaction times to the resolution of problems, privacy breaches and/or or inappropriate disclosure or leaking of sensitive information. Any system failure, cyberattack or a breach of systems could result in disruption of activities and operational delays, information losses, significant remediation costs, increased cyber security costs, lost revenues due to a disruption of activities, diminished competitive advantage and/or litigation and reputational harm affecting customer and investor confidence, which could materially adversely affect our business, financial condition, and results of our operations. Material losses may be incurred related to the foregoing beyond the limits or outside the coverage of current insurance and existing provisions for such losses may not be sufficient to cover the ultimate loss or expenditure. Furthermore, media or other reports of perceived security vulnerabilities of our systems, even if no breach has been attempted or had occurred, could adversely impact our brand and reputation and materially impact our business and financial results.

### ***Reliance on and protection of intellectual property***

We regularly apply for new patents and actively manage our intellectual property portfolio to secure our technological position. However, our patents and other intellectual property may not prevent competitors from independently developing, or obtaining through licensing, alternative technologies that are substantially equivalent or superior to ours, and we cannot provide assurance that the measures we have taken will be sufficient to prevent any misappropriation of our intellectual property. Furthermore, we cannot assure that all our registration applications will be successful, or our registered intellectual property rights will not be subject to any objection. If the steps we have taken and the protection afforded by law do not adequately safeguard our intellectual property rights, or we are not able to register or defend our intellectual property rights, and our competitors exploit our intellectual property in the manufacture and sale of competing products in the markets we operate, such events could materially and adversely affect our business.

We could also face claims by others that we are improperly using intellectual property owned by them or otherwise infringing their rights in intellectual property. Irrespective of the validity or the successful assertion of such claims, we could incur costs in either defending or settling any intellectual property disputes alleging infringement. Adverse rulings in any litigation or proceeding could result in the loss of our proprietary rights and subject us to significant liabilities or even business disruption. Any potential intellectual property litigation against us could also force us to, among other things, cease selling the challenged products, develop non-infringing alternatives or obtain licences from the owner of the infringed intellectual property. We may not be successful in developing such alternatives or in obtaining such licences on reasonable terms or at all, which could damage our reputation and affect our financial condition and profitability.

### ***Reputation risks***

Reputational risk may arise under many situations including, among others, quality or performance issues on our projects, product safety issues, a poor health and safety record, failure to maintain ethically and socially responsible operations, or alleged or proven non-compliance with laws or regulations by our employees, agents, subcontractors, suppliers and/or partners. Any negative publicity about, or significant damage to, our image and reputation could have an adverse impact on customer perception and confidence and may cause the cancellation of current projects and influence our ability to obtain future projects, which could materially adversely affect our business, results of operations and financial condition. Also, the pervasiveness and viral nature of social media could exacerbate any negative publicity with respect to our business practices and products.

Furthermore, any unethical conduct by a supplier or subcontractor or any allegations, whether or not founded, of unfair or illegal business practices by a supplier or subcontractor, including production methods, labour practices, health and safety and environmental protection, could also materially adversely affect our image and reputation, which could in turn materially adversely affect our business and financial results.

## ***Adequacy of insurance coverage for our business, products and properties***

We maintain insurance policies in accordance with the needs of our business. However, we cannot guarantee that our insurance policies will provide adequate coverage should we face extraordinary occurrences that result in losses. We may not obtain certain insurance coverage or may experience difficulties in obtaining the insurance coverage we need at acceptable levels and costs in the future, which could materially and adversely affect our business, financial condition and results of operations.

Accidents or natural disasters may also result in significant property damage, disruption of our operations and personal injuries or fatalities, and our insurance coverage may be inadequate to cover such losses. In the event of an uninsured loss or a loss in excess of our insured limits, we could suffer damage to our reputation and/or lose all or a portion of our production capacity as well as future revenues expected to be generated by the relevant facilities. Any material loss not covered by our insurance could adversely affect our business, financial condition and results of operations.

## ***Risk management policies, procedures and strategies***

We have devoted significant resources to develop our risk management policies, procedures and strategies and expect to continue to do so in the future. Nonetheless, our policies, procedures and strategies may not be comprehensive. Many of our methods for identifying, analyzing and managing risk and exposures are based upon risk management processes that are embedded in governance and activities of each reportable segment, focusing on all stages of the product development process. Risk management methods depend upon the evaluation and/or reporting of information regarding product development, product management, industry outlooks, markets, customers, project execution, catastrophe occurrence or other matters publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated or reported.

## ***Tax matters and changes in tax laws***

As a multinational company conducting operations through subsidiaries in multiple jurisdictions, we are subject to income and other taxes, tax laws and fiscal policies in numerous jurisdictions. Our effective income tax rate in the future could be adversely affected as a result of a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, treaties or regulations or their interpretation, and the outcome of income tax audits in various jurisdictions around the world.

We regularly assess all of these matters to determine the adequacy of our tax liabilities. In determining our provisions for income taxes and our accounting for tax-related matters in general, we are required to exercise judgment. We regularly make estimates where the ultimate tax determination is uncertain. There can be no assurance that the final determination of any tax audit, appeal of the decision of a taxing authority, tax litigation or similar proceedings will not be materially different from that reflected in our historical financial statements. The assessment of additional taxes, interest and penalties could be materially adverse to our current and future results of operations and financial condition.

Our Canadian and foreign entities undertake certain operations with other currently existing or new subsidiaries in different jurisdictions around the world. The tax laws of these jurisdictions, including Canada, have detailed transfer pricing rules that require that all transactions with non-resident related parties be priced using arm's length pricing principles. The taxation authorities in the jurisdictions where we carry on business could challenge our arm's length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment. If any of these taxation authorities were to successfully challenge our transfer pricing policies, our income tax expense may be adversely affected and we could also be subjected to interest and penalties. Any such increase in our income tax expense and related interest and penalties could have a material adverse effect on our business, results of operations or financial condition.

## Financing risk

### *Liquidity and access to capital markets*

Our businesses are cyclical and highly capital intensive. In the ordinary course of our business, we rely on cash and cash equivalents, cash flows generated by operations, capital market resources such as debt and equity and other financing arrangements such as revolving credit facilities, and certain working capital financing initiatives such as the sale of receivables, arrangements for advances from third parties and the negotiation of extended payment terms with certain suppliers to satisfy our financing needs. There can be no assurance that such working capital cash sources will be available to us in the future on acceptable terms or at all.

Our ability to achieve our business and cash generation plans is based on a number of assumptions which involve significant judgments and estimates of future performance, borrowing capacity and credit availability, which cannot at all times be assured.

The Corporation also routinely reviews its debt profile with a view to managing or extending maturities and/or negotiating more favourable terms and conditions with respect to its bank facilities. The Corporation also routinely reviews the terms and conditions of its bank facilities and seeks annual extensions of the availability periods thereunder.

From time to time, we undertake various financing initiatives to solidify our liquidity position. We plan to continue to explore various initiatives such as certain business activities' potential participation in industry consolidation. There are no assurances that we will be able to implement these or any other strategic options on favourable terms and timing or at all, and, if implemented, that such actions would have the planned results.

There can be no assurance that our expected cash flows from operating activities, combined with available short-term capital resources will enable the development of new products to enhance competitiveness and support growth and will enable us to meet all other expected financial requirements in the foreseeable future.

If our cash flows and other capital resources are insufficient to fund the required work on our ongoing contracts, programs and projects, as well as our capital expenditures and debt service obligations, we could be forced to reduce or delay deliveries, investments and capital expenditures or to seek additional debt or equity capital. We may not be able to obtain alternative capital resources, if necessary, on favourable terms or at all.

A decline in credit ratings, a significant reduction in the surety or financing market global capacity, widening credit spreads, changes in our outlook or guidance, significant changes in market interest rates or general economic conditions or an adverse perception by banks and capital markets of our financial condition or prospects could all significantly increase our cost of financing or impede our ability to access financial markets. Our credit ratings may be impacted by many factors, including factors outside of our control relating to the industries or countries and regions in which we operate, and, accordingly, no assurance can be given that our credit ratings may not be downgraded in the future. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, may increase our cost of financing.

Our right to convert into cash certain deposits or investments, held in financing structures to guarantee our obligations, may be subject to restrictions. Additionally, in some countries, cash generated by operations may be subject to restrictions on the right to convert and/or repatriate money and may thus not be available for immediate use.

## ***Retirement benefit plan risk***

We are required to make contributions to a number of pension plans, some of which are presently in a deficit position. Pension funding requirements are dependent on regulatory requirements and on the valuations of plan assets and liabilities, which are subject to a number of factors, including expected returns on plan assets, long-term interest rates, as well as applicable actuarial practices and various other assumptions. The potential requirement to make additional contributions as a result of changes to regulations, actuarial assumptions or other factors may reduce the amount of funds available for operating purposes, thus limiting our financial flexibility and weakening our financial condition.

There is no assurance that retirement benefit plan assets will earn the expected rates of return. The ability of our retirement benefit plan assets to earn these expected rates of return depends in large part on the performance of capital markets. Market conditions also affect the discount rates used to calculate our net retirement benefit liabilities and could also impact our retirement benefit costs, cash funding requirements and liquidity position.

The net retirement benefit liability is highly sensitive to variations to the underlying discount rate, which represents the market rate for high-quality corporate fixed-income investments at the end of each reporting period consistent with the currency and estimated term of the benefit obligations. As a result, the discount rates change is based on market conditions.

Despite all of these risks, as a result of the risk mitigation measures we have implemented over the years, the employer contributions to our pension plans have been very stable from one year to another (within \$320 million - \$375 million range) since 2015. Refer to the Retirement benefits section in Overview of the MD&A for more details.

## ***Credit risk***

We are exposed to credit risk through our derivative financial instruments and other investing activities carried out as part of our normal treasury activities, as well as through our trade receivables arising from normal commercial activities and through financing activities provided to our aerospace customers primarily in the form of aircraft loans and lease receivables. Reduced liquidity may result if our customers or other counterparties are unable to make payment of amounts owed to us, or delay these payments, and we may incur impairment losses on these assets. Furthermore, if our customers experience deteriorating credit quality, we may need to provide additional direct or indirect financing support to maintain sales, increasing our exposure to credit risk, or reduce our customers' credit limits, which could negatively affect our revenues.

We also have exposure to banks in the form of periodically placed deposits and credit commitments. In the event the banks with which we transact are unable to withstand regulatory or liquidity pressures, credit facilities, including letter of credit facilities, may become unavailable or we may not be able to extend such facilities upon their maturity.

## ***Substantial debt and significant interest payment requirements***

We currently have, and expect to continue to have, a substantial amount of debt, and significant interest payment requirements. Our level of indebtedness could have significant consequences, including the following:

- it may be more difficult to satisfy our obligations with respect to our indebtedness;
- our vulnerability to general adverse economic and industry conditions may be increased;
- we may be required to dedicate a substantial portion of our cash flows from operations to interest and principal repayments on our indebtedness, reducing the availability of cash flows to fund capital expenditures, working capital, acquisitions, new business initiatives and other general corporate purposes;
- our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate may be limited;
- we may be placed at a disadvantage compared to our competitors that have less debt or greater financial resources;
- it may limit, along with the financial and other restrictive covenants to which we are subject, among other things, our ability to borrow additional funds on commercially reasonable terms, or at all;



- we may be required to monetize assets on terms that are unfavourable to us; and
- we may be required to offer debt or equity securities on terms that are not favourable to us or our shareholders.

We have various debt maturities ranging between 2021 and 2034, and we cannot provide assurance that this indebtedness will be refinanced on favourable terms or at all.

For more information regarding our long-term debt, see Note 29 - Long-term debt, to our consolidated financial statements.

### ***Restrictive debt covenants***

The indentures governing certain of our indebtedness, revolving credit facility and letter of credit facility contain covenants that, among other things, restrict our ability, and in some cases the ability of our subsidiaries, to:

- incur additional debt and provide guarantees;
- repay subordinated debt;
- create or permit certain liens;
- use the proceeds from the sale of assets and capital stock of subsidiaries;
- pay dividends and make certain other disbursements;
- allow our subsidiaries to pay dividends or make other payments;
- engage in certain transactions with affiliates; and
- enter into certain consolidations, mergers or transfers of all or certain assets.

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

The Corporation is subject to various financial covenants under the Transportation letter of credit facility and the Transportation revolving credit facility, which must be met on a quarterly basis. Those facilities include financial covenants requiring minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on Transportation stand-alone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics as described in Note 37 – Capital management or to the specific terms used in the MD&A. In addition, the Corporation must maintain a minimum Transportation liquidity of €750 million (\$843 million). Minimum liquidity required is not defined as comprising only cash and cash equivalents as presented in the consolidated statement of financial position.

Our ability to comply with these covenants may also be affected by events beyond our control. A breach of any of these agreements or our inability to comply with these covenants could result in a default under these facilities, which would permit our banks to request immediate defeasance or cash cover of all outstanding letters of credit, and our bond holders and other lenders to declare amounts owed to them to be immediately payable. If any of these facilities is accelerated, or we are subject to significant cash cover calls, we may not have access to sufficient liquidity or credit to refinance such facilities on terms acceptable to us or at all. Furthermore, if we incur additional debt in the future, we may be subject to additional covenants, which may be more restrictive than those to which we are subject now. In addition, failure to comply with the obligations contained in our existing or future indentures or loan agreements could require us to immediately cash cover, or repay debt under other agreements that may contain cross-acceleration or cross-default provisions. There can be no assurance that we would be able to obtain waivers or amendments of any such defaults, or be able to cash cover or refinance such facilities, on terms acceptable to us or at all.

## ***Financing support provided for the benefit of certain customers***

From time to time, we provide aircraft financing support to customers. We may provide, directly or indirectly, credit and residual value guarantees or guarantee of a maximum credit spread, to support financing for certain customers such as airlines or to support financing by certain special purpose entities created solely i) to purchase our commercial aircraft and to lease those aircraft to airline companies or ii) to purchase financial assets such as loans and lease receivables related to the sale of our commercial aircraft. Under these arrangements, we are obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make the loan or lease payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at an agreed-upon date. A substantial portion of these guarantees has been extended to support original debtors or lessees with less than investment grade credit ratings.

## ***Government support***

From time to time, we receive various types of government financial support. Some of these financial support programs require the repayment of amounts to the government at the time of product delivery. The level of government support reflects government policy and depends on fiscal spending levels and other political and economic factors. We cannot predict if future government-sponsored support will be available. The loss of or any substantial reduction in the availability of government support could negatively impact our liquidity assumptions related to the development of aircraft or rail products and services. In addition, any future government support received by our competitors could have a negative impact on our competitiveness, sales and market share.

## **General economic risk**

The markets in which we operate may from time to time be affected by a number of local, regional and global factors. Since our sales and operations are undertaken around the world, including through manufacturing and production capacity in Europe and in North America, and partnerships and joint ventures in regions such as Asia and Africa, we may be directly or indirectly affected by an unfavourable political or economic slowdown occurring within these geographic zones and our business may be exposed to a number of related risks, such as fluctuations in exchange rates and restrictions on the transfer of capital.

Should the current uncertain global economic situation persist over time or deteriorate, should the economic headwinds in certain countries, regions or key markets intensify or spread to other countries, or should the global economic environment deteriorate, this could, in particular, result in potential buyers postponing the purchase of our products or services, lower order intake, order cancellations or deferral of deliveries, lower availability of customer financing, an increase in our involvement in customer financing, downward pressure on selling prices, increased inventory levels, decreased level of customer advances, slower collection of receivables, reduction in production activities, paused or discontinued production of certain products, termination of employees or adverse impacts on suppliers.

## ***Brexit***

On June 23, 2016, a referendum took place whereby British citizens voted to exit the European Union, commonly known as "Brexit". On January 31, 2020, the U.K. formally left the European Union and has entered into a transition or implementation period lasting until December 31, 2020.

Bombardier could be impacted by Brexit in both our aerospace and rail businesses. In 2019, 42% of our revenues were generated in Europe, of which 22% was generated in the U.K. Brexit could result in increased geopolitical and economic risks and could cause disruptions to and create uncertainty surrounding our businesses, including affecting our relationships with existing and future customers, suppliers and employees, which could in turn have an adverse effect on our financial results and operations. There could also be greater restrictions on imports and exports between the U.K. and European Union countries and could also result in increased regulatory complexities.

The announcement of Brexit caused significant currency exchange fluctuations. The U.S. dollar strengthened against other currencies, particularly the pound sterling and the euro. Our revenues are denominated mainly in U.S. dollars for aircraft sales and mainly in euro and other currencies for our rail business. The strengthening of the U.S. dollar relative to these other currencies could adversely affect our results of operations, particularly in the rail business, where a potential devaluation of the local currency or of the euro relative to the U.S. dollar coupled with potential increased inflation risk, may expose us to losses and could impair our customers' purchasing power.

## **Business environment risk**

### ***Financial condition of business aircraft customers and of the airline industry***

The purchase of aerospace products and services may represent a significant investment for a corporation, an individual or a government. When economic or business conditions are unfavourable, potential buyers may delay the purchase of our aerospace products and services. The availability of financing is also an important factor and credit scarcity can cause customers to either defer deliveries or cancel orders.

The airline industry's financial condition and viability, including airlines' ability to secure financing, can influence the demand for our commercial aircraft. The nature of the airline industry makes it difficult to predict when economic downturns or recoveries will impact the industry, and economic cycles may be longer than expected. Continued cost pressures and efforts to achieve acceptable profitability in the airline industry may constrain the selling price of our aerospace products. Scope clauses in pilot union agreements in the U.S. restrict the operation of smaller jetliners by major airlines or by their regional affiliates and, therefore, may restrict demand in the regional aircraft market.

An increased supply of used aircraft as companies restructure, downsize or discontinue operations could also add downward pressure on the selling price of new and used business and commercial aircraft. We could then be faced with the challenge of finding ways to further reduce costs and improve productivity to sustain a favourable market position at acceptable profit margins. The loss of any major fractional ownership or charter operator or commercial airline as a customer or the termination of a contract could significantly impact our financial results.

### ***Financial condition of the rail industry***

The rail industry has historically been resilient during economic downturns. Challenging economic and financial conditions in specific areas, however, may have a negative impact on some rail operators. As customers deal with budget pressures and discipline and even austerity measures, it may result in projects being reduced in size, postponed or even cancelled. Such actions by public or private rail operators may negatively impact our order intake and revenues and put significant pressure on our cost structure and prices. These conditions may be exacerbated in times of declining investment activity.

A significant proportion of our rail business in any given period relies on government agencies and other public institutions, which have historically represented the vast majority of the value of the orders that we book annually. The amount public institutions are able to invest and spend depends on complex political and economic factors and could vary from one fiscal year to the next. Economic slowdown and public budgetary restrictions can cause a decrease in infrastructure investments, delays in placing orders and delays in executing contracts or payments, as well as a decrease in fiscal and other incentive-based measures to promote research and development. In periods of over-indebtedness (or of a sovereign debt crisis), the implementation of austerity or public spending reduction programs can lead to a negative impact on the volume of orders placed for transportation infrastructure projects.

In addition, intense competition in the rail industry and demands by customers in the current economic environment have resulted in certain adverse impacts, including the lower level and later receipt of advance payments. This evolution of contract terms may adversely impact our cash flows and may require us to obtain and deploy increased amounts of capital from other sources, including factoring facilities, which may adversely affect our return on equity, financial condition and results of operations. In addition, there can be no assurance that if such customer payment and advances terms continue to evolve in a manner adverse to the manufacturers we will be able to access sufficient replacement working capital to finance the execution of projects on acceptable terms or at all.

### ***Trade policy***

As a globally operating organization, our businesses are subject to government policies related to import and export restrictions and business acquisitions, support for export sales, and world trade policies including specific regional trade practices. As a result, we are exposed to risks associated with changing priorities by government and supranational agencies.

In addition, protectionist trade policies and changes in the political and regulatory environment in the markets in which we operate, such as foreign exchange import and export controls, tariffs and other trade barriers, price or exchange controls as well as potential changes to free trade arrangements could affect our business in several national markets, impact our sales and profitability and make the repatriation of profits difficult, and may expose us to penalties, sanctions and reputational damage.

### ***Increased competition from other businesses including new entrants in market segments in which we compete***

We face intense competition in the markets and geographies in which we operate. We face competition from strong competitors, some of which are larger and may have greater resources in a given business or region, as well as competitors from emerging markets and new entrants, which may have a better cost structure. In the aerospace market segments in which we compete, competitors are developing numerous aircraft programs, with entries-into-service expected throughout the next decade. We face the risk that market share may be eroded if potential customers opt for competitors' products. We may also be negatively impacted if we are not able to meet product support expectations or provide an international presence for our diverse customer base.

Some rail transportation market segments in which we operate, and some of the significant market participants in our businesses, are undergoing consolidation. Such consolidation may increase pressure on prices and profit margins, as well as on payment terms and conditions, manufacturing timeframes and the technologies proposed and services provided to clients, which could weaken our position in certain markets. Furthermore, certain competitors might be more effective and faster in capturing available market opportunities, which in turn may negatively impact our results, revenues and market share.

### ***Political instability***

Political instability, which may result from various factors, including social or economic factors, in certain regions of the world may be prolonged and unpredictable. Any prolonged political instability in markets in which we participate could lead to delays or cancellation of orders, deliveries or projects in which we have invested significant resources, particularly when the customers are state-owned or state-controlled entities.

Geopolitical and economic risks, international sanctions and the price of oil affecting many energy-exporting nations have raised new concerns in international economies. Beyond any immediate impact, these developments may also negatively affect the evolution of the global economy.

In addition, geopolitical events in the geographic areas in which we operate can increase difficulties relative to the conditions under which the contracts we have signed are executed, extend execution periods or trigger unexpected legislative or regulatory changes that could significantly increase the costs of execution initially projected for these contracts, all of which could have a material adverse effect on our business, financial condition, cash flows and results of operations.

## ***Force majeure***

Force majeure events are unpredictable and may have significant adverse results such as: personal injury or fatality; damage to or destruction of ongoing projects, facilities or equipment; environmental damage; delays or cancellations of orders and deliveries; delays in the receipt of materials from our suppliers; delays in projects; or legal liability.

## ***Global climate change***

Global climate change could exacerbate certain of the threats facing our business, including the frequency and severity of weather-related events, which can disrupt our operations, damage our infrastructure or properties, create financial risk to our business or otherwise have a material adverse effect on our results of operations, financial position or liquidity. These may result in substantial costs to respond during the event, to recover from the event and possibly to modify existing or future infrastructure requirements to prevent recurrence. Climate changes could also disrupt our operations by impacting the availability and cost of materials needed for manufacturing and could increase insurance and other operating costs.

The potential physical impacts of climate change on our operations are highly uncertain, and could be particular to the geographic circumstances in areas in which we operate and may include changes in rainfall and storm patterns and intensities, water shortages, rising water levels and changing temperatures. These factors may impact our decisions to construct new facilities or maintain existing facilities in areas most prone to physical climate risks. We could also face indirect financial risks passed through the supply chain and process disruptions due to physical climate changes could result in price modifications for our products and the resources needed to produce them. These impacts may adversely impact the cost, production, and financial performance of our operations. In addition, concerns about the environmental impacts of air travel and tendencies towards “green” travel initiatives have contributed to higher levels of scrutiny with respect to emissions which could have the effect of reducing demand for air travel and could materially adversely impact our Aviation business and reputation.

Global climate change also results in regulatory risks which vary according to the national and local requirements implemented by each jurisdiction where we are present. Our products as well as our manufacturing and services activities are subject to environmental regulations by federal, provincial and local authorities in Canada as well as local regulatory authorities with jurisdiction over our operations outside of Canada. There continues to be a lack of consistent climate legislation, which creates economic and regulatory uncertainty. Most countries where we carry out manufacturing activities are at various stages of developing binding emission allocations and trading schemes. During 2019, our regulatory risks associated with climate change mainly fell under our obligations to the European Union Emission Trading Scheme, the United Kingdom Climate Change Agreement, the United Kingdom's Carbon Reduction Commitment energy efficiency scheme (launched in April 2010), the Energy Savings Opportunity Scheme and the Québec carbon market trading scheme. Increased public awareness and concern regarding global climate change may result in more legislative and/or regulatory requirements to reduce or mitigate the effects of greenhouse gas emissions. The impact to us and our industry from legislation and increased regulation regarding climate change is likely to be adverse and could be significant, particularly if regulators were to conclude that emissions from aircraft cause significant harm to the upper atmosphere or have a greater impact on climate change than other industries. We may be directly exposed to such measures, which could result in significant costs on us, on our customers and on our suppliers, including costs related to increased energy requirements, capital equipment, environmental monitoring and reporting, and other costs necessary to comply with such regulations that could adversely affect our business, financial condition, operating performance, and ability to compete. In addition, such regulatory changes could necessitate us to develop new technologies, requiring significant investments of capital and resources.

## **Market risk**

### ***Foreign exchange risk***

Our financial results are reported in U.S. dollars and a significant portion of our sales and operating costs are transacted in currencies other than U.S. dollars, most often euros, Canadian dollars, pounds sterling, Swiss francs, Swedish krona and Mexican pesos. The Aviation segment has adopted a progressive hedging strategy while Transportation aims to hedge all of its identified foreign currency exposures to limit the effect of currency movements on their results. Such contracts hedge foreign-currency denominated transactions and any change in the fair value of the contracts could be offset by changes in the underlying value of the transactions being hedged. The use of forward foreign exchange contracts also contains an inherent credit risk related to default on obligations by the counterparties to such contracts. Although we aim to have foreign-exchange hedging contracts with respect to all currencies in which we do business, there may be situations where we do not have hedging contracts or are not fully hedged for various reasons including regulation and market availability and accessibility. As a result, there can be no assurance that our approach to managing our exposure to foreign-exchange rate fluctuations will be effective in the future or that we will be able to enter into foreign-exchange hedging contracts as deemed necessary on satisfactory terms. In situations where we are not fully hedged, our results of operations are affected by movements in these currencies against the U.S. dollar. Significant fluctuations in relative currency values against the U.S. dollar could thus have a significant impact on our future profitability. Additionally, the settlement timing of foreign currency derivatives could significantly impact our liquidity. Fluctuations in foreign currency exchange rates could also have a material adverse effect on the relative competitive position of our products in markets where they face competition from competitors who are less affected by such fluctuations in exchange rates.

### ***Interest rate risk***

Changes in interest rates may result in fluctuations in our future cash flows related to variable-rate financial assets and liabilities, including long-term fixed-rate debt synthetically converted to variable interest rates. Changes in interest rates may also affect our future cash flows related to commitments to provide financing support to facilitate customers' access to capital. For these items, cash flows could be impacted by changes in benchmark rates such as Libor, Euribor or Bankers' Acceptance. In addition, we are exposed to gains and losses arising from changes in interest rates, which includes marketability risks, through our financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, investments in securities, investments in financing structures, lease subsidies and certain derivative financial instruments.

### ***Residual value risk***

We are exposed to residual value risks through RVGs provided in support of commercial aircraft sales. These RVGs may be provided either directly to an airline, a lessor or to a financing party that participates in a long-term financing associated with the sale of commercial aircraft. RVGs are offered as a strip of the value of an aircraft with a ceiling and a floor. If the underlying aircraft is sold at the end of the financing period (or during this period in limited circumstances), the resale value is compared to the RVG strip. We are required to make payments under these RVGs when the resale value of the aircraft falls below the ceiling of the strip covered by the guarantee, but our payment is capped at the floor of the strip if the resale value of the aircraft is below that level.

### ***Commodity price risk***

We are exposed to commodity price risk relating principally to fluctuations in the cost of materials used in our supply chain, such as aluminum, advanced aluminum alloy, titanium, steel and other materials that we use to manufacture our products, and which represent a significant portion of our cost of sales. We do not maintain significant inventories of raw materials and components and parts. The prices and availabilities of raw materials and components and parts may vary significantly from period to period due to factors such as consumer demand, supply, market conditions and costs of raw materials. In particular, raw materials required for our operations, may be subject to pricing cyclicality and periodic shortages from time to time. We cannot guarantee that corresponding variations in cost will be fully reflected in contract prices, and we may be unable to recoup these raw material price increases, which could affect the profitability of such contracts.

## ***Inflation risk***

Our aerospace businesses are exposed to inflation risk relating to fluctuations in costs and revenue for aircraft orders received but for which the delivery of the aircraft will take place several years in the future. Revenues for these orders are adjusted for price escalation clauses linked to inflation. At Transportation, contract cost estimates are subject to inflation rate assumptions. Estimated revenues at completion are adjusted for price escalation clauses, several of which are linked to inflation. Fluctuations in inflation rates could nevertheless have a significant impact on our future profitability if the inflation rate assumption used varies from the actual inflation rate, and this is a particularly acute risk in respect of large long-term contracts which may have an impact on our results for several years.

# ACCOUNTING AND REPORTING DEVELOPMENTS

## 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.

Refer to Note 3 - Changes in accounting policies, to our annual consolidated financial statements, for further details on the impact of adopting IFRS 16.

### **Income taxes**

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

## FINANCIAL INSTRUMENTS

An important portion of the consolidated balance sheets is composed of financial instruments. Our financial assets include cash and cash equivalents, trade and other receivables, aircraft loans and lease receivables, investments in securities, ACLP non-voting units, receivables from related party, investments in financing structures, long-term contract receivables, restricted cash and derivative financial instruments with a positive fair value. Our financial liabilities include trade and other payables, long-term debt, short-term borrowings, lease subsidies, government refundable advances, vendor non-recurring costs and derivative financial instruments with a negative fair value. Derivative financial instruments are mainly used to manage exposure to foreign exchange and interest rate risks. They consist mostly of forward foreign exchange contracts and interest rate swap agreements.

The use of financial instruments exposes us primarily to credit, liquidity and market risks, including foreign exchange and interest rate risks. A description on how we manage these risks is included in the Risk management section of Overview and in Note 38 – Financial risk management, to the consolidated financial statements.

### ***Fair value of financial instruments***

Financial instruments are recognized in the consolidated statement of financial position when the Corporation becomes a party to the contractual obligations of the instrument. On initial recognition, financial instruments are recognized at their fair value plus, in the case of financial instruments not at FVTP&L, transaction costs that are directly attributable to the acquisition or issue of financial instruments. Subsequent to initial recognition, financial instruments are measured according to the category to which they are classified, which are: a) financial instruments classified as FVTP&L, b) financial instruments designated as FVTP&L, c) FVOCI financial assets, or d) amortised cost. Financial instruments are subsequently measured at amortized cost, unless they are classified as FVOCI or FVTP&L or designated as FVTP&L, in which case they are subsequently measured at fair value. The classification of financial instruments as well as the revenues, expenses, gains and losses associated with these instruments are provided in Note 2 - Summary of significant accounting policies and in Note 14 – Financial instruments, to the consolidated financial statements.

Note 39 - Fair value of financial instruments, to the consolidated financial statements, provides a detailed description of the methods and assumptions used to determine the fair values of financial instruments. These values 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 we have immediate access. However, there is no active market for most of our financial instruments. In the absence of an active market, we determine 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, we use 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.

Note 39 – Fair value of financial instruments, to the consolidated financial statements, also provides a three-level fair value hierarchy, categorizing financial instruments by the inputs used to measure their fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). In cases where the inputs used to measure fair value are categorized within different levels of hierarchy, the fair value measurement is reported at the lowest level of the input that is significant to the entire measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, taking into account factors specific to the asset or liability. The fair value hierarchy is not meant to provide insight on the liquidity characteristics of a particular asset or on the degree of sensitivity of an asset or liability to other market inputs or factors.

We consider gains and losses arising from certain changes in fair value of financial instruments incidental to our core performance, such as those arising from changes in market yields, as our intention is to continue to hold these instruments for the foreseeable future. These gains and losses are excluded from adjusted net income and adjusted EPS to provide users of the financial statements a better understanding of the core results of our business and enable better comparability of results from one period to another and with peers.

In connection with the sale of commercial aircraft, we hold financial assets and have incurred financial liabilities, measured at fair value, some of which are reported as Level 3 financial instruments, including certain aircraft loans and lease receivables, certain investments in financing structures and lease subsidiaries. In addition, we have other level 3 financial instruments, including the conversion option, the funding commitments and ACLP non-voting units. The fair values of these financial instruments are determined using various assumptions, with the assumption on marketability risk being the most likely to change the fair value significantly from period to period. 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. Refer to Note 39 - Fair value of Financial instruments for detailed sensitivity analysis on those financial instruments.

#### *Sensitivity analysis*

Our main exposures to changes in fair value of financial instruments are related to changes in foreign exchange, interest rates, aircraft residual value curves, credit ratings and marketability adjustments. Note 38 – Financial risk management and Note 39 – Fair value of financial instruments, to the consolidated financial statements, present sensitivity analyses assuming variations in foreign exchange and interest rates.

## **RELATED PARTY TRANSACTIONS**

Related parties, as defined by IFRS, are our joint ventures, associates and key management personnel. A description of our transactions with these related parties is included in Note 41 – Transactions with related parties, to the consolidated financial statements.

## CRITICAL JUDGMENTS AND ACCOUNTING ESTIMATES

Our significant accounting policies and use of estimates and judgment are described in Note 2 – Summary of significant accounting policies and Note 4 – Use of estimates and judgment, to the consolidated financial statements. The preparation of financial statements in conformity with IFRS requires the use of estimates and judgment. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if:

- the estimate requires us to make assumptions about matters that are highly uncertain at the time the estimate is made; and
- we could have reasonably used different estimates in the current period, or changes in the estimate are reasonably likely to occur from period to period that would have a material impact on our financial condition, our changes in financial condition or our results of operations.

Our best estimates regarding the future are based on the facts and circumstances available at the time estimates are made. We use historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results will differ from the estimates used, and such differences could be material.

Our budget and strategic plan cover a five-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. We prepare a budget and a strategic plan covering a five-year period, on an annual basis, using a process whereby a detailed one-year budget and four-year strategic plan are prepared by each reportable segment and then consolidated. Cash flows and profitability included in the budget and strategic plan are based on existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and in-force collective agreements. The budget and strategic plan are subject to approval at various levels, including senior management and the Board of Directors. We use the budget and strategic plan, as well as additional projections or assumptions, to derive the expected results for periods thereafter. We then track performance as compared to the budget and strategic plan at various levels within the Corporation. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's most critical estimates and judgments. The sensitivity analyses below should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

### ***Long-term contracts***

Transportation conducts most of its business under long-term manufacturing and service contracts and Aviation has some long-term maintenance service contracts, as well as design and development contracts for third parties. Revenues and margins from long-term contracts relating to the designing, engineering or manufacturing of specially designed products (including rail vehicles, vehicle overhaul and signalling contracts) and service contracts are recognized over time. The long-term nature of these contracts requires estimates of total contract costs and the transaction price. The measure of progress toward complete satisfaction of the performance obligation is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance.

The contract transaction price includes adjustments for change orders, claims, performance incentives, price escalation clauses and other contract terms that provide for the adjustment of prices to the extent they represent enforceable rights for the Corporation. Variable consideration such as assumptions for price escalation clauses, performance incentives and claims is only included in the transaction price to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Contract costs include material, direct labour, manufacturing overhead and other costs, such as warranty and freight. Estimated contract costs at completion incorporate forecasts for material usage and costs, including escalation clauses, labour hours and costs, foreign exchange rates (including the effect of hedges) and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers. Management applies judgment to determine the probability that the Corporation will incur additional costs from delays or other penalties, and such costs, if probable, are included in estimated costs at completion, unless there is an adjustment to the transaction price in which case it is recorded as a reduction of estimated revenues at completion.

Recognized revenues and margins are subject to revisions as contracts progress towards completion. Management conducts quarterly reviews of estimated costs and revenues to completion on a contract-by-contract basis, including a review of escalation assumptions. In addition, a detailed annual review is performed on a contract-by-contract basis as part of the budget and strategic plan process. The effect of any revision may be significant and is recorded by way of a cumulative catch-up adjustment in the period in which the estimates are revised.

#### *Sensitivity analysis*

A 1% increase in the estimated future costs to complete all ongoing long-term contracts would have decreased Transportation's gross margin for fiscal year 2019 by approximately \$110 million.

#### ***Aerospace program tooling***

Aerospace program tooling amortization and the calculation of recoverable amounts used in impairment testing require estimates of the expected number of aircraft to be delivered over the life of each program. The expected number of aircraft is based on management's aircraft market forecasts and the Corporation's expected share of each market. Such estimates are reviewed in detail as part of the budget and strategic plan process. For purposes of impairment testing, management exercises judgment to identify independent cash inflows to identify CGUs by family of aircraft. Other key estimates used to determine the recoverable amount include the applicable discount rate, the expected future cash flows over the remaining life of each program, which include costs to complete the development activities, if any, as well as potential upgrades, and derivatives expected over the life of the program. The estimated cost of potential upgrades and derivatives is based on past experience with previous programs. The expected future cash flows also include cash flows from aftermarket activities, as well as expected cost savings due to synergies from the perspective of a market participant. The inputs used in the discounted cash flow model are Level 3 inputs (inputs that are not based on observable market data).

The recoverable amounts of aerospace assets or CGUs are based on fair value less costs of disposal. The recoverable amounts were established during the fourth quarter of 2019. The fair value measurements are categorized within Level 3 of the fair value hierarchy. The estimate of the fair value less costs of disposal was determined using forecast future cash flows. The estimated future cash flows for the first five years are based on the budget and strategic plan. After the initial five years, long-range forecasts prepared by management are used. Forecast future cash flows are based on management's best estimate of future sales under existing firm orders, expected future orders, timing of payments based on expected delivery schedules, revenues from related services, procurement costs based on existing contracts with suppliers, future labour costs, general market conditions, foreign exchange rates and applicable long-range forecast income tax rates and a post-tax discount rate of 9% based on a weighted average cost of capital calculated using market-based inputs, available directly from financial markets or based on a benchmark sampling of representative publicly-traded companies in the aerospace sector.

An impairment test was prepared for the *Global 7500* since it only entered into service in December 2018, and following this assessment the Corporation concluded there was no impairment.

### *Sensitivity analysis*

The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

A 10% decrease, evenly distributed over future periods, in the expected future net cash inflows for the *Global 7500* aircraft program would not have resulted in an impairment charge in fiscal year 2019.

An increase of 100-basis points in the discount rate used to perform the impairment tests would not have resulted in an impairment charge in fiscal year 2019 for the *Global 7500* aircraft program.

### **Goodwill**

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. Goodwill is monitored by management at the Transportation operating segment level. An impairment assessment is performed at least annually, and whenever circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that goodwill might be impaired. We selected the fourth quarter to perform an annual impairment assessment of goodwill.

The recoverable amount of the Transportation operating segment, the group of CGUs at which level goodwill is monitored by management, is based on fair value less costs of disposal using a discounted cash flow model. During the fourth quarter of 2019, the Corporation completed its annual goodwill impairment test for the Transportation segment and did not identify any impairment. The fair value measurement is categorized within Level 3 of the fair value hierarchy.

Estimated future cash flows were based on the budget and strategic plan for the first 5 years and a growth rate of 1% was applied to derive a terminal value beyond the initial 5-year period. The post-tax discount rate is also a key estimate in the discounted cash flow model and was based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount in fiscal year 2019 was 8.5%.

### *Sensitivity analysis*

A 100-basis point change in the post-tax discount rate would not have resulted in an impairment charge in 2019.

### **Valuation of deferred income tax assets**

To determine the extent to which deferred income tax assets can be recognized, we estimate the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget and strategic plan by tax jurisdiction on an undiscounted basis and are reviewed on a quarterly basis. We exercise judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable profits and availability of prudent tax planning strategies. See Note 12 - Income taxes for more details.

### **Tax contingencies**

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of our international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between our actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense or recovery already recorded. We establish tax provisions for possible consequences of audits by the tax authorities of each country in which we operate. The amount of such provisions is based on various factors, such as experience from previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of each legal entity.

## ***Credit and residual value guarantees***

The Corporation uses an internal valuation model based on stochastic simulations. The amounts expected to be paid under the guarantees may depend on whether credit defaults occur during the term of the original financing. When a credit default occurs, the credit guarantee may be called upon. In the absence of a credit default the residual value guarantee may be triggered. In both cases, the guarantees can only be called upon if there is a loss upon the sale of the aircraft. Therefore, the value of the guarantee is in large part impacted by the future value of the underlying aircraft, as well as on the likelihood that credit or residual value guarantees will be called upon at the expiry of the financing arrangements. Aircraft residual value curves, prepared by management based on information from external appraisals and adjusted to reflect specific factors of the current aircraft market and a balanced market in the medium and long term, are used to estimate the underlying aircraft future value. The amount of the liability is also significantly impacted by the current market assumption for interest rates since payments under these guarantees are mostly expected to be made in the medium to long term. Other key estimates in calculating the value of the guarantees include default probabilities, estimated based on published credit ratings when available or, when not available, on internal assumptions regarding the credit risk of customers. The estimates are reviewed on a quarterly basis.

### ***Sensitivity analysis***

The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

Assuming a decrease of 10% in the residual value curves of all commercial aircraft as at December 31, 2019, Aviation's EBIT for 2019 would have been negatively impacted by \$7 million.

Assuming an increase of 10% in the likelihood that residual value guarantees will be called upon at the expiry of the financing arrangements as at December 31, 2019, Aviation's EBIT for 2019 would have been negatively impacted by \$7 million.

Assuming a 100-basis point decrease in interest rates as at December 31, 2019, Aviation's EBT for 2019 would have been negatively impacted by \$2 million. Assuming a 100-basis point increase in interest rates as at December 31, 2019, Aviation's EBT for 2019 would have been positively impacted by \$2 million.

## ***Retirement and other long-term employee benefits***

The actuarial valuation process used to measure pension and other post-employment benefit costs, assets and obligations is dependent on assumptions regarding discount rates, compensation and pre-retirement benefit increases, inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. The impacts from changes in discount rates and, when significant, from key events and other circumstances, are recorded quarterly.

Discount rates are used to determine the present value of the expected future benefit payments and represent the market rates for high-quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit liabilities.

As the Canadian high-quality corporate bond market, as defined under IFRS, includes relatively few medium- and long-term maturity bonds, the discount rate for the Corporation's Canadian pension and other post-employment plans is established by constructing a yield curve using three maturity ranges. The first maturity range of the curve is based on observed market rates for AA-rated corporate bonds with maturities of less than six years. In the longer maturity ranges, due to the smaller number of high-quality bonds available, the curve is derived using market observations and extrapolated data. The extrapolated data points were created by adding a term-based yield spread over long-term provincial bond yields. This term-based spread is extrapolated between a base spread and a long spread. The base spread is based on the observed spreads between AA-rated corporate bonds and AA-rated provincial bonds for the 5 to 10 years to maturity range. The long spread is determined as the spread required at the point of average maturity of AA-rated provincial bonds in the 11 to 30 years to maturity range such that the average AA-rated corporate bond spread above AA-rated provincial bonds is equal to the extrapolated spread derived by applying the ratio of the observed spreads between A-rated corporate bonds and AA-rated provincial bonds for the 11 to 30 years to maturity range over the 5 to 10 years to maturity range, to the

base spread. For maturities longer than the average maturity of AA-rated provincial bonds in the 11 to 30 years to maturity range, the spread is assumed to remain constant at the level of the long spread.

As the U.K. high-quality corporate bond market, as defined under IFRS, includes relatively few long-term maturity bonds, the discount rate for our U.K. pension and other post-employment plans is established by constructing a yield curve. The yield curve is developed from corporate bond yield information for corporate bonds rated AA or equivalent quality and excluding bonds which have a “corporate” BICS assignment but which have actual or implied government backing. Target yields are developed from bonds across a range of maturity points, and a curve is fitted to those targets. Spot rates (zero coupon bond yields) are developed from the yield curve and used to discount benefit payment amounts associated with each future year. Since corporate bonds are generally not available for very long maturities, an assumption is made that spot rates remain level beyond the term of the longest data target point. The term of the longest data target point as at December 31, 2019 was 23 years.

Expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases, in the context of current economic conditions.

See Note 24 – Retirement benefits, to the consolidated financial statements, for further details regarding assumptions used and sensitivity analysis to changes in critical actuarial assumptions.

### ***Consolidation***

We consolidate entities when, based on an evaluation of the substance of our relationship, we establish that we control the investee. We control an investee when we are exposed to, or have rights to, variable returns from our involvement with the investee and the ability to use power over the investee to affect the amount of our returns. This evaluation includes the use of judgment to determine whether rights held by NCI, such as the CDPQ’s rights in respect of Transportation, are protective in nature as opposed to substantive. We reassess the initial determination of control if facts or circumstances indicate that there may be changes to one or more elements of control.

From time to time, we participate in structured entities where voting rights are not the dominant factor in determining control. In these situations, we may use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether we are exposed to, or have rights to, significant variable returns. The quantitative analyses involve estimating the future cash flows and performance of the investee and analyzing the variability in those cash flows. The qualitative analyses involve consideration of factors such as the purpose and design of the investee and whether we are acting as an agent or principal. There is a significant amount of judgment exercised in evaluating the results of these analyses as well as in determining if we have power to affect the investee’s returns, including an assessment of the impact of potential voting rights, contractual agreements and de facto control.

### ***Onerous contract provision***

An onerous contract provision is recorded if it is more likely than not that the unavoidable costs of meeting the obligations under a firm contract exceed the economic benefits expected to be received under it. In most cases the economic benefits expected to be received under the contract consist of contract revenue. The calculation of the unavoidable costs requires estimates of expected future costs, including anticipated future cost reductions related to performance improvements and transformation initiatives, anticipated cost overruns, expected costs associated with late delivery penalties and technological problems, as well as allocations of costs that relate directly to the contract. The measurement of the provision is impacted by anticipated delivery schedules since for new aircraft programs early production units require higher cost than units produced later in the process, and for long term train manufacturing contracts delays result in penalties.

#### ***Sensitivity analysis***

A 1% increase in the expected costs over the life of the contract would have decreased EBIT for fiscal year 2019 by approximately \$184 million.



## ***CDPQ investment equity and derivative liability components***

The convertible shares issued to the CDPQ contain no obligation for the Corporation to deliver cash or other financial assets to the CDPQ. Judgment was used to conclude that the CDPQ's convertible share investment in BT Holdco is considered a compound instrument comprised of an equity component, representing the discretionary dividends and liquidation preference, and a liability component that reflects a derivative to settle the instrument by delivering a variable number of common shares of BT Holdco, as opposed to the entire instrument being characterized as a liability. The Corporation presents convertible shares in its equity (NCI) and derivative component as a liability.

The fair value of the convertible shares at issuance was assigned to its respective equity and derivative liability components so that no gain or loss arose from recognizing each component separately, the fair value of the derivative liability being established first and the residual amount allocated to the equity component. The liability component is remeasured quarterly using the Corporation's best estimate of the present value of the settlement amount, other than a scenario where the Corporation initiates a purchase of CDPQ's interest. The Corporation uses an internal valuation model 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 the 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 Transportation meeting the performance incentives agreed upon with the CDPQ, the timing of exercise of the conversion rights and the applicable conversion rate. Fair value of the shares on an as-converted basis is calculated using an EBIT multiple, which is based on market data, to determine the enterprise value. The discount rate used is also determined using market data. The Corporation uses internal assumptions to determine the term of the instrument and the future performance of Transportation, derived from the budget and strategic plan.

See Note 39 - Fair value of financial instruments for a sensitivity analysis on the variability in the fair value of the conversion option as a result of a reasonably likely change in the expected future performance of Transportation.

## ***Investments in ACLP***

On July 1, 2018 the Corporation recognized its equity investment in ACLP at \$1,761 million which represented the Corporation's 33.55% interest in the July 1, 2018 estimated fair value of ACLP. The estimated fair value of ACLP was determined using a discounted cash flow analysis following independent external professional advice and consultations with the controlling partner. This valuation incorporated assumptions regarding potential synergies from the procurement, sales and marketing and customer support expertise Airbus will bring to the program, which involves a significant amount of judgment regarding the future operating performance of the program.

The Corporation performed an impairment test in the fourth quarter of 2019 on its investments in ACLP since there were indicators of impairment. The Corporation determined that the carrying amount of its investment in ACLP exceeded its recoverable amount, and accordingly recorded an impairment charge of \$1,578 million. See Note 40 - Investments in Joint ventures and Associates for more details.

See Note 39 - Fair value of financing instruments for information regarding the estimates used in determining the fair value of the Corporation's funding commitments toward ACLP and the fair value of the Corporation's investment in ACLP non-voting units.

## CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Regulation 52-109, we have filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

### ***Disclosure controls and procedures***

The CEO and the CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Corporation has been made known to them; and
- information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective.

### ***Internal controls over financial reporting***

The CEO and the CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our internal controls over financial reporting. Based on this evaluation, the CEO and the CFO concluded that the internal controls over financial reporting are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 Framework).

### ***Changes in internal controls over financial reporting***

No changes were made to our internal controls over financial reporting that occurred during the quarter and fiscal year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### ***Statement on Third-Party Review of Bombardier's Compliance Policies***

On August 1, 2019, Bombardier announced that it would, in partnership with Export Development Canada (EDC), undergo a comprehensive third-party review of its ethics compliance policies and procedures. This review, which was supported by an independent assessment by a leading Canadian law firm, has been completed. The review noted that Bombardier's leadership team has prioritized making compliance and ethics central to the company's culture and recognized the significant investments the company has made over the past few years to strengthen its compliance and ethics program. A number of improvements and recommendations, primarily related to strengthening the oversight role of its internal compliance function, were also identified during the review. Consistent with its commitment to having a world-class risk management system, Bombardier has accepted these recommendations and has begun to implement them. Bombardier has agreed to provide EDC with regular updates on the implementation of these improvements, ensuring the most robust and comprehensive processes are applied to future projects. The company thanks EDC for its continuing export financing support and for its partnership in this review process.

## FOREIGN EXCHANGE RATES

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

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

	December 31, 2019	December 31, 2018	Increase (Decrease)
Euro	<b>1.1234</b>	1.1450	(2%)
Canadian dollar	<b>0.7696</b>	0.7337	5%
Pound sterling	<b>1.3204</b>	1.2800	3%

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

	December 31, 2019	December 31, 2018	Decrease
Euro	<b>1.1069</b>	1.1422	(3%)
Canadian dollar	<b>0.7574</b>	0.7582	0%
Pound sterling	<b>1.2849</b>	1.2878	0%

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

	December 31, 2019	December 31, 2018	Decrease
Euro	<b>1.1200</b>	1.1822	(5%)
Canadian dollar	<b>0.7537</b>	0.7729	(2%)
Pound sterling	<b>1.2763</b>	1.3367	(5%)

# SHAREHOLDER INFORMATION

## Authorized, issued and outstanding share data, as at February 11, 2020

	Authorized	Issued and outstanding
Class A Shares (multiple voting) <sup>(1)</sup>	3,592,000,000	308,736,929
Class B Shares (subordinate voting) <sup>(2)</sup>	3,592,000,000	2,088,866,720 <sup>(3)</sup>
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	5,811,736
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	6,188,264
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

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

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

<sup>(3)</sup> Net of 39,160,485 Class B Subordinate Voting Shares purchased and held in trust in connection with the PSU and RSU plans.

## Warrant, share option, PSU and DSU data as at December 31, 2019

Warrants issued and outstanding	305,851,872
Options issued and outstanding under the share option plans	131,006,338
PSUs and DSUs issued and outstanding under the PSU and DSU plans	96,309,753
Class B Subordinate Voting Shares held in trust to satisfy PSU obligations	39,160,485

## Information

Bombardier Inc.

Investor Relations

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Additional information relating to the Corporation, including the annual information form, are available on SEDAR at [sedar.com](http://sedar.com) or on Bombardier's dedicated investor relations website at [ir.bombardier.com](http://ir.bombardier.com).

The *Global 8000* and *Learjet 75 Liberty* aircraft are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specifications and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind.

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

## SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from, and should be read in conjunction with, the consolidated financial statements for fiscal years ended December 31, 2019, 2018 and 2017.

The following table provides selected financial information for the last three fiscal years.

Fiscal years ended December 31	2019 <sup>(1)</sup>	2018	2017 <i>restated</i> <sup>(2)</sup>
Revenues	\$ 15,757	\$ 16,236	\$ 16,199
Net income (loss) attributable to equity holders of Bombardier Inc.	\$ (1,797)	\$ 232	\$ (494)
EPS (in dollars)			
Basic	\$ (0.76)	\$ 0.10	\$ (0.24)
Diluted	\$ (0.76)	\$ 0.09	\$ (0.24)
Cash dividends declared per share (in Canadian dollars)			
Class A Shares (multiple voting)	\$ —	\$ —	\$ —
Class B Shares (subordinate voting)	\$ —	\$ —	\$ —
Series 2 Preferred Shares	\$ 0.99	\$ 0.90	\$ 0.72
Series 3 Preferred Shares	\$ 1.00	\$ 1.00	\$ 0.89
Series 4 Preferred Shares	\$ 1.56	\$ 1.56	\$ 1.56

As at December 31	2019 <sup>(1)</sup>	2018	2017 <i>restated</i> <sup>(2)</sup>
Total assets	\$ 24,972	\$ 24,958	\$ 24,916
Non-current financial liabilities	\$ 10,550	\$ 10,619	\$ 10,165

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> Restated due to the adoption of IFRS 15, *Revenue from contracts with customers*.

The quarterly data table is shown hereafter.

**February 12, 2020**

**BOMBARDIER INC.****QUARTERLY DATA (UNAUDITED)**

(the quarterly data has been prepared in accordance with IAS 34, Interim financial reporting, except market price ranges)

(in millions of U.S. dollars, except per share amounts)

Fiscal years	2019 <sup>(1)</sup>					2018				
	Total	Fourth quarter	Third quarter	Second quarter	First quarter	Total	Fourth quarter	Third quarter	Second quarter	First quarter
<b>Revenues</b> <sup>(2)</sup>										
Aviation	\$ 7,501	\$ 2,413	\$ 1,558	\$ 2,120	\$ 1,410	\$ 7,324	\$ 2,142	\$ 1,504	\$ 2,003	\$ 1,675
Transportation	8,269	1,793	2,175	2,194	2,107	8,915	2,161	2,140	2,259	2,355
Corporate and Others	(13)	(1)	(11)	—	(1)	(3)	—	(1)	—	(2)
	\$ 15,757	\$ 4,205	\$ 3,722	\$ 4,314	\$ 3,516	\$ 16,236	\$ 4,303	\$ 3,643	\$ 4,262	\$ 4,028
<b>EBIT</b> <sup>(2)</sup>										
Aviation	\$ 1,194	\$ 94	\$ 96	\$ 340	\$ 664	\$ 424	\$ 171	\$ 132	\$ 69	\$ 52
Transportation	22	(236)	88	87	83	774	236	184	163	191
Corporate and Others	(1,714)	(1,554)	(41)	(56)	(63)	(197)	(65)	(49)	(41)	(42)
	(498)	(1,696)	143	371	684	1,001	342	267	191	201
Financing expense <sup>(3)</sup>	1,072	257	261	269	311	712	261	147	163	162
Financing income <sup>(3)</sup>	(230)	(106)	(28)	(22)	(100)	(106)	(33)	(25)	(31)	(38)
<b>EBT</b>	<b>(1,340)</b>	<b>(1,847)</b>	<b>(90)</b>	<b>124</b>	<b>473</b>	<b>395</b>	<b>114</b>	<b>145</b>	<b>59</b>	<b>77</b>
Income taxes	267	(128)	1	160	234	77	59	(4)	(11)	33
<b>Net income (loss)</b>	<b>\$ (1,607)</b>	<b>\$ (1,719)</b>	<b>\$ (91)</b>	<b>\$ (36)</b>	<b>\$ 239</b>	<b>\$ 318</b>	<b>\$ 55</b>	<b>\$ 149</b>	<b>\$ 70</b>	<b>\$ 44</b>
Attributable to										
Equity holders of Bombardier Inc.	\$ (1,797)	\$ (1,770)	\$ (139)	\$ (83)	\$ 195	\$ 232	\$ 15	\$ 111	\$ 68	\$ 38
NCI	190	51	48	47	44	86	40	38	2	6
	\$ (1,607)	\$ (1,719)	\$ (91)	\$ (36)	\$ 239	\$ 318	\$ 55	\$ 149	\$ 70	\$ 44
<b>EPS (in dollars)</b>										
Basic	\$ (0.76)	\$ (0.74)	\$ (0.06)	\$ (0.04)	\$ 0.08	\$ 0.10	\$ 0.02	\$ 0.04	\$ 0.03	\$ 0.01
Diluted	\$ (0.76)	\$ (0.74)	\$ (0.06)	\$ (0.04)	\$ 0.08	\$ 0.09	\$ 0.02	\$ 0.04	\$ 0.02	\$ 0.01
<b>Market price range of Class B Subordinate Voting Shares (in Canadian dollars)</b>										
High	\$ 3.03	\$ 2.15	\$ 2.34	\$ 2.92	\$ 3.03	\$ 5.58	\$ 4.71	\$ 5.58	\$ 5.36	\$ 4.16
Low	\$ 1.53	\$ 1.53	\$ 1.53	\$ 1.96	\$ 1.85	\$ 1.59	\$ 1.59	\$ 4.10	\$ 3.55	\$ 2.80

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> Figures are restated as a result of the formation of Bombardier Aviation, our new reportable segment, and the reclassification of the Corporation's interest in ACLP as a corporately held investment and therefore is included in Corporate and Others. Refer to the Segment reporting section in Overview for further details.

<sup>(3)</sup> The amounts presented on a yearly basis may not correspond to the sum of the four quarters as certain reclassifications to quarterly figures to or from financing income and financing expense may be required on a cumulative basis.

**BOMBARDIER INC.**  
**HISTORICAL FINANCIAL SUMMARY**

(in millions of U.S. dollars, except per share amounts and number of common shares)

For the fiscal years ended December 31	2019 <sup>(1)</sup>	2018	2017	2016	2015
			<i>restated<sup>(2)</sup></i>		
Revenues	\$ 15,757	\$ 16,236	\$ 16,199	\$ 16,339	\$ 18,172
<b>Adjusted EBIT<sup>(3)</sup></b>	\$ 470	\$ 1,029	\$ 725	\$ 427	\$ 554
Special items	968	28	426	485	5,392
<b>EBIT</b>	<b>(498)</b>	1,001	299	(58)	(4,838)
Financing expense	1,072	712	801	819	418
Financing income	(230)	(106)	(56)	(70)	(70)
<b>EBT</b>	<b>(1,340)</b>	395	(446)	(807)	(5,186)
Income taxes	267	77	79	174	154
<b>Net income (loss)</b>	\$ <b>(1,607)</b>	\$ 318	\$ (525)	\$ (981)	\$ (5,340)
Attributable to					
Equity holders of Bombardier Inc.	\$ (1,797)	\$ 232	\$ (494)	\$ (1,022)	\$ (5,347)
NCI	\$ 190	\$ 86	\$ 31	\$ 41	\$ 7
<b>Adjusted net income (loss)<sup>(3)</sup></b>	\$ <b>(396)</b>	\$ 438	\$ 91	\$ (268)	\$ 326
<b>EPS (in dollars)</b>					
Basic	\$ (0.76)	\$ 0.10	\$ (0.24)	\$ (0.48)	\$ (2.58)
Diluted	\$ (0.76)	\$ 0.09	\$ (0.24)	\$ (0.48)	\$ (2.58)
Adjusted <sup>(3)</sup>	\$ (0.25)	\$ 0.14	\$ 0.04	\$ (0.15)	\$ 0.14
<b>General information</b>					
Export revenues from Canada	\$ 5,187	\$ 5,803	\$ 6,498	\$ 6,383	\$ 7,335
Net additions to PP&E and intangible assets	\$ 523	\$ 415	\$ 1,317	\$ 1,201	\$ 1,862
Amortization	\$ 422	\$ 272	\$ 314	\$ 371	\$ 438
Impairment charges (reversals) on PP&E and intangible assets	\$ (4)	\$ 11	\$ 51	\$ 10	\$ 4,300
Dividend per common share (in Canadian dollars)					
Class A	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Class B Subordinate Voting	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Dividend per preferred share (in Canadian dollars)					
Series 2	\$ 0.99	\$ 0.90	\$ 0.72	\$ 0.68	\$ 0.70
Series 3	\$ 1.00	\$ 1.00	\$ 0.89	\$ 0.78	\$ 0.78
Series 4	\$ 1.56	\$ 1.56	\$ 1.56	\$ 1.56	\$ 1.56
<b>Market price ranges (in Canadian dollars)</b>					
<b>Class A Shares</b>					
High	\$ 3.08	\$ 5.60	\$ 3.25	\$ 3.35	\$ 4.24
Low	\$ 1.57	\$ 1.70	\$ 1.87	\$ 0.89	\$ 1.18
Close	\$ 1.94	\$ 2.08	\$ 3.05	\$ 2.33	\$ 1.49
<b>Class B Subordinate Voting Shares</b>					
High	\$ 3.03	\$ 5.58	\$ 3.24	\$ 2.28	\$ 4.24
Low	\$ 1.53	\$ 1.59	\$ 1.96	\$ 0.72	\$ 1.03
Close	\$ 1.93	\$ 2.03	\$ 3.03	\$ 2.16	\$ 1.34
<b>As at December 31</b>			<i>restated<sup>(2)</sup></i>	<i>restated<sup>(2)</sup></i>	
Number of common shares (in millions)	2,398	2,373	2,194	2,193	2,220
Book value per common share (in dollars)	\$ (3.49)	\$ (2.63)	\$ (3.20)	\$ (2.95)	\$ (1.99)

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> Restated due to the adoption of IFRS 15, *Revenue from contracts with customers*.

<sup>(3)</sup> Non-GAAP financial measures. Refer to the Non-GAAP financial measures for definitions of these metrics and reconciliations to the most comparable IFRS measures in 2019 and 2018.

**BOMBARDIER INC.**  
**HISTORICAL FINANCIAL SUMMARY (CONTINUED)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at December 31	2019 <sup>(1)</sup>	2018	2017	2016	2015
			<i>restated<sup>(2)</sup></i>	<i>restated<sup>(2)</sup></i>	
<b>Assets</b>					
Cash and cash equivalents	\$ 2,578	\$ 3,187	\$ 2,988	\$ 3,384	\$ 2,720
Trade and other receivables	1,844	1,575	1,174	1,220	1,473
Contract assets	2,485	2,617	2,460	1,631	—
Inventories	4,599	4,402	3,429	4,286	6,978
Other financial assets	195	210	415	336	450
Other assets	473	357	427	427	484
Assets held for sale	1,309	—	4,150	—	—
<b>Current assets</b>	<b>13,483</b>	<b>12,348</b>	<b>15,043</b>	<b>11,284</b>	<b>12,105</b>
PP&E	1,781	1,557	1,696	1,949	2,061
Aerospace program tooling	4,616	4,519	3,581	5,174	3,975
Goodwill	1,936	1,948	2,042	1,855	1,978
Deferred income taxes	546	746	595	698	761
Investments in joint ventures and associates	1,059	2,211	491	332	356
Other financial assets	989	1,030	825	915	870
Other assets	562	599	643	588	797
<b>Non-current assets</b>	<b>11,489</b>	<b>12,610</b>	<b>9,873</b>	<b>11,511</b>	<b>10,798</b>
	<b>\$ 24,972</b>	<b>\$ 24,958</b>	<b>\$ 24,916</b>	<b>\$ 22,795</b>	<b>\$ 22,903</b>
<b>Liabilities</b>					
Trade and other payables	\$ 4,682	\$ 4,634	\$ 3,964	\$ 3,045	\$ 4,040
Provisions	1,060	1,390	1,630	1,542	1,108
Contract liabilities	5,739	4,262	3,820	3,840	—
Advances and progress billings in excess of long-term contract inventories	—	—	—	—	1,408
Advances on aerospace programs	—	—	—	—	2,002
Other financial liabilities	518	607	342	608	991
Other liabilities	1,548	1,499	1,723	1,634	2,274
Liabilities directly associated with assets held for sale	1,768	—	2,686	—	—
<b>Current liabilities</b>	<b>15,315</b>	<b>12,392</b>	<b>14,165</b>	<b>10,669</b>	<b>11,823</b>
Provisions	311	1,110	781	1,561	918
Contract liabilities	1,417	1,933	1,272	1,673	—
Advances on aerospace programs	—	—	—	—	1,534
Long-term debt	9,325	9,093	9,200	8,738	8,908
Retirement benefits	2,445	2,381	2,633	2,647	2,159
Other financial liabilities	1,225	1,526	965	999	619
Other liabilities	845	537	595	891	996
<b>Non-current liabilities</b>	<b>15,568</b>	<b>16,580</b>	<b>15,446</b>	<b>16,509</b>	<b>15,134</b>
	<b>30,883</b>	<b>28,972</b>	<b>29,611</b>	<b>27,178</b>	<b>26,957</b>
<b>Equity (deficit)</b>					
Attributable to equity holders of Bombardier Inc.	(7,667)	(5,563)	(6,608)	(6,054)	(4,067)
Attributable to NCI	1,756	1,549	1,913	1,671	13
	(5,911)	(4,014)	(4,695)	(4,383)	(4,054)
	<b>\$ 24,972</b>	<b>\$ 24,958</b>	<b>\$ 24,916</b>	<b>\$ 22,795</b>	<b>\$ 22,903</b>

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies, to our Consolidated financial statements, for the impact of the adoption of IFRS 16, *Leases*. Under the modified retrospective approach adopted by the Corporation, 2018 figures are not restated.

<sup>(2)</sup> Restated due to the adoption of IFRS 15, *Revenue from contracts with customers*.



# **BOMBARDIER INC.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**For the fiscal years ended  
December 31, 2019 and 2018**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and MD&A of Bombardier Inc. and all other information in the financial report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with IFRS as issued by the International Accounting Standards Board. The MD&A has been prepared in accordance with the requirements of Canadian Securities Administrators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented in the MD&A is consistent with that in the consolidated financial statements.

Bombardier Inc.'s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have designed disclosure controls and procedures and internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to Bombardier Inc. has been made known to them; and information required to be disclosed in Bombardier Inc.'s filings is recorded, processed, summarized and reported within the time periods specified in Canadian securities legislation.

Bombardier Inc.'s CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures and internal controls over financial reporting as of the end of the fiscal year 2019. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures and internal controls over financial reporting were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 framework). In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of the end of the fiscal year 2019. In compliance with the Canadian Securities Administrators' National Instrument 52-109, Bombardier Inc.'s CEO and CFO have provided a certification related to Bombardier Inc.'s annual disclosure to the Canadian Securities Administrators, including the consolidated financial statements and MD&A.

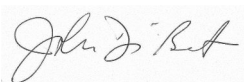
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through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

The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with management, as well as with the internal and independent auditors, to review the consolidated financial statements, independent auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the independence and the fees of the independent auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The independent auditors have full and free access to the Audit Committee to discuss their audit and related matters.



Alain Bellemare  
President and Chief Executive Officer



John Di Bert, CPA, CA  
Senior Vice President and Chief Financial Officer

February 12, 2020

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF BOMBARDIER INC.

#### **Opinion**

We have audited the consolidated financial statements of Bombardier Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019, 2018 and January 1, 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, 2018 and January 1, 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Financial Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Financial Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

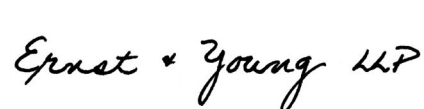
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Zahid Fazal.

<sup>(1)</sup>  


Ernst & Young LLP  
Montréal, Canada  
February 12, 2020

<sup>(1)</sup> CPA auditor, CA, public accountancy permit no. A122227

# CONSOLIDATED FINANCIAL STATEMENTS

For fiscal years 2019 and 2018

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

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

Term	Description	Term	Description
ACLP	Airbus Canada Limited Partnership (formerly CSALP)	EPS	Earnings (loss) per share attributable to equity holders of Bombardier Inc.
AFS	Available for sale	FVOCI	Fair value through other comprehensive income (loss)
BICS	Bloomberg Industry Classification System	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
CGU	Cash generating unit	IFRS	International Financial Reporting Standard(s)
CSALP	C Series Aircraft Limited Partnership	MD&A	Management's discussion and analysis
DB	Defined benefit	NCI	Non-controlling interests
DC	Defined contribution	OCI	Other comprehensive income (loss)
DDHR	Derivative designated in a hedge relationship	PP&E	Property, plant and equipment
DSU	Deferred share unit	PSU	Performance share unit
EBIT	Earnings (loss) before financing expense, financing income and income taxes	R&D	Research and development
EBITDA	Earnings (loss) before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	RSU	Restricted share unit
EBT	Earnings (loss) before income taxes	SG&A	Selling, general and administrative
		U.K.	United Kingdom
		U.S.	United States of America

**BOMBARDIER INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
For the fiscal years ended December 31  
(in millions of U.S. dollars, except per share amounts)

	Notes	2019 <sup>(1)</sup>	2018
Revenues		\$ 15,757	\$ 16,236
Cost of sales	18	14,157	13,958
<b>Gross margin</b>		<b>1,600</b>	<b>2,278</b>
SG&A		1,013	1,156
R&D	6	292	217
Share of income of joint ventures and associates	40	(128)	(66)
Other income	7	(47)	(58)
Special items	8	968	28
<b>EBIT</b>		<b>(498)</b>	<b>1,001</b>
Financing expense	9	1,072	712
Financing income	9	(230)	(106)
<b>EBT</b>		<b>(1,340)</b>	<b>395</b>
Income taxes	12	267	77
<b>Net income (loss)</b>		<b>\$ (1,607)</b>	<b>\$ 318</b>
Attributable to			
Equity holders of Bombardier Inc.		\$ (1,797)	\$ 232
NCI		190	86
		\$ (1,607)	\$ 318
<b>EPS (in dollars)</b>	13		
Basic		\$ (0.76)	\$ 0.10
Diluted		\$ (0.76)	\$ 0.09

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies for the impact of the adoption of IFRS 16, *Leases*.

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

**BOMBARDIER INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the fiscal years ended December 31  
(in millions of U.S. dollars)

	Notes	2019	2018
<b>Net income (loss)</b>		<b>\$ (1,607)</b>	<b>\$ 318</b>
<b>OCI</b>			
<b>Items that may be reclassified to net income</b>			
<b>Net change in cash flow hedges<sup>(1)</sup></b>			
Foreign exchange re-evaluation		(4)	(3)
Net loss on derivative financial instruments		(1)	(263)
Reclassification to income or to the related non-financial asset <sup>+(2)(3)</sup>		39	10
Income taxes	12	(17)	55
		<b>17</b>	<b>(201)</b>
<b>FVOCI financial assets</b>			
Net unrealized gain		5	1
<b>CCTD</b>			
Net investments in foreign operations		95	33
<b>Items that are never reclassified to net income</b>			
<b>FVOCI equity instruments</b>			
Net unrealized gain (loss)		5	(6)
<b>Retirement benefits<sup>(1)</sup></b>			
Remeasurement of defined benefit plans	24	(520)	278
Income taxes	12	50	(6)
		<b>(465)</b>	<b>266</b>
<b>Total OCI</b>		<b>(348)</b>	<b>99</b>
<b>Total comprehensive income (loss)</b>		<b>\$ (1,955)</b>	<b>\$ 417</b>
Attributable to			
Equity holders of Bombardier Inc.		<b>\$ (2,117)</b>	<b>\$ 413</b>
NCI		<b>162</b>	<b>4</b>
		<b>\$ (1,955)</b>	<b>\$ 417</b>

<sup>(1)</sup> Includes \$2 million of gain related to cash flow hedges and \$2 million of loss related to retirement benefits related to our share of income of joint ventures and associates for fiscal year 2019 (losses of \$1 million and \$7 million respectively for fiscal year 2018).

<sup>(2)</sup> Includes \$56 million of loss reclassified to the related non-financial asset for fiscal year 2019 (\$15 million of gain for fiscal year 2018).

<sup>(3)</sup> \$1 million of net deferred gain is expected to be reclassified from OCI to the carrying amount of the related non-financial asset or to income during fiscal year 2020.

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



**BOMBARDIER INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at  
(in millions of U.S. dollars)

	Notes	December 31 2019 <sup>(1)</sup>	December 31 2018	January 1 2018
<b>Assets</b>				
Cash and cash equivalents	15	\$ 2,578	\$ 3,187	\$ 2,988
Trade and other receivables	16	1,844	1,575	1,174
Contract assets	17	2,485	2,617	2,460
Inventories	18	4,599	4,402	3,429
Other financial assets	20	195	210	415
Other assets	21	473	357	427
Assets held for sale	30	1,309	—	4,150
<b>Current assets</b>		<b>13,483</b>	<b>12,348</b>	<b>15,043</b>
PP&E	22	1,781	1,557	1,696
Aerospace program tooling	23	4,616	4,519	3,581
Goodwill	23	1,936	1,948	2,042
Deferred income taxes	12	546	746	595
Investments in joint ventures and associates	40	1,059	2,211	491
Other financial assets	20	989	1,030	825
Other assets	21	562	599	643
<b>Non-current assets</b>		<b>11,489</b>	<b>12,610</b>	<b>9,873</b>
		<b>\$ 24,972</b>	<b>\$ 24,958</b>	<b>\$ 24,916</b>
<b>Liabilities</b>				
Trade and other payables	25	\$ 4,682	\$ 4,634	\$ 3,964
Provisions	26	1,060	1,390	1,630
Contract liabilities	17	5,739	4,262	3,820
Other financial liabilities	27	518	607	342
Other liabilities	28	1,548	1,499	1,723
Liabilities directly associated with assets held for sale	30	1,768	—	2,686
<b>Current liabilities</b>		<b>15,315</b>	<b>12,392</b>	<b>14,165</b>
Provisions	26	311	1,110	781
Contract liabilities	17	1,417	1,933	1,272
Long-term debt	29	9,325	9,093	9,200
Retirement benefits	24	2,445	2,381	2,633
Other financial liabilities	27	1,225	1,526	965
Other liabilities	28	845	537	595
<b>Non-current liabilities</b>		<b>15,568</b>	<b>16,580</b>	<b>15,446</b>
		<b>30,883</b>	<b>28,972</b>	<b>29,611</b>
<b>Equity (deficit)</b>				
Attributable to equity holders of Bombardier Inc.		(7,667)	(5,563)	(6,608)
Attributable to NCI	10	1,756	1,549	1,913
		<b>(5,911)</b>	<b>(4,014)</b>	<b>(4,695)</b>
		<b>\$ 24,972</b>	<b>\$ 24,958</b>	<b>\$ 24,916</b>
Commitments and contingencies	43			

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies for the impact of the adoption of IFRS 16, *Leases*.

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

On behalf of the Board of Directors



Pierre Beaudoin  
Director



Diane Giard  
Director

**BOMBARDIER INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the fiscal years 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)	Remeasurement losses	Contributed surplus	FVOCI	Cash flow hedges	CCTD	Total	NCI	Total equity (deficit)
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	—	—	—	232	—	—	—	—	—	232	86	318
OCI	—	—	—	—	272	—	(5)	(195)	109	181	(82)	99
	—	—	—	232	272	—	(5)	(195)	109	413	4	417
Issuance of warrants <sup>(1)</sup>	—	—	270	—	—	—	—	—	—	270	—	270
Issuance of share capital	—	475	—	—	—	—	—	—	—	475	—	475
Options exercised	—	42	—	—	—	(11)	—	—	—	31	—	31
Dividends - preferred shares, net of taxes	—	—	—	4	—	—	—	—	—	4	—	4
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(93)	(93)
Shares purchased - PSU plans	—	(97)	—	—	—	—	—	—	—	(97)	—	(97)
Shares distributed - PSU plans	—	49	—	—	—	(49)	—	—	—	—	—	—
Change in NCI <sup>(2)</sup>	—	—	—	(116)	—	—	—	—	—	(116)	(275)	(391)
Share-based expense	—	—	—	—	—	65	—	—	—	65	—	65
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 (loss)	—	—	—	(1,797)	—	—	—	—	—	(1,797)	190	(1,607)
OCI	—	—	—	—	(470)	—	10	17	123	(320)	(28)	(348)
	—	—	—	(1,797)	(470)	—	10	17	123	(2,117)	162	(1,955)
Options exercised	—	5	—	—	—	(1)	—	—	—	4	—	4
Issuance of NCI <sup>(3)</sup>	—	—	—	—	—	—	—	—	—	—	49	49
Dividends - preferred shares, net of taxes	—	—	—	(21)	—	—	—	—	—	(21)	—	(21)
Dividends to NCI	—	—	—	—	—	—	—	—	—	—	(4)	(4)
Share-based expense	—	—	—	—	—	30	—	—	—	30	—	30
As at December 31, 2019	\$ 347	\$ 2,628	\$ 343	\$ (8,112)	\$ (2,775)	\$ 205	\$ 9	\$ (51)	\$ (261)	\$ (7,667)	\$ 1,756	\$ (5,911)

<sup>(1)</sup> Related to the convertible shares issued to Airbus on July 1, 2018 in relation to the sale of a majority stake in ACLP.

<sup>(2)</sup> Includes \$391 million for the derecognition of the non-controlling interest related to the disposal of ACLP.

<sup>(3)</sup> Refer to Note 10 - Non-controlling interest for more information.

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

**BOMBARDIER INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the fiscal years ended December 31  
(in millions of U.S. dollars)

	Notes	2019 <sup>(1)</sup>	2018
<b>Operating activities</b>			
Net income (loss)		\$ (1,607)	\$ 318
Non-cash items			
Amortization <sup>(2)</sup>	22, 23	422	272
Impairment charges on ACLP investments	8	1,578	—
Impairment charges (reversals) on PP&E and intangible assets	7, 8, 22, 23	(4)	11
Deferred income taxes	12	113	(74)
Gains on disposals of PP&E and intangible assets	7, 8	(10)	(636)
Losses (gains) on disposals of businesses	7, 8, 31	(730)	616
Share of income of joint ventures and associates	40	(128)	(66)
Share-based expense	34	30	65
Loss on repurchase of long-term debt	8, 9	84	—
Loss on sale of long-term contract receivables	8	—	31
Dividends received from joint ventures and associates		49	72
Net change in non-cash balances	35	(477)	(12)
<b>Cash flows from operating activities</b>		<b>(680)</b>	<b>597</b>
<b>Investing activities</b>			
Additions to PP&E and intangible assets		(552)	(1,164)
Proceeds from disposals of PP&E and intangible assets		29	749
Deconsolidation of cash and cash equivalents of ACLP		—	(151)
Outflows related to a disposal of business		—	(36)
Investments in non-voting units of ACLP	40	(350)	(225)
Net proceeds from disposal of businesses	31	826	—
Capital injection in ACLP	40	(64)	—
Sale of investments in securities		—	133
Other		(7)	(7)
<b>Cash flows from investing activities</b>		<b>(118)</b>	<b>(701)</b>
<b>Financing activities</b>			
Net proceeds from issuance of long-term debt	29	1,956	—
Repayments of long-term debt	29	(1,762)	(15)
Payment of lease liabilities <sup>(3)</sup>		(112)	—
Purchase of Class B shares held in trust under the PSU plans		—	(97)
Dividends paid - preferred shares	33	(20)	(20)
Issuance of Class B shares		—	506
Issuance of NCI	10	49	—
Dividends to NCI		(4)	(93)
Other		3	(60)
<b>Cash flows from financing activities</b>		<b>110</b>	<b>221</b>
Effect of exchange rates on cash and cash equivalents		130	13
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(558)</b>	<b>130</b>
<b>Cash and cash equivalents at beginning of year<sup>(4)</sup></b>	15	<b>3,187</b>	<b>3,057</b>
<b>Cash and cash equivalents at end of year<sup>(4)</sup></b>	15	<b>\$ 2,629</b>	<b>\$ 3,187</b>
<b>Supplemental information<sup>(5)(6)</sup></b>			
Cash paid for			
Interest		\$ 732	\$ 674
Income taxes		\$ 172	\$ 147
Cash received for			
Interest		\$ 25	\$ 32
Income taxes		\$ 7	\$ 5

<sup>(1)</sup> Refer to Note 3 - Changes in accounting policies for the impact of the adoption of IFRS 16, Leases.

<sup>(2)</sup> Includes \$109 million representing amortization charge related to right-of-use of assets for fiscal year 2019.

<sup>(3)</sup> 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 fiscal year 2019 amounted to \$168 million.

<sup>(4)</sup> For the purpose of the statement of cash flows, cash and cash equivalents comprise the cash reclassified as asset held for sale. Refer to Note 30 - Assets held for sale for more information.

<sup>(5)</sup> Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.

<sup>(6)</sup> Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities, interest paid on lease liabilities and interest paid on extended payment terms for trade payables. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivables after the effect of hedges and the interest portion related to the settlement of an interest-rate swap, if any.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2019 and 2018

(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 two distinct segments since July 1, 2019: Aviation and Transportation. Previously, the Corporation was carrying out its operations in four distinct segments: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services and Transportation. See Note 5 - Segment disclosure for restated figures.

The Corporation’s consolidated financial statements for fiscal years 2019 and 2018 were authorized for issuance by the Board of Directors on February 12, 2020.

### Statement of compliance

The Corporation’s consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IFRS, as issued by the IASB.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated.

### Basis of consolidation

**Subsidiaries** – Subsidiaries are fully consolidated from the date of acquisition and continue to be consolidated until the date control over the subsidiaries ceases.

The Corporation consolidates investees, including structured entities when, based on the evaluation of the substance of the relationship with the Corporation, it concludes that it controls the investees. The Corporation controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Corporation’s principal subsidiaries, whose revenues or assets represent more than 10% of total revenues or more than 10% of total assets of Aviation or Transportation segments, are as follows:

<b>Subsidiary</b>	<b>Location</b>
Bombardier Transportation GmbH	Germany
Bombardier Transportation (Holdings) UK Ltd	U.K.
Bombardier Transportation Canada Inc.	Canada
Bombardier Transportation France S.A.S.	France
Learjet Inc.	U.S.

Revenues and assets of these subsidiaries combined with those of Bombardier Inc. totalled 72% of consolidated revenues and 78% of consolidated assets for fiscal year 2019 (71% and 79% for fiscal year 2018).

**Joint ventures** – Joint ventures are those entities over which the Corporation exercises joint control, requiring unanimous consent of the parties sharing control of relevant activities such as, strategic financial and operating decision making and where the parties have rights to the net assets of the arrangement. The Corporation recognizes its interest in joint ventures using the equity method of accounting.

**Associates** – Associates are entities in which the Corporation has the ability to exercise significant influence over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting.

### Foreign currency translation

The consolidated financial statements are expressed in U.S. dollars, the functional currency of Bombardier Inc. The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of most foreign subsidiaries is their local currency, mainly the euro, Pound sterling, various other European currencies and the U.S. dollar in Transportation, and mainly the U.S. dollar in Aviation.

**Foreign currency transactions** – Transactions denominated in foreign currencies are initially recorded in the functional currency of the related entity using the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Any resulting exchange difference is recognized in income except for exchange differences related to retirement benefits asset and liability, as well as financial liabilities designated as hedges of the Corporation's net investments in foreign operations, which are recognized in OCI. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rate in effect at the date the fair value is determined. Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.

**Foreign operations** – Assets and liabilities of foreign operations whose functional currency is other than the U.S. dollar are translated into U.S. dollars using closing exchange rates. Revenues and expenses, as well as cash flows, are translated using the average exchange rates for the period. Translation gains or losses are recognized in OCI and are reclassified in income on disposal or partial disposal of the investment in the related foreign operation.

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

	Exchange rates as at			Average exchange rates for fiscal years	
	December 31 2019	December 31 2018	January 1 2018	2019	2018
Euro	1.1234	1.1450	1.1993	1.1200	1.1822
Canadian dollar	0.7696	0.7337	0.7975	0.7537	0.7729
Pound sterling	1.3204	1.2800	1.3517	1.2763	1.3367

### Revenue recognition

**Long-term contracts** – Revenues from long-term contracts related to designing, engineering or manufacturing specifically designed products (including rail vehicles, vehicles overhaul and signalling contracts) and service contracts are generally recognized over time. The measure of progress toward complete satisfaction of the performance obligation is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. The contract transaction price is adjusted for change orders, claims, performance incentives and other contract terms that provide for the adjustment of prices to the extent they represent enforceable rights for the Corporation. Variable considerations such as assumptions for price escalation clauses, performance incentives and claims are only included in the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Customer options are only included in the transaction price of the contract when they become legally enforceable as a result of the customer exercising its right to purchase the additional goods or services. If a contract review indicates the expected costs to fulfill the contract exceed the expected

economic benefits expected to be received under it, the entire expected loss on the contract is recognized as an onerous contract provision with the corresponding expense recorded in cost of sales. The expected benefits to be received are generally limited to the revenues from the associated contract.

Options or variation orders for additional assets are treated as contract modifications when exercised. Modifications of the Corporation's long term contracts in Transportation are generally accounted as part of the existing contract to the extent the remaining goods and services are considered to form part of a single performance obligation that is partially satisfied at the date of contract modification. The effect that the contract modification has on the transaction price and the existing progress toward satisfaction of the single performance obligation is recognized as an adjustment to revenue at the date of the contract modification on a cumulative catch-up basis.

**Aerospace programs** – Revenues from the sale of new aircraft are considered a single performance obligation and are recognized at delivery, which is the point in time when the customer has obtained control of the aircraft and the Corporation has satisfied its performance obligation. All costs incurred or to be incurred in connection with the sale, including warranty costs and sales incentives, are charged to cost of sales or as a deduction from revenues at the time revenue is recognized.

For the bill-and-hold arrangements in respect of new aircraft, revenue is recognized when the customer has obtained control of the aircraft and the customer has requested the arrangement, the aircraft is separately identified as belonging to the customer, the aircraft is ready for physical transfer to the customer and the Corporation does not have the ability to use the product or direct it to another customer.

**Other** – Revenues from the sale of pre-owned aircraft and spare parts are recognized at the point in time when the customer has obtained control of the promised asset and the Corporation has satisfied the performance obligation. Aftermarket services are generally recorded over time.

Revenues earned by the Aviation market segment on its contract with ACLP for the A220 program are recognized at delivery.

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

### **Contract balances**

Contract related balances comprise of contract assets and contract liabilities presented separately in the consolidated statements of financial position.

**Contract assets** – Are recognized when goods or services are transferred to customers before consideration is received or before the Corporation has an unconditional right to payment for performance completed to date. Contract assets are subsequently transferred to receivables when the right of payment becomes unconditional. Contract assets comprise cost incurred and recorded margins in excess of advances and progress billings on long-term production and service contracts.

**Contract liabilities** – Are recognized when amounts are received from customers in advance of transfer of goods or services. Contract liabilities are subsequently recognized in revenue as or when the Corporation performs under contracts. Contract liabilities comprise advances on aerospace programs, advances and progress billings in excess of long-term contract cost incurred and recorded margin, and other deferred revenues related to operation and maintenance of systems.

A net position of contract asset or contract liability is determined for each contract. The cash flows in respect of advances and progress billings, including amounts received from third party advance providers, are classified as cash flows from operating activities.

## **Government assistance and refundable advances**

Government assistance, including investment tax credits, is recognized when there is a reasonable assurance that the assistance will be received and that the Corporation will comply with all relevant conditions. Government assistance related to the acquisition of inventories, PP&E and intangible assets is recorded as a reduction of the cost of the related asset. Government assistance related to current expenses is recorded as a reduction of the related expenses.

Government refundable advances are recorded as a financial liability if there is reasonable assurance that the amount will be repaid. Government refundable advances are adjusted if there is a change in the number of aircraft to be delivered and the timing of delivery of aircraft. Government refundable advances provided to the Corporation to finance research and development activities on a risk-sharing basis are considered part of the Corporation's operating activities and are therefore presented as cash flows from operating activities in the statement of cash flows.

## **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.

## **Income taxes**

The Corporation applies the liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future income tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for tax losses carried forward. Deferred income tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect for the year in which the differences are expected to reverse.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized. Deferred income tax assets and liabilities are recognized directly in income, OCI or equity based on the classification of the item to which they relate.

## **Earnings per share**

Basic EPS is computed based on net income attributable to equity holders of Bombardier Inc. less dividends on preferred shares, including taxes, divided by the weighted-average number of Class A Shares (multiple voting) and Class B Shares (subordinate voting) outstanding during the fiscal year.

Diluted EPS are computed using the treasury stock method, giving effect to the exercise of all dilutive elements. CDPQ's convertible share investment in BT Holdco is factored into diluted EPS by adjusting net income attributable to equity holders of Bombardier Inc. to reflect their share of Transportation's earnings on an as converted basis. See Note 10 – Non-controlling interest for more details.

## **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, trade and other receivables, aircraft loans and lease receivables, investments in securities, ACLP non-voting units, receivables from related party, investments in financing structures, long-term contract receivables, restricted cash and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables, long-term debt, short-term borrowings, lease subsidies, government refundable advances, vendor non-recurring costs and derivative financial instruments with a negative fair value.

Financial instruments are recognized in the consolidated statement of financial position when the Corporation becomes a party to the contractual obligations of the instrument. On initial recognition, financial instruments are recognized at their fair value plus, in the case of financial instruments not at FVTP&L, transaction costs that are directly attributable to the acquisition or issue of financial instruments. Subsequent to initial recognition, financial

instruments are measured according to the category to which they are classified, which are: a) financial instruments classified as FVTP&L, b) financial instruments designated as FVTP&L, c) FVOCI financial assets, or d) amortised cost. Financial instruments are subsequently measured at amortized cost, unless they are classified as FVOCI or FVTP&L or designated as FVTP&L, in which case they are subsequently measured at fair value.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Corporation has transferred its rights to receive cash flows from the asset and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

For transactions where it is not obvious whether the Corporation has transferred or retained substantially all the risks and rewards of ownership, the Corporation performs a quantitative analysis to compare its exposure to the variability in asset cash flows before and after the transfer. Judgment is applied in determining a number of reasonably possible scenarios that reflect the expected variability in the amount and timing of net cash flows, and then in assigning each scenario a probability with greater weighting being given to those outcomes which are considered more likely to occur.

When the transfer of a customer receivable results in the derecognition of the asset, the corresponding cash proceeds are classified as cash flows from operating activities.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing liability is replaced by another from the same creditor on substantially different terms, or the terms of the liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

#### **a) Financial instruments classified at amortized cost**

**Cash and cash equivalents** – Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions and money market funds, with maturities of three months or less from the date of acquisition.

**Other Financial instruments** – Trade and other receivables, restricted cash, certain aircraft loans and lease receivables, and certain other financial assets are all financial assets measured at amortized cost using the effective interest rate method less any impairment losses. Trade and other payables, short-term borrowings, long-term debt, certain government refundable advances, vendor non-recurring costs and certain other financial liabilities are measured at amortized cost using the effective interest rate method.

Trade receivables as well as other financial assets are subject to impairment review. Trade receivables, contract assets and lease receivables are reviewed for impairment based on the simplified approach which measures the loss allowance at an amount equal to the lifetime expected credit losses. For other financial assets for which the credit risk has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to 12-month expected credit losses. For other financial assets for which the credit risk has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime expected credit losses.

#### **b) Financial instruments designated as FVTP&L**

Financial instruments may be designated on initial recognition as FVTP&L if either of the following criteria are met: (i) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or liability or recognizing the gains and losses on them on a different basis; or (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The Corporation has designated as FVTP&L, trade-in commitments, lease subsidies and certain Government refundable advances.



Subsequent changes in fair value of such financial instruments are recorded in other expense (income), except for the fair value changes arising from a change in interest rates which are recorded in financing expense or financing income.

**c) Financial instruments classified as FVTP&L**

Receivables from related party, investments in financing structures, long-term contract receivables, ACLP non-voting units, and certain aircraft loans and leases receivables are all required to be classified as FVTP&L.

Subsequent changes in fair value of such financial instruments are recorded in other expense (income), except for the fair value changes arising from a change in interest rates or when the instrument is held for investing purposes which are recorded in financing expense or financing income.

**Derivative financial instruments** – Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest-rate market risks, generally through forward foreign exchange contracts and interest rate swap agreements. Derivative financial instruments include derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts.

Derivative financial instruments are classified as FVTP&L, unless they are designated as hedging instruments for which hedge accounting is applied (see below). Changes in the fair value of derivative financial instruments not designated in a hedging relationship, excluding embedded derivatives, are recognized in cost of sales or financing expense or financing income, based on the nature of the exposure.

Embedded derivatives of the Corporation include call options on long-term debt, CDPQ's conversion option as well as foreign exchange and other derivative instruments not closely related to sale or purchase agreements. Call options on long-term debt that are not closely related to the host contract are measured at fair value, with the initial value recognized as an increase of the related long-term debt and amortized to net income using the effective interest method. Upon initial recognition, the fair value of the foreign exchange instruments not designated in a hedge relationship is recognized in cost of sales. Subsequent changes in fair value of embedded derivatives are recorded in cost of sales, other expense (income) or financing expense or financing income, based on the nature of the exposure.

**d) FVOCI financial assets**

Investments in securities are classified as FVOCI. Investments in securities, excluding equity instruments, are accounted for at fair value with unrealized gains and losses included in OCI, except for impairment gains or losses and foreign exchange gains and losses on monetary investments, such as fixed income investments, which are recognized in income. Equity instruments, included in investments in securities, were designated, on initial recognition, at FVOCI, where the subsequent changes in the fair value are recognized in OCI with no recycling to net income. Dividend income is recognized in financing income.

**Hedge accounting**

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative and non-derivative hedging financial instruments are expected to substantially offset the changes in the fair value of the hedged item attributable to the underlying risk exposure.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are effective in offsetting the changes in the fair value or cash flows of the hedged items. There are three permitted hedging strategies.

**Fair value hedges** – The Corporation generally applies fair value hedge accounting to certain interest-rate derivatives and forward foreign exchange contracts hedging the exposures to changes in the fair value of recognised financial assets and financial liabilities. In a fair value hedge relationship, gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income.

**Cash flow hedges** – The Corporation generally applies cash flow hedge accounting to forward foreign exchange contracts and interest-rate derivatives entered into to hedge foreign exchange risks on forecasted transactions and recognized assets and liabilities. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income as a reclassification adjustment when the hedged item affects net income. However, when an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized in OCI are reclassified in the initial carrying amount of the related asset.

**Hedge of net investments in foreign operations** – The Corporation generally designates certain long-term debt as hedges of its net investments in foreign operations. The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when corresponding exchange gains or losses arising from the translation of the foreign operations are recorded in net income.

Aviation hedges its foreign currency exposure using foreign exchange contracts. There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange contracts match the terms of the expected highly probable forecast transaction (i.e. notional amount and expected payment date). For Transportation, foreign currency exposure, arising from its long-term contracts, spreads over many years. Such exposures are generally entirely hedged at the time of order intake, contract-by-contract, for a period that is often shorter than the maturity of the cash flow exposure. Upon maturity of the hedges, Transportation enters into new hedges in a rollover strategy for periods up to the maturity of the cash flow exposure. There is an economic relationship between the hedged items and the hedging instruments as the critical terms, under a spot designation, are closely aligned. The critical terms are the nominal amount and the currency.

To test the hedge effectiveness, the Corporation uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in the fair value of the hedged items attributable to the hedged risks. The hedge ineffectiveness can arise due to the time value of money, under a spot designation, as the expected timing between the forecasted transaction and the forward contract are not aligned, due to different indexes, and changes to the forecasted amount of cash flow of hedged items and hedging instruments. The Corporation has established a hedge ratio of 1:1.

The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item. Gains and losses on derivatives not designated in a hedge relationship and gains and losses on the ineffective portion of effective hedges are recorded in cost of sales or financing expense or financing income for the interest component of the derivatives or when the derivatives were entered into for interest rate management purposes.

Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

**Leases accounting policies applicable starting January 1, 2019 following adoption of IFRS 16 - Leases.** See Note 3 - Changes in accounting policies for more details.

**When the Corporation is the lessee** - 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 when the lease term reflects the lessee exercising a termination option. 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 and is recorded in financing expense. 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, 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 records 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 in revenue 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 generally measured as the present value of future lease payments. The portion of the proceeds related to the retained interest is classified as cash flow related to financing activities whereas the remainder is treated either as cash flow from operating activities or cash flow from investing activities depending on the nature of the asset sold.

***When the Corporation is the lessor*** – Assets subject to finance leases, mainly commercial aircraft, are initially recognized at an amount equal to the net investment in the lease and are included in aircraft lease receivables. Interest income is recognized over the term of the applicable leases based on the effective interest rate method. Assets under operating leases, mostly pre-owned regional and business aircraft, are included in PP&E. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and is included in revenues.

#### **Leases accounting policies applicable prior to January 1, 2019, when the Corporation was following IAS 17 and IFRIC 4.**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risks and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

The Corporation periodically enters into sale and leaseback transactions, typically for aircraft, flight simulators and properties, whereby the Corporation sells an asset to a lessor and immediately leases it back. These leases are generally accounted for as operating leases based on the above accounting policy for lease classification. In the case of aircraft, the sale is recorded in revenues and the cash proceeds are classified as cash flows from operating activities. In the case of flight simulators and properties, the sale is treated as a disposal of PP&E with recognition of a corresponding gain or loss on sale, and the cash proceeds are classified as disposals of PP&E within cash flows from investing activities.

***When the Corporation is the lessee*** – Leases of assets classified as finance leases are presented in the consolidated statements of financial position according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in financing expense. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease.

**When the Corporation is the lessor** – Assets subject to finance leases, mainly commercial aircraft, are initially recognized at an amount equal to the net investment in the lease and are included in aircraft lease receivables. Interest income is recognized over the term of the applicable leases based on the effective interest rate method. Assets under operating leases, mostly pre-owned regional and business aircraft, are included in PP&E. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and is included in revenues.

### **Inventory valuation**

**Aerospace program and finished products** – Aerospace program work in progress, raw materials, and finished product inventories are valued at the lower of cost or net realizable value. Cost is generally determined using the unit cost method, except for the cost of spare part inventory that is determined using the moving average method. The cost of manufactured inventories comprises all costs that are directly attributable to the manufacturing process, such as materials, direct labour, manufacturing overhead, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs, except for raw materials for which it is determined using replacement cost. The Corporation estimates the net realizable value using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

**Impairment of inventories** – Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

### **Retirement and other long-term employee benefits**

Retirement benefit plans are classified as either defined benefit plans or defined contribution plans.

#### **Defined benefit plans**

Retirement benefit liability or asset recognised on the consolidated statement of financial position is measured at the difference between the present value of the defined benefit obligation and the fair value of plan asset at the reporting date. When the Corporation has a surplus in a defined benefit plan, the value of any plan asset recognized is restricted to the asset ceiling - i.e. the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (“asset ceiling test”). A minimum liability is recorded when legal minimum funding requirements for past services exceed economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. A constructive obligation is recorded as a defined benefit obligation when there is no realistic alternative but to pay employee benefits. Retirement benefit liability or asset includes the effect of any asset ceiling, minimum liability and constructive obligation. The cost of pension and other benefits earned by employees is actuarially determined for each plan using the projected unit credit method, and management’s best estimate of salary escalation, retirement ages, life expectancy, inflation, discount rates and health care costs. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. These assets are measured at fair value at the end of the reporting period, which is based on published market mid-price information in the case of quoted securities. The discount rates are determined at each reporting date by reference to market yields at the end of the reporting period on high quality corporate fixed-income investments consistent with the currency and the estimated terms of the related retirement benefit liability. Past service costs are recognized in income at the earlier of i) the date of the plan amendment or curtailment or ii) the date that the Corporation recognized the restructuring costs. Effective January 1, 2019, when plan amendments, curtailments and settlements occur, the Corporation uses updated actuarial assumptions to determine current service cost and net interest for the period after the plan amendment, curtailment or settlement.

The remeasurement gains and losses (including the foreign exchange impact) arising on the plan assets and defined benefit obligation and the effect of any asset ceiling and minimum liability are recognized directly in OCI in the period in which they occur and are never reclassified to net income. Past service costs (credits) are recognized directly in income in the period in which they occur.

The accretion on net retirement benefit obligations is included in financing income or financing expense. The remaining components of the benefit cost are either capitalized as part of labour costs and included in inventories and in certain PP&E and intangible assets during their construction, or are recognized directly in income. The benefit cost recorded in net income is allocated to labour costs based on the function of the employee accruing the benefits.

#### **Defined contribution plans**

Contributions to defined contribution plans are recognized in net income as incurred or are either capitalized as part of labour costs and included in inventories and in certain PP&E and intangible assets during their construction. The benefit cost recorded in net income is allocated to labour costs based on the function of the employee accruing the benefits.

**Other long-term employee benefits** – The accounting method is similar to the method used for defined benefit plans, except that all actuarial gains and losses are recognized immediately in income. Other long-term employee benefits are included in other liabilities.

#### **Property, plant and equipment**

PP&E are carried at cost less accumulated amortization and impairment losses. The cost of an item of PP&E includes its purchase price or manufacturing cost, borrowing costs as well as other costs incurred in bringing the asset to its present location and condition. If the cost of certain components of an item of PP&E is significant in relation to the total cost of the item, the total cost is allocated between the various components, which are then separately depreciated over the estimated useful lives of each respective component. The amortization of PP&E is computed on a straight-line basis over the following useful lives:

Buildings	5 to 75 years
Equipment	2 to 15 years
Other	3 to 20 years

The amortization method and useful lives are reviewed on a regular basis, at least annually, and changes are accounted for prospectively. The amortization expense and impairments are recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying asset or in special items. Amortization of assets under construction begins when the asset is ready for its intended use.

When a significant part is replaced or a major inspection or overhaul is performed, its cost is recognized in the carrying amount of the PP&E if the recognition criteria are satisfied, and the carrying amount of the replaced part or previous inspection or overhaul is derecognized. All other repair and maintenance costs are charged to income when incurred.

#### **Intangible assets**

Internally generated intangible assets include development costs (such as aircraft prototype design and testing costs for Aviation, and platform development costs for Transportation) and internally developed or modified application software. These costs are capitalized when certain criteria such as proven technical feasibility are met. The costs of internally generated intangible assets include the cost of materials, direct labour, manufacturing overheads and borrowing costs and exclude costs which were not necessary to create the asset, such as identified inefficiencies.

Acquired intangible assets include the cost of development activities carried out by vendors for which the Corporation controls the underlying output from the usage of the technology, as well as the cost related to externally acquired licences, patents and trademarks.

Intangible assets are recorded at cost less accumulated amortization and impairment losses and include goodwill, aerospace program tooling, as well as other intangible assets such as licenses, patents and trademarks. Other intangible assets are included in other assets.

Amortization of aerospace program tooling begins at the date of completion of the first aircraft of the program. Amortization of other intangibles begins when the asset is ready for its intended use. Amortization expense is recognized as follows:

	<b>Method</b>	<b>Estimated useful life</b>
Aerospace program tooling	Unit of production	Expected number of aircraft to be produced <sup>(1)</sup>
Other intangible assets		
Licenses, patents and trademarks	Straight-line	3 to 20 years
Other	Straight-line	3 to 8 years

<sup>(1)</sup> As at December 31, 2019, the remaining number of units to fully amortize the aerospace program tooling is expected to be produced over the next 13 years.

The amortization methods and estimated useful lives are reviewed on a regular basis, at least annually, and changes are accounted for prospectively. The amortization expense for aerospace program tooling and Transportation platform development costs is recorded in R&D expense and for other intangible assets is recorded in cost of sales, SG&A or R&D expense based on the function of the underlying asset.

The Corporation does not have indefinite-life intangible assets, other than goodwill. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### **Borrowing costs**

Borrowing costs consist of interest on long-term debt and other costs that the Corporation incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset and are deducted from the financing expense to which they relate. The Corporation suspends the capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. All other borrowing costs are expensed in the period they occur.

### **Impairment of PP&E and intangible assets**

The Corporation assesses at each reporting date whether there is an indication that an item of PP&E or intangible asset may be impaired. If any indication exists, the Corporation estimates the recoverable amount of the individual asset, when possible.

When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the CGU level. Most of the Corporation's non-financial assets are tested for impairment at the CGU level. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

- The fair value less costs to sell reflects the amount the Corporation could obtain from the asset's disposal in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. If there is no binding sales agreement or active market for the asset, the fair value is assessed by using appropriate valuation models dependent on the nature of the asset or CGU, such as discounted cash flow models.
- The value in use is calculated using estimated net cash flows, with detailed projections generally over a five-year period and subsequent years being extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

When the recoverable amount is less than the carrying value of the related asset or CGU, the related assets are written down to their recoverable amount and an impairment loss is recognized in net income.

For PP&E and intangible assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset. The reversal of impairment losses is limited to the amount

that would bring the carrying value of the asset or CGU to the amount that would have been recorded, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years. Such reversal is recognized to income in the same line item where the original impairment was recognized.

Intangible assets not yet available for use and goodwill are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset or CGU might be impaired. Impairment losses relating to goodwill are not reversed in future periods.

### **Impairment of investments in joint ventures and associates**

The Corporation's investments in its joint ventures and associates are accounted for using the equity method subsequent to initial recognition. The carrying amount of the investment is adjusted to recognize changes in the Corporation's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The Corporation's share of net income of joint ventures and associates is included in the consolidated statement of income.

After application of the equity method, the Corporation determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Corporation determines whether there is objective evidence that the investment in joint venture or associate is impaired. If there is such evidence, the Corporation calculates the amount of impairment as the difference between the recoverable amount of the joint venture or associate and its carrying value, and then recognizes the loss in income.

### **Provisions**

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at their present value.

**Product warranties** – A provision for assurance type warranties is recorded in cost of sales when the revenue for the related product is recognized. The interest component associated with product warranties, when applicable, is recorded in financing expense. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and in service and counter-warranty coverage available from the Corporation's suppliers. Claims for reimbursement from third parties are recorded if their realization is virtually certain. Product warranties typically range from one to five years, except for aircraft structural and bogie warranties that extend up to 20 years.

**Credit and residual value guarantees** – Credit and residual value guarantees related to the sale of aircraft are recorded at the amount the Corporation expects to pay under these guarantees when the revenue for the related product is recognized. Subsequent to initial recognition, changes in the value of these guarantees are recorded in other expense (income), except for the changes in value arising from a change in interest rates, which are recorded in financing expense or financing income.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing.

Residual value guarantees provide protection, through contractually limited payments, to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value. In most cases, these guarantees are provided as part of a financing arrangement.

**Restructuring provisions** – Restructuring provisions are recognised only when the Corporation has an actual or a constructive obligation. The Corporation has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate

of the associated costs and an appropriate timeline. Furthermore, the affected employees or worker councils must have been notified of the plan's main features.

**Onerous contracts** – If it is more likely than not that the unavoidable costs of meeting the obligations under a firm contract exceed the economic benefits expected to be received under it, a provision for onerous contracts is recorded in cost of sales, except for the interest component, which is recorded in financing expense. Unavoidable costs include the costs that relate directly to the contract such as anticipated cost overruns, expected costs associated with late delivery penalties and technological problems, as well as allocations of costs that relate directly to the contract. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

**Termination benefits** – Termination benefits are usually paid when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes termination benefits when it is demonstrably committed, through a detailed formal plan without possibility of withdrawal, to terminate the employment of current employees.

**Environmental costs** – A provision for environmental costs is recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Legal asset retirement obligations and environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate, or prevent environmental contamination that has yet to occur, are included in PP&E and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.

**Litigation** – A provision for litigation is recorded in case of legal actions, governmental investigations or proceedings when it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated.

## **Share-based payments**

**Equity-settled share-based payment plans** – Equity-settled share-based payments are measured at fair value at the grant date. For the PSUs, DSUs and RSUs, the value of the compensation is measured based on the closing price of a Class B Share (subordinate voting) of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and is based on the PSUs, DSUs and RSUs that are expected to vest. For share option plans, the value of the compensation is measured using a Black-Scholes option pricing model. The effect of any change in the number of options, PSUs, DSUs and RSUs that are expected to vest is accounted for in the period in which the estimate is revised. Compensation expense is recognized on a straight-line basis over the vesting period, with a corresponding increase in contributed surplus. Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

**Cash-settled share-based payments** – Cash-settled share-based payments are measured at fair value at the grant date with a corresponding liability. Until the liability is settled, the fair value of the liability is remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in income. Limited PSUs, DSUs and RSUs are cash-settled share-based payments, for which the value of the compensation is measured based on the closing price of a Class B Share (subordinate voting) of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and is based on the PSUs, DSUs and RSUs that are expected to vest.

**Employee share purchase plan** – The Corporation's contributions to the employee share purchase plan are measured at cost and accounted for in the same manner as the related employee payroll costs. Compensation expense is recorded at the time of the employee contribution.



### 3. 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 22 - PP&E and Note 28 - 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 weighted average incremental borrowing rate applied to lease liabilities recognised at the date of initial application was 6.03%.

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.

**Income taxes**

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

## 4. USE OF ESTIMATES AND JUDGMENT

The application of the Corporation's accounting policies requires management to use estimates and judgments that can have a significant effect on the revenues, expenses, comprehensive income, assets and liabilities recognized and disclosures made in the consolidated financial statements. Estimates and judgments are significant when:

- the outcome is highly uncertain at the time the estimates and judgments are made; and
- if different estimates or judgments could reasonably have been used that would have had a material impact on the consolidated financial statements.

Management's best estimates regarding the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results will differ from the estimates used, and such differences could be material.

Management's budget and strategic plan cover a five-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. Management prepares a budget and a strategic plan covering a five-year period, on an annual basis, using a process whereby a detailed one-year budget and four-year strategic plan are prepared by each reportable segment and then consolidated. Cash flows and profitability included in the budget and strategic plan are based on existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and in-force collective agreements. The budget and strategic plan are subject to approval at various levels, including senior management and the Board of Directors. Management uses the budget and strategic plan, as well as additional projections or assumptions, to derive the expected results for periods thereafter. Management then tracks performance as compared to the budget and strategic plan at various levels within the Corporation. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's most critical estimates and judgments. The sensitivity analyses below should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

**Long-term contracts** – Transportation conducts most of its business under long-term manufacturing and service contracts and Aviation has some long-term maintenance service contracts, as well as design and development contracts for third parties. Revenues and margins from long-term contracts relating to the designing, engineering or manufacturing of specially designed products (including rail vehicles, vehicle overhaul and signalling contracts) and service contracts are recognized over time. The long-term nature of these contracts requires estimates of total contract costs and the transaction price. The measure of progress toward complete satisfaction of the performance obligation is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance.

The contract transaction price includes adjustments for change orders, claims, performance incentives, price escalation clauses and other contract terms that provide for the adjustment of prices to the extent they represent enforceable rights for the Corporation. Variable consideration such as assumptions for price escalation clauses, performance incentives and claims is only included in the transaction price to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Contract costs include material, direct labour, manufacturing overhead and other costs, such as warranty and freight. Estimated contract costs at completion incorporate forecasts for material usage and costs, including escalation clauses, labour hours and costs, foreign exchange rates (including the effect of hedges) and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers. Management applies judgment to determine the probability that the Corporation will incur additional costs from delays or other

penalties, and such costs, if probable, are included in estimated costs at completion, unless there is an adjustment to the transaction price in which case it is recorded as a reduction of estimated revenues at completion.

Recognized revenues and margins are subject to revisions as contracts progress towards completion. Management conducts quarterly reviews of estimated costs and revenues to completion on a contract-by-contract basis, including a review of escalation assumptions. In addition, a detailed annual review is performed on a contract-by-contract basis as part of the budget and strategic plan process. The effect of any revision may be significant and is recorded by way of a cumulative catch-up adjustment in the period in which the estimates are revised.

#### *Sensitivity analysis*

A 1% increase in the estimated future costs to complete all ongoing long-term contracts would have decreased Transportation's gross margin for fiscal year 2019 by approximately \$110 million.

**Aerospace program tooling** – Aerospace program tooling amortization and the calculation of recoverable amounts used in impairment testing require estimates of the expected number of aircraft to be delivered over the life of each program. The expected number of aircraft is based on management's aircraft market forecasts and the Corporation's expected share of each market. Such estimates are reviewed in detail as part of the budget and strategic plan process. For purposes of impairment testing, management exercises judgment to identify independent cash inflows to identify CGUs by family of aircraft. Other key estimates used to determine the recoverable amount include the applicable discount rate, the expected future cash flows over the remaining life of each program, which include costs to complete the development activities, if any, as well as potential upgrades, and derivatives expected over the life of the program. The estimated cost of potential upgrades and derivatives is based on past experience with previous programs. The expected future cash flows also include cash flows from aftermarket activities, as well as expected cost savings due to synergies from the perspective of a market participant. The inputs used in the discounted cash flow model are Level 3 inputs (inputs that are not based on observable market data).

The recoverable amounts of aerospace assets or CGUs are based on fair value less costs of disposal. The recoverable amounts were established during the fourth quarter of 2019. The fair value measurements are categorized within Level 3 of the fair value hierarchy. The estimate of the fair value less costs of disposal was determined using forecast future cash flows. The estimated future cash flows for the first five years are based on the budget and strategic plan. After the initial five years, long-range forecasts prepared by management are used. Forecast future cash flows are based on management's best estimate of future sales under existing firm orders, expected future orders, timing of payments based on expected delivery schedules, revenues from related services, procurement costs based on existing contracts with suppliers, future labour costs, general market conditions, foreign exchange rates and applicable long-range forecast income tax rates and a post-tax discount rate of 9% based on a weighted average cost of capital calculated using market-based inputs, available directly from financial markets or based on a benchmark sampling of representative publicly-traded companies in the aerospace sector.

An impairment test was prepared for the *Global 7500* since it only entered into service in December 2018, and following this assessment the Corporation concluded there was no impairment.

#### *Sensitivity analysis*

The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

A 10% decrease, evenly distributed over future periods, in the expected future net cash inflows for the *Global 7500* aircraft program would not have resulted in an impairment charge in fiscal year 2019.

An increase of 100-basis points in the discount rate used to perform the impairment tests would not have resulted in an impairment charge in fiscal year 2019 for the *Global 7500* aircraft program.

**Goodwill** – The recoverable amount of the Transportation operating segment, the group of CGUs at which level goodwill is monitored by management, is based on fair value less costs of disposal using a discounted cash flow model. During the fourth quarter of 2019, the Corporation completed its annual goodwill impairment test for the

Transportation segment and did not identify any impairment. The fair value measurement is categorized within Level 3 of the fair value hierarchy.

Estimated future cash flows were based on the budget and strategic plan for the first 5 years and a growth rate of 1% was applied to derive a terminal value beyond the initial 5-year period. The post-tax discount rate is also a key estimate in the discounted cash flow model and was based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount in fiscal year 2019 was 8.5%. A 100-basis point change in the post-tax discount rate would not have resulted in an impairment charge in 2019.

**Valuation of deferred income tax assets** – To determine the extent to which deferred income tax assets can be recognized, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget and strategic plan by tax jurisdiction on an undiscounted basis and are reviewed on a quarterly basis. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable profits and availability of prudent tax planning strategies. See Note 12 - Income taxes for more details.

**Tax contingencies** – Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense or recovery already recorded. The Corporation establishes tax provisions for possible consequences of audits by the tax authorities of each country in which it operates. The amount of such provisions is based on various factors, such as experience from previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of each legal entity.

**Credit and residual value guarantees** – The Corporation uses an internal valuation model based on stochastic simulations. The amounts expected to be paid under the guarantees may depend on whether credit defaults occur during the term of the original financing. When a credit default occurs, the credit guarantee may be called upon. In the absence of a credit default the residual value guarantee may be triggered. In both cases, the guarantees can only be called upon if there is a loss upon the sale of the aircraft. Therefore, the value of the guarantee is in large part impacted by the future value of the underlying aircraft, as well as on the likelihood that credit or residual value guarantees will be called upon at the expiry of the financing arrangements. Aircraft residual value curves, prepared by management based on information from external appraisals and adjusted to reflect specific factors of the current aircraft market and a balanced market in the medium and long term, are used to estimate the underlying aircraft future value. The amount of the liability is also significantly impacted by the current market assumption for interest rates since payments under these guarantees are mostly expected to be made in the medium to long term. Other key estimates in calculating the value of the guarantees include default probabilities, estimated based on published credit ratings when available or, when not available, on internal assumptions regarding the credit risk of customers. The estimates are reviewed on a quarterly basis.

#### *Sensitivity analysis*

The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

Assuming a decrease of 10% in the residual value curves of all commercial aircraft as at December 31, 2019, Aviation's EBIT for 2019 would have been negatively impacted by \$7 million.

Assuming an increase of 10% in the likelihood that residual value guarantees will be called upon at the expiry of the financing arrangements as at December 31, 2019, Aviation's EBIT for 2019 would have been negatively impacted by \$7 million.

Assuming a 100-basis point decrease in interest rates as at December 31, 2019, Aviation's EBT for 2019 would have been negatively impacted by \$2 million. Assuming a 100-basis point increase in interest rates as at December 31, 2019, Aviation's EBT for 2019 would have been positively impacted by \$2 million.

**Retirement and other long-term employee benefits** – The actuarial valuation process used to measure pension and other post-employment benefit costs, assets and obligations is dependent on assumptions regarding discount rates, compensation and pre-retirement benefit increases, inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. The impacts from changes in discount rates and, when significant, from key events and other circumstances, are recorded quarterly.

Discount rates are used to determine the present value of the expected future benefit payments and represent the market rates for high-quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit liabilities. As the Canadian high-quality corporate bond market, as defined under IFRS, includes relatively few medium- and long- term maturity bonds, the discount rate for the Corporation's Canadian pension and other post-employment plans is established by constructing a yield curve using three maturity ranges. The first maturity range of the curve is based on observed market rates for AA-rated corporate bonds with maturities of less than six years. In the longer maturity ranges, due to the smaller number of high-quality bonds available, the curve is derived using market observations and extrapolated data. The extrapolated data points were created by adding a term-based yield spread over long-term provincial bond yields. This term-based spread is extrapolated between a base spread and a long spread. The base spread is based on the observed spreads between AA-rated corporate bonds and AA-rated provincial bonds for the 5 to 10 years to maturity range. The long spread is determined as the spread required at the point of average maturity of AA-rated provincial bonds in the 11 to 30 years to maturity range such that the average AA-rated corporate bond spread above AA-rated provincial bonds is equal to the extrapolated spread derived by applying the ratio of the observed spreads between A-rated corporate bonds and AA-rated provincial bonds for the 11 to 30 years to maturity range over the 5 to 10 years to maturity range, to the base spread. For maturities longer than the average maturity of AA-rated provincial bonds in the 11 to 30 years to maturity range, the spread is assumed to remain constant at the level of the long spread.

As the U.K. high-quality corporate bond market, as defined under IFRS, includes relatively few long-term maturity bonds, the discount rate for the Corporation's U.K. pension and other post-employment plans is established by constructing a yield curve. The yield curve is developed from corporate bond yield information for corporate bonds rated AA or equivalent quality and excluding bonds which have a "corporate" BICS assignment but which have actual or implied government backing. Target yields are developed from bonds across a range of maturity points, and a curve is fitted to those targets. Spot rates (zero coupon bond yields) are developed from the yield curve and used to discount benefit payment amounts associated with each future year. Since corporate bonds are generally not available for very long maturities, an assumption is made that spot rates remain level beyond the term of the longest data target point. The term of the longest data target point as at December 31, 2019 was 23 years.

Expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases, in the context of current economic conditions.

See Note 24 - Retirement benefits for further details regarding assumptions used and sensitivity analysis to changes in critical actuarial assumptions.

**Onerous contract provision** – An onerous contract provision is recorded if it is more likely than not that the unavoidable costs of meeting the obligations under a firm contract exceed the economic benefits expected to be received under it. In most cases the economic benefits expected to be received under the contract consist of contract revenue. The calculation of the unavoidable costs requires estimates of expected future costs, including anticipated future cost reductions related to performance improvements and transformation initiatives, anticipated cost overruns, expected costs associated with late delivery penalties and technological problems, as well as allocations of costs that relate directly to the contract. The measurement of the provision is impacted by anticipated delivery schedules since for new aircraft programs early production units require higher cost than units produced later in the process, and for long term train manufacturing contracts delays result in penalties.

*Sensitivity analysis*

A 1% increase in the expected costs over the life of the contract would have decreased EBIT for fiscal year 2019 by approximately \$184 million.

**CDPQ investments equity and derivative liability components** – The convertible shares issued to the CDPQ contain no obligation for the Corporation to deliver cash or other financial assets to the CDPQ. Judgment was used to conclude that the CDPQ's convertible share investment in BT Holdco is considered a compound instrument comprised of an equity component, representing the discretionary dividends and liquidation preference, and a liability component that reflects a derivative to settle the instrument by delivering a variable number of common shares of BT Holdco, as opposed to the entire instrument being characterized as a liability. The Corporation presents convertible shares in its equity (NCI) and derivative component as a liability.

The fair value of the convertible shares at issuance was assigned to its respective equity and derivative liability components so that no gain or loss arose from recognizing each component separately, the fair value of the derivative liability being established first and the residual amount allocated to the equity component. The liability component is remeasured quarterly using the Corporation's best estimate of the present value of the settlement amount, other than a scenario where the Corporation initiates a purchase of CDPQ's interest. The Corporation uses an internal valuation model 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 the 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 Transportation meeting the performance incentives agreed upon with the CDPQ, the timing of exercise of the conversion rights and the applicable conversion rate. Fair value of the shares on an as-converted basis is calculated using an EBIT multiple, which is based on market data, to determine the enterprise value. The discount rate used is also determined using market data. The Corporation uses internal assumptions to determine the term of the instrument and the future performance of Transportation, derived from the budget and strategic plan.

See Note 39 - Fair value of financial instruments for a sensitivity analysis on the variability in the fair value of the conversion option as a result of a reasonably likely change in the expected future performance of Transportation.

**Consolidation** – From time to time, the Corporation participates in structured entities where voting rights are not the dominant factor in determining control. In these situations, management may use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether the Corporation is exposed to, or has rights to, significant variable returns. The quantitative analyses involve estimating the future cash flows and performance of the investee and analyzing the variability in those cash flows. The qualitative analyses involve consideration of factors such as the purpose and design of the investee and whether the Corporation is acting as an agent or principal. There is a significant amount of judgment exercised in evaluating the results of these analyses as well as in determining if the Corporation has power to affect the investee's returns, including an assessment of the impact of potential voting rights, contractual agreements and de facto control.

Also, the Corporation uses judgment to determine whether rights held by NCI, such as the CDPQ's rights in respect of Transportation, are protective in nature as opposed to substantive. The Corporation reassesses the initial determination of control if facts or circumstances indicate that there may be changes to one or more elements of control.

**Investments in ACLP** – On July 1, 2018 the Corporation recognized its equity investment in ACLP at \$1,761 million which represented the Corporation's 33.55% interest in the July 1, 2018 estimated fair value of ACLP. The estimated fair value of ACLP was determined using a discounted cash flow analysis following independent external professional advice and consultations with the controlling partner. This valuation incorporated assumptions regarding potential synergies from the procurement, sales and marketing and customer support expertise Airbus will bring to the program, which involves a significant amount of judgment regarding the future operating performance of the program.

The Corporation performed an impairment test in the fourth quarter of 2019 on its investments in ACLP since there were indicators of impairment. The Corporation determined that the carrying amount of its investment in ACLP exceeded its recoverable amount, and accordingly recorded an impairment charge of \$1,578 million. See Note 40 - Investments in Joint ventures and Associates for more details.

See Note 39 - Fair value of financing instruments for information regarding the estimates used in determining the fair value of the Corporation's funding commitments toward ACLP and the fair value of the Corporation's investment in ACLP non-voting units.

The assets are reported in Bombardier Corporate and Others segment.

## **5. SEGMENT DISCLOSURE**

The Corporation has two reportable segments: Aviation and Transportation. Each reportable segment offers different products and services and mostly requires different technology and marketing strategies.

### ***Aviation***

Aviation designs, manufactures, markets and provides aftermarket support for three families of business jets (*Learjet*, *Challenger* and *Global*), spanning from the light to large categories; designs, manufactures and provides aftermarket support for 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 until disposal of the business; and 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. Refer to Note 30 - Assets held for sale and Note 31 - Disposal of business for additional information.

### ***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 Others***

Corporate and Others comprise corporate charges that are not allocated to segments, elimination of profit on intercompany transactions between the segments, participation in a partnership with Airbus on the A220 Family aircraft and other adjustments.

The segmented information is prepared using the accounting policies described in Note 2 – Summary of significant accounting policies.



Management assesses segment performance based on EBIT and EBIT before special items. The segmented results of operations and other information are as follows, for fiscal years:

	2019			
	Transportation	Aviation	Corporate and Others	Total
<b>Results of operations</b>				
External revenues	\$ 8,266	\$ 7,491	\$ —	\$ 15,757
Intersegment revenues	3	10	(13)	—
Total revenues	8,269	7,501	(13)	15,757
<b>EBIT before special items</b>	70	531	(131)	470
Special items <sup>(1)</sup>	48	(663)	1,583	968
<b>EBIT</b>	\$ 22	\$ 1,194	\$ (1,714)	(498)
Financing expense				1,072
Financing income				(230)
<b>EBT</b>				(1,340)
Income taxes				267
<b>Net loss</b>				\$ (1,607)
<b>Other information</b>				
R&D <sup>(2)</sup>	\$ 136	\$ 156	\$ —	\$ 292
Share of loss (income) of joint ventures and associates <sup>(6)</sup>	\$ (94)	\$ 3	\$ (37)	\$ (128)
Net additions (proceeds) to PP&E and intangible assets <sup>(3)</sup>	\$ 157	\$ 373	\$ (7)	\$ 523
Amortization	\$ 139	\$ 282	\$ 1	\$ 422
Impairment charges on ACLP investments <sup>(1)</sup>	\$ —	\$ —	\$ 1,578	\$ 1,578
Impairment charges (reversals) on PP&E <sup>(4)</sup>	\$ (8)	\$ (1)	\$ 2	\$ (7)
Impairment charges (reversals) on intangible assets <sup>(5)</sup>	\$ 3	\$ —	\$ —	\$ 3
				2018
	Transportation	Aviation	Corporate and Others	Total
<b>Results of operations</b>				
External revenues	\$ 8,910	\$ 7,323	\$ 3	\$ 16,236
Intersegment revenues	5	1	(6)	—
Total revenues	8,915	7,324	(3)	16,236
<b>EBIT before special items</b>	750	472	(193)	1,029
Special items <sup>(1)</sup>	(24)	48	4	28
<b>EBIT</b>	\$ 774	\$ 424	\$ (197)	1,001
Financing expense				712
Financing income				(106)
<b>EBT</b>				395
Income taxes				77
<b>Net income</b>				\$ 318
<b>Other information</b>				
R&D <sup>(2)</sup>	\$ 122	\$ 95	\$ —	\$ 217
Share of loss (income) of joint ventures and associates <sup>(6)</sup>	\$ (111)	\$ 5	\$ 40	\$ (66)
Net additions (proceeds) to PP&E and intangible assets <sup>(3)</sup>	\$ 108	\$ 303	\$ 4	\$ 415
Amortization	\$ 101	\$ 171	\$ —	\$ 272
Impairment charges (reversals) on PP&E <sup>(4)</sup>	\$ 8	\$ —	\$ 3	\$ 11

<sup>(1)</sup> See Note 8 – Special items for more details.

<sup>(2)</sup> Includes tooling amortization. See Note 6 – Research and development for more details.

<sup>(3)</sup> As per the consolidated statements of cash flows.

<sup>(4)</sup> See Note 22 – Property, plant and equipment for more details.

<sup>(5)</sup> See Note 23 – Intangibles assets for more details.

<sup>(6)</sup> See Note 40 – Investments in joint ventures and associates.

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

	December 31, 2019	December 31, 2018	January 1, 2018
<b>Assets</b>			
Total assets	\$ 24,972	\$ 24,958	\$ 24,916
Assets not allocated to segments			
Cash and cash equivalents <sup>(1)</sup>	2,629	3,187	3,057
Income tax receivable <sup>(2)</sup>	90	49	60
Deferred income taxes <sup>(6)</sup>	677	746	595
<b>Segmented assets</b>	<b>21,576</b>	<b>20,976</b>	<b>21,204</b>
<b>Liabilities</b>			
Total liabilities	30,883	28,972	29,611
Liabilities not allocated to segments			
Interest payable <sup>(3)</sup>	150	138	139
Income taxes payable <sup>(4)</sup>	202	173	187
Long-term debt <sup>(5)</sup>	9,333	9,102	9,218
<b>Segmented liabilities</b>	<b>\$ 21,198</b>	<b>\$ 19,559</b>	<b>\$ 20,067</b>
<b>Net segmented assets</b>			
Transportation	\$ (385)	\$ (412)	\$ (1,106)
Aviation	\$ 577	\$ 848	\$ 2,681
Corporate and Others	\$ 186	\$ 981	\$ (438)

<sup>(1)</sup> Refer to Note 15 – Cash and cash equivalents.

<sup>(2)</sup> Included in other assets.

<sup>(3)</sup> Included in trade and other payables.

<sup>(4)</sup> Included in other liabilities.

<sup>(5)</sup> The current portion of long-term debt is included in other financial liabilities.

<sup>(6)</sup> Refer to Note 12 - Income taxes for more details.

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

	2019	2018
<b>Aviation</b>		
Business Aircraft		
Manufacturing and Other <sup>(1)</sup>	\$ 4,163	\$ 3,794
Services <sup>(2)</sup>	1,254	1,200
Commercial Aircraft <sup>(3)</sup>	1,227	1,756
Aerostructures and Engineering Services	857	574
	<b>7,501</b>	<b>7,324</b>
<b>Transportation</b>		
Rolling stock and systems <sup>(4)</sup>	5,192	5,844
Services <sup>(5)</sup>	2,140	2,096
Signalling <sup>(6)</sup>	937	975
	<b>8,269</b>	<b>8,915</b>
<b>Corporate and Others</b>	<b>(13)</b>	<b>(3)</b>
	<b>\$ 15,757</b>	<b>\$ 16,236</b>

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

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

<sup>(3)</sup> Includes manufacturing, services and other.

<sup>(4)</sup> 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.

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

<sup>(6)</sup> Comprised of signalling revenues from mass transit, mainline, industrial and *OPTIFLO* service solutions.

The Corporation's revenues and PP&E and intangible assets are, allocated to countries, as follows:

	Revenues for fiscal years <sup>(1)</sup>		PP&E and intangible assets as at <sup>(2)</sup>		
	2019	2018	December 31 2019	December 31 2018	January 1 2018 <sup>(3)</sup>
<b>North America</b>					
United States	\$ 4,566	\$ 3,989	\$ 229	\$ 239	\$ 258
Canada	1,831	1,553	5,137	5,057	4,077
Mexico	35	141	33	40	38
	<b>6,432</b>	<b>5,683</b>	<b>5,399</b>	<b>5,336</b>	<b>4,373</b>
<b>Europe</b>					
Germany	1,650	1,795	1,058	1,045	1,048
United Kingdom	1,449	1,598	428	658	807
France	943	1,137	34	32	35
Switzerland	422	797	392	381	379
Other	2,105	2,098	725	708	717
	<b>6,569</b>	<b>7,425</b>	<b>2,637</b>	<b>2,824</b>	<b>2,986</b>
<b>Asia-Pacific</b>					
Australia	533	719	11	11	23
China	170	375	—	2	3
India	289	165	20	21	23
Other	620	873	3	1	3
	<b>1,612</b>	<b>2,132</b>	<b>34</b>	<b>35</b>	<b>52</b>
<b>Other</b>	<b>1,144</b>	<b>996</b>	<b>6</b>	<b>24</b>	<b>28</b>
	<b>1,144</b>	<b>996</b>	<b>6</b>	<b>24</b>	<b>28</b>
	<b>\$ 15,757</b>	<b>\$ 16,236</b>	<b>\$ 8,076</b>	<b>\$ 8,219</b>	<b>\$ 7,439</b>

<sup>(1)</sup> Allocated to countries based on the location of the customer.

<sup>(2)</sup> PP&E and intangible assets, excluding goodwill, are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price. PP&E is excluding right-of-use assets.

<sup>(3)</sup> Comprises the assets held for sale reclassification related to the disposal of ACLP.

## 6. RESEARCH AND DEVELOPMENT

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

	2019	2018
R&D expenditures	\$ 435	\$ 1,136
Less: development expenditures capitalized to aerospace program tooling	(275)	(989)
	160	147
Add: amortization of aerospace program tooling	132	70
	\$ 292	\$ 217

## 7. OTHER INCOME

Other income was as follows, for fiscal years:

	2019	2018
Changes in estimates and fair value <sup>(1)</sup>	\$ (40)	\$ (55)
Gains on disposals of intangible assets and PP&E <sup>(2)</sup>	(10)	(9)
Impairment of PP&E and intangible assets <sup>(2)</sup>	4	3
Gain on sale of a business <sup>(2)</sup>	(4)	—
Severance and other involuntary termination costs (including changes in estimates) <sup>(2)</sup>	1	3
Other	2	—
	\$ (47)	\$ (58)

<sup>(1)</sup> 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.

<sup>(2)</sup> Excludes those presented in special items.

## 8. 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, for fiscal years:

	2019	2018
Impairment on ACLP investments <sup>(1)</sup>	\$ 1,578	\$ —
Gain on disposal of a business - Training business <sup>(2)</sup>	(516)	—
Gain on disposal of a business - Q Series business <sup>(3)</sup>	(210)	—
Restructuring charges <sup>(4)</sup>	99	41
Loss on repurchase of long-term debt <sup>(5)</sup>	84	—
Pension adjustments <sup>(6)</sup>	26	28
Reversal of <i>Learjet 85</i> aircraft program cancellation provisions <sup>(7)</sup>	(18)	(29)
<i>Primove</i> impairment and other costs <sup>(8)</sup>	5	4
Purchase of pension annuities <sup>(9)</sup>	4	32
C Series transaction with Airbus <sup>(10)</sup>	—	616
Gain on disposal of PP&E <sup>(11)</sup>	—	(561)
Gains on disposal of PP&E under sale and leaseback transactions <sup>(12)</sup>	—	(66)
Tax litigation <sup>(13)</sup>	—	(35)
Changes in credit and residual value guarantees <sup>(14)</sup>	—	(34)
Loss on sale of long-term contract receivables <sup>(15)</sup>	—	31
Impairment of non-core operations <sup>(16)</sup>	—	17
Income taxes	217	(23)
	<b>\$ 1,269</b>	<b>\$ 21</b>
<b>Of which is presented in</b>		
Special items in EBIT	\$ 968	\$ 28
Financing expense - loss on repurchase of long-term debt <sup>(5)</sup>	84	—
Financing expense - loss on sale of long-term contract receivables <sup>(15)</sup>	—	31
Financing income - interest related to tax litigation <sup>(13)</sup>	—	(15)
Income taxes	217	(23)
	<b>\$ 1,269</b>	<b>\$ 21</b>

- The Corporation performed an impairment test in the fourth quarter of 2019 on its investments in ACLP since there were indicators of impairment. The Corporation determined that the carrying amount of its investment in ACLP exceeded its recoverable amount, and accordingly recorded an impairment charge of \$1,578 million. See Note 40 - Investments in Joint ventures and Associates for more details.
- 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 31 - Disposal of businesses.
- The sale of the Q Series Aircraft program assets for net proceeds of \$285 million resulted in a pre-tax accounting gain of \$210 million (\$184 million after tax impact). See Note 31 - Disposal of businesses.
- For fiscal year 2019, represents severance charges of \$86 million partially offset by curtailment gains of \$7 million and by the reversal of previously-recorded impairment charges of \$8 million, related to previously-announced restructuring actions. For fiscal year 2018, represents severance charges of \$43 million partially offset by curtailment gains of \$10 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 \$24 million of other related charges for fiscal year 2019. In addition, the Corporation has recorded a write down of deferred tax assets of \$87 million to reflect the expected impact of the conclusion of the *CRJ* announcement.

5. 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 29 - Long-term debt.
6. On October 26, 2018, the High Court in the United Kingdom ruled that pension schemes must equalize for the effect of unequal Guaranteed Minimum Pensions between male and female for benefits earned during specified periods ("GMP equalization"). The Corporation estimated the impact of the ruling on its pension plans and recognized an additional obligation of \$28 million as at December 31, 2018. The one-time P&L impact was recognized in fiscal year 2018 as a past service cost under IAS 19 - Employee Benefits. In fiscal year 2019, the Corporation adjusted the pension obligation related to equalization for an Aviation plan in the U.K. The adjustments of \$26 million was recorded as a past service cost under IAS 19 - Employee Benefits.
7. Based on the ongoing activities with respect to the cancellation of the *Learjet 85* aircraft program, the Corporation reduced the related provisions by \$18 million for fiscal year 2019 (\$29 million for fiscal year 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.
8. Following a reassessment of the value of the *Primove* e-mobility technology and the status of existing contractual obligations, the Corporation recorded in fiscal year 2019 an additional contract provision of \$5 million (\$4 million for fiscal year 2018).
9. 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.
10. 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 \$616 million (\$552 million after tax). The pre-tax accounting charge reflects all elements of the transaction, including: (i) the \$270 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.
11. Related to the sale of the Downsview property to the Public Sector Pension Investment Board (PSP Investments).
12. The Corporation sold and leased back two facilities in Transportation in line with our transformation plan.
13. Represents a change in the estimates used to determine the provision related to tax litigation.
14. The provisions for credit and residual value guarantees were reduced following a change in credit risk assumption for an airline. The reduction of the provisions was treated as a special item since the original provisions were recorded as special items in 2015.
15. For fiscal year 2018, the Corporation sold long-term contract receivables in Transportation, which resulted in a loss of \$31 million recorded in financing expense.
16. An impairment charge related to non-core operations of \$17 million recorded in the fiscal year 2018 with respect to the expected sale of legal entities, as part of the Transportation transformation plan.

## 9. FINANCING EXPENSE AND FINANCING INCOME

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

	2019	2018
<b>Financing expense</b>		
Loss on repurchase of long-term debt <sup>(1)</sup>	\$ 84	\$ —
Accretion on net retirement benefit obligations	73	65
Accretion on other financial liabilities	56	58
Accretion on advances <sup>(2)</sup>	37	18
Changes in discount rates of provisions	19	—
Interest expense on lease liabilities <sup>(3)</sup>	32	—
Amortization of letter of credit facility costs	25	16
Accretion on provisions	14	27
Net loss on certain financial instruments <sup>(4)</sup>	—	53
Loss on sale of long-term contract receivables <sup>(5)</sup>	—	31
Other	95	91
	<b>435</b>	359
Interest on long-term debt, after effect of hedges	<b>637</b>	353
	<b>\$ 1,072</b> <sup>(6)</sup>	<b>\$ 712</b> <sup>(6)</sup>
<b>Financing income</b>		
Net gain on certain financial instruments <sup>(4)</sup>	\$ (149)	\$ —
Changes in discount rates of provisions	—	(17)
Tax litigation <sup>(7)</sup>	—	(15)
Other	(34)	(37)
	<b>(183)</b>	(69)
Interest on cash and cash equivalents	<b>(35)</b>	(25)
Income from investment in securities	<b>(9)</b>	(8)
Interest on loans and lease receivables, after effect of hedges	<b>(3)</b>	(4)
	<b>(47)</b>	(37)
	<b>\$ (230)</b> <sup>(8)</sup>	<b>\$ (106)</b> <sup>(8)</sup>

<sup>(1)</sup> 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 8 – Special items and see Note 29 – Long-term debt for more details.

<sup>(2)</sup> Represents adjustments to transaction prices for certain orders with a significant financing component due to a significant delay between timing of cash receipt and revenue recognition.

<sup>(3)</sup> 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 3 - Changes in accounting policies for more details.

<sup>(4)</sup> Net losses (gains) on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.

<sup>(5)</sup> Represents the loss related to the sale of long-term contract receivables in Transportation. See Note 8 – Special items for more details.

<sup>(6)</sup> Of which \$713 million representing the interest expense calculated using the effective interest rate method for financial liabilities classified as amortized cost, respectively for fiscal year 2019 (\$431 million for fiscal year 2018).

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

<sup>(8)</sup> Of which \$35 million representing the interest income calculated using the effective interest rate method for financial assets classified as amortized cost and FVOCI, for fiscal year 2019 (\$32 million for fiscal year 2018).

Borrowing costs capitalized to PP&E and intangible assets totalled \$13 million for fiscal year 2019, using an average capitalization rate of 6.76% (\$247 million and 6.65% for fiscal year 2018). 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).

## 10. NON-CONTROLLING INTEREST

The summarized statement of financial position for BT Holdco, which has significant NCI, was as follows, as at:

	December 31, 2019		December 31, 2018	
Current assets <sup>(1)</sup>	\$	4,794	\$	4,929
Non-current assets		4,295		3,916
<b>Total assets</b>	<b>\$</b>	<b>9,089</b>	<b>\$</b>	<b>8,845</b>
Current liabilities	\$	7,403	\$	7,246
Non-current liabilities		1,700		1,448
<b>Total liabilities</b>	<b>\$</b>	<b>9,103</b>	<b>\$</b>	<b>8,694</b>
<b>Net assets</b>	<b>\$</b>	<b>(14)</b>	<b>\$</b>	<b>151</b>

<sup>(1)</sup> Includes cash and cash equivalents amounting to €481 million (\$540 million) and €662 million (\$758 million) as at December 31, 2019 and 2018.

The selected income and cash flow information for BT Holdco, which has significant NCI, was as follows, for fiscal years:

	2019		2018	
Revenues	\$	8,269	\$	8,915
Net income (loss)	\$	(142)	\$	325
Comprehensive income (loss)	\$	(183)	\$	79
Cash flows from operating activities	\$	(428)	\$	(6)
Cash flows from investing activities	\$	(128)	\$	(107)
Cash flows from financing activities <sup>(1)</sup>	\$	222	\$	(328)

<sup>(1)</sup> Includes nil of dividend paid, \$164 million (€150 million) of capital injection made by the Corporation and CDPQ, and \$112 million (€100 million) of subordinated loan made by the Corporation to BT Holdco for fiscal year 2019 (\$326 million (€270 million), nil and nil, respectively for fiscal year 2018).

The changes to the accumulated NCI for BT Holdco, which has significant NCI, were as follows:

	BT Holdco	
Balance as at January 1, 2018	\$	1,548
Minimum return entitlement		155
OCI		(75)
Dividends		(90)
Balance as at December 31, 2018		1,538
Minimum return entitlement		183
OCI		(27)
Issuance of NCI		49
<b>Balance as at December 31, 2019</b>	<b>\$</b>	<b>1,743</b>

### **CDPQ investment in BT Holdco**

On February 11, 2016, Bombardier closed the sale to the CDPQ of a \$1.5-billion convertible share investment in Bombardier Transportation's newly-created holding company, Bombardier Transportation (Investment) UK Limited (BT Holdco). Under the terms of the investment, Bombardier Inc. sold voting shares convertible into a 30% common equity stake of BT Holdco to the CDPQ, subject to annual adjustments related to performance.

BT Holdco owns essentially all of the assets and liabilities of Bombardier's Transportation business segment, its operational headquarters remains in Germany and continues to be consolidated in Bombardier's financial results.



**Key terms of the investment**

The CDPQ is entitled to its pro-rata portion (on an as-converted basis, initially equal to 30% of BT Holdco common shares) of any dividends declared, once the Corporation and CDPQ approved the declaration of dividends, as required.

Dividends are payable in cash or, subject to certain conditions, in additional convertible shares at the option of BT Holdco (any such issuance to increase the CDPQ's participation).

**Performance incentives**

The terms of the transaction provide strong performance incentives for Transportation. For each of the first five years following the closing date, the CDPQ's ownership (on conversion) and return may be subject to upward or downward annual adjustments, based on performance targets jointly agreed to as part of Transportation's business plan.

If Transportation outperforms its business plan, the CDPQ's percentage of ownership on conversion of its shares decreases by 2.5% annually, down to a minimum threshold of 25%. In this circumstance, the convertible shares' minimum return also decreases from 9.5% to a floor of 7.5%.

Conversely, should Transportation underperform relative to its plan, the CDPQ's percentage of ownership on conversion of its shares will increase by 2.5% annually, up to a maximum of 42.5% over a five-year period. In this case, the convertible shares' minimum return also increases from 9.5% up to 12%.

In 2019, Transportation did not meet the performance targets underlying CDPQ's investment in BT Holdco. Accordingly, for the 12-month period starting on February 12, 2020, CDPQ's percentage of ownership on conversion of its shares will increase by 2.5%, up from 30% to 32.5%, and the preference return entitlement rate on liquidation of its shares will increase from 9.5% to 12% for this period. Any dividends paid by BT Holdco to its shareholders during this period will be distributed on the basis of each shareholder's percentage of ownership on conversion, being 67.5% for Bombardier and 32.5% for the CDPQ. These adjustments will become effective once the audited consolidated financial statements of BT Holdco are duly approved by its Board of Directors.

**Shareholders rights and exit**

Under the terms of the investment, the CDPQ has standard minority protection rights, including: pre-emptive rights, a right of first offer, and tag-along rights, and Bombardier has a right of first offer and customary drag-along rights, in each case subject to certain conditions.

Bombardier has the ability to buy back the CDPQ's investment upon specified terms at any time on or after the third anniversary of the closing of the investment, at the higher of the fair market value (on an as-converted basis) or a minimum of 15% compounded annual return to the CDPQ.

At any time on or after February 11, 2021, and provided that Bombardier has not exercised its right to buy back the CDPQ's investment before then, the CDPQ will have the right to cause BT Holdco to proceed with a secondary initial public offering (IPO) or a sale of 100% of its shares.

In the case of an IPO, the conversion ratio of the CDPQ's shares will be adjusted so that, immediately prior to the IPO, the CDPQ receives shares having a value equal to the higher of: (i) the value of its shares, on an as-converted basis, based on the implied value of the IPO; or (ii) the minimum return adjusted for any distributions, in both cases taking into account changes, if any, resulting from the effect of the performance incentives. The CDPQ's shares would be sold in priority to Bombardier's shares as part of the secondary IPO.

In the case of a sale of 100% of the BT Holdco shares, the CDPQ will have the right to receive an amount equal to the higher of: (i) the value of its shares, on an as-converted basis, based on the implied value of the sale to a third party; or (ii) the minimum return adjusted for any distributions, in both cases taking into account changes, if any, resulting from the effect of the performance incentives.

Upon a change of control of Bombardier Inc. or, in certain circumstances, of BT Holdco, the CDPQ will have the right to require an IPO or a sale of 100% of the BT Holdco shares and to receive the higher of: (i) the value of the common shares held by the CDPQ on an as-converted basis, based on the implied value of the IPO or sale to a

third party, as discussed above; or (ii) a minimum three-year 15% compounded annual return (or at any time after three years, a 15% compounded annual return).

### Other details of the transaction

The parties have agreed to a consolidated Bombardier cash position, as defined in the agreement, at the end of each quarter of at least \$1.25 billion. This condition was met on a quarterly basis and as at December 31, 2019 and 2018. In the event Bombardier's cash position falls below that level, the Board of directors of Bombardier will create a Special Initiatives Committee composed of three independent directors acceptable to the CDPQ, who would be responsible to develop an action plan to improve cash. The implementation of the plan, once agreed with the CDPQ, would be overseen by the Special Initiatives Committee.

### Capital injection

On September 26, 2019, the Corporation and CDPQ (through its affiliates) made a capital injection of €105 million (\$115 million) and €45 million (\$49 million) in BT Holdco. The cash infusion supports Transportation's production ramp up and associated working capital investment. The Corporation and CDPQ participated at their current pro rata share in the capital injection and under the same terms as their original investments. As such, the equity ownership percentage of the Corporation and of CDPQ in Transportation remain the same.

## 11. EMPLOYEE BENEFIT COSTS

Employee benefit costs<sup>(1)</sup> were as follows, for fiscal years:

	Notes	2019	2018
Wages, salaries and other employee benefits		\$ 4,520	\$ 4,919
Retirement benefits <sup>(2)</sup>	24	343	464
Share-based expense	34	30	74
Restructuring, severance and other involuntary termination costs	7, 8	94	46
		\$ 4,987	\$ 5,503

<sup>(1)</sup> Employee benefit costs include costs capitalized as part of the cost of inventories and other self-constructed assets.

<sup>(2)</sup> Includes defined benefit and defined contribution plans.

## 12. INCOME TAXES

### Analysis of income tax expense

Details of income tax expense were as follows, for fiscal years:

	2019	2018
Current income taxes	\$ 154	\$ 151
Deferred income taxes	113	(74)
	\$ 267	\$ 77

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows, for fiscal years:

	2019	2018
EBT	\$(1,340)	\$ 395
Canadian statutory tax rate	26.6 %	26.7%
Income tax expense at statutory rate	(356)	105
Increase (decrease) resulting from		
Non-recognition of tax benefits related to tax losses and temporary differences	538	166
Write-down of deferred income tax assets	121	132
Income tax rates differential of foreign subsidiaries and other investees		21
Recognition of previously unrecognized tax losses or temporary differences	(96)	(171)
Permanent differences	90	(135)
Effect of substantively enacted income tax rate changes	5	2
Other	(35)	(43)
Income tax expense	\$ 267	\$ 77
Effective tax rate	(19.9)%	19.5%

The Corporation's applicable Canadian statutory tax rate is the Federal and Provincial combined tax rate applicable in the jurisdiction in which the Corporation operates.

Details of deferred income tax expense (recovery) were as follows, for fiscal years:

	2019	2018
Non-recognition of tax benefits related to tax losses and temporary differences	\$ 538	\$ 166
Origination and reversal of temporary differences	(455)	(203)
Write-down of deferred income tax assets	121	132
Recognition of previously unrecognized tax losses or temporary differences	(96)	(171)
Effect of substantively enacted income tax rate changes	5	2
	\$ 113	\$ (74)

### Deferred income taxes

The significant components of the Corporation's deferred income tax asset and liability were as follows, as at:

	December 31, 2019		December 31, 2018		January 1, 2018	
	Asset	Liability	Asset	Liability	Asset	Liability
Operating tax losses carried forward	\$ 2,712	\$ —	\$ 2,247	\$ —	\$ 2,433	\$ —
Retirement benefits	591	—	547	—	501	—
Contract liabilities	416	—	179	—	87	—
Inventories	394	—	705	—	673	—
Provisions	609	—	754	—	1,106	—
Other financial assets and other assets	244	—	264	—	118	—
Investment in affiliate equity	53	—	(131)	—	—	—
PP&E	(4)	—	6	—	(3)	—
Other financial liabilities and other liabilities	1	—	6	—	(3)	—
Intangible assets	1	—	16	—	(161)	—
Contract assets	79	—	157	—	(161)	—
Other	19	—	39	—	36	—
	5,115	—	4,789	—	4,626	—
Unrecognized deferred tax assets	(4,438)	—	(4,043)	—	(4,031)	—
	\$ 677	\$ —	\$ 746	\$ —	\$ 595	\$ —
Reclassified as assets held for sale <sup>(1)</sup>	\$ (131)	\$ —	\$ —	\$ —	\$ —	\$ —
	\$ 546	\$ —	\$ 746	\$ —	\$ 595	\$ —

<sup>(1)</sup> Includes deferred income tax asset of \$131 million related to retirement benefits amounting to \$64 million, operating tax losses carried forward amounting to \$61 million and other amounting to \$6 million, which is presented under assets held for sale as at December 31, 2019. See Note 30 - Assets held for sale for more details.

The changes in the net deferred income tax asset were as follows for the fiscal years:

	<b>2019</b>	<b>2018</b>
Balance at beginning of year, net	\$ 746	\$ 595
In net (loss) income	(113)	74
In OCI		
Retirement benefits	50	(6)
Cash flow hedges	(17)	55
Reclassified as assets held for sale	(131)	—
Other <sup>(1)</sup>	11	28
<b>Balance at end of year, net</b>	<b>\$ 546</b>	<b>\$ 746</b>

<sup>(1)</sup> Includes deferred income tax impact recorded in equity amounting to \$7 million and foreign exchange rate effects as at December 31, 2019 (\$31 million and foreign exchange rate effects as at December 31, 2018).

The net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to \$17,264 million as at December 31, 2019, of which \$1,538 million relates to retirement benefits that will reverse through OCI (\$15,315 million as at December 31, 2018 of which \$1,297 million relates to retirement benefits that will reverse through OCI and \$16,677 million as at January 1, 2018 of which \$1,482 million relates to retirement benefits that will reverse through OCI). Of these amounts, approximately \$10,477 million as at December 31, 2019 has no expiration date (\$10,015 million as at December 31, 2018 and \$11,326 million as at January 1, 2018) and approximately \$3,295 million relates to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income (\$3,087 million as at December 31, 2018 and \$2,917 million as at January 1, 2018) and \$553 million relate to the Corporation's operations in France where a minimum income tax is payable on 50% of taxable income (\$437 million as at December 31, 2018 and \$522 million as at January 1, 2018).

In addition, the Corporation has \$1,621 million of unused investment tax credits, most of which can be carried forward for 20 years and \$47 million of net capital losses carried forward for which deferred tax assets have not been recognized (\$1,614 million and \$43 million as at December 31, 2018 and \$1,620 million and \$117 million as at January 1, 2018). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

Net deferred tax assets of \$161 million were recognized as at December 31, 2019 (\$321 million as at December 31, 2018 and \$492 million as at January 1, 2018) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income, projections for future taxable income and prudent tax planning strategies, management believes it is probable the Corporation will realize the benefits of these deductible differences and operating tax losses carried forward. See Note 4 – Use of estimates and judgment for more information on how the Corporation determines the extent to which deferred income tax assets are recognized.

No deferred tax liabilities have been recognized on undistributed earnings of the Corporation's foreign subsidiaries, joint ventures and associates when they are considered to be indefinitely reinvested, as the Corporation has control or joint control over the dividend policy, unless it is probable that these temporary differences will reverse. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to corporation and/or withholding taxes. Taxable temporary differences for which a deferred tax liability was not recognized amount to approximately \$664 million as at December 31, 2019 (\$682 million as at December 31, 2018 and \$588 million as at January 1, 2018).

### 13. EARNINGS PER SHARE

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

	2019	2018
<b>(Number of shares, stock options, PSUs, DSUs, RSUs and warrants in thousands)</b>		
Net income (loss) attributable to equity holders of Bombardier Inc.	\$ (1,797)	\$ 232
Preferred share dividends, including taxes	(21)	4
Net income (loss) attributable to common equity holders of Bombardier Inc.	\$ (1,818)	\$ 236
Weighted-average number of common shares outstanding	2,383,987	2,316,824
Net effect of stock options, PSUs, DSUs, RSUs, warrants and conversion option	—	184,223
Weighted-average diluted number of common shares	2,383,987	2,501,047
<b>EPS (in dollars)</b>		
Basic	\$ (0.76)	\$ 0.10
Diluted	\$ (0.76)	\$ 0.09

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 524,442,736 for fiscal year 2019 (53,477,802 for fiscal year 2018) 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 for fiscal year 2019 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.

### 14. FINANCIAL INSTRUMENTS

Net gains (losses) on financial instruments recognized in income were as follows, for fiscal years:

	2019	2018
<b>Financial instruments measured at amortized cost</b>		
Financial assets - expected credit loss allowance (impairment charges)	\$ (19)	\$ (30)
Interest on cash and cash equivalents	\$ 35	\$ 25
<b>Financial instruments measured at fair value</b>		
FVTP&L - changes in fair value		
Designated as FVTP&L		
Financial liabilities	\$ (2)	\$ 1
Required to be classified as FVTP&L		
Financial assets <sup>(1)</sup>	\$ (389)	\$ (45)
Derivatives not designated in hedging relationships <sup>(2)</sup>	\$ 91	\$ (39)
Other	\$ 116	\$ 25

<sup>(1)</sup> Includes loss recorded on ACLP non-voting units related to the impairment charges of ACLP investments for fiscal year 2019 and includes loss on sale of long-term contract receivable for fiscal year 2018, see Note 8 – Special items for more details.

<sup>(2)</sup> Includes a gain recorded on funding commitments related to the impairment charges of ACLP investments for fiscal year 2019, see Note 8 – Special items for more details.

## Carrying amounts and fair value of financial instruments

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

	FVTP&L				Amortized cost	DDHR	Total carrying value	Fair value
	FVTP&L	Designated	FVOCI <sup>(1)</sup>					
<b>December 31, 2019</b>								
<b>Financial assets</b>								
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ 2,578	\$ —	\$ 2,578	\$ 2,578	
Trade and other receivables	—	—	—	1,844	—	1,844	1,844	
Other financial assets	723	—	250	101	110	1,184	1,184	
	<b>\$ 723</b>	<b>\$ —</b>	<b>\$ 250</b>	<b>\$ 4,523</b>	<b>\$ 110</b>	<b>\$ 5,606</b>	<b>\$ 5,606</b>	
<b>Financial liabilities</b>								
Trade and other payables	\$ —	\$ —	n/a	\$ 4,682	\$ —	\$ 4,682	\$ 4,682	
Long-term debt <sup>(2)</sup>	—	—	n/a	9,333	—	9,333	9,660	
Other financial liabilities	378	468	n/a	732	157	1,735	1,752	
	<b>\$ 378</b>	<b>\$ 468</b>	<b>n/a</b>	<b>\$ 14,747</b>	<b>\$ 157</b>	<b>\$ 15,750</b>	<b>\$ 16,094</b>	
<b>December 31, 2018</b>								
<b>Financial assets</b>								
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	
	<b>\$ 846</b>	<b>\$ —</b>	<b>\$ 230</b>	<b>\$ 4,797</b>	<b>\$ 129</b>	<b>\$ 6,002</b>	<b>\$ 5,999</b>	
<b>Financial liabilities</b>								
Trade and other payables	\$ —	\$ —	n/a	\$ 4,634	\$ —	\$ 4,634	\$ 4,634	
Long-term debt <sup>(2)</sup>	—	—	n/a	9,102	—	9,102	8,750	
Other financial liabilities	597	438	n/a	801	288	2,124	2,412	
	<b>\$ 597</b>	<b>\$ 438</b>	<b>n/a</b>	<b>\$ 14,537</b>	<b>\$ 288</b>	<b>\$ 15,860</b>	<b>\$ 15,796</b>	
<b>January 1, 2018</b>								
<b>Financial assets</b>								
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	
	<b>\$ 3,067</b>	<b>\$ 216</b>	<b>\$ 361</b>	<b>\$ 1,505</b>	<b>\$ 253</b>	<b>\$ 5,402</b>	<b>\$ 5,440</b>	
<b>Financial liabilities</b>								
Trade and other payables	\$ —	\$ 6	n/a	\$ 3,958	\$ —	\$ 3,964	\$ 3,964	
Long-term debt <sup>(2)</sup>	—	—	n/a	9,218	—	9,218	9,354	
Other financial liabilities	354	74	n/a	677	184	1,289	1,329	
	<b>\$ 354</b>	<b>\$ 80</b>	<b>n/a</b>	<b>\$ 13,853</b>	<b>\$ 184</b>	<b>\$ 14,471</b>	<b>\$ 14,647</b>	

<sup>(1)</sup> Includes investments in equity instruments designated at FVOCI.

<sup>(2)</sup> Includes the current portion of long-term debt.

n/a: Not applicable

## Offsetting financial assets and financial liabilities

The Corporation is subject to enforceable master netting agreements related mainly to its derivative financial instruments and cash and cash equivalents which contain a right of set-off in case of default, insolvency or bankruptcy. The amounts that are subject to the enforceable master netting agreements, but which do not meet some or all of the offsetting criteria, are as follows as at:

Description of recognized financial assets and liabilities	Amount recognized in the financial statements	Amounts subject to master netting agreements	Net amount not subject to master netting agreements
<b>December 31, 2019</b>			
Derivative financial instruments - assets	\$ 287	\$ (97)	\$ 190
Derivative financial instruments - liabilities	\$ (535)	\$ 117	\$ (418)
Cash and cash equivalents	\$ 2,629	\$ (19)	\$ 2,610
<b>December 31, 2018</b>			
Derivative financial instruments - assets	\$ 168	\$ (104)	\$ 64
Derivative financial instruments - liabilities	\$ (885)	\$ 232	\$ (653)
Cash and cash equivalents	\$ 3,187	\$ (127)	\$ 3,060
<b>January 1, 2018</b>			
Derivative financial instruments - assets	\$ 332	\$ (135)	\$ 197
Derivative financial instruments - liabilities	\$ (538)	\$ 176	\$ (362)
Cash and cash equivalents	\$ 3,057	\$ (41)	\$ 3,016

## Derivatives and hedging activities

The carrying amounts of all derivative and non-derivative financial instruments in a hedge relationship were as follows, as at:

	December 31, 2019		December 31, 2018		January 1, 2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivative financial instruments designated as fair value hedges</b>						
Interest-rate swaps	\$ 7	\$ —	\$ —	\$ 1	\$ 5	\$ —
<b>Derivative financial instruments designated as cash flow hedges<sup>(1)</sup></b>						
Forward foreign exchange contracts	103	157	129	287	248	184
<b>Derivative financial instruments classified as FVTP&amp;L<sup>(2)</sup></b>						
Forward foreign exchange contracts	18	50	33	48	57	50
Funding commitments	—	—	—	235	—	—
Embedded derivative financial instruments						
Conversion option	—	325	—	314	—	304
Call options on long-term debt	158	—	4	—	21	—
Other	1	3	2	—	1	—
	177	378	39	597	79	354
<b>Total derivative financial instruments</b>	<b>\$ 287</b>	<b>\$ 535</b>	<b>\$ 168</b>	<b>\$ 885</b>	<b>\$ 332</b>	<b>\$ 538</b>
<b>Non-derivative financial instruments designated as hedges of net investment</b>						
Long-term debt	\$ —	\$ 355	\$ —	\$ 526	\$ —	\$ 28

<sup>(1)</sup> The maximum length of time of derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 18 months as at December 31, 2019.

<sup>(2)</sup> Held as economic hedges, except for embedded derivative financial instruments and funding commitments.

The net losses on hedging instruments designated in fair value hedge relationships and net gains on the related hedged items attributable to the hedged risk recognized in financing expense, amounted to \$7 million and \$7 million respectively for fiscal year 2019 (net losses of \$4 million and net gains of \$4 million respectively for fiscal year 2018). The ineffectiveness recognized in net income that relates to cash flow hedges, amounted to net losses of \$1 million for fiscal year 2019 (net losses of \$4 million for fiscal year 2018). The methods and assumptions used to measure the fair value of financial instruments are described in Note 39 – Fair value of financial instruments.

## 15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Cash	\$ 1,306	\$ 1,296	\$ 1,382
Cash equivalents			
Term deposits	547	892	449
Money market funds	776	999	1,226
<b>Cash and cash equivalents<sup>(1)</sup></b>	<b>\$ 2,629</b>	<b>\$ 3,187</b>	<b>\$ 3,057</b>
Reclassified as assets held for sale	51	—	69
<b>Cash and cash equivalents</b>	<b>\$ 2,578</b>	<b>\$ 3,187</b>	<b>\$ 2,988</b>

<sup>(1)</sup> For purpose of the statement of cash flows, cash and cash equivalents comprise the cash reclassified as asset held for sale. See Note 30 - Assets held for sale for more details.

See Note 36 – Credit facilities for details on covenants related to cash and cash equivalents.

See Note 10 – Non-controlling interest for details on the agreement with CDPQ related to a consolidated Bombardier cash position of at least \$1.25 billion at the end of each quarter.

## 16. TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows, as at:

	Total	Not past due	Past due but not impaired <sup>(3)</sup>		Impaired <sup>(4)</sup>
			less than 90 days	more than 90 days	
<b>December 31, 2019<sup>(1)(2)</sup></b>					
Trade receivables, gross	\$ 1,773	\$ 1,176	\$ 146	\$ 231	\$ 220
Allowance for doubtful accounts	(49)	—	—	—	(49)
	1,724	\$ 1,176	\$ 146	\$ 231	\$ 171
Other	120				
<b>Total</b>	<b>\$ 1,844</b>				
<b>December 31, 2018<sup>(1)(2)</sup></b>					
Trade receivables, gross	\$ 1,508	\$ 764	\$ 339	\$ 245	\$ 160
Allowance for doubtful accounts	(42)	—	—	—	(42)
	1,466	\$ 764	\$ 339	\$ 245	\$ 118
Other	109				
<b>Total</b>	<b>\$ 1,575</b>				
<b>January 1, 2018<sup>(1)(2)</sup></b>					
Trade receivables, gross	\$ 1,149	\$ 669	\$ 195	\$ 171	\$ 114
Allowance for doubtful accounts	(70)	—	—	—	(70)
	1,079	\$ 669	\$ 195	\$ 171	\$ 44
Other	95				
<b>Total</b>	<b>\$ 1,174</b>				

<sup>(1)</sup> Of which \$506 million and \$574 million are denominated in euros and other foreign currencies, respectively, as at December 31, 2019 (\$334 million and \$564 million, respectively, as at December 31, 2018 and \$254 million and \$443 million, respectively, as at January 1, 2018).

<sup>(2)</sup> Of which \$485 million represents customer retentions relating to long-term contracts as at December 31, 2019 based on normal terms and conditions (\$400 million as at December 31, 2018 and \$287 million as at January 1, 2018).

<sup>(3)</sup> Of which \$186 million of trade receivables relates to Transportation long-term contracts as at December 31, 2019, of which \$179 million were more than 90 days past due (\$464 million as at December 31, 2018, of which \$229 million were more than 90 days past due and \$225 million as at January 1, 2018, of which \$144 million were more than 90 days past due). Transportation assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole.

<sup>(4)</sup> Of which a gross amount of \$52 million of trade receivables are individually impaired as at December 31, 2019 (\$40 million as at December 31, 2018 and \$73 million as at January 1, 2018).



The factors that the Corporation considers to classify trade receivables as impaired are as follows: the customer is in bankruptcy or under administration, payments are in dispute, or payments are in arrears. Further information on financial risk is provided in Note 38 – Financial risk management.

**Allowance for doubtful accounts** – Changes in the allowance for doubtful accounts were as follows, for fiscal years:

	2019	2018
Balance at beginning of year	\$ (42)	\$ (70)
Provision for doubtful accounts	(19)	(30)
Amounts written-off	7	56
Reclassified as assets held for sale <sup>(1)</sup>	7	—
Effect of foreign currency exchange rate changes	(2)	2
<b>Balance at end of year</b>	<b>\$ (49)</b>	<b>\$ (42)</b>

<sup>(1)</sup> See Note 30 – Assets held for sale for more details.

#### **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 €809 million (\$909 million) were outstanding under such facilities as at December 31, 2019 (€799 million (\$914 million) as at December 31, 2018 and €907 million (\$1,088 million) as at January 1, 2018). Receivables of €1,691 million (\$1,894 million) were sold to these facilities during fiscal year 2019 (€1,590 million (\$1,880 million) during fiscal year 2018).

In addition, in fiscal year 2018, the Corporation sold a long-term contract receivable, previously recorded in other financial assets, for proceeds of \$133 million, refer to Note 8 - Special items and Note 20 - Other financial assets for more details.

## 17. CONTRACT BALANCES

Contract assets were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	\$ 9,930	\$ 8,882	\$ 8,306
Less: advances and progress billings	(7,983)	(6,707)	(6,171)
	<b>1,947</b>	<b>2,175</b>	<b>2,135</b>
Service contracts			
Cost incurred and recorded margins	674	506	367
Less: advances and progress billings	(136)	(64)	(42)
	<b>538</b>	<b>442</b>	<b>325</b>
	<b>\$ 2,485</b>	<b>\$ 2,617</b>	<b>\$ 2,460</b>

Contract liabilities were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Advances on aerospace programs	\$ 4,018	\$ 3,075	\$ 2,120
Advances and progress billings in excess of long-term contract cost incurred and recorded margin	2,286	2,124	1,981
Other deferred revenues	852	996	991
	<b>\$ 7,156</b>	<b>\$ 6,195</b>	<b>\$ 5,092</b>
Of which current	\$ 5,739	\$ 4,262	\$ 3,820
Of which non-current	1,417	1,933	1,272
	<b>\$ 7,156</b>	<b>\$ 6,195</b>	<b>\$ 5,092</b>

Under certain contracts, title to contract balances is vested to the customer as the work is performed, in accordance with contractual arrangements and industry practice. In addition, in the normal course of business, the Corporation provides performance bonds, bank guarantees and other forms of guarantees to customers, mainly in Transportation, as security for advances received from customers pending performance under certain contracts. In accordance with industry practice, the Corporation remains liable to the purchasers for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance.

Advances and progress billings received on long-term contracts in progress were \$10,405 million as at December 31, 2019 (\$8,895 million as at December 31, 2018 and \$8,194 million as at January 1, 2018). Revenues include revenues from Transportation long-term contracts, which amounted to \$6,766 million for fiscal year 2019 (\$7,388 million for fiscal year 2018).

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 €503 million (\$565 million) as at December 31, 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 by a specified date.

Revenues recognized were as follows for fiscal years:

	2019	2018
<b>Revenue recognized from:</b>		
<b>Contract liability balance at the beginning of the period</b>		
Long term production contracts and service contracts	\$ 1,345	\$ 1,796
Advances on aerospace programs	822	729
<b>Performance obligations satisfied (partially satisfied) in previous periods<sup>(1)</sup></b>		
Long term production contracts	(104)	174
Long term service contracts	(4)	(23)
	<b>\$ 2,059</b>	<b>\$ 2,676</b>

<sup>(1)</sup> Includes changes in transaction price such as penalties and escalation.

Impairment losses recognized were as follows for fiscal years:

	2019	2018
<b>Impairment losses recognized on:</b>		
<b>Receivables arising from:</b>		
Production contracts	\$ (15)	\$ (22)
Service contracts	—	(1)
	<b>\$ (15)</b>	<b>\$ (23)</b>

## 18. INVENTORIES

Inventories were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Aerospace programs	\$ 3,990	\$ 3,546	\$ 2,472
Finished products <sup>(1)</sup>	468	733	749
Other	141	123	208
	<b>\$ 4,599</b>	<b>\$ 4,402</b>	<b>\$ 3,429</b>

<sup>(1)</sup> Finished products include \$58 million of new aircraft not associated with a firm order and pre-owned aircraft as at December 31, 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 \$5,632 million for fiscal year 2019 (\$5,422 million for fiscal year 2018). These amounts include \$180 million of write-downs for fiscal year 2019 (\$249 million for fiscal year 2018). Reversal of write-down of \$7 million is recognized for fiscal year 2019 (\$19 million for fiscal year 2018).

## 19. BACKLOG

The following table presents the aggregate amount of the revenues expected to be realized in the future from partially or fully unsatisfied performance obligations as we perform under contracts at delivery or recognized over time. The amounts disclosed below represent the value of firm orders only. Such orders may be subject to future modifications that might impact the amount and/or timing of revenue recognition. The amounts disclosed below do not include constrained variable consideration, unexercised options or letters of intent.

Revenues expected to be recognized in:

(In billions of \$)	December 31, 2019	December 31, 2018
Less than 24 months	\$ 28.2	\$ 26.8
Thereafter	23.9	26.3
Total	<b>\$ 52.1</b>	<b>\$ 53.1</b>

## 20. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Receivables from related party <sup>(1)</sup>	\$ 468	\$ 385	\$ —
ACLPL non-voting units <sup>(2)</sup>	—	150	—
Derivative financial instruments <sup>(3)</sup>	287	168	332
Investments in securities <sup>(4)(7)</sup>	250	230	361
Long-term contract receivables <sup>(5)(8)</sup>	99	75	253
Restricted cash	62	21	12
Aircraft loans and lease receivables <sup>(6)</sup>	2	26	49
Investments in financing structures	—	173	219
Other	16	12	14
	<b>\$ 1,184</b>	<b>\$ 1,240</b>	<b>\$ 1,240</b>
Of which current	\$ 195	\$ 210	\$ 415
Of which non-current	989	1,030	825
	<b>\$ 1,184</b>	<b>\$ 1,240</b>	<b>\$ 1,240</b>

<sup>(1)</sup> This receivable from ACLP represents a back-to-back agreement that the Corporation has with ACLP related to certain government refundable advances. See Note 27 - Other financial liabilities for more information.

<sup>(2)</sup> See Note 8 - Special items for more details on the impairment charges on ACLP investments.

<sup>(3)</sup> See Note 14 - Financial instruments.

<sup>(4)</sup> Includes nil million of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at December 31, 2019 (\$16 million as at December 31, 2018 and \$51 million as at January 1, 2018).

<sup>(5)</sup> See Note 38 - Financial risk management.

<sup>(6)</sup> Aircraft loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors.

<sup>(7)</sup> Includes \$35 million of equity instruments designated as FVOCI as at December 31, 2019 (\$28 million as at December 31, 2018).

<sup>(8)</sup> See Note 8 - Special items for more details on the sale of long-term contract receivables.

## 21. OTHER ASSETS

Other assets were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Sales tax and other taxes	\$ 249	\$ 212	\$ 262
Intangible assets other than aerospace program tooling and goodwill <sup>(1)</sup>	217	195	120
Retirement benefits <sup>(2)</sup>	193	200	290
Prepaid expenses	141	107	107
Prepaid sales concessions and deferred contract costs	105	131	174
Income taxes receivable	90	49	60
Deferred financing charges	27	38	40
Other	13	24	17
	<b>\$ 1,035</b>	<b>\$ 956</b>	<b>\$ 1,070</b>
Of which current	\$ 473	\$ 357	\$ 427
Of which non-current	562	599	643
	<b>\$ 1,035</b>	<b>\$ 956</b>	<b>\$ 1,070</b>

<sup>(1)</sup> See Note 23 - Intangible assets.

<sup>(2)</sup> See Note 24 - Retirement benefits.

## 22. PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows, as at:

	Land	Buildings	Equipment	Construction in progress	Other	Total	Right-of- use assets	Total
<b>Cost</b>								
Balance as at December 31, 2018	\$ 79	\$ 2,140	\$ 1,330	\$ 184	\$ 359	\$ 4,092	n/a	\$ 4,092
Change in accounting policy <sup>(1)</sup>	—	(73)	(48)	—	—	(121)	675	554
Additions	2	24	75	137	—	238	103	341
Disposals	(8)	(20)	(165)	(1)	(12)	(206)	(95)	(301)
Transfers	—	44	62	(105)	4	5	(5)	—
Reclassified as assets held for sale <sup>(2)</sup>	(8)	(329)	(374)	(47)	(16)	(774)	(69)	(843)
Effect of foreign currency exchange rate changes	—	(13)	(1)	—	—	(14)	(3)	(17)
<b>Balance as at December 31, 2019</b>	<b>\$ 65</b>	<b>\$ 1,773</b>	<b>\$ 879</b>	<b>\$ 168</b>	<b>\$ 335</b>	<b>\$ 3,220</b>	<b>\$ 606</b>	<b>\$ 3,826</b>
<b>Accumulated amortization and impairment</b>								
Balance as at December 31, 2018	\$ (18)	\$ (1,238)	\$ (989)	\$ (11)	\$ (279)	\$ (2,535)	n/a	\$ (2,535)
Change in accounting policy <sup>(1)</sup>	—	39	22	—	—	61	(61)	—
Amortization	—	(56)	(99)	—	(6)	(161)	(109)	(270)
Reversals (impairments)	1	2	5	(2)	1	7	—	7
Disposals	—	21	155	—	3	179	12	191
Transfers	—	(2)	(3)	—	—	(5)	5	—
Reclassified as assets held for sale <sup>(2)</sup>	—	162	362	—	9	533	21	554
Effect of foreign currency exchange rate changes	—	11	(2)	—	(1)	8	—	8
<b>Balance as at December 31, 2019</b>	<b>\$ (17)</b>	<b>\$ (1,061)</b>	<b>\$ (549)</b>	<b>\$ (13)</b>	<b>\$ (273)</b>	<b>\$ (1,913)</b>	<b>\$ (132)</b>	<b>\$ (2,045)</b>
<b>Net carrying value</b>	<b>\$ 48</b>	<b>\$ 712</b>	<b>\$ 330</b>	<b>\$ 155</b>	<b>\$ 62</b>	<b>\$ 1,307</b>	<b>\$ 474</b>	<b>\$ 1,781</b>

	Land	Buildings	Equipment	Construction in progress	Other	Total
<b>Cost</b>						
Balance as at January 1, 2018 <sup>(3)</sup>	\$ 83	\$ 2,538	\$ 1,442	\$ 173	\$ 415	\$ 4,651
Additions	—	13	47	128	3	191
Disposals	(1)	(155)	(130)	—	(8)	(294)
Transfers	—	95	54	(100)	(49)	—
Disposal of ACLP business	—	(304)	(64)	(13)	—	(381)
Effect of foreign currency exchange rate changes	(3)	(47)	(19)	(4)	(2)	(75)
Balance as at December 31, 2018	\$ 79	\$ 2,140	\$ 1,330	\$ 184	\$ 359	\$ 4,092
<b>Accumulated amortization and impairment</b>						
Balance as at January 1, 2018 <sup>(3)</sup>	\$ (18)	\$ (1,377)	\$ (993)	\$ (7)	\$ (291)	\$ (2,686)
Amortization	—	(65)	(103)	—	(13)	(181)
Impairment	—	(1)	(6)	(4)	—	(11)
Disposals	—	100	100	—	2	202
Transfers	—	—	(18)	—	18	—
Disposal of ACLP business	—	74	23	—	—	97
Effect of foreign currency exchange rate changes	—	31	8	—	5	44
Balance as at December 31, 2018	\$ (18)	\$ (1,238)	\$ (989)	\$ (11)	\$ (279)	\$ (2,535)
<b>Net carrying value</b>	<b>\$ 61</b>	<b>\$ 902</b>	<b>\$ 341</b>	<b>\$ 173</b>	<b>\$ 80</b>	<b>\$ 1,557</b>

<sup>(1)</sup> Represents the initial recognition of right-of-use assets as at January 1, 2019 following the adoption of IFRS 16, *Leases*. Refer to Note 3 - Changes in accounting policies for more details.

<sup>(2)</sup> See Note 30 – Assets held for sale for more details.

<sup>(3)</sup> Opening balances are before the assets held for sale reclassification related to the disposal of ACLP.

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

	December 31, 2019	January 1, 2019
Buildings	\$ 332	\$ 405
Equipment	85	156
Land	50	42
Others	7	11
	<b>\$ 474</b>	<b>\$ 614</b>

Depreciation expense of right-of-use assets was as follows, for fiscal year 2019:

	Land	Buildings	Equipment	Other	Total
Depreciation expense of right-of-use assets	\$ (2)	\$ (58)	\$ (39)	\$ (10)	\$ (109)

The expense related to short term leases and low value leases amounted to \$27 million for fiscal year 2019.

## 23. INTANGIBLE ASSETS

Intangible assets were as follows, as at:

	Aerospace program tooling			Goodwill	Other <sup>(1)(2)</sup>	Total
	Acquired	Internally generated	Total <sup>(3)</sup>			
<b>Cost</b>						
Balance as at December 31, 2018	\$ 1,930	\$ 8,999	\$ 10,929	\$ 1,948	\$ 891	\$ 13,768
Additions	112	163	275	—	83	358
Disposals	(13)	(8)	(21)	—	(50)	(71)
Reclassified as assets held for sale <sup>(4)</sup>	(287)	(1,352)	(1,639)	—	(66)	(1,705)
Effect of foreign currency exchange rate changes	—	—	—	(12)	(8)	(20)
<b>Balance as at December 31, 2019</b>	<b>\$ 1,742</b>	<b>\$ 7,802</b>	<b>\$ 9,544</b>	<b>\$ 1,936</b>	<b>\$ 850</b>	<b>\$ 12,330</b>
<b>Accumulated amortization and impairment</b>						
Balance as at December 31, 2018	\$ (981)	\$ (5,429)	\$ (6,410)	\$ —	\$ (696)	\$ (7,106)
Amortization	(18)	(114)	(132)	—	(20)	(152)
Impairment	—	—	—	—	(3)	(3)
Disposals	—	15	15	—	43	58
Reclassified as assets held for sale <sup>(4)</sup>	281	1,318	1,599	—	38	1,637
Effect of foreign currency exchange rate changes	—	—	—	—	5	5
<b>Balance as at December 31, 2019</b>	<b>\$ (718)</b>	<b>\$ (4,210)</b>	<b>\$ (4,928)</b>	<b>\$ —</b>	<b>\$ (633)</b>	<b>\$ (5,561)</b>
<b>Net carrying value</b>	<b>\$ 1,024</b>	<b>\$ 3,592</b>	<b>\$ 4,616</b>	<b>\$ 1,936</b>	<b>\$ 217 <sup>(5)</sup></b>	<b>\$ 6,769</b>

	Aerospace program tooling			Goodwill	Other <sup>(1)(2)</sup>	Total
	Acquired	Internally generated	Total <sup>(3)</sup>			
<b>Cost</b>						
Balance as at January 1, 2018 <sup>(6)</sup>	\$ 2,743	\$ 12,868	\$ 15,611	\$ 2,042	\$ 837	\$ 18,490
Additions	362	627	989	—	85	1,074
Disposals	—	(13)	(13)	—	(15)	(28)
Disposals of ACLP business	(1,175)	(4,483)	(5,658)	—	(3)	(5,661)
Effect of foreign currency exchange rate changes	—	—	—	(94)	(13)	(107)
<b>Balance as at December 31, 2018</b>	<b>\$ 1,930</b>	<b>\$ 8,999</b>	<b>\$ 10,929</b>	<b>\$ 1,948</b>	<b>\$ 891</b>	<b>\$ 13,768</b>
<b>Accumulated amortization and impairment</b>						
Balance as at January 1, 2018 <sup>(6)</sup>	\$ (1,460)	\$ (7,987)	\$ (9,447)	\$ —	\$ (701)	\$ (10,148)
Amortization	(1)	(69)	(70)	—	(21)	(91)
Impairment	—	—	—	—	—	—
Disposals	—	—	—	—	7	7
Disposals of ACLP business	480	2,627	3,107	—	3	3,110
Effect of foreign currency exchange rate changes	—	—	—	—	16	16
<b>Balance as at December 31, 2018</b>	<b>\$ (981)</b>	<b>\$ (5,429)</b>	<b>\$ (6,410)</b>	<b>\$ —</b>	<b>\$ (696)</b>	<b>\$ (7,106)</b>
<b>Net carrying value</b>	<b>\$ 949</b>	<b>\$ 3,570</b>	<b>\$ 4,519</b>	<b>\$ 1,948</b>	<b>\$ 195 <sup>(5)</sup></b>	<b>\$ 6,662</b>

<sup>(1)</sup> Presented in Note 21 – Other assets.

<sup>(2)</sup> Includes internally generated intangible assets with a cost and accumulated amortization of \$552 million and \$306 million, respectively, as at December 31, 2019 (\$511 million and \$324 million, respectively, as at December 31, 2018 and \$429 million and \$324 million, respectively, as at January 1, 2018).

<sup>(3)</sup> Includes intangible assets under development with a cost of nil million as at December 31, 2019 (nil as at December 31, 2018 and \$3,390 million as at January 1, 2018).

<sup>(4)</sup> See Note 30 – Assets held for sale for more details.

<sup>(5)</sup> Includes Transportation platform development costs amounting to \$103 million as at December 31, 2019 (\$109 million as at December 31, 2018).

<sup>(6)</sup> Opening balances are before the assets held for sale reclassification related to the disposal of ACLP.

**Goodwill**

Goodwill is related primarily to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. Goodwill is monitored by management at the Transportation operating segment level. During the fourth quarter of fiscal year 2019, the Corporation completed an impairment test. The Corporation did not identify any impairment. See Note 4 – Use of estimates and judgment for more details.

**24. RETIREMENT BENEFITS**

The Corporation sponsors several funded and unfunded defined benefit pension plans as well as defined contribution pension plans in Canada and abroad, covering a majority of its employees. The Corporation also provides other unfunded defined benefit plans, covering certain groups of employees mainly in Canada and the U.S.

Pension plans are categorized as defined benefit (“DB”) or defined contribution (“DC”). DB plans specify the amount of benefits an employee is to receive at retirement, while DC plans specify how contributions are determined. As a result, there is no deficit or surplus for DC plans. Hybrid plans are a combination of DB and DC plans.

Funded plans are plans for which segregated plan assets are invested in a trust. Unfunded plans are plans for which there are no segregated plan assets, as the establishment of segregated plan assets is generally not permitted or not in line with local practice.

**FUNDED DB PLANS**

The Corporation’s major DB plans reside in Canada, the U.K. and the U.S., therefore very significant portions of the DB pension plan assets and benefit obligation are located in those countries. The following text focuses mainly on plans registered in these three countries.

**Governance**

Under applicable pension legislations, the administrator of each plan is either the Corporation, in the case of U.S. plans and Canadian plans registered outside of Québec, or a pension committee, board of trustees or corporate trustee in the case of plans registered in Québec and the U.K.

Plan administrators are responsible for the management of plan assets and the establishment of investment policies, which define, for each plan, investment objectives, target asset allocation, risk mitigation strategies, and other elements required by pension legislation.

Plan assets are pooled in three common investment funds (CIFs) for Canadian, U.K. and U.S. plans, respectively, in order to achieve economies of scale and greater efficiency, diversification and liquidity. The CIFs are broken down by sub-funds or asset classes in order to allow each plan to have its own asset allocation given its associated pension obligation liability profile.

The management of the CIFs has been delegated to three (Canadian, U.K. and U.S.) investment committees (ICs). The ICs are responsible for allocating assets among various sub-funds and asset classes in accordance with each plan’s investment policy. They are also responsible for hiring, monitoring and terminating investment managers and have established a multi-manager structure for each sub-fund and asset class. They are supported by Bombardier Inc.’s Pension Asset Management Services, who oversee the management of the plans’ assets and of the CIFs on a daily basis. Daily administration of the plans is delegated to either Bombardier Inc. or to external pension administration service providers. The administrators, the ICs and Bombardier Inc. also rely on the expertise of external legal advisors, actuaries, auditors and investment consultants.



## **Benefit Policy**

DB plan benefits are usually based on salary and years of service. In Canada and the U.S., since September 1, 2013, all new non-unionized employees join DC plans (i.e. they no longer have the option of joining DB or hybrid plans). Employees who are members of a DB or hybrid plan closed to new members continue to accrue service in their original plan.

In the U.K., all DB plans are closed to new members. New employees join DC plans. Pension entitlements are indexed to inflation according to pension legislation and plan rules.

## **Funding requirements**

Actuarial valuations are conducted by independent firms hired by the Corporation or the administrators, as required by pension legislation. The purpose of the valuations is to determine the plans' financial position and the annual contributions to be made by the Corporation to fund both benefits accruing in the year (normal cost) and deficits accumulated over prior years. Minimum funding requirements are set out by applicable pension legislations.

Pension plans in Canada are notably governed under the Supplemental Pension Plans Act in Québec, the Pension Benefits Act in Ontario and the Income Tax Act. Actuarial valuations are required at least every three years. Depending on the jurisdiction and the funded status of the plan, actuarial valuations may be required annually. Contributions are determined by the appointed actuary and cover future service costs and deficits, as prescribed by laws and actuarial practices.

For Quebec pension plans, minimum contributions are required to amortize the going-concern deficits (established under the assumption that the plan will continue to be in force) over a period up to fifteen years (which is gradually decreasing to 10 years as of December 31, 2020). Funding is based on an "enhanced" going-concern valuation, including a stabilization provision. This provision is funded by special amortization and current service contributions, and by actuarial gains.

For Ontario pension plans, minimum contributions are required to amortize the going-concern deficits (established under the assumption that the plan will continue to be in force) over a period up to ten years. Solvency deficiencies up to 85% of solvency liabilities are required to be funded over a period of 5 years. An explicit margin called a provision for adverse deviations (PFAD) is added to both the going concern liabilities and future service cost when determining minimum contributions.

Pension plans in the U.S. are mainly governed under the Employee Retirement Income Security Act, the Internal Revenue Code and the Pension Protection Act of 2006. Actuarial valuations are required annually. Contributions are determined by appointed actuaries and cover future service costs and deficits, as prescribed by law. Funding deficits are generally amortized over a period of seven years.

Pension plans in the U.K. are notably governed under the Pensions Act of 2004. Actuarial valuations are required at least every three years. The funding deficit amortization period is determined jointly by the administrators and the Corporation.

## **Investment Policy and de-risking strategies**

The investment policies are established to achieve a long-term investment return so that, in conjunction with contributions, the plans have sufficient assets to pay for the promised benefits while maintaining a level of risk that is acceptable given the tolerance of plan stakeholders. See below for more information about risk management initiatives.

The target asset allocation is determined based on expected economic and market conditions, the maturity profile of the plans' liabilities, the funded status of the respective plans and the plan stakeholders' tolerance to risk.

The plans' investment strategy is to invest broadly in fixed income and equity securities and to have a smaller portion of the funds' assets invested in real return asset securities (global infrastructure and real estate listed securities).

As at December 31, 2019, the average target asset allocation was as follows:

- 54%, 60% and 50% in fixed income securities, for Canadian, U.K. and U.S. plans, respectively;
- 38%, 31% and 50% in equity securities, for Canadian, U.K. and U.S. plans, respectively; and
- 8% and 9% in real return asset securities, for Canadian and U.K. plans, respectively.

In addition, to mitigate interest rate risk, interest rate hedging overlay portfolios (comprised of long-term interest rate swaps and long-term bond forwards) will be implemented for the pension plans when the market will be favourable and the plans' triggers will be reached.

The plan administrators have also established dynamic risk management strategies. As a result, asset allocation will likely become more conservative in the future and interest rate hedging overlay portfolios are likely to be established as plan funding status and market conditions continue to improve and the plans become more mature. Under certain pension legislations, and subject to compliance with certain conditions, the buy-out of annuities with insurance companies would discharge the Corporation and administrators of their respective obligations. Accordingly, in 2018, annuities were purchased for pensioners of seven pension plans registered in Ontario, the U.K. and the U.S. Also, in 2019, annuities were purchased for pensioners of the three Bombardier Aviation pension plans registered in Ontario. Overall, in 2018 and 2019, annuities were purchased for 4,690 pensioners with total premiums paid to insurers by the pension funds of approximately \$676 million. The buy-out of annuities payable to pensioners of other pension plans will be contemplated in the coming years when these plans become fully funded on a buy-out basis.

Bombardier Inc.'s Pension Asset Management Services monitors the de-risking triggers on an ongoing basis to ensure timely and efficient implementation of these strategies. The Corporation and administrators periodically undertake asset and liability studies to determine the appropriateness of the investment policies and de-risking strategies.

## **Risk management initiatives**

The Corporation's pension plans are exposed to various risks, including equity, interest rate, inflation, foreign exchange, liquidity and longevity risks. Several risk management strategies and policies have been put in place to mitigate the impact these risks could have on the funded status of DB plans and on the future level of contributions by the Corporation. The following is a description of key risks together with the mitigation measures in place to address them.

### *Equity risk*

Equity risk results from fluctuations in equity prices. This risk is managed by maintaining diversification of portfolios across geographies, industry sectors and investment strategies.

### *Interest rate risk*

Interest rate risk results from fluctuations in the fair value of plan assets and liabilities due to movements in interest rates. This risk is managed by reducing the mismatch between the duration of plan assets and the duration of pension obligation. This is accomplished by having a portion of the portfolio invested in long-term fixed income securities and interest rate hedging overlay portfolios.

### *Inflation risk*

Inflation risk is the risk that benefits indexed to inflation increase significantly as a result of changes in inflation rates. To manage this risk, the benefit indexation has been capped in certain plans and a portion of plan assets has been invested in real return fixed income securities and real return asset securities.

### *Foreign exchange risk*

Currency risk exposure arises from fluctuations in the fair value of plan assets denominated in a currency other than the currency of the plan liabilities. Currency risk is managed with foreign currency hedging strategies as per plan investment policies.

### *Liquidity risk*

Liquidity risk stems from holding assets which cannot be readily converted to cash when needed for the payment of benefits or to rebalance the portfolios. Liquidity risk is managed through investments in treasury bills, government bonds and equity futures and by having no investments in private placements or hedge funds.

### *Longevity risk*

Longevity risk is the risk that increasing life expectancy results in longer-than-expected benefit payments. This risk is mitigated by using the most recent mortality and mortality improvement tables to set the level of contributions. The buy-out of annuities with insurance companies transfers all of the risks listed above to insurers for the annuities purchased.

## **UNFUNDED DB PLANS**

Unfunded plans are located in countries where the establishment of funds for segregated plan assets is generally not permitted or not in line with local practice. The Corporation's main unfunded DB plans are located in Germany. Nearly two thirds of the German unfunded DB plan liability relate to former plan members who no longer accrue future service benefits. The Corporation contributes annually to the Pensions-Sicherungs-Verein, Germany's pension protection association, which provides protection for pension benefits up to certain limits in the event that plan sponsors become insolvent.

## **DC PLANS**

A growing proportion of employees are participating in DC plans and, as a result, contributions to DC plans have increased over the past several years. The largest DC plans are located in Canada and in the U.S. The plan administrators and ICs oversee the management of DC plan assets.

## **OTHER PLANS**

The Corporation also provides other unfunded defined benefit plans, consisting essentially of post-retirement healthcare coverage, life insurance benefits and retirement allowances. The Corporation provides post-retirement life insurance and post-retirement health care, with provisions that vary between groups of employees in Canada, U.S. and U.K. New non-unionized hires are generally no longer offered post-retirement health care.

## RETIREMENT BENEFITS PLANS

The following table provides the components of the retirement benefit cost, for fiscal years:

	2019			2018		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Current service cost	\$ 227	\$ 4	\$ 231	\$ 264	\$ 6	\$ 270
Accretion expense	63	10	73	55	10	65
Past service costs <sup>(1)</sup>	10	—	10	28	—	28
Curtailment <sup>(2)</sup>	(40)	(22)	(62)	(22)	—	(22)
Settlement <sup>(3)</sup>	5	—	5	32	—	32
<b>DB plans</b>	<b>265</b>	<b>(8)</b>	<b>257</b>	<b>357</b>	<b>16</b>	<b>373</b>
<b>DC plans</b>	<b>86</b>	<b>—</b>	<b>86</b>	<b>91</b>	<b>—</b>	<b>91</b>
<b>Total retirement benefit cost</b>	<b>\$ 351</b>	<b>\$ (8)</b>	<b>\$ 343</b>	<b>\$ 448</b>	<b>\$ 16</b>	<b>\$ 464</b>

Related to

Funded DB plans	\$ 231	n/a	\$ 231	\$ 321	n/a	\$ 321
Unfunded DB plans	\$ 34	\$ (8)	\$ 26	\$ 36	\$ 16	\$ 52
DC plans	\$ 86	n/a	\$ 86	\$ 91	n/a	\$ 91

Recorded as follows

EBIT expense or capitalized cost	\$ 288	\$ (18)	\$ 270	\$ 393	\$ 6	\$ 399
Financing expense	\$ 63	\$ 10	\$ 73	\$ 55	\$ 10	\$ 65

<sup>(1)</sup> Includes loss related to the pension adjustments of \$26 million for fiscal year 2019 (\$28 million for fiscal year 2018). See Note 8 – Special items for more details.

<sup>(2)</sup> Includes \$10 million of curtailment gain related to previously-announced restructuring actions for fiscal year 2019 (\$10 million for fiscal year 2018). Also, includes \$23 million of curtailment gain related to the gain on disposition of a business - Q Series business. See Note 31 – Disposal of businesses for more details.

<sup>(3)</sup> Includes the loss related to the purchase of pension annuities. See Note 8 – Special items for more details.

n/a: Not applicable

Changes in the cumulative amount of remeasurements gains (losses) of defined benefit plans recognized in OCI, and presented as a separate component of deficit, were as follows, for fiscal years:

Gains (losses)	
Balance as at January 1, 2018	\$ (2,577)
Impact of asset ceiling and minimum liability	18
Actuarial gains, net	171
Effect of exchange rate changes	89
Income taxes	(6)
Balance as at December 31, 2018	(2,305)
Actuarial losses, net	(453)
Effect of exchange rate changes	(67)
Income taxes	50
<b>Balance as at December 31, 2019</b>	<b>\$ (2,775)</b>

The following tables present the changes in the defined benefit obligation and fair value of pension plan assets, for fiscal years:

	2019			2018		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
<b>Change in benefit obligation</b>						
Obligation at beginning of year	\$ 9,817	\$ 260	\$ 10,077	\$ 11,742 <sup>(3)</sup>	\$ 315 <sup>(3)</sup>	\$ 12,057 <sup>(3)</sup>
Accretion	325	10	335	340	10	350
Current service cost	227	4	231	264	6	270
Plan participants' contributions	23	—	23	26	—	26
Past service costs <sup>(1)</sup>	10	—	10	28	—	28
Actuarial (gains) losses - changes in financial assumptions	1,447	30	1,477	(620)	(14)	(634)
Actuarial (gains) losses - changes in experience adjustments	6	(9)	(3)	(21)	(12)	(33)
Actuarial gains - changes in demographic assumptions	(66)	(1)	(67)	(88)	(2)	(90)
Benefits paid	(354)	(11)	(365)	(377)	(13)	(390)
Curtailment	(40)	(22)	(62)	(22)	—	(22)
Settlement	(14)	—	(14)	(484)	—	(484)
Disposal of ACLP business	—	—	—	(327)	(8)	(335)
Reclassified as liabilities directly associated with assets held for sale <sup>(2)</sup>	(2,421)	—	(2,421)	—	—	—
Effect of exchange rate changes	341	12	353	(644)	(22)	(666)
<b>Obligation at end of year</b>	<b>\$ 9,301</b>	<b>\$ 273</b>	<b>\$ 9,574</b>	<b>\$ 9,817</b>	<b>\$ 260</b>	<b>\$ 10,077</b>
<b>Obligation is attributable to</b>						
Active members	\$ 3,217	\$ 117	\$ 3,334	\$ 4,928	\$ 139	\$ 5,067
Deferred members	1,785	—	1,785	1,460	—	1,460
Retirees	4,299	156	4,455	3,429	121	3,550
	<b>\$ 9,301</b>	<b>\$ 273</b>	<b>\$ 9,574</b>	<b>\$ 9,817</b>	<b>\$ 260</b>	<b>\$ 10,077</b>
<b>Change in plan assets</b>						
Fair value at beginning of year	\$ 7,896	\$ —	\$ 7,896	\$ 9,633 <sup>(3)</sup>	\$ — <sup>(3)</sup>	\$ 9,633 <sup>(3)</sup>
Employer contributions	275	11	286	217	13	230
Plan participants' contributions	23	—	23	26	—	26
Interest income on plan assets	262	—	262	285	—	285
Actuarial (losses) gains	954	—	954	(586)	—	(586)
Benefits paid	(354)	(11)	(365)	(377)	(13)	(390)
Settlement	(19)	—	(19)	(516)	—	(516)
Administration costs	(20)	—	(20)	(15)	—	(15)
Disposal of ACLP business	—	—	—	(231)	—	(231)
Reclassified as liabilities directly associated with assets held for sale <sup>(2)</sup>	(2,007)	—	(2,007)	—	—	—
Effect of exchange rate changes	312	—	312	(540)	—	(540)
<b>Fair value at end of year</b>	<b>\$ 7,322</b>	<b>\$ —</b>	<b>\$ 7,322</b>	<b>\$ 7,896</b>	<b>\$ —</b>	<b>\$ 7,896</b>

<sup>(1)</sup> Includes loss related to the pension adjustments of \$26 million for fiscal year 2019 (\$28 million for fiscal year 2018). See note 8 – Special items for more details.

<sup>(2)</sup> See Note 30 – Assets held for sale for more details.

<sup>(3)</sup> Opening balances are before the assets held for sale reclassification related to the disposal of ACLP.

The following table presents the reconciliation of plan assets and obligations to the amount recognized in the consolidated statements of financial position, as at:

	December 31, 2019		December 31, 2018		January 1, 2018	
	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Present value of defined benefit obligation	\$ 9,301	\$ 273	\$ 9,817	\$ 260	\$ 11,432	\$ 308
Fair value of plan assets	(7,322)	—	(7,896)	—	(9,415)	—
	1,979	273	1,921	260	2,017	308
Impact of asset ceiling test and minimum liability <sup>(1)</sup>	—	—	—	—	18	—
Net amount recognized	\$ 1,979	\$ 273	\$ 1,921	\$ 260	\$ 2,035	\$ 308
<b>Amounts included in:</b>						
Retirement benefit						
Liability	\$ 2,172	\$ 273	\$ 2,121	\$ 260	\$ 2,325	\$ 308
Asset <sup>(2)</sup>	(193)	—	(200)	—	(290)	—
<b>Net liability</b>	<b>\$ 1,979</b>	<b>\$ 273</b>	<b>\$ 1,921</b>	<b>\$ 260</b>	<b>\$ 2,035</b>	<b>\$ 308</b>

<sup>(1)</sup> Comprises the effect of exchange rate changes.

<sup>(2)</sup> Presented in Note 21 – Other assets.

The following table presents the allocation of the net retirement benefit liability by major countries, as at:

	December 31, 2019		December 31, 2018		January 1, 2018	
	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Funded pension plans						
Canada	\$ 783	\$ —	\$ 695	\$ —	\$ 639	\$ —
U.S.	370	—	332	—	366	—
U.K.	(10)	—	102	—	162	—
Other	48	—	72	—	81	—
	1,191	—	1,201	—	1,248	—
Unfunded pension plans						
Germany	571	—	526	—	575	—
Canada	27	245	24	232	28	276
U.S.	41	16	35	18	37	20
Other	149	12	135	10	147	12
	788	273	720	260	787	308
<b>Net liability</b>	<b>\$ 1,979</b>	<b>\$ 273</b>	<b>\$ 1,921</b>	<b>\$ 260</b>	<b>\$ 2,035</b>	<b>\$ 308</b>

The following table presents the allocation of benefit obligation and plan assets by major countries, as at:

	December 31, 2019		December 31, 2018		January 1, 2018	
	Benefit obligation	Plan assets	Benefit obligation	Plan assets	Benefit obligation	Plan assets
Funded pension plans						
Canada	\$ 4,822	\$ 4,039	\$ 4,069	\$ 3,374	\$ 5,030	\$ 4,409
U.K.	2,235	2,245	3,752	3,650	4,215	4,053
U.S.	1,081	711	891	559	1,000	634
Other	375	327	385	313	400	319
	8,513	7,322	9,097	7,896	10,645	9,415
Unfunded pension plans						
	1,061	—	980	—	1,095	—
	\$ 9,574	\$ 7,322	\$ 10,077	\$ 7,896	\$ 11,740	\$ 9,415

The fair value of plan assets by level of hierarchy, was as follows, as at:

					December 31, 2019			
	Total	Level 1	Level 2	Level 3				
<b>Cash and cash equivalents</b>	\$ 618	\$ 471	\$ 147	\$ —				
<b>Equity securities</b>								
U.S.	873	867	—	6				
U.K.	215	207	8	—				
Canada	334	334	—	—				
Other	1,071	1,068	—	3				
	<b>2,493</b>	<b>2,476</b>	<b>8</b>	<b>9</b>				
<b>Fixed-income securities</b>								
Corporate	853	—	853	—				
Government	2,536	—	2,536	—				
Other	17	—	17	—				
	<b>3,406</b>	<b>—</b>	<b>3,406</b>	<b>—</b>				
<b>Real return asset securities</b>	<b>682</b>	<b>622</b>	<b>—</b>	<b>60</b>				
<b>Other</b>	<b>123</b>	<b>—</b>	<b>123</b>	<b>—</b>				
	<b>\$ 7,322</b>	<b>\$ 3,569</b>	<b>\$ 3,684</b>	<b>\$ 69</b>				

					December 31, 2018			
	Total	Level 1	Level 2	Level 3				
<b>Cash and cash equivalents</b>	\$ 707	\$ 513	\$ 194	\$ —				
<b>Equity securities</b>								
U.S.	832	826	—	6				
U.K.	228	220	8	—				
Canada	259	259	—	—				
Other	1,089	1,086	—	3				
	<b>2,408</b>	<b>2,391</b>	<b>8</b>	<b>9</b>				
<b>Fixed-income securities</b>								
Corporate	1,038	—	1,038	—				
Government	2,766	—	2,766	—				
Other	22	—	22	—				
	<b>3,826</b>	<b>—</b>	<b>3,826</b>	<b>—</b>				
<b>Real return asset securities</b>	<b>895</b>	<b>840</b>	<b>—</b>	<b>55</b>				
<b>Other</b>	<b>60</b>	<b>—</b>	<b>60</b>	<b>—</b>				
	<b>\$ 7,896</b>	<b>\$ 3,744</b>	<b>\$ 4,088</b>	<b>\$ 64</b>				

					January 1, 2018			
	Total	Level 1	Level 2	Level 3				
<b>Cash and cash equivalents</b>	\$ 732	\$ 551	\$ 181	\$ —				
<b>Equity securities</b>								
U.S.	1,007	1,001	—	6				
U.K.	300	291	9	—				
Canada	419	419	—	—				
Other	1,240	1,238	—	2				
	<b>2,966</b>	<b>2,949</b>	<b>9</b>	<b>8</b>				
<b>Fixed-income securities</b>								
Corporate	1,335	—	1,335	—				
Government	3,139	—	3,139	—				
Other	29	—	29	—				
	<b>4,503</b>	<b>—</b>	<b>4,503</b>	<b>—</b>				
<b>Real return asset securities</b>	<b>994</b>	<b>934</b>	<b>—</b>	<b>60</b>				
<b>Other</b>	<b>220</b>	<b>—</b>	<b>220</b>	<b>—</b>				
	<b>\$ 9,415</b>	<b>\$ 4,434</b>	<b>\$ 4,913</b>	<b>\$ 68</b>				

Plan assets did not include any of the Corporation's shares, nor any property occupied by the Corporation or other assets used by the Corporation as at December 31, 2019, 2018 and January 1, 2018.

The following table presents the contributions made for fiscal year 2019 and 2018 as well as the estimated contributions for fiscal year 2020:

	2020	2019	2018
	<i>Estimated</i>		
Contribution to			
Funded pension plans	\$ 239	\$ 248	\$ 190
Unfunded pension plans	25	27	27
Other benefits	12	11	13
Total defined benefits plans	276	286	230
DC pension plans	97	86	91
Total contributions	\$ 373 <sup>(1)</sup>	\$ 372	\$ 321

<sup>(1)</sup> The estimated total contribution for the Aerostructure business is approximately \$48 million for 2020.

The following table presents information about the maturity profile of the defined benefit obligation expected to be paid, as at:

	December 31, 2019
<b>Benefits expected to be paid</b>	
Within 1 year	\$ 333
Between 1 and 5 years	1,556
Between 5 and 10 years	2,475
Between 10 and 15 years	2,966
Between 15 and 20 years	3,284
	\$ 10,614

The following table provides the weighted average duration of the defined benefit obligations related to pension plans, as at:

Duration in years as at	December 31, 2019
Funded pension plans	
Canada	17.3
U.S.	15.7
U.K.	20.4
Other	17.3
Unfunded pension plans	
Germany	15.9
Canada	13.6
U.S.	13.0
Other	15.8

The following table provides the expected payments to be made under the unfunded plans, as at December 31, 2019:

	Germany	Other	Total
<b>Benefits expected to be paid</b>			
Within 1 year	\$ 22	\$ 17	\$ 39
Between 1 and 5 years	93	81	174
Between 5 and 10 years	133	120	253
Between 10 and 15 years	146	134	280
Between 15 and 20 years	127	141	268
	\$ 521	\$ 493	\$ 1,014



The significant actuarial assumptions reflect the economic situation of each country. The weighted-average assumptions used to determine the benefit cost and obligation were as follows, as at:

(in percentage)	December 31, 2019		December 31, 2018		January 1, 2018	
	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
<b>Benefit cost</b>						
Discount rate	3.29%	3.88%	3.03%	3.56%	3.22%	3.95%
Rate of compensation increase	2.99%	3.00%	3.00%	3.00%	3.00%	3.00%
Inflation rate	2.28%	2.20%	2.28%	2.20%	2.30%	2.25%
Ultimate health care cost trend rate	n/a	5.08%	n/a	5.08%	n/a	5.07%
<b>Benefit obligation</b>						
Discount rate	2.51%	3.15%	3.29%	3.88%	3.03%	3.56%
Rate of compensation increase	2.91%	2.75%	2.99%	3.00%	3.00%	3.00%
Inflation rate	2.23%	2.10%	2.28%	2.20%	2.28%	2.20%
Initial health care cost trend rate	n/a	5.21%	n/a	5.24%	n/a	5.25%
Ultimate health care cost trend rate	n/a	5.07%	n/a	5.08%	n/a	5.08%

n/a: Not applicable

The mortality tables and the average life expectancy in years of a member at age 45 or 65 is as follows, as at December 31:

(in years)		Life expectancy over 65 for a male member currently			
		Aged 65 on December		Aged 45 on December	
Country	Mortality tables	2019	2018	2019	2018
Canada	2014 Private Sector Mortality Table ("CPM2014Priv") projected generationally using CPM Improvement Scale B ("CPM-B")	21.9	21.8	22.9	22.8
U.K.	SNA07M_CMI 2016 and S2P(M/F)A CMI 2016 <sup>(1)</sup>	21.6	21.9	23.1	23.6
U.S.	Pri-2012 mortality table projected generationally using the MP-2019 improvement scale <sup>(2)</sup>	20.6	20.7	22.2	22.3
Germany	Dr. K Heubeck 2018	20.3	19.9	23.1	22.7

(in years)		Life expectancy over 65 for a female member currently			
		Aged 65 on December		Aged 45 on December	
Country	Mortality tables	2019	2018	2019	2018
Canada	2014 Private Sector Mortality Table ("CPM2014Priv") projected generationally using CPM Improvement Scale B ("CPM-B")	24.3	24.2	25.2	25.1
U.K.	SNA07M_CMI 2016 and S2P(M/F)A CMI 2016 <sup>(1)</sup>	23.4	23.9	25.0	25.6
U.S.	Pri-2012 mortality table projected generationally using the MP-2019 improvement scale <sup>(2)</sup>	22.6	22.7	24.2	24.3
Germany	Dr. K Heubeck 2018	23.8	23.5	26.0	25.7

<sup>(1)</sup> SNA07M\_CMI 2013 and S2P(M/F)A CMI 2016 as at December 31, 2018

<sup>(2)</sup> RP-2014 mortality table projected generationally using the MP-2018 improvement scale as at December 31, 2018

A 0.25 percentage point increase in one of the following actuarial assumptions would have the following effects, all other actuarial assumptions remaining unchanged:

Assumption	Retirement benefit cost for fiscal year 2019	Net retirement benefit liability as at December 31, 2019
Discount rate	\$ (25)	\$ (514)
Rate of compensation increase	\$ 6	\$ 83
Inflation rate	\$ 4	\$ 126

A one year additional life expectancy as at December 31, 2019 for all DB plans would increase the net retirement benefit liability by \$322 million and the retirement benefit cost for fiscal year 2019 by \$18 million, all other actuarial assumptions remaining unchanged.

As at December 31, 2019, the health care cost trend rate for retirement benefits other than pension, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 5.21% and to decrease progressively to 5.07% by calendar year 2027 and then remain at that level for all participants. A one percentage point change in assumed health care cost trend rates would have the following effects, as at December 31, 2019 and for fiscal year 2019:

	One percentage point increase		One percentage point decrease	
Effect on the net retirement benefit liability	\$	18	\$	(16)
Effect on the retirement benefit cost	\$	1	\$	1

## 25. TRADE AND OTHER PAYABLES

Trade and other payables were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Trade payables	\$ 3,259	\$ 3,502	\$ 2,710
Accrued liabilities	813	756	815
Interest payable	150	138	139
Other	460	238	300
	\$ 4,682	\$ 4,634	\$ 3,964

The Corporation negotiated extended payment terms of 240 to 360 days after delivery with certain of its suppliers. Trade payables with these extended terms totalled \$856 million and bore interest at a weighted average rate of 6.40% as at December 31, 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.

## 26. PROVISIONS

Changes in provisions were as follows, for fiscal years 2019 and 2018:

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Onerous contracts	Other <sup>(1)</sup>	Total
Balance as at December 31, 2018	\$ 515	\$ 456	\$ 226	\$ 1,146	\$ 157	\$ 2,500
Additions	180	—	120 <sup>(2)</sup>	242 <sup>(3)</sup>	44	586
Utilization	(182)	(336) <sup>(4)</sup>	(185)	(333)	(50)	(1,086)
Reversals	(78)	(39)	(26) <sup>(2)</sup>	(76) <sup>(3)(5)</sup>	(20)	(239)
Accretion expense	1	7	—	6	—	14
Effect of changes in discount rates	1	2	—	16	—	19
Reclassified as liabilities directly associated with assets held for sale <sup>(6)</sup>	(7)	(90)	(3)	(304)	(19)	(423)
Effect of foreign currency exchange rate changes	(5)	—	(1)	7	(1)	—
<b>Balance as at December 31, 2019</b>	<b>\$ 425</b>	<b>\$ —</b>	<b>\$ 131</b>	<b>\$ 704</b>	<b>\$ 111</b>	<b>\$ 1,371</b>
Of which current	\$ 343	\$ —	\$ 130	\$ 495	\$ 92	\$ 1,060
Of which non-current	82	—	1	209	19	311
	<b>\$ 425</b>	<b>\$ —</b>	<b>\$ 131</b>	<b>\$ 704</b>	<b>\$ 111</b>	<b>\$ 1,371</b>

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Onerous contracts	Other <sup>(1)</sup>	Total
Balance as at January 1, 2018 <sup>(11)</sup>	\$ 672	\$ 554	\$ 277	\$ 1,420	\$ 196	\$ 3,119
Additions	206 <sup>(7)</sup>	39	73 <sup>(2)</sup>	712 <sup>(3)(7)</sup>	26	1,056
Utilization	(223)	(103) <sup>(4)</sup>	(80)	(480)	(24)	(910)
Reversals	(106)	(41) <sup>(8)</sup>	(33) <sup>(2)</sup>	(119) <sup>(5)</sup>	(37) <sup>(9)</sup>	(336)
Accretion expense	2	12	—	13	—	27
Effect of changes in discount rates	(1)	(5)	—	(11)	—	(17)
Disposal of ACLP business <sup>(10)</sup>	(15)	—	—	(378)	—	(393)
Effect of foreign currency exchange rate changes	(20)	—	(11)	(11)	(4)	(46)
Balance as at December 31, 2018	\$ 515	\$ 456	\$ 226	\$ 1,146	\$ 157	\$ 2,500
Of which current	\$ 403	\$ 99	\$ 178	\$ 576	\$ 134	\$ 1,390
Of which non-current	112	357	48	570	23	1,110
	<b>\$ 515</b>	<b>\$ 456</b>	<b>\$ 226</b>	<b>\$ 1,146</b>	<b>\$ 157</b>	<b>\$ 2,500</b>

<sup>(1)</sup> Mainly comprised of claims and litigations.

<sup>(2)</sup> See Note 8 – Special items for more details on additions and reversals related to restructuring charges.

<sup>(3)</sup> See Note 8 – Special items for more details on the addition and reversals related to the *Primove* impairment and other costs.

<sup>(4)</sup> 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.

<sup>(5)</sup> See Note 8 – Special items for more details on the reversal of *Learjet 85* aircraft program cancellation provisions.

<sup>(6)</sup> See Note 30 – Assets held for sale for more details.

<sup>(7)</sup> Includes the additional obligations the Corporation's had recorded related to the disposal of ACLP.

<sup>(8)</sup> See Note 8 – Special items for more details on reversals related to credit and residual value guarantees.

<sup>(9)</sup> See Note 8 – Special items for more details on the reversal of tax litigation provision.

<sup>(10)</sup> Represents liabilities disposed related to the sale of ACLP. See Note 8 – Special items for more details.

<sup>(11)</sup> Opening balances are before the assets held for sale reclassification related to the disposal of ACLP.

## 27. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Derivative financial instruments <sup>(1)</sup>	\$ 535	\$ 885	\$ 538
Government refundable advances <sup>(2)</sup>	585	759	550
Credit and residual value guarantees payable	378	172	53
Vendor non-recurring costs	112	136	13
Lease subsidies <sup>(3)</sup>	—	53	74
Current portion of long-term debt <sup>(4)</sup>	8	9	18
Other	125	119	61
	<b>\$ 1,743</b>	<b>\$ 2,133</b>	<b>\$ 1,307</b>
Of which current	\$ 518	\$ 607	\$ 342
Of which non-current	1,225	1,526	965
	<b>\$ 1,743</b>	<b>\$ 2,133</b>	<b>\$ 1,307</b>

<sup>(1)</sup> See Note 14 – Financial instruments.

<sup>(2)</sup> Of which \$468 million has a back-to-back agreement with ACLP (\$385 million as at December 31, 2018). Refer to Note 20 - Other financial assets for the receivables from related party. The Corporation is required to pay amounts to governments based on the number of delivery of aircraft.

<sup>(3)</sup> Lease subsidies are after the reclassification of liabilities directly associated with assets held for sale. The amount contractually required to be paid is \$50 million as at December 31, 2019 (\$64 million as at December 31, 2018 and \$88 million as at January 1, 2018).

<sup>(4)</sup> See Note 29 – Long-term debt.

## 28. OTHER LIABILITIES

Other liabilities were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Employee benefits <sup>(1)</sup>	\$ 532	\$ 643	\$ 690
Lease liabilities <sup>(2)</sup>	487	—	—
Accruals for long-term contract costs	398	443	640
Supplier contributions to aerospace programs	389	389	388
Income taxes payable	202	173	187
Other taxes payable	165	181	234
Other	220	207	179
	<b>\$ 2,393</b>	<b>\$ 2,036</b>	<b>\$ 2,318</b>
Of which current	\$ 1,548	\$ 1,499	\$ 1,723
Of which non-current	845	537	595
	<b>\$ 2,393</b>	<b>\$ 2,036</b>	<b>\$ 2,318</b>

<sup>(1)</sup> Comprises all employee benefits excluding those related to retirement benefits, which are reported in the line items Retirement benefits and in Other assets (see Note 24 – Retirement benefits).

<sup>(2)</sup> 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 3 – Changes in accounting policies for more details.

## 29. LONG-TERM DEBT

Long-term debt was as follows, as at:

						December 31 2019	December 31 2018	January 1 2018
Amount in currency of origin	Currency	Contractual <sup>(1)</sup>	Interest rate		Maturity	Amount	Amount	Amount
				After effect of fair value hedges				
Senior notes	850 <sup>(2)</sup>	USD	7.75%	n/a	n/a	\$ —	\$ 869	\$ 885
	414 <sup>(2)</sup>	EUR	6.13%	n/a	May 2021	483	952	1,019
	1018 <sup>(2)</sup>	USD	8.75%	n/a	Dec. 2021	1,008	1,380	1,373
	500	USD	5.75%	3-month Libor + 3.36 <sup>(3)</sup>	Mar. 2022	504	504	506
	1,200	USD	6.00%	3-month Libor + 3.57 <sup>(3)</sup>	Oct. 2022	1,215	1,217	1,223
	1,250	USD	6.13%	3-month Libor + 3.48 <sup>(3)</sup>	Jan. 2023	1,272	1,273	1,281
	1,000	USD	7.50%	n/a	Dec. 2024	992	990	990
	1,500	USD	7.50%	n/a	Mar. 2025	1,492	1,491	1,490
	2,000	USD	7.88%	n/a	Apr. 2027	1,978	—	—
Notes	250	USD	7.45%	n/a	May 2034	248	248	248
Debentures	150	CAD	7.35%	n/a	Dec. 2026	115	110	119
Other <sup>(4)</sup>	Various <sup>(5)</sup>	Various	Various <sup>(5)</sup>	n/a	2020-2026	26	68	84
						\$ 9,333	\$ 9,102	\$ 9,218
Of which current <sup>(6)</sup>						\$ 8	\$ 9	\$ 18
Of which non-current						9,325	9,093	9,200
						\$ 9,333	\$ 9,102	\$ 9,218

<sup>(1)</sup> Interest on long-term debt as at December 31, 2019 is payable semi-annually, except for the other debts for which the timing of interest payments is variable.

<sup>(2)</sup> The Corporation redeemed all of its outstanding 7.75% Senior Notes due 2020 of \$850 million. In addition, the Corporation redeemed €366 million aggregate principal amount of the 6.13% Notes due 2021 of €780 million and \$382 million aggregate principal amount of the 8.75% Notes due 2021 of \$1,400 million, in fiscal year 2019.

<sup>(3)</sup> The interest-rate swap agreement related to these Senior Notes were partially settled in prior fiscal years. As these interest-rate swaps were in a fair value hedge relationship, the related deferred gains recorded in the hedged item will be amortized in interest expense up to the maturity of these debts.

<sup>(4)</sup> Includes obligations under finance leases prior to December 31, 2018.

<sup>(5)</sup> The notional amount of other long-term debt is \$26 million as at December 31, 2019 (\$68 million as at December 31, 2018 and \$84 million as at January 1, 2018). The contractual interest rate, which represents a weighted average rate, is 7.8% as at December 31, 2019 (6.23% as at December 31, 2018 and 5.99% as at January 1, 2018).

<sup>(6)</sup> See Note 27 – Other financial liabilities.

n/a: Not applicable

All Senior notes and Notes rank pari-passu and are unsecured. The Corporation is subject to various financial covenants under the letter of credit facility and the unsecured revolving credit facility, which must be met on a quarterly basis, see Note 36 - Credit facilities for more details. A breach of any of these agreements or the inability to comply with these covenants could result in a default under these facilities, which would permit the Corporation's banks to request immediate defeasance or cash cover of all outstanding letters of credit, and bond holders and other lenders to declare amounts owed to them to be immediately payable. These conditions were all met as at December 31, 2019 and 2018 and January 1, 2018.

The carrying value of long-term debt includes principal repayments, transaction costs, unamortized discounts and the basis adjustments related to derivatives designated in fair value hedge relationships. The following table presents the contractual principal repayments of the long-term debt, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Within 1 year	\$ 8	\$ 9	\$ 18
Between 1 and 5 years	5,433	6,135	4,934
More than 5 years	3,883	2,878	4,137
	\$ 9,324	\$ 9,022	\$ 9,089

### 30. ASSETS HELD FOR SALE

#### CRJ

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. Under the agreement, the Corporation's net beneficial interest in the Regional Aircraft Securitization Program (RASPRO), which was valued at approximately \$200 million 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 \$378 million. Aside from the accrual of interest, this amount is fixed and not subject to future changes in aircraft value, and is mainly 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 now expected to close by mid-year 2020 and remains subject to necessary approvals and customary closing conditions. The Corporation has received most of the regulatory approvals required.

#### 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:

	December 31, 2019
Current assets <sup>(1)</sup>	\$ 236
Non-current assets <sup>(2)</sup>	240
<b>Total assets</b>	<b>\$ 476</b>
Current liabilities <sup>(3)</sup>	\$ 319
Non-current liabilities <sup>(4)</sup>	128
<b>Total liabilities</b>	<b>\$ 447</b>

<sup>(1)</sup> Mainly comprised of inventories and trade and other receivables.

<sup>(2)</sup> Mainly comprised of RASPRO assets.

<sup>(3)</sup> Mainly comprised of trade and other payables and contract liabilities.

<sup>(4)</sup> 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 Bombardier Aviation reportable segment.

## Aerostructure Business

On October 31, 2019, the Corporation and Spirit AeroSystems Holding, Inc. (Spirit) announced that they have entered into a definitive agreement, whereby Spirit will acquire Bombardier's aerostructures activities and aftermarket services operations in Belfast, U.K., and Casablanca, Morocco, and its aerostructures maintenance, repair and overhaul (MRO) facility in Dallas, U.S., for a cash consideration of \$500 million and the assumption of liabilities, including government refundable advances and pension obligations. Following the transaction, Spirit will continue to supply structural aircraft components and spare parts to support the production and in-service fleet of Bombardier Aviation's *Learjet*, *Challenger* and *Global* families of aircraft.

The transaction follows the formation of Bombardier Aviation earlier this year and streamlines its aerostructures footprint to focus on its core capabilities in Montreal, Mexico and its *Global 7500* wing operations in Texas. The transaction is expected to close by mid-year 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:

	<b>December 31, 2019</b>	
Current assets <sup>(1)</sup>	\$	385
Non-current assets <sup>(2)</sup>		448
<b>Total assets</b>	<b>\$</b>	<b>833</b>
Current liabilities <sup>(3)</sup>	\$	320
Non-current liabilities <sup>(4)</sup>		1,001
<b>Total liabilities</b>	<b>\$</b>	<b>1,321</b>

<sup>(1)</sup> Mainly comprised of inventories, trade and other receivables and cash.

<sup>(2)</sup> Mainly comprised of PP&E.

<sup>(3)</sup> Mainly comprised of trade and other payables and onerous contracts provision.

<sup>(4)</sup> Mainly comprised of onerous contracts provision, retirement benefits liabilities amounting to \$414 million and government refundable advances amounting to \$294 million.

These assets and liabilities are reported in the Bombardier Aviation reportable segment.

## 31. 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 Bombardier Aviation 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 8 - 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 Bombardier Aviation segment.

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

Proceeds received at closing <sup>(1)</sup>		\$	289
Transaction costs			4
Net proceeds at closing		\$	285
Bombardier obligations <sup>(2)</sup>	\$	93	
Curtailed gains		(23)	
Carrying value of net assets disposed		5	
	\$	75	
Pre-tax gain		\$	210
Tax impact			(26)
After-tax gain		\$	184

<sup>(1)</sup> Reflects final working capital adjustments amounting to \$9 million, which will be paid in the first quarter of 2020.

<sup>(2)</sup> Furthermore, upon closing of the transaction, the Corporation recorded net liabilities of \$93 million in respect of obligations resulting from the transaction.



## 32. 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 enabled 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 continues to operate the production line and integrated the employees currently supporting the program at Triumph's Red Oak, Texas facility.

The Corporation acquired net assets valued at approximately \$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.

## 33. SHARE CAPITAL

### Preferred shares

The preferred shares authorized were as follows, as at December 31, 2019, and 2018 and January 1, 2018:

	Authorized for the specific series
Series 2 Cumulative Redeemable Preferred Shares	12,000,000
Series 3 Cumulative Redeemable Preferred Shares	12,000,000
Series 4 Cumulative Redeemable Preferred Shares	9,400,000

The preferred shares issued and fully paid were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Series 2 Cumulative Redeemable Preferred Shares	5,811,736	5,811,736	5,811,736
Series 3 Cumulative Redeemable Preferred Shares	6,188,264	6,188,264	6,188,264
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000	9,400,000

### Series 2 Cumulative Redeemable Preferred Shares

Redemption:	Redeemable, at the Corporation's option, at \$25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2022 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines fourteen days before the conversion date that, at such time, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being set between 50% to 100% of the Canadian prime rate, and adjusted as follows. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than \$24.90 Cdn per share or more than \$25.10 Cdn per share.

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**Series 3 Cumulative Redeemable Preferred Shares**

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- Redemption:** Redeemable, at the Corporation's option, at \$25.00 Cdn per share on August 1, 2022 and on August 1 of every fifth year thereafter.
- Conversion:** Convertible on a one-for-one basis, at the option of the holder, on August 1, 2022 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines fourteen days before the conversion date that, at such time, there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
- Dividend:** For the five-year period from August 1, 2017 and including July 31, 2022, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 3.983% or \$0.99575 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.2489375 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Restated Articles of Incorporation.
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**Series 4 Cumulative Redeemable Preferred Shares**

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- Redemption:** The Corporation may, subject to certain provisions, on not less than 30 nor more than 60 days' notice, redeem for cash the Series 4 Cumulative Redeemable Preferred Shares at \$25.00 Cdn.
- Conversion:** The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (subordinate voting) of the Corporation. The number of Class B Shares (subordinate voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of \$2.00 Cdn and 95% of the weighted-average trading price of such Class B Shares (subordinate voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
- Dividend:** The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or \$1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.390625 Cdn per share.
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**Common shares**

All common shares are without nominal or par value.

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**Class A Shares (multiple voting)**

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- Voting rights:** Ten votes each.
- Conversion:** Convertible, at any time, at the option of the holder, into one Class B Share (subordinate voting).
- Dividend:** After payment of the priority dividend on the Class B Shares (subordinate voting) mentioned below, the Class A Shares (multiple voting) shall share equally, share for share, with respect to any additional dividends which may be declared in respect of the Class A Shares (multiple voting) and Class B Shares (subordinate voting). These dividends, if declared, shall be payable quarterly on the last day of March, June, September and December of each year.
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**Class B Shares (subordinate voting)**

Voting rights: One vote each.

Conversion: Convertible, at the option of the holder, into one Class A Share (multiple voting): (i) if an offer made to Class A (multiple voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (multiple voting) of the Corporation.

Dividend: The holders of Class B Shares (subordinate voting) are entitled, in priority to the holders of Class A Shares (multiple voting) to non-cumulative dividends of \$0.0015625 Cdn per share, payable quarterly on the last day of March, June, September and December of each year at a rate of \$0.000390625 Cdn per share, if declared. After payment of said priority dividend, the Class B Shares (subordinate voting) shall share equally, share for share, with respect to any additional dividends which may be declared in respect of the Class A Shares (multiple voting) and the Class B Shares (subordinate voting). These dividends, if declared, shall be payable quarterly on the last day of March, June, September and December of each year.

The change in the number of common shares issued and fully paid and in the number of common shares authorized was as follows as at:

**Class A Shares (multiple voting)**

	December 31, 2019	December 31, 2018
<b>Issued and fully paid</b>		
Balance at beginning of year	308,750,749	313,898,549
Converted to Class B	(3,820)	(5,147,800)
<b>Balance at end of year</b>	<b>308,746,929</b>	<b>308,750,749</b>
<b>Authorized</b>	<b>3,592,000,000</b>	<b>3,592,000,000</b>

**Class B Shares (subordinate voting)**

	December 31, 2019	December 31, 2018
<b>Issued and fully paid</b>		
Balance at beginning of year	2,125,232,847	1,932,782,764
Issuance of shares	2,780,538	187,302,283
Converted from Class A	3,820	5,147,800
	<b>2,128,017,205</b>	<b>2,125,232,847</b>
Held in trust under the PSU and RSU plans		
Balance at beginning of year	(60,541,394)	(52,983,051)
Purchased	—	(9,293,684)
Distributed	21,380,909	1,735,341
	<b>(39,160,485)</b>	<b>(60,541,394)</b>
<b>Balance at end of year</b>	<b>2,088,856,720</b>	<b>2,064,691,453</b>
<b>Authorized</b>	<b>3,592,000,000</b>	<b>3,592,000,000</b>

The change in the number of warrants exercisable was as follows as at:

	December 31, 2019	December 31, 2018
Balance at beginning of year	305,851,872	205,851,872
Issuance of warrants	—	100,000,000
<b>Balance at end of year</b>	<b>305,851,872</b>	<b>305,851,872</b>

## Dividends

Dividends declared were as follows:

	Dividends declared for fiscal years				Dividends declared after	
	December 31, 2019		December 31, 2018		December 31, 2019	
	Total		Total		Total	
	Per share (Cdn\$)	(in millions of U.S.\$)	Per share (Cdn\$)	(in millions of U.S.\$)	Per share (Cdn\$)	(in millions of U.S.\$)
Class A common shares	0.00	\$ —	0.00	\$ —	0.00	\$ —
Class B common shares	0.00	—	0.00	—	0.00	—
		—		—		—
Series 2 Preferred Shares	0.99	4	0.90	4	0.08	1
Series 3 Preferred Shares	1.00	5	1.00	5	0.25	1
Series 4 Preferred Shares	1.56	11	1.56	11	0.39	3
		20		20		5
	\$	20	\$	20	\$	5

## 34. SHARE-BASED PLANS

### PSU, DSU and RSU plans

The Board of Directors of the Corporation approved a PSU and a RSU plan under which PSUs and RSUs may be granted to executives and other designated employees. The PSUs and the RSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (subordinate voting). The PSUs and RSUs also give certain recipients the right to receive a cash payment equal to the value of the RSUs. The Board of Directors of the Corporation has also approved a DSU plan under which DSUs may be granted to senior officers. The DSU plan is similar to the PSU plan, except that their exercise can only occur upon retirement or termination of employment. During fiscal year 2019, a combined value of \$44 million of PSUs were authorized for issuance (\$48 million during fiscal year 2018).

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

	2019			2018		
	PSU	DSU	RSU	PSU	DSU	RSU
Balance at beginning of year	88,243,098	1,101,849	—	67,131,352	1,154,381	20,798,101
Granted	40,885,619	—	—	25,564,745	—	—
Exercised	(22,773,124)	—	—	—	(52,532)	(20,460,527)
Forfeited	(11,147,689)	—	—	(4,452,999)	—	(337,574)
Balance at end of year	95,207,904	1,101,849 <sup>(1)</sup>	—	88,243,098	1,101,849 <sup>(1)</sup>	—

<sup>(1)</sup> Of which 1,101,849 DSUs are vested as at December 31, 2019 (1,101,849 as at December 31, 2018).

PSUs and DSUs granted will vest if a financial performance threshold is met. The conversion ratio for vested PSUs and DSUs ranges from 50% to 100%. PSUs and DSUs generally vest three years following the grant date if the financial performance thresholds are met. For grants issued between January 1, 2017 and December 31, 2019, the vesting dates range from August 2020 to May 2022.

The weighted-average grant date fair value of PSUs granted during fiscal year 2019 was \$1.53 (\$3.58 during fiscal year 2018). The fair value of each PSUs granted was measured based on the closing price of a Class B Share (subordinate voting) of the Corporation on the Toronto Stock Exchange.

From time to time, the Corporation provides instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (subordinate voting) of the Corporation in the open market (see Note 33 – Share capital) in connection with the PSU and/or RSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSUs and RSUs become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of \$7 million was recorded during fiscal year 2019 with respect to the PSU, DSU and RSU plans (a compensation expense of \$52 million during fiscal year 2018).

### Share option plans

Under share option plans, options are granted to key employees to purchase Class B Shares (subordinate voting). Of the 224,641,195 Class B Shares (subordinate voting) reserved for issuance, 26,035,564 were available for issuance under these share option plans, as at December 31, 2019.

**Current share option plan** - Effective June 1, 2009, the Corporation amended the share option plan for key employees for options granted after this date. The most significant terms and conditions of the amended plan are as follows:

- the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted;
- the options vest at the expiration of the third year following the grant date; and
- the options terminate no later than seven years after the grant date.

The summarized information on the current share option plan is as follows as at December 31, 2019:

Exercise price range (Cdn\$)	Number of options	Issued and outstanding		Exercisable	
		Weighted-average remaining life (years)	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
1 to 2	49,917,584	4.14	1.77	49,917,584	1.77
2 to 4	64,691,469	2.75	1.43	6,909,433	3.16
4 to 6	16,397,285	5.82	4.23	1,875,457	4.87
	131,006,338			58,702,474	

The number of options issued and outstanding under the current share option plan has varied as follows, for fiscal years:

	2019		2018	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	111,545,290	2.52	116,307,725	2.32
Granted	31,012,132	2.20	19,180,420	3.88
Exercised	(2,780,538)	1.62	(19,267,290)	2.10
Forfeited	(6,872,398)	3.20	(1,607,456)	2.99
Expired	(1,898,148)	3.63	(3,068,109)	5.95
Balance at end of year	131,006,338	1.91	111,545,290	2.52
Options exercisable at end of year	58,702,474	2.03	38,505,099	2.26

### Share-based compensation expense for options

The weighted-average grant date fair value of stock options granted during fiscal year 2019 was \$0.86 per option (\$1.39 per option for fiscal year 2018). The fair value of each option granted was determined using a Black-Scholes option pricing model, which incorporates the share price at the grant date, and the following weighted-average assumptions, for fiscal years:

	2019	2018
Risk-free interest rate	1.54%	2.21%
Expected life	5 years	5 years
Expected volatility in market price of shares	60.82%	51.99%
Expected dividend yield	0%	0%

A compensation expense of \$ 23 million was recorded during fiscal year 2019 with respect to share option plans (\$22 million during fiscal year 2018).

## 35. NET CHANGE IN NON-CASH BALANCES

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

	2019	2018
Trade and other receivables	\$ (345)	\$ (317)
Inventories	(976)	(841)
Contract assets	141	(306)
Contract liabilities	1,186	1,222
Other financial assets and liabilities, net	(11)	380
Other assets	(75)	183
Trade and other payables	414	759
Provisions	(707)	(579)
Retirement benefits liability	53	69
Other liabilities	(157)	(582)
	<b>\$ (477)</b>	<b>\$ (12)</b>

The following table presents the reconciliation of movements of liabilities to cash flows arising from financing activities:

	Long-term debt
Balance as at January 1, 2018	\$ 9,218
Changes from financing cash flows	
Repayment of long-term debt	(15)
Total changes from financing cash flows	(15)
The effect of changes in foreign exchange rates	(53)
Other	(48)
Balance as at December 31, 2018	\$ 9,102
Changes from financing cash flows	
Proceeds from long-term debt	2,000
Repayment of long-term debt	(1,647)
Transaction costs	(45)
Total changes from financing cash flows	308
The effect of changes in foreign exchange rates	(8)
Leases obligations reclassification <sup>(1)</sup>	(41)
Other	(28)
<b>Balance as at December 31, 2019</b>	<b>\$ 9,333</b>

<sup>(1)</sup> Obligations under finance leases reclassified to lease liabilities under IFRS 16 on January 1, 2019. See Note 3 - Changes in accounting policies for more details.

## 36. CREDIT FACILITIES

### Letter of credit facilities

The letter of credit facilities and their maturities were as follows, as at:

	Amount committed	Letters of credit issued	Amount available	Maturity
<b>December 31, 2019</b>				
Transportation facility	\$ 5,052 <sup>(1)</sup>	\$ 4,846	\$ 206	2023 <sup>(2)</sup>
Corporation excluding Transportation facility	n/a	n/a	n/a	n/a
	\$ 5,052	\$ 4,846	\$ 206	
<b>December 31, 2018</b>				
Transportation facility	\$ 4,511 <sup>(1)</sup>	\$ 4,024	\$ 487	2022
Corporation excluding Transportation facility	361	188	173	2021
	\$ 4,872	\$ 4,212	\$ 660	
<b>January 1, 2018</b>				
Transportation facility	\$ 4,270 <sup>(1)</sup>	\$ 4,013	\$ 257	2021
Corporation excluding Transportation facility	400	169	231	2020
	\$ 4,670	\$ 4,182	\$ 488	

<sup>(1)</sup> €4,498 million as at December 31, 2019 (€3,940 million as at December 31, 2018 and €3,560 million as at January 1, 2018).

<sup>(2)</sup> The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment amount of the facility, plus a one year amortization period during which new letters of credit cannot be issued. The final maturity date of the facility is 2023.

The Corporation voluntarily cancelled the \$361 million letter of credit facility, in the fourth quarter of 2019, which was available for the Corporation excluding Transportation. The issued letters of credit under this facility were replaced by various bilateral agreements.

In addition to the outstanding letters of credit shown in the above table, letters of credit of \$4,395 million were outstanding under various bilateral agreements as at December 31, 2019 (\$3,874 million, as at December 31, 2018 and \$3,414 million as at January 1, 2018).

The Corporation also uses numerous bilateral bonding facilities with insurance companies to support Transportation's operations. An amount of \$3.8 billion was outstanding under such facilities as at December 31, 2019 (\$3.7 billion as at December 31, 2018 and \$3.4 billion as at January 1, 2018).

### Revolving credit facilities

The Corporation voluntarily cancelled the \$397 million unsecured revolving credit facility, in the third quarter of 2019, which was available for the Corporation excluding Transportation.

The Corporation has an unsecured revolving credit facility ("Transportation revolving credit facility") amounting to €1,154 million (\$1,296 million), available to Transportation for cash drawings. The facility matures in May 2022 and bears interest at Euribor plus a margin. That facility was unused as of December 31, 2019.

### Uncommitted Short Term credit facilities

The Corporation has a €75 million (\$84 million) uncommitted Short Term credit facility. This facility is available to Transportation for cash drawings. This facility was unused as of December 31, 2019.

### Financial covenants

The Corporation is subject to various financial covenants under the Transportation letter of credit facility and the Transportation revolving credit facility, which must be met on a quarterly basis. Those facilities include financial covenants requiring minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on Transportation stand-alone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics as described in Note 37 – Capital management or to the specific terms used in the MD&A. In addition, the Corporation must maintain a minimum Transportation liquidity of €750 million (\$843 million). Minimum liquidity required is not defined as comprising only cash and cash

equivalents as presented in the consolidated statement of financial position. These conditions were all met on a quarterly basis and as at December 31, 2019 and 2018 and January 1, 2018.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met.

## 37. CAPITAL MANAGEMENT

The Corporation analyzes its capital structure using global metrics, which are based on a broad economic view of the Corporation, in order to assess the creditworthiness of the Corporation. The Corporation manages and monitors its global metrics such that it can achieve an investment-grade profile.

As a result of adopting IFRS 16, *Leases*, we changed the definitions and naming of adjusted interest, adjusted debt, EBIT before special items and EBITDA before special items, all of which are used in our global metrics.

The Corporation's objectives with regard to its global metrics are as follows:

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

**Global metrics** – The following global metrics do not represent the ratios required for bank covenants.

	2019
EBIT before special items <sup>(1)</sup>	\$ 470
Adjusted interest <sup>(2)</sup>	\$ 732
<b>Adjusted EBIT to adjusted interest ratio</b>	<b>0.6</b>
Adjusted debt <sup>(3)</sup>	\$ 9,744
EBITDA before special items <sup>(4)</sup>	\$ 896
<b>Adjusted debt to adjusted EBITDA ratio</b>	<b>10.9</b>

<sup>(1)</sup> Represents EBIT before special items.

<sup>(2)</sup> Represents interest paid as per the supplemental information provided in the consolidated statements of cash flows.

<sup>(3)</sup> Represents long-term debt adjusted for the fair value of derivatives (or settled derivatives) designated in related hedge relationships plus short-term borrowings and lease liabilities.

<sup>(4)</sup> Represents EBIT before special items plus amortization and impairment charges of PP&E and intangible assets.

In addition to the above global level metrics, the Corporation separately monitors its net retirement benefit liability which amounted to \$2.3 billion as at December 31, 2019 (\$2.2 billion as at December 31, 2018). The measurement of this liability is dependent on numerous key long-term assumptions such as discount rates, future compensation increases, inflation rates and mortality rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. The Corporation closely monitors the impact of the net retirement benefit liability on its future cash flows and has introduced significant risk mitigation initiatives in recent years in this respect.

In order to adjust its capital structure, the Corporation may issue or reduce long-term debt, make discretionary contributions to pension funds, repurchase or issue share capital, or vary the amount of dividends paid to shareholders.

See Note 36 – Credit facilities for a description of bank covenants.



## 38. FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

<b>Credit risk</b>	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
<b>Liquidity risk</b>	Risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.
<b>Market risk</b>	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to foreign exchange risk and interest rate risk.

### Credit risk

The Corporation is exposed to credit risk through its normal treasury activities on its derivative financial instruments and other investing activities. The Corporation is also exposed to credit risk through its trade receivables arising from its normal commercial activities. Credit exposures arising from lending activities relate primarily to aircraft loans and lease receivables provided to aerospace customers in connection with the sale of commercial aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from the treasury activities are managed by a central treasury function in accordance with the Corporate Foreign Exchange Risk Management Policy and Corporate Investment Policy (the "Policy"). The objective of the policy is to minimize the Corporation's exposure to credit risk from its treasury activities by ensuring that the Corporation transacts strictly with investment-grade financial institutions and money market funds based on pre-established consolidated counterparty risk limits per financial institution and fund.

Credit risks arising from the Corporation's normal commercial activities, lending activities and under indirect financing support are managed and controlled by the two reportable segments, Aviation and Transportation. The main credit exposure managed by the segments arises from customer credit risk. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and the Corporation's experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

These customer credit risk assessments and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collateral to reduce the Corporation's exposure to losses. Specific governance is in place to ensure that financial risks arising from large transactions are analyzed and approved by the appropriate management level before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure. Various accounting and reporting systems are used to monitor trade receivables, lease receivables and other direct financings.

**Maximum exposure to credit risk** – The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in Note 14 – Financial instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Aircraft loans and lease receivables	\$ 2	\$ 26	\$ 29
Investments in financing structures	\$ —	\$ 93	\$ 193
Derivative financial instruments	\$ 128	\$ 162	\$ 310
ACLPL non-voting rights	\$ —	\$ —	n/a
Investments in securities	\$ 210	\$ 196	\$ 306

**Credit quality** – The credit quality, using external and internal credit rating systems, of financial assets that are neither past due nor impaired is usually investment grade, except for Aviation's receivables, aircraft loans and lease receivables and certain investments in financing structures. Aviation's receivables are usually not externally or internally quoted, however the credit quality of customers are dynamically reviewed and is based on the Corporation's experience with the customers and payment behaviour. The Corporation usually holds underlying assets or security deposits as collateral or letters of credit for the receivables. The Corporation's customers for aircraft loans and lease receivables are mainly regional airlines with a credit rating below investment grade. The credit quality of the Corporation's aircraft loans and lease receivables portfolio is strongly correlated to the credit quality of the regional airline industry. The financed aircraft is used as collateral to reduce the Corporation's exposure to credit risk.

Refer to Note 43 – Commitment and Contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

### **Liquidity risk**

The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows, which is achieved through a detailed forecast of the Corporation's liquidity position, as well as long-term operating and strategic plans, to ensure adequacy and efficient use of cash resources. The Corporation uses scenario analyses to stress-test cash flow projections. Liquidity adequacy is continually monitored which involves the application of judgment, taking into consideration historical volatility and seasonal needs, stress-test results, the maturity profile of indebtedness, access to capital markets, the level of customer advances, availability of letter of credit and similar facilities, working capital requirements, the availability of working capital financing initiatives and the funding of product development and other financial commitments. Based on this analysis, the Corporation currently anticipates that its year-end cash and cash equivalents of approximately \$2.6 billion, the Transportation revolving credit facility of approximately \$1.3 billion, as well as expected proceeds of approximately \$1.6 billion upon closing of the previously announced sales of the CRJ program and the aerostructures business as well as ACLP, will enable it to meet currently anticipated financial requirements for a period of more than 12 months. The Corporation is actively pursuing alternatives to accelerate debt paydown in order to position the business for long-term success with greater operating and financial flexibility.

The Corporation engages in certain working capital financing initiatives which impact cash flow from operating activities such as the sale of receivables (Refer Note 16 – Trade and other receivables ), arrangements for advances from third parties (Refer to Note 17 – Contract balances) and the negotiation of extended payment terms with certain suppliers (Refer to Note 25 – Trade and other payables). These initiatives generally rely on the ongoing provision of credit by financial institutions to the parties involved in the arrangement.

The Corporation monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility. The Corporation also routinely reviews its debt profile with a view to managing or extending maturities and/or negotiating more favourable terms and conditions with respect to its bank facilities. The Corporation also routinely reviews the terms and conditions of its bank facilities and seeks annual extensions of the availability periods thereunder. These amendments are subject to prevailing market and other conditions that are beyond its control and there can be no assurance that the Corporation will be able to successfully negotiate such amendments on commercially reasonable terms, or at all.

**Maturity analysis** –The maturity analysis of financial assets and financial liabilities, excluding derivative financial instruments, was as follows, as at December 31, 2019:

	Carrying amount	Undiscounted cash flows (before giving effect to the related hedging instruments)						Total
		Less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	
Cash and cash equivalents	\$ 2,578	\$ 2,578	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,578
Trade and other receivables	\$ 1,844	1,648	157	27	12	—	—	1,844
Other financial assets <sup>(1)</sup>	\$ 897	87	54	474	389	266	61	1,331
<b>Assets</b>		4,313	211	501	401	266	61	5,753
Trade and other payables	\$ 4,682	4,682	—	—	—	—	—	4,682
Other financial liabilities <sup>(1)</sup>	\$ 1,200	444	347	367	611	371	—	2,140
Long-term debt								
Principal	\$ 9,333	8	3,183	2,250	3,633	250	—	9,324
Interest		668	1,187	785	544	113	—	3,297
<b>Liabilities</b>		5,802	4,717	3,402	4,788	734	—	19,443
<b>Net amount</b>		\$ (1,489)	\$ (4,506)	\$ (2,901)	\$ (4,387)	\$ (468)	\$ 61	\$ (13,690)

<sup>(1)</sup> The carrying amount of other financial assets excludes derivative financial instruments and the carrying amount of other financial liabilities excludes derivative financial instruments and the current portion of long-term debt.

Other financial assets include long-term contract receivables maturing in March 2033. Under the respective agreements, the Corporation will receive incentive payments. Due to future variations in the relevant index the amounts shown in the table above may vary.

Other financial assets include a back-to-back agreement that the Corporation has with ACLP related to certain government refundable advances. Other financial liabilities include government refundable advances. Under the respective agreements, the Corporation is required to pay amounts to governments at the time of the delivery of aircraft. Due to uncertainty about the number of aircraft to be delivered and the timing of delivery of aircraft, the amounts shown in the table above may vary.

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows, as at December 31, 2019:

	Nominal value (USD equivalent)	Undiscounted cash flows <sup>(1)</sup>					Total
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	
<b>Derivative financial assets</b>							
Forward foreign exchange contracts	\$ 7,456	\$ 109	\$ 11	\$ —	\$ —	\$ —	\$ 120
Interest-rate swaps	300	2	3	2	1	—	8
	\$ 7,756	\$ 111	\$ 14	\$ 2	\$ 1	\$ —	\$ 128
<b>Derivative financial liabilities</b>							
Forward foreign exchange contracts	\$ (8,953)	\$ (202)	\$ (3)	\$ —	\$ —	\$ —	\$ (205)
	\$ (8,953)	\$ (202)	\$ (3)	\$ —	\$ —	\$ —	\$ (205)
<b>Net amount</b>		\$ (91)	\$ 11	\$ 2	\$ 1	\$ —	\$ (77)

<sup>(1)</sup> Amounts denominated in foreign currency are translated at the period end exchange rate.

## Lease liabilities

The Corporation leases buildings and equipment.

**Maturity analysis** –The maturity analysis of lease liabilities, was as follows, as at:

	December 31, 2019	
Within 1 year	\$	129
Between 1 to 5 years		148
More than 5 years		243
	\$	520

## Market risk

### Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks in the ordinary course of business through its international operations, in particular to the Canadian dollar, Pound sterling, Swiss franc, Swedish krona and Euro. The Corporation employs various strategies, including the use of derivative financial instruments and by matching asset and liability positions, to mitigate these exposures.

The Corporation's main exposures to foreign currencies are identified by the segments and covered by the central treasury function. Foreign currency exposures are mitigated in accordance with the Corporation's Foreign Exchange Risk Management Policy (the "FX Policy"). The objective of the FX Policy is to mitigate the impact of foreign exchange movements on the Corporation's consolidated financial statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed Board authorized pre-set limits. Potential loss is defined as the maximum expected loss that could occur if an unhedged foreign currency exposure was exposed to an adverse change of foreign exchange rates over a one-quarter period. The FX Policy also strictly prohibits any speculative foreign exchange transactions that would result in the creation of an exposure in excess of the maximum potential loss approved by the Board of Directors of the Corporation.

Under the FX Policy, it is the responsibility of the segments' management to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, which has the responsibility to execute the hedge transactions in accordance with the FX Policy.

In order to properly manage their exposures, each segment maintains long-term cash flow forecasts in each currency. Aviation has adopted a progressive hedging strategy while Transportation hedges all its identified foreign currency exposures to limit the effect of currency movements on their results. The segments also mitigate foreign currency risks by maximizing transactions in their functional currency for their operations such as material procurement, sale contracts and financing activities.

In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching the long-term debt in foreign currency with long-term assets denominated in the same currency.

The Corporation mainly uses forward foreign exchange contracts to manage the Corporation's exposure from transactions in foreign currencies and to synthetically modify the currency of exposure of certain balance sheet items. The Corporation applies hedge accounting for a significant portion of anticipated transactions and firm commitments denominated in foreign currencies, designated as cash flow hedges. Notably, the Corporation enters into forward foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments.

The Corporation's foreign currency hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates on the hedged item. These programs are reviewed annually and amended as necessary to reflect current market conditions or practices.

### Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in foreign currencies. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the

Corporation's financial instruments recorded in its statement of financial position. The following impact on EBT for fiscal year 2019 is before giving effect to cash flow hedge relationships.

	Variation	Effect on EBT					
		CAD/USD	GBP/USD	EUR/USD	EUR/GBP	GBP/EUR	Other
Gain (loss)	+10%	\$ 2	\$ (6)	\$ (11)	\$ 9	\$ 72	\$ 221

The following impact on OCI for fiscal year 2019 is for derivatives designated in a cash flow hedge relationship. For these derivatives, any change in fair value is mostly offset by the re-measurement of the underlying exposure.

	Variation	Effect on OCI before income taxes					
		CAD/USD	GBP/USD	EUR/USD	EUR/GBP	GBP/EUR	Other
Gain	+10%	\$ 212	\$ 19	\$ 4	\$ 27	\$ 22	\$ 173

### Interest rate risk

The Corporation is exposed to fluctuations in its future cash flows arising from changes in interest rates through its variable-rate financial assets and liabilities, including fixed-rate long-term debt synthetically converted to variable interest rates (see Note 29 – Long-term debt). For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by a central treasury function as part of an overall risk management policy, including the use of financial instruments, such as interest-rate swap agreements. Derivative financial instruments used to synthetically convert interest-rate exposures consist mainly of interest-rate swap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risks, through its financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, investments in securities, investments in financing structures, lease subsidies and certain derivative financial instruments.

The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity to ensure proper assets/liabilities management matching, consistent with the objective to reduce risks arising from interest rates movements. These programs are reviewed annually and amended as necessary to reflect current market conditions or practices.

### Sensitivity analysis

The interest rate risk primarily relates to financial instruments carried at fair value. Assuming a 100-basis point increase in interest rates impacting the measurement of these financial instruments, excluding derivative financial instruments in a hedge relationship, as of December 31, 2019, the impact on EBT would have been a negative adjustment of \$108 million as at December 31, 2019 (\$36 million as at December 31, 2018).

## 39. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

### Methods and assumptions

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

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

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

**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 analysis 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 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. 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.

*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.

As at December 31, 2019, the Corporation performed an impairment test in the fourth quarter of 2019 on its investments in ACLP. The Corporation valued all of its interests in ACLP together, comprising of its investment in associate, the funding commitments and the ACLP non-voting units, and reflected the remaining value in its Investments in Joint Ventures and Associates. See Note 40 - Investment in Joint Ventures and Associates for more details.

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 analysis, 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 table presents 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 December 31, 2019:

	Total	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Derivative financial instruments <sup>(1)</sup>	\$ 287	\$ —	\$ 287	\$ —
Investments in securities	250	35	215	—
Receivable from related party <sup>(2)</sup>	468	—	—	468
ACLPL non-voting rights	—	—	—	—
Long-term contract receivable	78	—	78	—
	<b>\$ 1,083</b>	<b>\$ 35</b>	<b>\$ 580</b>	<b>\$ 468</b>
<b>Financial liabilities</b>				
Government refundable advance <sup>(2)</sup>	(468)	—	—	(468)
Derivative financial instruments <sup>(1)</sup>	(535)	—	(210)	(325)
	<b>\$ (1,003)</b>	<b>\$ —</b>	<b>\$ (210)</b>	<b>\$ (793)</b>

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

<sup>(2)</sup> 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 fiscal years 2019 and 2018:

	Aircraft loans and lease receivables	ACLPL non-voting units	Investments in financing structures	Lease Subsidies	Trade and Other payables	Conversion option	Funding commitments
Balance as at January 1, 2018	\$ 47	\$ —	\$ 219	\$ (122)	\$ (6)	\$ (304)	\$ —
Net gains (losses) and interest included in net income	(2)	—	11	(2)	—	(23)	—
Issuances	—	150	—	—	—	—	(310)
Settlements	(21)	—	(57)	23	6	—	75
Disposal of ACLPL business	—	—	—	48	—	—	—
Effect of foreign currency exchange rate changes	—	—	—	—	—	13	—
Balance as at December 31, 2018	24	150	173	(53)	—	(314)	(235)
Net gains (losses) and interest included in net income	3	(385) <sup>(2)</sup>	27	(4)	—	—	120 <sup>(2)</sup>
Issuances	—	235	—	—	—	—	—
Settlements	—	—	(3)	16	—	—	115
Effect of foreign currency exchange rate changes	—	—	—	—	—	(11)	—
<b>Balance as at December 31, 2019</b>	<b>\$ 27</b>	<b>\$ —</b>	<b>\$ 197</b>	<b>\$ (41)</b>	<b>\$ —</b>	<b>\$ (325)</b>	<b>\$ —</b>
Reclassified as assets held for sale <sup>(1)</sup>	(27)	—	(197)	41	—	—	—
<b>Balance as at December 31, 2019</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (325)</b>	<b>\$ —</b>

<sup>(1)</sup> Represents assets and liabilities reclassified as held for sale related to the sale of CRJ program and Aerostructure business. See Note 30 – Assets held for sale for more details.

<sup>(2)</sup> See Note 8 - Special items and Note 40 - Investments in Joint Ventures and Associates for more details on the impairment charges related to ACLPL investments.



### 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 Aviation's 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 December 31, 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	11.13%	From 2.14% to 9.99% (6.70%)	n/a

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

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

### Sensitivity to selected changes of assumptions for Level 3 hierarchy

These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at December 31, 2019:

Impact on EBT		Change of assumptions			
Gain (loss)	Change in fair value recognized in EBT for fiscal year 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	\$ —	\$ (1)	\$ (2)	\$ (1)	
Investment in financing structures	\$ 8	\$ (5)	\$ (9)	\$ (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 fiscal year 2019 of \$82 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 fiscal year 2019 of \$83 million.

### Fair value hierarchy for items recorded at amortized cost

The following table presents financial assets and financial liabilities measured at amortized cost 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).

The fair value of financial assets and liabilities by level of hierarchy was as follows, as at December 31, 2019:

	Total	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Trade and other receivables	\$ 1,844	\$ —	\$ 1,844	\$ —
Other financial assets	101	—	101	—
	<b>\$ 1,945</b>	<b>\$ —</b>	<b>\$ 1,945</b>	<b>\$ —</b>
<b>Financial liabilities</b>				
Trade and other payables	\$ (4,682)	\$ —	\$ (4,682)	\$ —
Long-term debt	(9,660)	—	(9,660)	—
Other financial liabilities				
Government refundable advances	(125)	—	—	(125)
Other	(624)	—	—	(624)
	<b>\$ (15,091)</b>	<b>\$ —</b>	<b>\$ (14,342)</b>	<b>\$ (749)</b>

## 40. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

In the normal course of business, the Corporation carries out a portion of its businesses through joint ventures and associates.

The corporation's aggregate pro rata shares of assets and liabilities of its joint ventures and associates was as follows, for fiscal year 2019:

	ACL <sup>P</sup> <sup>(1)</sup>	Other	Total
Cash and cash equivalents	\$ 4	\$ 417	\$ 421
Other current assets	\$ 264	\$ 819	\$ 1,083
Non-current assets	\$ 1,486	\$ 395	\$ 1,881
Current liabilities	\$ (464)	\$ (920)	\$ (1,384)
Non-current liabilities	\$ (1,057)	\$ (176)	\$ (1,233)

<sup>(1)</sup> As of December 31, 2019, the Corporation invested \$575 million in ACL<sup>P</sup> in exchange for non-voting units of ACL<sup>P</sup>. In addition, the Corporation invested \$64 million in Class A units of ACL<sup>P</sup>.

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

	2019			2018		
	ACL <sup>P</sup>	Other	Total	ACL <sup>P</sup>	Other	Total
Net income (loss)	\$ 37 <sup>(1)</sup>	\$ 91	\$ 128	\$ (40)	\$ 106	\$ 66

<sup>(1)</sup> The share of net gains from ACL<sup>P</sup> in the fiscal year 2019 includes certain provision reversals within ACL<sup>P</sup> amounting to approximately \$60 million.

## **ACLP investments**

On February 12, 2020, the Corporation concluded the sale of its remaining interests in Airbus Canada Limited Partnership (ACLP) to Airbus and Investissement Québec, supporting the Corporation's strategic decision to focus on its Business Aviation franchise while improving the Corporation's liquidity.

With this transaction, the Corporation will receive proceeds of \$591 million from Airbus, net of adjustments, of which \$531 million was paid upon closing. In addition, the Corporation is released from all future funding obligations related to the partnership for 2020 and 2021. The agreement also provides for the cancellation of 100,000,000 Bombardier warrants owned by Airbus.

Further to this, the Corporation will transfer aerostructures activities supporting A220 and A330 in St-Laurent, Québec to Airbus subsidiary Stelia Aerospace. No workforce reduction is expected out of this transaction.

Considering the terms of the transaction, and contributions of \$100 million that the Corporation made to ACLP in January 2020, the Corporation revalued its interests in ACLP as at December 31, 2019 to \$525 million, which resulted in an impairment charge of \$1,578 million that was recorded in the fourth quarter of 2019 as a special item.

As at December 31, 2019, the Corporation had committed to fund the cash shortfalls of ACLP, if required, up to a maximum aggregate amount of \$350 million over 2020 and 2021, the whole in consideration for non-voting units of ACLP with cumulative annual dividends of 2%. As of December 31, 2019, the Corporation invested \$575 million in ACLP of the original \$925 million commitment in exchange for non-voting units of ACLP. As of December 2019, the Corporation invested \$64 million in Class A units of ACLP and effective December 31, 2019, Airbus owns 50.26%, Investissement Québec owns 16.02% and the Corporation owns 33.72%. In January 2020, the Corporation further contributed \$100 million in ACLP in exchange for non-voting units of ACLP, for a total of \$675 million. Following the sale by the Corporation of its remaining interest in ACLP, the Corporation is no longer committed to fund the cash shortfalls of ACLP.

## **41. TRANSACTIONS WITH RELATED PARTIES**

The Corporation's related parties are its joint ventures, associates and key management personnel.

### **Joint ventures and associates**

The Corporation buys and sells products and services on arm's length terms with some of its joint ventures and associates in the ordinary course of business. The following table presents the transactions with joint ventures and associates in which the Corporation has an interest, for fiscal years:

	2019		2018	
	Joint ventures	Associates	Joint ventures	Associates
Sales of products and services, and other income	\$ 64	\$ 665	\$ 38	\$ 313
Purchase of products and services, and other expenses	\$ 52	\$ 10	\$ 24	\$ 12

The following table presents the Corporation's outstanding balances with joint ventures and associates, as at:

	December 31, 2019		December 31, 2018		January 1, 2018	
	Joint ventures	Associates	Joint ventures	Associates	Joint ventures	Associates
Receivables	\$ 25	\$ 203	\$ 16	\$ 129	\$ 20	\$ 12
Receivables from related party <sup>(1)</sup>	\$ —	\$ 468	\$ —	\$ 385	\$ —	\$ —
Contract assets	\$ —	\$ 77	\$ —	\$ 23	\$ —	\$ —
Payables	\$ 14	\$ 59	\$ 4	\$ 28	\$ 11	\$ 2
Contract liabilities	\$ 6	\$ —	\$ 11	\$ —	\$ 8	\$ —
Other financial liabilities	\$ —	\$ 32	\$ —	\$ 48	\$ —	\$ —

<sup>(1)</sup> See Note 20 - Other financial assets.

### Compensation paid to key management personnel

The annual remuneration and related compensation costs of the executive and non-executive board members and key Corporate management, defined as the President and Chief Executive Officer of Bombardier Inc., the Presidents of Aviation and Transportation, and the Senior Vice Presidents of Bombardier Inc., were as follows, for fiscal years:

	2019	2018
Share-based benefits	\$ 20	\$ 25
Salaries, bonuses and other short-term benefits	14	23
Retirement benefits	1	—
	\$ 35	\$ 48

## 42. UNCONSOLIDATED STRUCTURED ENTITIES

The following table presents the assets and liabilities of unconsolidated structured entities in which the Corporation had a significant exposure, as at:

	December 31, 2019		December 31, 2018		January 1, 2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financing structures related to the sale of commercial aircraft	\$ 2,101	\$ 739	\$ 3,552	\$ 1,587	\$ 4,760	\$ 2,315

The Corporation has provided credit and/or residual value guarantees to certain structured entities created solely to provide financing related to the sale of commercial aircraft.

Typically, these structured entities are financed by third-party long-term debt and by third-party equity investors. The aircraft serve as collateral for the structured entities long-term debt. The Corporation retains certain interests in the form of credit and residual value guarantees, subordinated debt and residual interests. Residual value guarantees typically cover a percentage of the first loss from a guaranteed value upon the sale of the underlying aircraft at an agreed upon date. The Corporation also provides administrative services to certain of these structured entities in return for a market fee.

The Corporation's maximum potential exposure was \$0.8 billion, of which \$108 million was recorded as provisions and related liabilities as at December 31, 2019 (\$1.2 billion and \$409 million, respectively, as at December 31, 2018 and \$1.5 billion and \$370 million, respectively, as at January 1, 2018). The Corporation's maximum exposure under these guarantees is included in Note 43 – Commitments and contingencies. All recorded provisions are included in the assets held for sale related to the *CRJ* announcement as at December 31, 2019, however, the Corporation's will still have exposure to some of those unconsolidated structured entities after the closing of the *CRJ* business.

The Corporation concluded that it did not control these structured entities.

### 43. COMMITMENTS AND CONTINGENCIES

The Corporation enters into various sale support arrangements, including credit and residual value guarantees and financing rate commitments, mostly provided in connection with sales of commercial aircraft and related financing commitments. The Corporation is also subject to other off-balance sheet risks described in the following table. These off-balance sheet risks are in addition to the commitments and contingencies described elsewhere in these consolidated financial statements. Some of these off-balance sheet risks are also included in Note 42 – Unconsolidated structured entities. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

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

	December 31, 2019	December 31, 2018	January 1, 2018
<b>Aircraft sales</b>			
Residual value (a)	\$ 163	\$ 695	\$ 1,060
Credit (a)	734	1,034	1,221
Mutually exclusive exposure <sup>(1)</sup>	(128)	(473)	(540)
Total credit and residual value exposure	\$ 769	\$ 1,256	\$ 1,741
Trade-in commitments (b)	\$ 998	\$ 1,165	\$ 1,437
Conditional repurchase obligations (c)	\$ 73	\$ 100	\$ 143
<b>Other<sup>(2)</sup></b>			
Credit (d)	\$ 48	\$ 48	\$ 52

<sup>(1)</sup> 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.

<sup>(2)</sup> The Corporation has also provided other guarantees (see section f) below).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to \$90 million as at December 31, 2019 (\$456 million as at December 31, 2018 and \$554 million as at January 1, 2018) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on information obtained from external appraisals and reflect specific factors of the current aircraft market and a balanced market in the medium and long-term, and the anticipated proceeds from other assets covering such exposures. 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 \$435 million as at December 31, 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 \$41 million as at December 31, 2019 (\$53 million as at December 31, 2018 and \$122 million as at January 1, 2018). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the sale of underlying aircraft and the extinguishment of certain lease subsidies obligations. All of the above are included in the assets held for sale related to the CRJ announcement, except for \$378 million of credit and residual value guarantees payable, as at December 31, 2019.

#### Aircraft sales

**a) Credit and residual value guarantees** - The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2026. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 74% of the total maximum credit risk as at December 31, 2019 (71% as at December 31, 2018 and 73% as at January 1, 2018).

In addition, the Corporation may provide a guarantee for the residual value of aircraft at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. The arrangements generally include operating restrictions such as maximum usage and minimum maintenance requirements. The guarantee provides

for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under such guarantees may be made only upon resale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees, at the earliest exercisable date, and the period in which they can be exercised, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Less than 1 year	\$ 13	\$ 97	\$ 106
From 1 to 5 years	142	528	856
From 5 to 10 years	8	70	98
From 10 to 15 years	—	—	—
	\$ 163	\$ 695	\$ 1,060

**b) Trade-in commitments** - In connection with the signing of firm orders for the sale of new aircraft, the Corporation enters into specified-price trade-in commitments with certain customers. These commitments give customers the right to trade-in their pre-owned aircraft as partial payment for the new aircraft purchased.

The Corporation's trade-in commitments were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Less than 1 year	\$ 496	\$ 305	\$ 102
From 1 to 3 years	475	622	863
Thereafter	27	238	472
	\$ 998	\$ 1,165	\$ 1,437

**c) Conditional repurchase obligations** - In connection with the sale of new aircraft, the Corporation enters into conditional repurchase obligations with certain customers. Under these obligations, the Corporation agrees to repurchase the initial aircraft at predetermined prices, during predetermined periods or at predetermined dates, conditional upon mutually acceptable agreement for the sale of a new aircraft. At the time the Corporation enters into an agreement for the sale of a subsequent aircraft and the customer exercises its right to partially pay for the subsequent aircraft by trading-in the initial aircraft to the Corporation, a conditional repurchase obligation is accounted for as a trade-in commitment.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows, as at:

	December 31, 2019	December 31, 2018	January 1, 2018
Less than 1 year	\$ 73	\$ 26	\$ 96
From 1 to 3 years	—	74	47
Thereafter	—	—	—
	\$ 73	\$ 100	\$ 143

#### Other guarantees

**d) Credit and residual value guarantees** - In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to \$48 million as at December 31, 2019 (\$48 million as at December 31, 2018 and \$52 million as at January 1, 2018). This guarantee matures in 2025.

**e) Performance guarantees** - In certain projects carried out through consortia or other partnership vehicles in Transportation, partners may be jointly and severally liable to the customer for a default by the other partners. In such cases partners would normally provide counter indemnities to each other. These obligations and guarantees typically extend until final product acceptance by the customer and in some cases to the warranty period.

The Corporation's maximum net exposure to projects is capped, assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's

net exposure is not significant, assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

**f) Other** - In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

#### **ACLP funding commitments**

See Notes 40 - Investments in joint ventures and associates for information.

#### **Other commitments**

The Corporation also has purchase obligations, under various agreements, made in the normal course of business. The purchase obligations are as follows, as at:

	<b>December 31, 2019</b>
Within 1 year	\$ 8,589
Between 1 to 5 years	4,539
More than 5 years	6
	<b>\$ 13,134</b>

The purchase obligations of the Corporation include capital commitments for the purchase of PP&E and intangible assets amounting to \$219 million and \$84 million, respectively, as at December 31, 2019 .

#### **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 December 31, 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. 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 case is still pending with the Swedish Court of Appeal with a likely scenario that the Swedish Court of Appeal will set a date for the appeal trial.

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 these 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 the 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 has commenced the requisite steps to contest its decision before tribunals of competent jurisdiction and continues to vigorously defend itself against the allegations.



## Transnet

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 creation of 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.

## Spain

In December 2017, the Spanish Competition Authority (“CNMC”) conducted an inspection at the offices of Bombardier European Investments, S.L.U. (“BEI”) in Madrid. According to the Inspection Order, CNMC’s inspection follows information it learned about possible irregularities in public tenders with the Railway Infrastructures Administrator (“ADIF”). 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 formal accusations 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 delays for CNMC to adopt a final decision on the case are currently suspended pending various appeals (including by BEI) filed in relation to various decisions rendered by CNMC regarding the involvement into the file of the public client ADIF.

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.

#### **44. EVENT AFTER THE REPORTING DATE**

##### **ACLP investments**

On February 12, 2020, the Corporation concluded the sale of its remaining interests in Airbus Canada Limited Partnership (ACLP) to Airbus and Investissement Québec. Further to this, the Corporation will transfer aerostructures activities supporting A220 and A330 in St-Laurent, Québec to Airbus subsidiary Stelia Aerospace. No workforce reduction is expected out of this transaction.

Refer to Note 40 - Investments in Joint Ventures and Associates for more details.

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# INVESTOR INFORMATION

## Our Board of Directors

### BOARD MEMBERS<sup>(1)</sup>

Pierre Beaudoin	Chairman of the Board of Directors of Bombardier
Alain Bellemare	President and Chief Executive Officer of Bombardier
Joanne Bissonnette	Corporate Director
Charles Bombardier	Founder and President of Imaginative (non-profit organization that creates concepts on the future of mobility and conducts research to improve new product feedback)
Martha Finn Brooks	Corporate Director
Diane Fontaine	Vice President and Portfolio Manager of RBC Dominion Securities Inc.
Diane Giard	Corporate Director
Anthony R. Graham	Chairman and Chief Executive Officer of Sumarria Inc. (an investment holding company)
August W. Henningsen	Corporate Director
Pierre Marcouiller	President of Nexcap Inc. (a private investment company)
Douglas (Doug) R. Oberhelman	Corporate Director
Vikram Pandit	Lead Director Chairman and Chief Executive Officer of The Orogen Group (a company investing in the financial services industry)
Antony N. Tyler	Corporate Director
Beatrice Weder di Mauro	Professor of International Macroeconomics, The Graduate Institute of International and Development Studies

### BOARD COMMITTEES

Board committees	Board representation <sup>(1)</sup>	Responsibilities
Audit Committee	Diane Giard (Chair) Martha Finn Brooks Anthony R. Graham Pierre Marcouiller Beatrice Weder di Mauro	<ul style="list-style-type: none"> <li>• Help the directors meet their responsibilities with respect to accountability</li> <li>• Assist in maintaining good communication between the directors and the independent auditors of Bombardier, Ernst &amp; Young</li> <li>• Assist in maintaining the independence of Ernst &amp; Young</li> <li>• Maintain the credibility and objectivity of the financial reports of Bombardier</li> <li>• Investigate and assess any issue that raises significant concerns with the Audit Committee</li> </ul>
Finance and Risk Management Committee	Martha Finn Brooks (Co-Chair) August W. Henningsen (Co-Chair) Antony N. Tyler Beatrice Weder di Mauro	<ul style="list-style-type: none"> <li>• Review Bombardier's material financial risks and its monitoring, control and risk management</li> <li>• Review adequacy of policies, procedures and controls in place for risk management</li> <li>• Review and monitor significant or unusual transactions and/or projects related to ongoing activities, business opportunities, mergers, acquisitions, divestitures, significant asset sales or purchases and equity investments</li> <li>• Monitor matters or activities related to or involving Bombardier's financial standing</li> </ul>
Corporate Governance and Nominating Committee	Douglas (Doug) R. Oberhelman (Chair) Diane Giard Anthony R. Graham Vikram Pandit Antony N. Tyler	<ul style="list-style-type: none"> <li>• Monitor selection criteria and credentials for Board candidates</li> <li>• Monitor Board and Committees' composition and performance</li> <li>• Monitor Board remuneration</li> </ul>
Human Resources and Compensation Committee	Vikram Pandit (Chair) August W. Henningsen Pierre Marcouiller Douglas (Doug) R. Oberhelman	<ul style="list-style-type: none"> <li>• Oversee succession planning of the President and CEO and other selected senior positions</li> <li>• Assess performance of the President and CEO</li> <li>• Review and approve total executive compensation policy accounting for base salary, short-term and long-term incentives as well as pension, benefits and perquisites</li> </ul>

<sup>(1)</sup> As at December 31, 2019. Supplemental information regarding our Board of Directors can be found on our website at [bombardier.com](http://bombardier.com).

**STOCK EXCHANGE LISTINGS**

Class A Shares (Multiple Voting) and Class B Subordinate Voting Shares	Toronto (Canada)
Preferred Shares, Series 2, Series 3 and Series 4	Toronto (Canada)
Stock listing ticker	BBD (Toronto)

**FISCAL YEAR 2020 FINANCIAL RESULTS**

First Quarterly Report	May 7, 2020
Second Quarterly Report	August 6, 2020
Third Quarterly Report	November 5, 2020
2020 Annual Financial Report	February 10, 2021

**PREFERRED DIVIDEND PAYMENT DATES**

Payment subject to approval by the Board of Directors

**Series 2**

Record date	Payment date	Record date	Payment date
2019-12-31	2020-01-15	2020-06-30	2020-07-15
2020-01-31	2020-02-15	2020-07-31	2020-08-15
2020-02-28	2020-03-15	2020-08-31	2020-09-15
2020-03-31	2020-04-15	2020-09-30	2020-10-15
2020-04-30	2020-05-15	2020-10-30	2020-11-15
2020-05-29	2020-06-15	2020-11-30	2020-12-15

**Series 3**

Record date	Payment date
2020-01-17	2020-01-31
2020-04-10	2020-04-30
2020-07-10	2020-07-31
2020-10-16	2020-10-31

**Series 4**

Record date	Payment date
2020-01-17	2020-01-31
2020-04-10	2020-04-30
2020-07-10	2020-07-31
2020-10-16	2020-10-31

Please note that unless stated otherwise, all dividends paid by Bombardier since January 2006 on all of its common and preferred shares are considered “eligible dividends” as per the Canadian Income Tax Act and any corresponding provincial or territorial legislation. The same designation applies under the Quebec Taxation Act for dividends declared after March 23, 2006.

## Contact Information

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Communications  
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Fax: +1 514 861 2420

### DUPLICATION

Although Bombardier strives to ensure that registered shareholders receive only one copy of corporate documents, duplication is unavoidable if securities are registered under different names and addresses. If this is the case, please call Computershare Investor Services at one of the following numbers: +1 514 982 7555 or +1 800 564 6253 (toll-free, North America only) or send an email to [service@computershare.com](mailto:service@computershare.com).

### ONLINE INFORMATION

For additional information, we invite you to visit our websites at:  
[bombardier.com](http://bombardier.com) and [ir.bombardier.com](http://ir.bombardier.com)

### TRANSFER AGENT AND REGISTRAR

Shareholders with inquiries concerning their shares should contact:

#### Computershare Investor Services Inc.

100 University Avenue, 8th Floor  
Toronto, Ontario  
Canada M5J 2Y1  
or  
1500 Robert-Bourassa Blvd., Suite 700  
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(toll-free, North America only)  
Email: [service@computershare.com](mailto:service@computershare.com)

### AUDITORS

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Canada H3A 0A8

### ANNUAL MEETING

The annual meeting of shareholders will be held on Thursday, May 7, 2020, at 10:30 a.m. at the following address:

Centre des Sciences de Montréal  
2, rue de la Commune Ouest  
Montréal, QC, Canada H2Y 4B2

The annual meeting will also be broadcast live on our website at [bombardier.com](http://bombardier.com).

The *Global 8000* and *Learjet 75 Liberty* aircraft are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specifications and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind.

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**11**  
mature trees,  
equivalent to 2  
metric tons of  
wood



**499 kg**  
of waste, or the  
contents of 10  
garbage cans



**2,009 kg**  
of CO<sub>2</sub>,  
equivalent to  
8,006 kilometres  
driven



**10,000 liters**  
of water, equal to  
109 10-minute  
showers  
consumption in  
Northern America

<sup>(1)</sup> Data issued by the paper manufacturer.



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