



BUILT ON **ingenuity**

**BOMBARDIER**

Annual Report, Year Ended January 31, 2008



# FINANCIAL HIGHLIGHTS

(in millions of U.S. dollars, except per share and backlog amounts)

For the years ended January 31	2008	2007
Revenues	\$ 17,506	\$ 14,882
EBIT from continuing operations before special items	\$ 902	\$ 577
EBT from continuing operations before special items	\$ 601	\$ 359
Income tax expense	\$ 122	\$ 92
Net income	\$ 317	\$ 268
Earnings per share from continuing operations before special items	\$ 0.26	\$ 0.14
Earnings per share		
Basic	\$ 0.17	\$ 0.14
Diluted	\$ 0.16	\$ 0.14

As at January 31	2008	2007
Total assets	\$ 20,562	\$ 18,577
Shareholders' equity	\$ 3,118	\$ 2,733
Net additions to property, plant and equipment	\$ 370	\$ 281
Total backlog (in billions of dollars)	\$ 53.6	\$ 40.7
Book value per common share (in dollars)	\$ 1.60	\$ 1.37
Number of common shares		
Class A	316,961,957	317,044,051
Class B	1,413,700,636	1,421,575,917

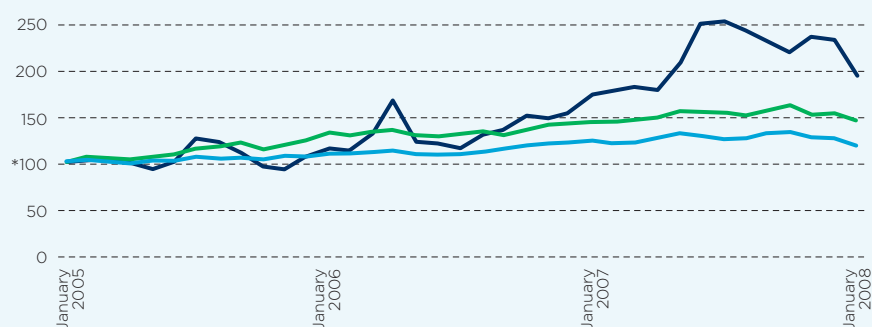
## STOCK MARKET PRICE RANGES

(in Canadian dollars)

For the years ended January 31	2008	2007
Class A		
High	\$ 7.00	\$ 4.61
Low	\$ 4.10	\$ 2.69
Close	\$ 4.96	\$ 4.48
Class B		
High	\$ 6.97	\$ 4.62
Low	\$ 4.06	\$ 2.68
Close	\$ 4.95	\$ 4.45

## BOMBARDIER'S STOCK PERFORMANCE

January 31, 2005 to January 31, 2008



## MARKET CAPITALIZATION

\$8,570 million Cdn

(as at January 31, 2008)

■ BBD  
■ SPTSX  
■ S&P 500

\* Index: closing price as at January 31, 2005 = 100

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All amounts mentioned in this annual report are in U.S. dollars unless otherwise indicated.

At Bombardier, ingenuity is in our DNA.

It is the application of technical rigour and imagination in equal measure to the world's myriad transportation challenges: formidable landscapes, growing and shifting populations, and emerging economies. Ingenuity is manifested in each of our exceptional products.

Above all, it is embodied in our dedicated people, our proven resilience and our forward-thinking perspective.

For every challenge, an ingenious solution.



**CHALLENGE:**  
Open the door  
to unlimited cross-  
regional rail travel

**SOLUTION**

## A unique passenger train that adapts to diverse regional rail infrastructures

In France, Bombardier launched the world's first dual-mode, dual-voltage passenger train. The versatile hybrid **AGC** runs on both electric and non-electric tracks, including cross-regional lines powered by different voltages. AGC now travels the entire French rail network — seamlessly.





**CHALLENGE:**  
Balance passenger  
comfort with a  
bigger, more  
profitable jet

**SOLUTION**

## Take off with the *CRJ1000 NextGen* aircraft

With up to 100 seats and the proven low operating costs of CRJ Series aircraft, the *CRJ1000 NextGen* regional jet continues Bombardier's tradition of innovation. With flexible cabin configurations and enhanced comfort, the *CRJ1000 NextGen* aircraft provides operators with best-in-class economics and CRJ Series commonality as it takes the world's most successful family of regional aircraft to new heights.





**CHALLENGE:**  
Create a train  
that evolves to  
meet shifting needs  
in a competitive  
environment

**SOLUTION**

## The most flexible passenger rail vehicle in the industry

In Germany, the new *TALENT 2* regional train provides rail operators with unequalled choice and modularity. Interiors, doors—a host of features can be reconfigured with minimal hassle and expense. *TALENT 2* can be shaped and reshaped over its life span to fit evolving operator requirements.





**CHALLENGE:**  
Find economical,  
environmental  
alternatives

SOLUTION

## The quiet green machine

The **Q400** aircraft is an extraordinary advanced technology turboprop, offering carriers exceptional economics with jet-like speed and comfort. Its low fuel consumption, reduced noise and low greenhouse gas emissions make the Q400 turboprop an unprecedented advancement in regional air solutions.





**CHALLENGE:**  
Bring distant cities  
closer together  
with clean  
efficient transport

**SOLUTION**

## The leading edge in high-speed rail technology

In China, Bombardier high-speed trains are connecting key urban centres as part of this country's growing high-speed network. Overnight sleeper trains, the first to travel at 250 km/h, present a new transport alternative, providing new levels of mobility across China's vast geography.







**CHALLENGE:**  
Fly ahead in  
business class

SOLUTION

## Redefine the legendary *Learjet*

Bombardier innovates with an industry first: the all-composite structure of the *Learjet 85* aircraft. Combining exceptional strength-to-weight ratio, reduced maintenance and optimized performance features, the latest member of the *Learjet* family resets the benchmark for midsize business jets, while maintaining the legendary performance *Learjet* owners demand.





MESSAGE TO  
SHAREHOLDERS AND  
EMPLOYEES

# Engineered for the long term

## Dear shareholders and employees

Across all fronts of our aerospace and rail transportation businesses, the past year's performance was strong. Bombardier products elicited increased demand in traditional and emerging markets to generate unprecedented order volumes and backlogs. Our discipline in reducing costs and executing projects improved sharply. And, we exercised creativity not only in how we design and build products, but equally, in how we enhance customer experience.

For fiscal year 2008, the Corporation's revenues reached \$17.5 billion, an 18% improvement over the previous year. Earnings before interest and taxes from continuing operations before special items totalled \$902 million, compared to \$577 million for the same period last year. Earnings per share (EPS) from continuing operations before special items were at \$0.26, up from \$0.14 last year. Net income was \$317 million, or an EPS of \$0.16, compared to \$268 million, or an EPS of \$0.14 last fiscal year. The Corporation's cash position stood at \$3.6 billion, after the repayment of \$1.1 billion of long-term debt. Its free cash flow for the year reached \$2 billion, compared to last year's \$610 million. Total backlog stood at a record \$53.6 billion, rising from \$40.7 billion last year.

We invite you to open this gatefold for further highlights.

## Saluting our people

To a great extent, we owe the past year's progress to Bombardier employees, who embody the resilience and entrepreneurship on which this company was built. Their ingenuity in particular, which we celebrate in this year's report, enables

Bombardier to overcome challenges with solutions that respond to customers' needs. We thank them for their unfailing dedication.

## Corporate responsibility

Building on Bombardier's legacy of corporate citizenship, last year we launched a more formal approach to our commitment, by publishing a roadmap to corporate responsibility with a view to setting benchmarks and making progress on issues that matter to us and our stakeholders. Bombardier's first full corporate responsibility report will be published late 2008. We are pleased that our activities are already earning recognition, as Bombardier was listed in September as a member of the Dow Jones Sustainability World and North America indexes.

## Board changes

During a year marked by progress and change, Bombardier's Board of Directors made invaluable contributions to the Corporation's affairs. We particularly thank Lead Director André Bérard. As well, we acknowledge the devoted service and able support of Michael J. Durham, who stepped down earlier this year, and of Federico Sada G., who will not stand for re-election. Jane F. Garvey, former administrator of the United States Federal Aviation Administration (FAA), was elected to the Board during the year. She brings a deep knowledge of the aviation and transportation sectors to Bombardier's Board.



LAURENT BEAUDOIN



PIERRE BEAUDOIN



ANDRÉ NAVARRI

### Looking ahead

With its broad diversity in product and geography, across legacy and emerging markets, Bombardier is well positioned for the future. Industry trends support our confidence. In Aerospace, Bombardier's 2007 Commercial Aircraft Market Forecast is positive for the near and long term, calling for delivery of 11,200 aircraft in the 20- to 149-seat category over the next 20 years. This includes 5,300 regional aircraft and 5,900 aircraft in the mainline 100- to 149-seat segment, where we will participate pending a launch decision on the *CSeries* program. Similarly, the 2007 Bombardier Business Aircraft Market Forecast calls for 9,950 deliveries over the next 10 years in segments in which we operate, as compared to the 5,722 aircraft delivered in the past 10 years. Given the aviation industry's rapid growth, Bombardier Aerospace's chief challenge is to ensure on-time aircraft delivery and solid customer support.

The indicators are similarly positive in every market where Bombardier Transportation operates, as awareness

grows of the environmental and economic benefits of public transportation. Europe, the world's biggest rail market, is experiencing renewed growth in ridership, high-speed train travel, cross-border freight activity, and public and private investment. North America is undergoing record ridership and major cities are gearing up to replace aging fleets. The emerging markets of China, Russia and India are also building infrastructure to serve their increasingly affluent and urban populations — with China's investments being particularly robust. Given its performance improvement program's solid progress, Bombardier Transportation is well positioned to capitalize on these opportunities and support its leadership.

We are confident that Bombardier has the fundamentals in place to sustain its improved margins and ensure its profitable growth.

**LAURENT BEAUDOIN, FCA**  
Chairman of the Board and  
Chief Executive Officer  
Bombardier Inc.

**PIERRE BEAUDOIN**  
President and Chief Operating Officer  
Bombardier Aerospace  
Executive Vice President  
Bombardier Inc.

**ANDRÉ NAVARRI**  
President  
Bombardier Transportation  
Executive Vice President  
Bombardier Inc.

# AEROSPACE

It was a good year for Bombardier Aerospace. In concert with continued strong demand, orders for our business jets and regional aircraft continued to climb, bringing our backlog to an impressive volume. And, in order to sustain future growth, we launched new aircraft, renewed our commitment to outstanding customer service, increased production rates and extended our business presence in key world markets.



## Regional aircraft

As the past year's healthy demand for Bombardier regional aircraft demonstrates, the airline industry continues to rally. This led to two production rate increases for CRJ700 and CRJ900 aircraft, from one aircraft every five days to the current rate of one aircraft every three days. During a year in which we celebrated the 15th anniversary of the first CRJ aircraft delivery, we launched the 100-seat CRJ1000 regional jet, representing the next major step in the evolution of the CRJ Series. And to align with the industry's evolving requirements, we also launched the CRJ NextGen aircraft family, further enhancing the passenger experience with more comfortable cabins and supporting operators with significant operating cost improvements. As for our turboprop business, we delivered the 800th Dash 8/Q-Series turboprop in June. In use by 20 operators worldwide, our flagship Q400 leads all regional turboprops in speed, range, passenger comfort and operating economics, even more so with the new Q400 NextGen aircraft, launched in March 2008.

## Business aircraft

The first Learjet 60 XR business jet entered into service in July, followed in October by the launch of the all-new Learjet 85 aircraft. Redefining the midsize category, this all-composite aircraft will set the standard for all competing business jets.

The new Challenger 605 business jet, offering the widest stand-up cabin in its category, also entered into service during the past year. In September, we unveiled the Global Vision flight deck for the Bombardier Global 5000 and Global Express XRS business jets, providing their pilots with exceptional situational awareness and comfort.

## Raising our sights

The signing of a memorandum of understanding (MOU) with China Aviation Industry Corporation (AVIC I) for long-term strategic cooperation in the five-abreast 90- to 149-seat commercial aircraft market is expected to result in increased competitiveness for both Bombardier's C-Series and AVIC I's ARJ21-900 aircraft programs, while also supporting our position in China. AVIC I's business units already supply components for several Bombardier aircraft. Furthermore, AVIC I plans to invest \$400 million in R&D, facilities and equipment for the Bombardier C-Series aircraft, should the program get the green light. Bombardier's C-Series team continues to optimize the aircraft configuration to meet customers' requirements for a more economical, flexible and passenger-oriented airliner. Following the Authority to Offer (ATO), a launch decision on the C-Series is expected during calendar year 2008.

# FISCAL 2008 HIGHLIGHTS

698

Net orders

\$22.7  
billion

Record backlog

- 698 net orders and 361 deliveries, compared to 363 and 326 respectively for fiscal 2007
- Backlog of \$22.7 billion
- Revenue growth of 17% to reach \$9.7 billion
- EBIT of \$563 million for a margin of 5.8%
- Launch of 100-seat *CRJ1000* and *CRJ NextGen* aircraft family, extending the world's most successful family of regional aircraft
- Launch of clean-sheet *Learjet 85* business jet, with very strong market acceptance
- Resurgence of amphibious aircraft business

At Bombardier Aerospace, the plan to improve EBIT is anchored by three priorities. To work towards these priorities, we have put in place numerous initiatives, the most significant of which are: the Achieving Excellence program; talent management; health and safety; the Amazing Customer Experience program; lean manufacturing/waste elimination; and supplier development and sourcing initiatives.

PRIORITIES	LEADING INITIATIVES	FISCAL 2008 ACHIEVEMENTS
Provide an amazing customer experience	<ul style="list-style-type: none"> <li>• Continue to focus on product improvements to enhance product reliability</li> <li>• Continue to expand network of regional support offices for regional aircraft customers</li> <li>• Ongoing improvement of business jet interior completion cycle time</li> <li>• Continue parts availability and regional depot inventory optimization plan</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated customer response centres in Montréal and Wichita for business aircraft customers with Aircraft on the Ground (AOG)</li> <li>• Inaugurated new spare parts depots in Brazil and Japan</li> <li>• Reduced cycle time and improved on-time delivery on most aircraft programs</li> <li>• Improved overall parts availability and delivery performance</li> </ul>
Reduce operating costs through lean manufacturing/waste elimination	<ul style="list-style-type: none"> <li>• Further deploy and integrate lean manufacturing principles at pilot facilities in Belfast, Saint-Laurent and Mirabel</li> <li>• Deploy joint multidisciplinary teams with suppliers</li> <li>• Establish on-site intervention teams to help suppliers recover from supply difficulties when needed</li> </ul>	<ul style="list-style-type: none"> <li>• Created a multi-site supplier development team for commodities presenting high operational risk</li> <li>• Continued to invest in new technologies to increase productivity and quality, and reduce costs</li> <li>• Signed long-term agreements with suppliers to limit Bombardier Aerospace's exposure to price fluctuations and to ensure supply availability</li> </ul>
Engage all employees and provide a safe and rewarding workplace	<ul style="list-style-type: none"> <li>• Achieve Bronze level certification for 100% of work cells, and Silver level qualification for 90%</li> <li>• Hold ongoing talent management discussions as part of Aerospace's succession planning and governance process</li> <li>• Reduce accident frequency ratio to 1.1 per 200,000 hours worked and severity ratio to 32 days lost time per 200,000 hours worked</li> </ul>	<ul style="list-style-type: none"> <li>• Increased Bronze level certification from 62% to 94% of all employees in Achieving Excellence program</li> <li>• Improved initiatives to streamline the Annual Leadership Review process and increased focus on talent discussion</li> <li>• Reduced accident frequency ratio to 1.23 per 200,000 hours worked, from 1.53 last year (was 5.28 in 2000; best in class is 0.3)</li> </ul>

# TRANSPORTATION

More than ever before, the climate is right for trains. As the world embraces the principles of sustainable development and mobility, rail transit — the most sustainable mode of public transport — is attracting unprecedented public and private investment across geographic markets and product lines. During the year, Bombardier Transportation continued to make gains in this positive environment with innovative rail solutions that help transit operators attract riders and deliver superior, cost-effective service.



## Momentum in Europe and North America

We continued to maintain our leadership in established rail markets by moving beyond the supply of basic equipment, to deliver specialized solutions that anticipate the customer's specific needs. In Germany, for example, an agreement for our next-generation *TALENT 2* commuter trains will provide national rail operator Deutsche Bahn with one of the industry's most flexible vehicle platforms ever. *TALENT 2* features unrivalled adaptability, enabling the customer to reconfigure and redeploy vehicles in parallel with the national network's evolving needs.

In France, Bombardier rolled out the world's first bi-modal, bi-electric train. AGC "bi-bi" technology makes seamless rail transport across France's diverse rail infrastructure a reality — an important objective for French national rail operator SNCF. In addition to its order for hybrid AGC trains, SNCF made multiple firm orders for our standard AGC trains, underscoring the added value this product now brings to France.

In North America, the quality of fleet maintenance services we have provided to Toronto's GO Transit for the past decade enabled us to win a new fleet operations contract. GO Transit, one of the continent's largest public transit systems, also signalled its confidence in Bombardier by awarding a separate contract to

continue providing maintenance services for its fleet. In Montréal, a deal for Bombardier multilevel commuter coaches, specially designed to operate within tight infrastructure constraints common to older lines, will help Agence métropolitaine de transport expand capacity on its network.

## Emerging markets fuel the future

We are complementing our progress in legacy markets by building and leveraging our presence in emerging ones. For the Russian market, we established new joint ventures in engineering and production of propulsion technology with rail equipment supplier Transmashholding, augmenting a long-standing signalling joint venture with another Russian partner. In China and India, our long-term focus on market development is beginning to yield results. Along with our Chinese local joint venture partners, we won prominent contracts across a number of product lines, including a landmark deal for high-speed trains that represents the single largest order for rail passenger cars in Chinese history. In India, breakthrough orders for *MOVIA* metro cars and a *CITYFLO 350* signalling system indicate that our market development strategies are indeed taking root.

# FISCAL 2008 HIGHLIGHTS

- New orders of \$11.3 billion, for a solid book-to-bill ratio of 1.5
- Backlog of \$30.9 billion
- Strong orders across traditional and emerging markets, and across all product lines
- Revenue growth of 18% to reach \$7.8 billion
- EBIT before special items of \$339 million for a margin of 4.4%

**\$11.3 billion**

**New orders**

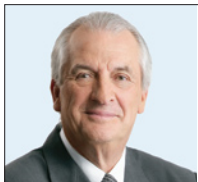
**\$30.9 billion**

**Record backlog**

At Bombardier Transportation, the strategic goals are to maintain our global market leadership while generating sustainable and profitable growth. To attain these goals, we focus on the following four priorities:

PRIORITIES	LEADING INITIATIVES	FISCAL 2008 ACHIEVEMENTS
Flawless execution	<ul style="list-style-type: none"> <li>• Ramp up of project management, engineering and production resources necessary to execute record order backlog of more than \$30 billion on time, on budget and with high quality</li> <li>• Continue to expand project margins and enhance overall quality of order backlog, focussing on engineering, procurement, manufacturing and project management</li> </ul>	<ul style="list-style-type: none"> <li>• Improved on-time and on-quality delivery, e.g.: first 300 AGC cars delivered with reliability beyond initial expectations; Beijing APM completed only 18 months after contract signing, on time for the 2008 Olympics</li> <li>• Deployed 2,400 new staff across business critical functions – operations, engineering, quality and project management – to build capacity for delivery of record order backlog</li> </ul>
Profitable growth	<ul style="list-style-type: none"> <li>• Continue to penetrate emerging markets with focus on Russia, India and China</li> <li>• Improve order backlog profitability through more efficient and selective bid capture activities</li> <li>• Achieve a sustainable book-to-bill ratio above 1.0</li> </ul>	<ul style="list-style-type: none"> <li>• Achieved strong order intake of \$11.3 billion across all geographies, with a book-to-bill ratio of 1.5</li> <li>• Reached key milestones in new market development: Russia – two joint ventures in propulsion equipment; India – metro cars and signalling system contracts; China – first contract for high-speed trains using <i>ZEFIRO</i> technology</li> <li>• Achieved revenue growth of 18%</li> </ul>
Value-based solutions	<ul style="list-style-type: none"> <li>• Develop and intensify proactive customer relationships to anticipate evolving customer needs</li> <li>• Develop and package value-added solutions to market innovations</li> </ul>	<ul style="list-style-type: none"> <li>• Successfully introduced innovative solutions: <i>TALENT 2</i> regional and commuter trains can be reconfigured to changing operational requirements; AGC “bi-bi,” the world’s first hybrid train</li> <li>• Won several awards, highlighting the unique value proposition of the Transportation fleet</li> <li>• Continued to develop <i>ORBITA</i>, a breakthrough real-time monitoring system for predictive and corrective maintenance</li> </ul>
Increased focus	<ul style="list-style-type: none"> <li>• Develop sophistication of bid targeting processes to better prioritize contract opportunities</li> <li>• Execute continuous reviews of projects in production to maximize value creation and reduce risk</li> </ul>	<ul style="list-style-type: none"> <li>• Improved success rate on bids, thanks to more focused tender selection</li> <li>• Refocused U.K. Services business on fleet management and support, by exiting low-end vehicle refurbishment activities</li> </ul>

# Our qualified members


**LAURENT BEAUDOIN, C.C., FCA**

Chairman of the Board and  
Chief Executive Officer of Bombardier Inc.  
Westmount, Canada  
Director since 1975 • Not independent

Mr. Laurent Beaudoin began his career with Bombardier in 1963. Over the years, he has received many honours, including Canada's Outstanding CEO of the Year and Canada's International Executive of the Year. He is a member of the International Business Council of the World Economic Forum. He is also the Chairman of Bombardier Recreational Products Inc.


**PIERRE BEAUDOIN**

President and Chief Operating Officer of  
Bombardier Aerospace  
Executive Vice President of Bombardier Inc.  
Westmount, Canada  
Director since 2004 • Not independent

Mr. Pierre Beaudoin joined Bombardier in 1985, rising through management positions of increasing responsibilities before becoming President and COO of Bombardier Recreational Products and, subsequently, President of Bombardier Aerospace, Business Aircraft. He is a member of the Boards of Directors of Power Corporation of Canada and Bombardier Recreational Products Inc.


**ANDRÉ BÉRARD**

Corporate Director  
Montréal, Canada  
Director since 2004  
Lead Director since 2007  
Independent

Mr. André Bérard was Chairman of the Board of National Bank of Canada from 2002 to 2004. He previously served as the Bank's President and COO (1986 to 1989), President and CEO (1989), and Chairman of the Board and CEO (1990 to 2002). He also serves on other boards.


**J.R. ANDRÉ BOMBARDIER**

Vice Chairman of the Board of Bombardier Inc.  
Montréal, Canada  
Director since 1975 • Not independent

Mr. J.R. André Bombardier joined Bombardier in 1969 as Vice President, Industrial Division. He held several positions before assuming the Vice Chairmanship of Bombardier Inc. in 1978. He is a member of the Board of Directors of Bombardier Recreational Products Inc.


**JANINE BOMBARDIER**

President and Governor  
J. Armand Bombardier Foundation  
Westmount, Canada  
Director since 1984 • Not independent

Mrs. Janine Bombardier is a Governor of the J. Armand Bombardier Foundation since March 27, 1965, and its President since August 21, 1978.


**L. DENIS DESAUTELS, O.C., FCA**

Corporate Director  
Ottawa, Canada  
Director since 2003 • Independent

Auditor General of Canada from 1991 to 2001, Mr. L. Denis Desautels was previously a senior partner in the Montréal office of Ernst & Young, where he worked for 27 years. He is Vice Chairman of the Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants. He also serves on other boards.





**JEAN-LOUIS FONTAINE**

Vice Chairman of the Board of Bombardier Inc.  
Westmount, Canada  
Director since 1975 • Not independent

Mr. Jean-Louis Fontaine joined Bombardier in 1964 as Vice President, Production, of the Ski-Doo division. He subsequently held various senior management positions before becoming Vice Chairman of Bombardier Inc. in 1988. He also serves on other boards.



**JANE F. GARVEY**

Executive Vice President and Chairman,  
Transportation Practice  
APCO Worldwide, Inc.  
Washington, D.C., United States  
Director since 2007 • Independent

Ms. Jane F. Garvey has been Executive Vice President and Chairman of the Transportation Practice of APCO Worldwide, Inc. since 2003. She was the first ever five-year term administrator of the US Federal Aviation Administration (FAA) between 1997 and 2002. She also serves on other boards.



**DANIEL JOHNSON**

Counsel  
McCarthy Tétrault LLP  
Montréal, Canada  
Director since 1999 • Independent

A former Prime Minister of the Province of Québec, Mr. Daniel Johnson was a member of the National Assembly of Québec for more than 17 years and held numerous positions in the provincial government. He also serves on the boards of other companies.



**JEAN C. MONTY**

Corporate Director  
Montréal, Canada  
Director since 1998 • Independent

Former Chairman of the Board and Chief Executive Officer of Bell Canada Enterprises (BCE Inc.), Mr. Jean C. Monty retired following a 28-year career at BCE Inc., Bell Canada and Nortel Networks. In recognition of his achievements, he was named Canada's Outstanding CEO of the Year in 1997. He also serves on other boards.



**ANDRÉ NAVARRI**

President of Bombardier Transportation  
Executive Vice President of Bombardier Inc.  
Paris, France  
Director since 2004 • Not independent

Mr. Navarri was President of Operations, Alcatel, a supplier of telecom equipment; Chairman and CEO at Valeo, an automotive parts maker; and President of the Transport Sector of Alstom. Since 2004, he has been the Chairman of the Association of the European Railways Industries (UNIFE).



**CARLOS E. REPRESAS**

Chairman of the Board  
Nestlé Group México  
Mexico City, Mexico  
Director since 2004 • Independent

Mr. Carlos E. Represas has been Chairman of Nestlé Group México since 1983. In 2004, he retired from his executive responsibilities at Nestlé, where he had worked for 36 years in seven different countries. He serves on other boards and is a member of the Latin American Business Council (CEAL).



**JEAN-PIERRE ROSSO**

Chairman of World Economic Forum USA Inc.  
New York City, United States  
Director since 2006 • Independent

Retired Chairman and former CEO of CNH Global N.V., Mr. Rosso also served as Chairman and CEO of Case Corporation. Prior to that, he was President of Honeywell's Home & Building Control Business, and President of its European operations. He also serves on other boards.



**FEDERICO SADA G.**

President and Chief Executive Officer  
Vitro, S.A. de C.V.  
Garza, Mexico  
Director since 2003 • Independent

Mr. Federico Sada G. joined Vitro, S.A. de C.V. in 1974, and was appointed President and CEO in 1994. He serves on other boards and sits on the International Business Council of the World Economic Forum, and the World Business Council for Sustainable Development.



**HEINRICH WEISS**

Chairman and Chief Executive Officer  
SMS GmbH  
Düsseldorf, Germany  
Director since 2005 • Independent

Dr. Weiss is Chairman of the Foreign Trade Advisory Council to the German Secretary of Economics and Labour; is a Board member of the Asia Pacific Committee of German Business; and sits on the Board of the East-West Trade Committee. He also serves on other boards.

**You will find detailed biographies of our Directors on our website at [www.bombardier.com](http://www.bombardier.com) and in the 2008 Management Proxy Circular.**

# Supporting communities

Well-being and community development have been the cornerstones of the work of the J. Armand Bombardier Foundation since 1965. Through the many organizations it supports, the Foundation lights the spark needed to realize projects that bring hope, mutual aid and change.

## Highlights

During the 2008 fiscal year, the J. Armand Bombardier Foundation donated more than \$6.3 million Cdn, a 16% increase over the preceding year, and 33% more than in fiscal 2006. The Foundation also added 21 new organizations to its list of recipients, whose number now totals 152. The Foundation continues its involvement in Canadian communities by supporting causes principally in the fields of education, community support, health, as well as arts and culture.



### Education

The driving force of every society

\$1.9 million Cdn

#### Contributions of \$1.9 million Cdn to seven Canadian universities and several institutions, including:

- Association francophone pour le savoir
- Fonds de développement du Collège Édouard-Montpetit
- Fonds de développement du Collège Jean-de-Brébeuf
- University of British Columbia
- McGill University

#### Commitment to contribute \$2.4 million Cdn to 11 Canadian institutions over the next four years, including:

- Fondation du Cégep de La Pocatière
- École Polytechnique de Montréal
- HEC Montréal
- University of Montréal
- University of Sherbrooke



### Community support

A hug and a helping hand

\$1.8 million Cdn

#### Contributions of \$1.8 million Cdn to 109 organizations, including:

- **Dr. Clown**—Improvement in the quality of life of hospitalized patients through therapeutic clown programs that combine bonding, games and the imagination
- **Au Diapason palliative team**—Creation of a palliative care residence that aims to provide a comforting and supportive environment for people who are at the end of their life, and for their families
- **Butters Foundation**—Creation of the J. Armand Bombardier Farm, a home for people living with an intellectual disability or a pervasive developmental disorder
- **Montreal YWCA Foundation**—Literacy program *ABC en famille* aimed at preventing illiteracy

Bombardier has supported the J. Armand Bombardier Foundation since its inception and this year donated \$5 million Cdn. Philanthropy is not the only aspect of the vision Bombardier has of what makes a good corporate citizen. Labour standards, the environment and anti-corruption are other examples of spheres which Bombardier considers important, as demonstrated by our signing the United Nations Global Compact in spring 2007.

That same year, we also made a formal commitment to develop a strategic approach to advance Bombardier's economic viability, environmental stewardship and social responsibility. Our commitment rests on three pillars: excellence, people and environment.

We intend to publish a first report giving a detailed portrait of Bombardier's commitment to corporate responsibility by the end of 2008.

Violence affecting families is a problem that has considerable repercussions on communities. During the past year, the J. Armand Bombardier Foundation paid particular attention to organizations working with women and children who are victims of violence:

- Maison l'Escargot
- La Traversée
- L'Autre escale
- Trêve pour elles
- Horizon pour elle
- La Maison Marguerite de Montréal
- Le Parados
- Maison Secours aux femmes de Montréal
- West Island Women's Shelter
- Répit Providence

**Commitments totalling \$646,000 Cdn over the next three years. Among them:**

- **Fondation du maire de Montréal pour la jeunesse**—Grants promoting entrepreneurship amongst young Montrealers
- **Old Brewery Mission**—Programs aimed at reducing the number of itinerants and helping the homeless

**Centraide—United Way**

For several years, the Foundation, in concert with the Bombardier family, has been supporting the efforts of Bombardier employees who collect funds for the annual Centraide—United Way campaigns. This year, more than \$1.5 million Cdn was remitted to the following regions: Greater Montréal, Estrie, Laurentides, Portage-Taché, Greater Toronto and Kingston-Frontenac-Lennox. The funds will help some 850 Canadian organizations.



**Arts and culture**  
A collective wealth

**\$1.5 million Cdn**

**Contributions of \$1.5 million Cdn to 17 organizations, including:**

- Corporation de l'Observatoire du Témiscouata
- Saint Joseph's Oratory Foundation
- Montreal Museum of Fine Arts Foundation
- Fondation du Théâtre du Nouveau Monde
- Fondation du Théâtre du Rideau Vert



**Health**  
A commitment for life

**\$1.1 million Cdn**

**Contributions of \$1.1 million Cdn to 17 organizations and health care institutions, including eight hospitals. Among them:**

- Fondation Armand-Frappier
- Fondation du Centre hospitalier universitaire de Québec
- Fondation Hôtel-Dieu de Saint-Jérôme
- Sherbrooke Geriatric University Institute—CSSS

**Commitment to contribute nearly \$1.5 million Cdn to health care over the next four years will include:**

- Sherbrooke University Hospital Centre
- Douglas Mental Health University Institute Foundation

# A tradition of ingenuity

Behind every new product and at every strategic turn, ingenuity drives Bombardier forward. Powering a steady stream of innovations. Producing more advanced customer solutions. And boldly transforming every challenge into an extraordinary opportunity. This is our history. This, too, is our future.

## 1963



In the year Laurent Beaudoin joins the company as Comptroller, Bombardier sells 8,210 of its signature snowmobiles. He's appointed General Manager following the founder Joseph-Armand Bombardier's death in 1964, and President in 1966.



A young and dynamic management team, averaging just 30 years of age, is determined to take North America by storm. Battling more than 100 competitors, the team's ambitious R&D program and aggressive promotion drive sales from 23,000 units in 1965-66 to 210,000 units by 1971-72.

## 1974



When the 1973 oil crisis forces Bombardier to halve production, management responds strategically, bidding on and winning in May 1974 an order for 423 subway cars for the Montréal system's expansion. The company reorganizes and retools, delivering the first cars in July 1976— in time for the Montréal Olympics.

## 1982



Bombardier comes of age as a transit equipment manufacturer with its landmark bid to New York City's Metropolitan Transit Authority. Described at the time as "the mass transit equipment deal of the century," the 825-car, \$1-billion order was the biggest export contract ever awarded to a Canadian manufacturer.

## 1986



Bombardier diversifies again, this time entering the aerospace industry. It acquires Canadair, a leading Canadian aircraft manufacturer with a product portfolio that includes the *Challenger* widebody business jet and the *CL-215* amphibious aircraft.

## A PASSIONATE BUILDER

Early training as an accountant has served Laurent Beaudoin exceedingly well. For the passion he applied to building Bombardier was always tempered with prudence. The numbers added up, the risks were well calibrated. But ultimately it was his vision that drove everything—and *everyone*—forward.

Now, as Laurent Beaudoin retires as CEO after 45 years at Bombardier, it is worth recalling that his greatest passion has always been for products that work well, for the marvels of engineering and craftsmanship that are Bombardier's celebrated planes and trains.

A man of few words, Laurent Beaudoin prefers to express himself through the bold action of an entrepreneur. He has faith in young people—he was, after all, just 24 when he joined Bombardier. He believes that customers deserve the best. And he has an infectious and abiding confidence in Bombardier's employees and its products. An ardent builder, Laurent Beaudoin ranks among the visionary pioneers of Canadian business.



**LAURENT BEAUDOIN, C.C., FCA**  
Chairman of the Board  
and Chief Executive Officer  
Bombardier Inc.

### 1989



Throughout the 1980s, the company acquires rail assets in Europe, the world's largest rail market, as well as in North America. As a result of these and other strategic acquisitions, Bombardier developed two distinctive businesses—in rail transportation and aerospace, complementing its recreational products business.



The launch of the 50-seat *Canadair Regional Jet (CRJ)* program revolutionizes regional air travel. In subsequent years, Bombardier launches 70-, 86- and 100-seat versions to build the world's most successful regional aircraft program. Bombardier makes strategic acquisitions in aerospace, starting with aviation pioneer Short Brothers in



Northern Ireland (1989), which celebrates its 100th anniversary in 2008. It adds legendary American business jet maker Learjet to its portfolio (1990), and follows with the *Dash 8* regional turboprop (now the *Q-Series*) Canadian manufacturer de Havilland (1992). The strategy pays off, as Bombardier soon vaults into third place among civil aircraft manufacturers.

### 2001



With the acquisition of German rolling stock manufacturer Adtranz, Bombardier becomes the world's rail industry leader, growing its worldwide presence and completing its product portfolio. Bombardier is now able to compete in every industry category, offering customers a full range of integrated solutions.

### today...



With two equal-size businesses in aerospace and rail transportation, Bombardier continues to attract customers with its cutting-edge ideas and technologies. To date, Bombardier has delivered more than 2,200 world-leading regional aircraft, 3,400 business jets, and 100,000 rail vehicles—all backed by extensive customer service. As for tomorrow... stay tuned!

# Financial section

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# Management's Discussion and Analysis

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

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## Forward-looking statements

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

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with the Corporation's business environment (such as the financial condition of the airline industry), operational risks (such as risks associated with

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

# OVERVIEW

The following discussion and analysis is the responsibility of Management and has been reviewed and approved by the Board of Directors. This MD&A has been prepared in accordance with the requirements of securities regulators. 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 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 for issuance to shareholders.

The data presented in this MD&A is structured by manufacturing segment: Aerospace (“BA”) and Transportation (“BT”), which is consistent with internal reports presented and reviewed by Management. Some financial measures referred to in this MD&A are not in accordance with Canadian generally accepted accounting principles (“GAAP”) financial measures. See the Non-GAAP financial measures section hereafter for details on the reconciliation to the most comparable GAAP measures.

The table below summarizes the most relevant key performance measures and related metrics. Management views special items as potentially distorting the analysis of trends, and as such they are excluded from the profitability metrics. Management’s incentive compensation is linked to the achievement of targeted results, based on earnings (loss) before financing income, financing expense and income taxes (“EBIT”) and either free cash flow or average net segmented assets.

<b>Profitability</b>	<ul style="list-style-type: none"> <li>Earnings per share (“EPS”) from continuing operations before special items, as a measure of consolidated performance.</li> <li>EBIT before special items, as a measure of segment performance.</li> </ul>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>Free cash flow, as a measure of liquidity generation.</li> <li>Cash and cash equivalents, in relation to historical volatility and seasonal needs, the maturity profile of indebtedness, access to capital markets and the level of customer advances and progress billings in excess of related costs, as a measure of liquidity adequacy.</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>Order backlog, as a measure of future revenue growth.</li> <li>Book-to-bill ratio<sup>(1)</sup>, as an indicator of future revenue growth.</li> <li>Market share<sup>(1)</sup> and scale, as measures of competitive positioning.</li> </ul>
<b>Capital structure</b>	<ul style="list-style-type: none"> <li>Adjusted EBIT to adjusted net interest ratio<sup>(2)</sup>, as a measure of interest coverage.</li> <li>Adjusted debt to adjusted EBIT before depreciation and amortization (“EBITDA”) ratio<sup>(2)</sup>, as a measure of financial leverage.</li> <li>Adjusted debt to adjusted total capitalization ratio<sup>(2)</sup>, as a measure of capitalization.</li> <li>Weighted-average long-term debt maturity, as a measure of the term structure.</li> </ul>
<b>Capital employed</b>	<ul style="list-style-type: none"> <li>Average net segmented assets<sup>(1)</sup>, as a measure of capital efficiency.</li> </ul>

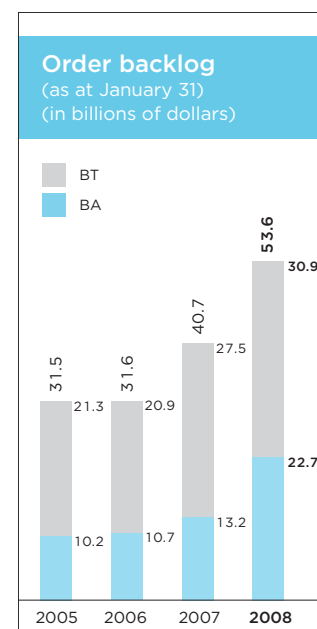
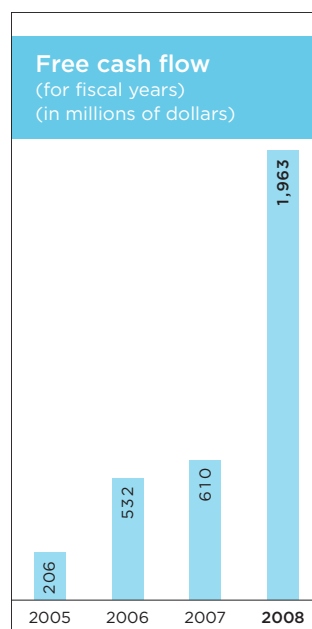
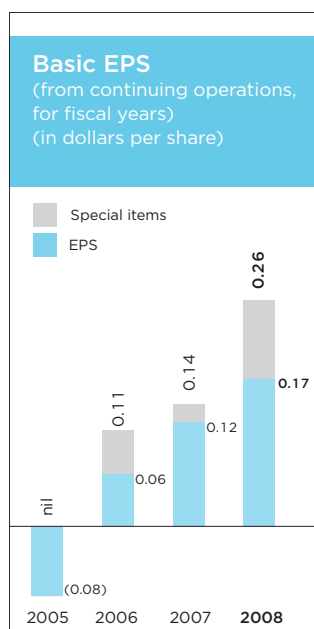
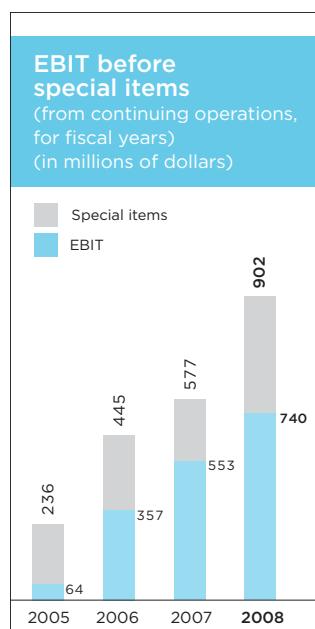
<sup>(1)</sup> Refer to BA’s and BT’s Strategies and capability to deliver results sections for definitions of these metrics.

<sup>(2)</sup> Refer to Strategy priority: Improve capital structure discussion hereafter for definitions of these metrics.

## Materiality for disclosures

Management determines if information is material based on whether it believes a reasonable investor’s decision to buy, sell or hold securities in the Corporation would likely be influenced or changed if the information were omitted or misstated.





FISCAL YEAR 2008

Revenues

**\$17.5**  
billion

EPS before special items

**\$0.26**

Free cash flow

**\$2.0**  
billion

JANUARY 31, 2008

Order backlog

**\$53.6**  
billion

## HIGHLIGHTS

### Fourth quarter

- Revenues of \$5.3 billion, an improvement of 19% compared to the same period last fiscal year.
- EBIT of \$305 million, or 5.8% of revenues, compared to \$244 million, or 5.5%, for the same period last fiscal year.
- Net income of \$218 million (\$0.12 per share), compared to \$112 million (\$0.06 per share) for the same period last fiscal year.
- Free cash flow of \$924 million after payment of discretionary pension fund contributions totalling \$260 million, compared to \$1.1 billion for the same period last fiscal year.
- Repayment of \$1.0 billion of long-term debt in January 2008.

### Fiscal year

- Revenues of \$17.5 billion, an improvement of 18% compared to last fiscal year.
- EBIT from continuing operations before special items of \$902 million, or 5.2% of revenues, compared to \$577 million, or 3.9%, last fiscal year. EBIT from continuing operations of \$740 million, or 4.2% of revenues, compared to \$553 million, or 3.7%, last fiscal period.
- EPS from continuing operations before special items of \$0.26, compared to \$0.14 last fiscal year, and diluted EPS of \$0.16, compared to \$0.14 last fiscal year.
- Free cash flow of \$2.0 billion, an improvement of \$1.4 billion compared to last fiscal year.
- Strong cash position of \$3.6 billion as at January 31, 2008, after long-term debt repayments of \$1.1 billion and payment of discretionary pension fund contributions totalling \$384 million.
- On April 1, 2008, an agreement was reached in connection with the Metronet long-term contracts, which resulted in a reduction of \$2.6 billion of the order backlog. The carrying value of the investment in Metronet was already written off in the second quarter of fiscal year 2008, resulting in a special item of \$162 million.
- Order backlog at a record level of \$53.6 billion as at January 31, 2008, an increase of \$12.9 billion compared to January 31, 2007 despite the Metronet adjustment.

## PROFILE

Bombardier Inc. is a world-leading manufacturer of innovative transportation solutions operating under two manufacturing segments: BA and BT. The Corporation had a global workforce of approximately 60,000 employees as at January 31, 2008.

### BA

BA is a world leader in the design and manufacture of innovative aviation products and is a provider of related services. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets (the latter being subject to the launch of the *CSeries* aircraft program) and amphibious aircraft. BA also offers aftermarket services as well as fractional ownership and flight entitlement programs.

### BT

BT is the global leader in the rail equipment and system manufacturing and a provider of related services, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

## STRATEGIES AND CAPABILITY TO DELIVER RESULTS

### Core values

The Corporation is seeking to be the world-leading manufacturer in its markets. The Corporation is committed to create value for its shareholders by providing superior value and service to its customers through investment in its people and products. The Corporation leads through innovation and outstanding product safety, efficiency and performance, and has high standards. All of the Corporation's policies stem from its core values. These common values must therefore inspire all its actions and decisions and provide a benchmark for everyone. The Corporation's core values are integrity, commitment to excellence, customer orientation and shareholder focus.

### STRATEGIES

Guided by its core values, the Corporation's main objective is to create value for its shareholders through the development and the manufacture of innovative and profitable transportation solutions that meet customer demand. Both BA and BT are delivering on this objective, as demonstrated by the increasing EBIT before special items and free cash flow, while building for the future with record levels of order backlog and the launch of several new promising products. The Corporation has also made significant progress in improving its capital structure.

The Corporation believes that it is well positioned to improve its credit profile in the near term from its current speculative grade status to an investment grade status. This would also contribute to create shareholder value, since it would improve the Corporation's cost of funds, provide terms and conditions with greater flexibility and increase credit availability. With an investment grade rating, the Corporation would therefore be in a better position to take advantage of new strategic opportunities, thus further creating value over the long term.

To realize its main objective of creating shareholder value, the Corporation focuses on the following strategic priorities:

#### Improve long-term profitability

Increase the level and consistency of profitability.

#### Maintain strong liquidity

Ensure sufficient capacity to meet working capital requirements, capital expenditures and other short-term capital structure requirements.

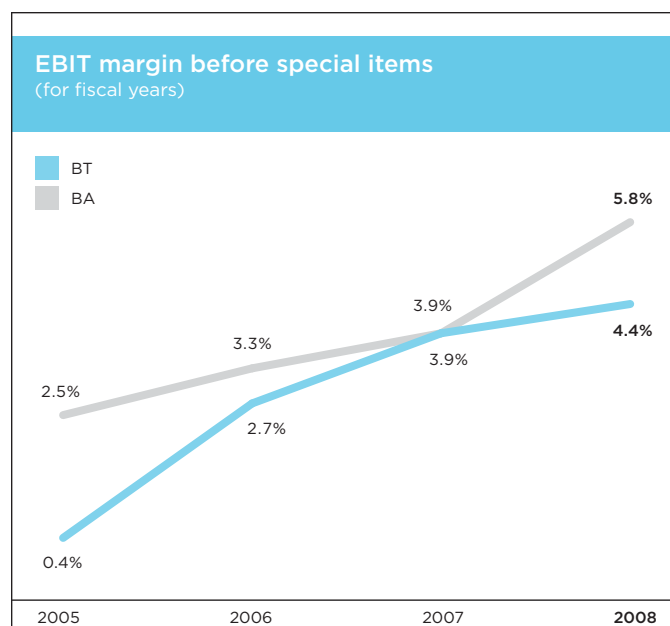
#### Improve capital structure

Optimize the capital structure to reduce costs and improve ability to seize strategic opportunities.

## STRATEGIC PRIORITY: Improve long-term profitability

The level and consistency of profitability are key considerations for both investors and creditors of any business. Since fiscal year 2005, the improvement in EPS from continuing operations before special items has been significant, mainly driven by increased profitability across both manufacturing segments.

Each segment sets its own EBIT target based on its respective risk profile. BA requires more investment in segmented assets, as aircraft program development requires significant initial investment. While BT's products are also advanced technologically, they do not require the same level of initial investment in segmented assets. In addition, its research and development activities generally have a lower risk profile than those of BA. The EBIT target for each group reflects this economic reality.



### Improve long-term profitability

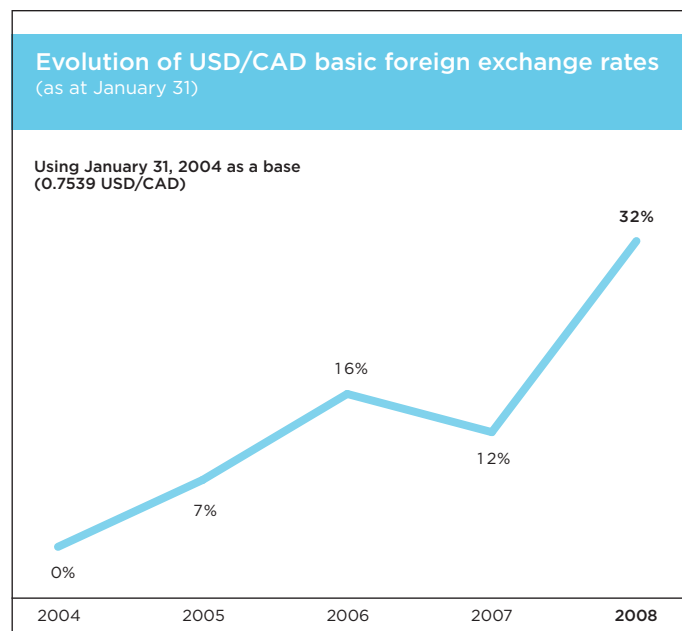
<b>Goal</b>	<p>Increase the level and consistency of profitability:</p> <ul style="list-style-type: none"> <li>• BA to achieve EBIT margin of 8% by fiscal year 2009;</li> <li>• BT to achieve EBIT margin of 6% by fiscal year 2010; and</li> <li>• Maintain and improve these EBIT margins over the long term.</li> </ul>
<b>Leading initiatives</b>	<ul style="list-style-type: none"> <li>• Continue to implement profitability improvement initiatives, such as BA's Achieving Excellence program and lean manufacturing/waste elimination, as well as BT's TOPSIX transversal program. Refer to BA's and BT's Strategies and capability to deliver results sections for more details on these initiatives.</li> <li>• Closely monitor the evolution of foreign exchange rates and continue to implement risk-mitigation strategies to minimize the impact of unfavourable fluctuations.</li> </ul>
<b>Fiscal year 2008 highlights</b>	<ul style="list-style-type: none"> <li>• Improved BA's EBIT margin to 5.8%, from 3.9% last fiscal year.</li> <li>• Improved BT's EBIT margin before special items to 4.4%, from 3.9% last fiscal year.</li> <li>• Increased EPS from continuing operations before special items to \$0.26, from \$0.14 last fiscal year.</li> </ul>

The improvements in profitability have been realized despite the negative impact of foreign exchange on BA's results, mainly due to the weakening of the U.S. dollar versus the Canadian dollar over the last four fiscal years, notably in fiscal year 2008. In order to mitigate this risk, BA uses forward foreign exchange contracts to partially cover foreign currency exposures arising from expected costs denominated in Canadian dollar and pound sterling. Foreign currency exposures are managed in accordance with the Corporation's foreign exchange policy and procedures (refer to Risk management section hereafter). The Corporation is maintaining its EBIT targets, despite the expected negative future impact arising from the recent increase in the Canadian dollar and the continuous roll out of the hedging program.

The Corporation will maintain its focus on the improvement of long-term profitability and believes it is in a good position to meet those targets within the expected timeline.

### STRATEGIC PRIORITY: Maintain strong liquidity

The Corporation's liquidity is comprised solely of cash and cash equivalents as the current bank credit facility is available exclusively for the issuance of letters of credit. The Corporation is also required to maintain an invested collateral of €869 million (\$1.3 billion) under this facility. The Corporation's cash and cash equivalents have improved since January 31, 2005, to reach \$3.6 billion as at January 31, 2008, on the strength of increased profitability, a higher level of customer advances and the improved management of net segmented assets.



The level of liquidity can vary significantly from quarter to quarter based on the number of aircraft deliveries and on the level and timing of customer advances. The fourth quarter has historically been the strongest in terms of revenues, profitability and free cash flow. Liquidity adequacy is therefore continually monitored, taking into consideration historical volatility and seasonal needs, the maturity profile of indebtedness and access to capital markets. The Corporation also ensures that the level of liquidity is commensurate with the level of customer advances and progress billings in excess of related costs.

#### Maintain strong liquidity

<b>Goals</b>	<ul style="list-style-type: none"> <li>• Ensure sufficient capacity to meet working capital requirements, capital expenditures and other short-term requirements.</li> <li>• Generate free cash flow in line with net income.</li> </ul>
<b>Leading initiatives</b>	<ul style="list-style-type: none"> <li>• Execute profitability improvement initiatives at BA and BT.</li> <li>• Continue proactive approach to cash deployment to ensure a sufficient level of liquidity to fund growth initiatives such as new product developments.</li> <li>• Maximize investment returns within a minimal level of risk target.</li> <li>• Pursue risk-sharing arrangements for projects requiring substantial funding.</li> </ul>
<b>Fiscal year 2008 highlights</b>	<ul style="list-style-type: none"> <li>• Strong cash position of \$3.6 billion as at January 31, 2008, largely exceeding expected liquidity requirements.</li> <li>• Generated strong free cash flow of \$2.0 billion for fiscal year 2008, compared to \$317 million in net income.</li> </ul>

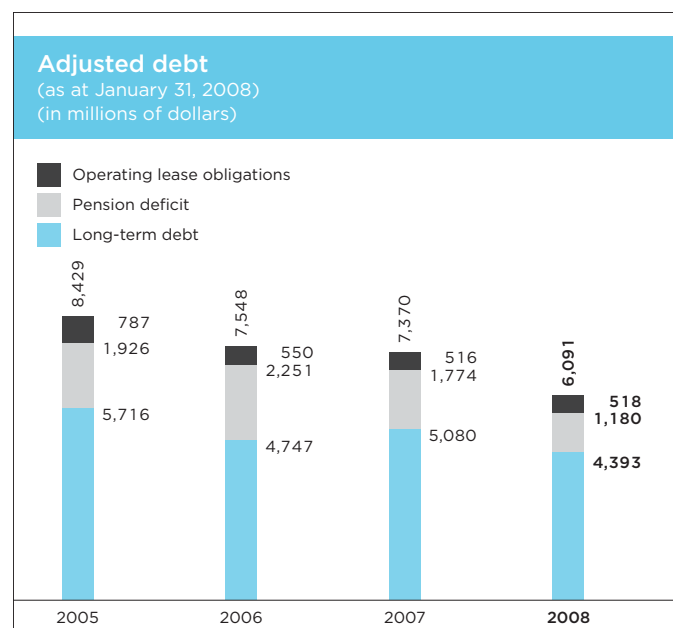
Given its current cash position, and the strict management of net segmented assets, its investment policy, and the absence of debt maturities in the near term, the Corporation considers that its exposure to liquidity risk is not significant and that the strategy in place will continue to minimize this exposure.

## STRATEGIC PRIORITY: Improve capital structure

In addition to the previously mentioned operational objectives of improving long-term profitability and maintaining strong liquidity, the Corporation's focus is directed at improving its capital structure. The Corporation resumed its efforts in this respect in fiscal year 2008 and is expecting to continue to do so over the coming periods.

The capital structure ensures the ability to support liquidity needs as well as longer-term strategic investments. The Corporation monitors its capital structure using global leverage metrics, which are based on a broad economic view of the Corporation, taking into consideration the total pension deficit, including the off-balance sheet portion, and the net present value of operating lease obligations in the definition of indebtedness.

Some financial contractual agreements require standard leverage metrics based on published and audited Consolidated Financial Statements, sometimes analyzed on a net basis (net of cash and cash equivalents) where relevant to a specific contractual context. The Corporation regularly monitors these ratios to ensure that all contractual covenants are met. However, the focus of the Corporation is more on the global leverage metrics, as they represent the key metrics Management uses to analyze its capital structure. The following global leverage metrics do not represent the calculations required for bank covenants.

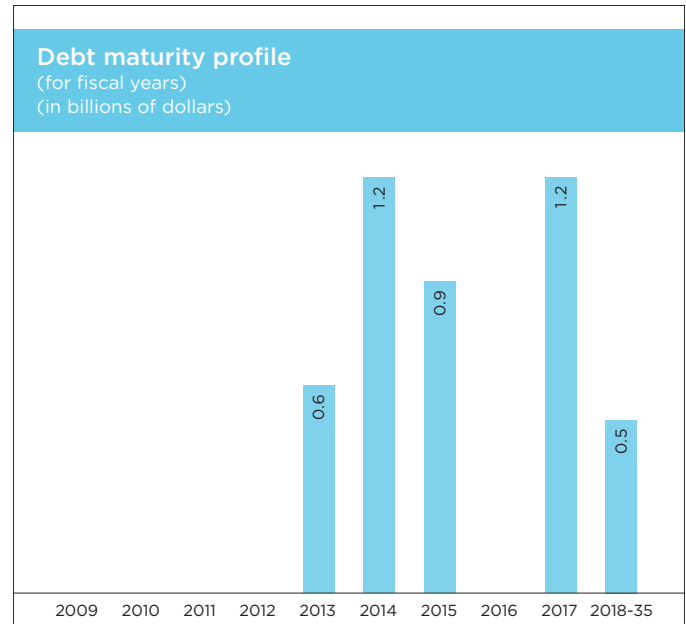
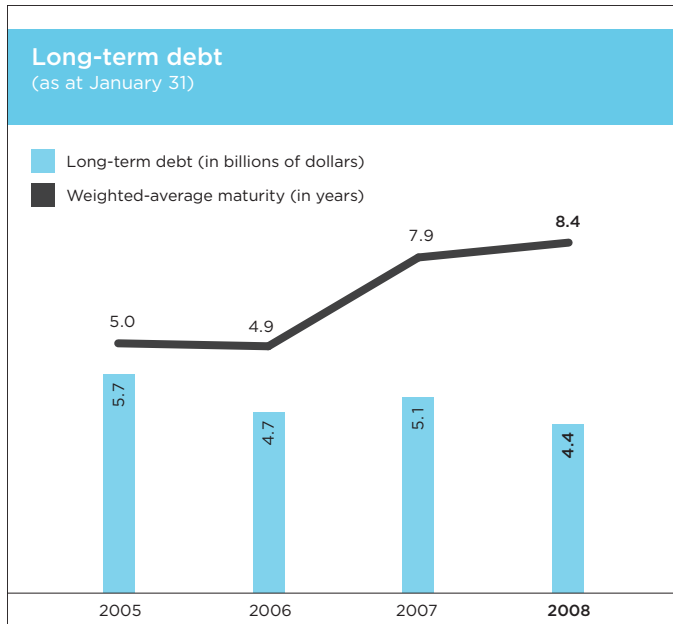


### Global leverage metrics<sup>(1)</sup>

	Target 2009-11	Actual 2008	Actual 2007
Adjusted EBIT		\$ 1,013	\$ 760
Adjusted net interest		\$ 412	\$ 401
<b>Adjusted EBIT to adjusted net interest ratio (for fiscal years)</b>	5.0	2.5	1.9
Adjusted debt		\$ 6,091	\$ 7,370
Adjusted EBITDA		\$ 1,583	\$ 1,335
<b>Adjusted debt to adjusted EBITDA ratio (as at January 31)</b>	2.5	3.8	5.5
Adjusted debt		\$ 6,091	\$ 7,370
Adjusted total capitalization		\$ 9,209	\$ 10,103
<b>Adjusted debt to adjusted total capitalization ratio (as at January 31)</b>	55%	66%	73%

<sup>(1)</sup> Refer to the Non-GAAP financial measures section hereafter for the reconciliation to the most comparable GAAP measures.

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. The Corporation's capital structure has improved since fiscal year 2005, due to the continued focus on reducing the pension deficit and the recent repayments of long-term debt, mainly driven by the improved profitability and strong cash generation.

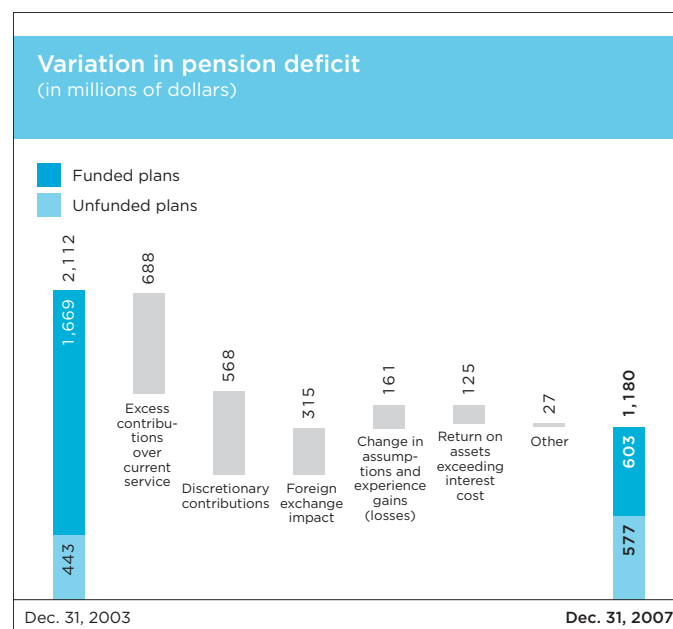
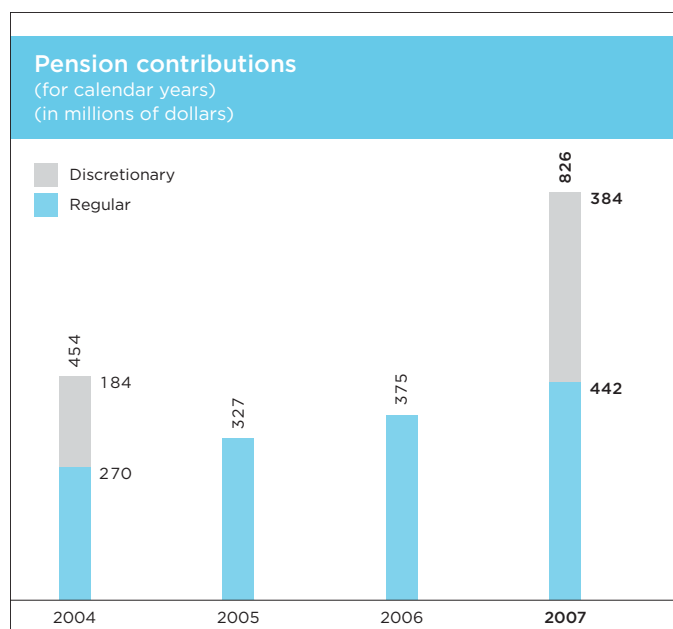


Managing the pension deficit and ensuring security of benefits are also part of the Corporation's overall management of the capital structure. The Corporation sponsors several domestic- and foreign-funded and unfunded defined benefit pension plans. Funded plans are plans for which segregated plan assets are invested in trusts. Unfunded plans are plans for which there are no segregated plan assets. For unfunded plans, the establishment of segregated plan assets is generally not permitted or not in line with local practice because of adverse tax consequences. There will therefore always be a deficit for accounting purposes for unfunded plans. The Corporation also manages several defined contribution plans, which specify how contributions are determined rather than the amount of benefits an employee is to receive upon retirement.

A higher-than-expected pension deficit was reached as at December 31, 2005 (the Corporation uses a measurement date of December 31 for accounting purposes), following the low market returns in calendar years 2000-02 and the significant reduction

in interest rates experienced between calendar years 2000 and 2005. To address this higher deficit, and to further enhance the security of benefits, the Corporation has injected \$2.0 billion into its pension plans in calendar years 2004-07. As a result, the pension deficit has decreased by more than \$900 million since December 31, 2003, despite significant unfavourable movements in interest rates and foreign exchange (some of these adverse effects have partially reversed in fiscal year 2008).

While the Corporation works closely with the trustees of its various pension plans to implement risk-management measures, including aligning plan assets management with the terms of the plan obligations, future pension contributions will nonetheless be dependent on changes in discount rates, actual returns on plan assets and other factors. Cash contributions to defined benefit pension plans are estimated at \$315 million for calendar year 2008, compared to actual contributions of \$826 million (including discretionary pension fund contributions totalling \$384 million) for calendar year 2007.



The pension cost of defined benefit pension plans is estimated at \$229 million for fiscal year 2009, compared to \$282 million for fiscal year 2008. The expected decrease is mainly due to the lower pension deficit. Pension cost is capitalized as part of labour costs and included in inventories and aerospace program tooling, or is recognized directly to income.

The pension plan deficit amounted to \$1.2 billion as at December 31, 2007. The \$594-million decrease from December 31, 2006 is due to the following:

#### Variation in pension deficit

Balance as at December 31, 2006 <sup>(1)</sup>	\$ 1,774
Discount rate <sup>(2)</sup>	(604)
Discretionary contributions	(384)
Excess contributions over current service cost <sup>(3)</sup>	(227)
Experience gains (losses) and change in assumptions <sup>(4)</sup> (other than discount rate)	294
Interest cost <sup>(5)</sup> exceeding return on assets <sup>(6)</sup>	97
Effect of changes in foreign exchange rates	157
Other <sup>(7)</sup>	73
<b>Balance as at December 31, 2007</b>	<b>\$ 1,180</b>

<sup>(1)</sup> Of which \$521 million is related to unfunded plans.

<sup>(2)</sup> Management has little discretion in selecting the discount rate, as it must represent the market rate for high-quality fixed-income investments available for the period to maturity of the benefits.

<sup>(3)</sup> Current service cost represents the present value of retirement benefits earned by participants during the current year.

<sup>(4)</sup> Represents the changes in the value of the pension obligation resulting from experience different from that expected and changes in actuarial assumptions.

<sup>(5)</sup> Represents the expected increase in pension obligation due to the passage of time.

<sup>(6)</sup> Approximately 55% of the plan assets are invested in publicly traded equity securities. As a result, stock market performance is the key driver in determining the pension fund's asset performance. Most of the remaining plan assets are invested in publicly traded long-term fixed-income securities, which provide a partial offset to increases (or decreases) in pension deficit caused by decreases (or increases) in the discount rate.

<sup>(7)</sup> Mainly plan amendments.

## Improve capital structure

Goal	Optimize the capital structure to reduce costs and improve ability to seize strategic opportunities.
Leading initiatives	<p>Reduce adjusted debt to improve global leverage metrics by:</p> <ul style="list-style-type: none"> <li>continuing to de-leverage 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; and</li> <li>proactively managing variations in pension deficit, including an assessment for discretionary pension contributions to further enhance capital structure and the security of benefits.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>Repaid \$1.1 billion of long-term debt as a result of the Corporation's strong liquidity.</li> <li>Made discretionary pension fund contributions totalling \$384 million.</li> <li>Reduced funded plan deficit by 50% compared to December 31, 2006.</li> <li>Improved all three global leverage metrics: <ul style="list-style-type: none"> <li>adjusted EBIT to adjusted net interest ratio of 2.5, compared to 1.9 as at January 31, 2007;</li> <li>adjusted debt to adjusted EBITDA ratio of 3.8, compared to 5.5 for fiscal year 2007; and</li> <li>debt to capitalization ratio of 66%, compared to 73% as at January 31, 2007.</li> </ul> </li> <li>99.7% of the Corporation's long-term debt have maturities beyond fiscal year 2012, with a weighted-average long-term debt maturity of 8.4 years, compared to 7.9 years as at January 31, 2007.</li> </ul>

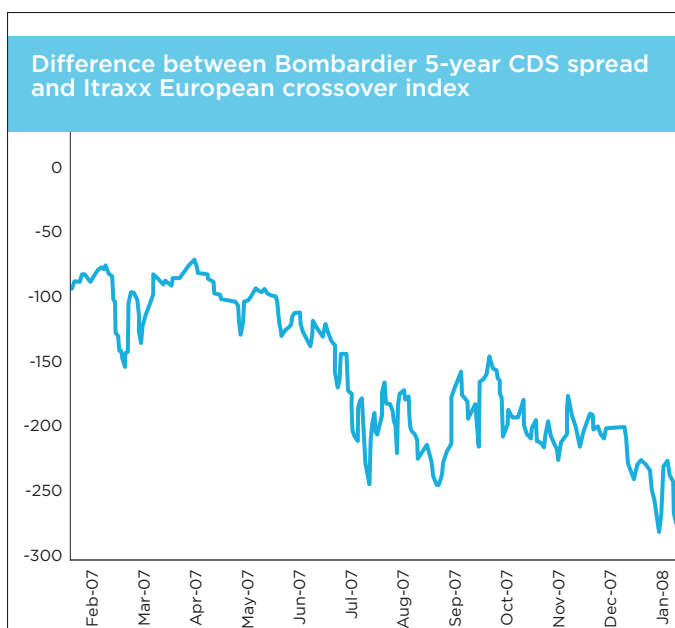
The markets appear to be recognizing the improved capital structure and risk profile of the Corporation, as indicated by the evolution of the Corporation's Credit default swap ("CDS") spread in comparison to a broadly used index of CDS spread for sub-investment companies.

The Corporation believes it is making significant progress toward its goal of improving its risk profile, and expects that further improvements in liquidity over time should allow it to further de-leverage its balance sheet.

## CAPABILITY TO DELIVER RESULTS

In order to create shareholder value, the Corporation has deployed profitability and liquidity improvement initiatives at BA and BT, such as BA's Achieving Excellence program and BT's TOPSIX transversal program. The Corporation also centrally manages its capital structure, including the level and adequacy of liquidity and capital resources. A central treasury function manages the Corporation's exposure to interest rate risks, access to capital markets, as well as relationships with major financial suppliers in the banking and insurance industries.

In addition, since the Corporation operates in industry segments that have a variety of risk factors and uncertainties, it has developed adapted governance practices and applies risk assessment, risk-mitigation and other risk management practices to reduce the nature and extent of its exposure to economic, business, operational, financing, and market risks (see Risks and uncertainties under the Other section of this MD&A for further details on these risks). Risk management is therefore an integral part of how the Corporation plans and executes its business strategies.



Source: Bloomberg



## Risk management

The Corporation's risk management process encompasses identifying, analyzing and assessing business risks and opportunities, designing and implementing strategies for managing these risks, as well as implementing processes to monitor and communicate risks. To achieve its risk management objectives, the Corporation has embedded risk management activities in the operational responsibilities of Management and made them an integral part of the Corporation's overall governance, organizational and accountability structure. Management ensures that business development initiatives are supported by a constant concern for sound risk management.

The Board of Directors is ultimately responsible for reviewing overall business risks. In May 2007, the Board of Directors created the Finance and Risk Management Committee, consisting of four independent directors, making risk management a special focus of the organization. Pursuant to its charter, this Committee reviews the Corporation's material risks of a financial nature, the steps that Management takes to monitor, control and manage such risks, and the adequacy of policies, procedures and controls designed by Management to assess and manage these risks.

The Corporation is subject to numerous risks, resulting in different risk-mitigation strategies. Some risks are inherent to the nature of its operations and as such the Corporation must fully assume them. See Risks and uncertainties under the Other section of this MD&A for a discussion of the various risks affecting the Corporation.

The following is a brief overview of the risks that the Corporation believes to be the most significant versus its objective of creating shareholder value.

### Operational

Most of the Corporation's strategy relate to profitability and liquidity improvements to be realized by the two manufacturing segments. As these two segments have different risk profiles, their response to similar risks may differ.

BA's key operational risks relate mostly to new aircraft development projects, which require significant investments at the beginning of the process. BA puts in place risk-mitigation strategies, starting long before the design of a new product is initiated and continuing throughout the product cycle. BA systematically reviews each project's technical and financial aspects, including a thorough review of the market to ensure that the development of future products will meet future customers' requirements. This has led to the launch of new

products such as the *Learjet 85* aircraft and the *CRJ1000 NextGen* regional aircraft, with operating costs significantly lower than the competition. This is also how BA is considering the launch of the *C-Series* aircraft program.

When an aircraft development project is launched, it is important to ensure proper execution at all stages of the process. BA relies on methodologies and past experience to reduce the risks associated with estimating, planning and performing these projects. BA's risk-management strategies include an assessment of the risk of deviation from the revenue, cost, schedule and technical targets, established as part of a detailed risk-mitigation plan. Risk management for product cost includes the development of long-term relationships with suppliers, together with supplier evaluation and competitive bidding processes.

Strict compliance with the regulatory requirements of various bodies, as well as stringent quality control in the production cycle are used to manage technical risks. BA obtains type certificates from various regulatory bodies such as Transport Canada, the Federal Aviation Administration and the European Aviation Safety Agency. The International Standards Organization ("ISO") has established ISO 9001 standards. The Society of Automotive Engineers has used the baseline ISO 9001 standards to establish AS 9100 standards in order to standardize Quality Management Systems requirements specific to the aerospace industry. BA holds five AS 9100/ISO 9001 certificates in 22 sites in Canada, the U.S., Mexico and Europe. These sites include facilities for all stages of the product life cycle, including administration, design, manufacturing, testing, pilot training, military training, spares distribution and service centres. The application of these standards allows BA to improve product quality and reduce costs through the standardization of quality processes and procedures. Although BA's sales contracts contain limited liability clauses, the Corporation's Management believes that adequate insurance coverage exists should an accident occur with BA's aircraft. In addition, the BA can file counter-claims against suppliers or other third parties who may have contributed to the loss.

BT's key operational risks relate to the execution of the numerous contracts it has in its order backlog, although the development of new products is also critical. BT has put in place risk-management strategies covering these activities, with defined processes for the bid approval, project start-up, design, realization and field support phases. BT applies various preventive and detective measures, and various tools are established to support the management of the business

across all functions. The bid approval process is managed by senior executives, with bids reviewed for compliance with internal policies and guidelines in various areas. Bid approval, project start-up and design phases also include a technical risk assessment, legal review of contracts, development of long-term relationships with some suppliers, together with supplier evaluation and cost.

During the realization and field support phases, BT performs controls on its schedule, with regular reviews of forecasts, project improvement management and a proactive risk and opportunity management.

BT also uses fault-tolerant design concepts, which include testing the redundancy and software integrity level to validate the quality of the product. Products are also compared to regular design, and are subject to a thorough peer review to leverage the knowledge acquired on other similar projects. To do so, BT has put in place project management audits where selected projects are assessed both from a project management and a financial perspective by internal resources

independent of the project management team. Those audits focus on all key projects in terms of size, but also on selected smaller projects. All BT products are also subject to product safety policies and processes on product safety, supported by the Centre of Competencies.

A key component of BT's risk-mitigation strategies is also performed by structuring positive cash flow arrangements through the use of customer advances and foreign exchange hedging.

### Foreign exchange

The Corporation's main exposures to foreign currencies are covered by a central treasury function at Corporate Office and are managed in accordance with the Corporation's foreign currency policy and procedures. This policy requires each segment and Corporate Office to identify all potential foreign currency exposures arising from their operations or financial position and to hedge these exposures according to the following pre-set criteria:

## Foreign exchange management

Owner	Hedged exposures	Hedging policy <sup>(1)</sup>	Risk-mitigation strategies
Corporate Office	Long-term debt, net investments in self-sustaining foreign operations and other balance sheet exposures, as well as forecasted cash outflows denominated in Canadian dollar.	Minimize overall balance sheet foreign currency exposures.  Hedge a minimum of 85% of the identified exposures for the first three months, a minimum of 75% for the next nine months and a minimum of 50% for the following year.	Asset/liability management techniques.  Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars.
BA	Forecasted cash outflows, mainly denominated in Canadian dollar and pound sterling.	Hedge a minimum of 85% of the identified exposures for the first three months, a minimum of 75% for the next nine months and a minimum of 50% for the following year.	Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars and pound sterling.
BT	Forecasted 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 foreign currency exposures.	Use of forward exchange contracts, mainly to sell or purchase euros, pounds sterling, U.S. dollars, Swiss francs, Canadian dollars and other Western European currencies.

<sup>(1)</sup> Deviations from the policy are allowed subject to maximum predetermined risk limits.

The central treasury function seeks to match asset and liability foreign currency exposures, mainly related to long-term debt and net investments in self-sustaining foreign operations, in order to minimize exposures to foreign currency

movements. Derivative financial instruments such as forward foreign exchange contracts are used to synthetically align asset/liability exposures.

Substantially all of BT's identified exposures are hedged at the time of order intake, consistent with the objective to lock in currency rates for cash inflows and outflows. The forecasted cash outflows of the Corporate Office do not give rise to significant variances. For BA, the hedged portion of foreign currency denominated costs for fiscal year 2009 was as follows as at January 31, 2008:

### BA's foreign currency denominated costs

	Expected costs	Hedged portion	Weighted-average hedge rate
Expected costs denominated in:			
Canadian dollars	2,122	78%	0.9135
Pounds sterling	289	78%	1.9143

BA's long-term foreign exchange rate assumption for the unhedged portion of its future expected costs denominated in Canadian dollars is at a weighted-average rate of 1:1 as at January 31, 2008.

#### Sensitivity analysis

The impact of foreign currency movements for BT and for Corporate Office is not significant, as most of the identified foreign currency exposures are hedged using asset/liability management techniques or derivative financial instruments.

A one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact fiscal year 2009 expected costs in BA by approximately \$21 million before giving effect to forward foreign exchange contracts, and approximately \$5 million after giving effect to such contracts.

A one-pence change in the value of the pound sterling compared to the U.S. dollar would impact fiscal year 2009 expected costs in BA by approximately \$6 million before giving effect to forward foreign exchange contracts, and approximately \$1 million after giving effect to such contracts.

#### Interest rate

The Corporation's main exposures to interest rates arise mainly from existing assets, liabilities, financial commitments and from its off-balance sheet pension deficit. In particular, the interest rate risk is primarily related to sales incentives, certain regional aircraft financing loans and lease receivables, cash and cash equivalents, long-term debt, call feature and invested collateral. These exposures are managed by a central treasury function as part of treasury's overall risk management, using asset/liability management techniques.

The central treasury function seeks to match long-term debt with other balance sheet exposures yielding interest. Financial instruments such as interest rate swaps are used to synthetically align asset/liability exposures.

Considering the floating rate of return on its considerable cash and cash equivalents (\$3.6 billion) and invested collateral (\$1.3 billion), the Corporation chooses to synthetically convert its fixed-rate long-term debt into a variable rate in order to limit its overall exposure. The remaining exposure is related to the fixed-rate nature of its unfunded pension obligations (\$1.2 billion), which is being addressed through a liability-driven approach to pension asset management.

### Long-term debt - interest rate exposure

January 31, 2008

	Before the effect of hedges		After the effect of hedges	
Fixed	\$3,228	73%	\$ 578	13%
Variable	1,165	27%	3,815	87%
	\$4,393		\$4,393	

### *Sensitivity analysis*

Assuming a 100-basis point increase in interest rates, the impact on income before income taxes would have been a positive adjustment of \$19 million before giving effect to the related hedging instruments.

For derivative financial instruments, a shift of 100-basis point increase in the yield curves as at January 31, 2008 would have had no significant impact on net income, since the majority of the Corporation's interest-rate derivative financial instruments are designated in a fair value hedging relationship.

### *Economic environment*

The Corporation is subject to general economic risks in the markets in which it operates. Strategic planning processes take into account BA's and BT's competitive positioning and potential opportunities and threats identified from thorough analysis of market trends (see BA and BT Market and Outlook sections of this MD&A for further details).

Although, at the date of this report, there is an anticipated slowdown in the U.S. economy, the Corporation has become less dependent on the U.S. market as it expands its customer base internationally, with emerging markets being a key part of that expansion. The geographic breakdown of the Corporation's current order backlog makes it less sensitive to the impact of an economic slowdown in the U.S. In addition, BA's business aircraft orders are subject to significant advances, and come from companies and individuals in various sectors.

The Corporation has a strong order backlog for both BA and BT, such that if the levels of orders were to decrease significantly, the Corporation could gradually adjust its activity and production levels to accommodate such a slowdown.

A continuing market and competitive analysis, as well as market forecasts, enable the Corporation to anticipate and mitigate economic environment risks.

The Corporation also mitigates its overall economic environment risks by being a diversified company operating in markets that do not react in a similar manner to economic downturns. The enlargement and diversification of the customer base beyond core markets is another way of mitigating economic risks.

## **CONSOLIDATED ANALYSIS OF RESULTS**

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Both BA and BT delivered on the objective of increasing shareholder value, by both increasing EBIT before special items and free cash flow, while building for the future with an order backlog at a record level of \$53.6 billion as at January 31, 2008. The progress realized over the last three fiscal years, as evidenced by the progression in EPS from continuing operations before special items from nil in fiscal year 2005 to \$0.26 in fiscal year 2008, results from solid initiatives such as BA's Achieving Excellence program and BT's transversal TOPSIX program.

### *Important notice regarding the predictive value of the historical financial information*

Effective February 1, 2008, the Corporation has changed its accounting policy for aerospace programs from the average cost method to the unit cost method to comply with new accounting standards. Accordingly, the excess-over-average production costs ("EOAPC") charge to income will be nil for fiscal year 2009, compared to \$271 million for fiscal year 2008 (see Accounting and reporting developments in the Other section of this MD&A).

**Results of operations**

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007 <sup>(1)</sup>	2008	2007 <sup>(1)</sup>
Revenues	\$5,270	\$4,418	\$17,506	\$14,882
Cost of sales	4,518	3,766	14,919	12,667
Margin	752	652	2,587	2,215
Selling, general and administrative	320	279	1,096	929
Research and development	41	44	139	173
Other expense (income) <sup>(2)</sup>	(41)	(43)	(62)	18
EBITDA from continuing operations before special items	432	372	1,414	1,095
Amortization	127	128	512	518
EBIT from continuing operations before special items	305	244	902	577
Financing income	(69)	(48)	(225)	(157)
Financing expense	161	118	526	375
EBT from continuing operations before special items	213	174	601	359
Special items <sup>(3)</sup>	-	-	162	24
EBT from continuing operations	213	174	439	335
Income tax expense (recovery)	(5)	62	122	92
Income from continuing operations	218	112	317	243
Income from discontinued operations, net of tax <sup>(4)</sup>	-	-	-	25
Net income	\$ 218	\$ 112	\$ 317	\$ 268
Basic EPS (in dollars)				
From continuing operations before special items	\$ 0.12	\$ 0.06	\$ 0.26	\$ 0.14
From continuing operations	\$ 0.12	\$ 0.06	\$ 0.17	\$ 0.12
Net income	\$ 0.12	\$ 0.06	\$ 0.17	\$ 0.14
Diluted EPS (in dollars)				
From continuing operations before special items	\$ 0.12	\$ 0.06	\$ 0.26	\$ 0.14
From continuing operations	\$ 0.12	\$ 0.06	\$ 0.16	\$ 0.12
Net income	\$ 0.12	\$ 0.06	\$ 0.16	\$ 0.14
(as a percentage of revenues)				
From continuing operations before special items				
EBITDA	8.2%	8.4%	8.1%	7.4%
EBIT	5.8%	5.5%	5.2%	3.9%
EBT	4.0%	3.9%	3.4%	2.4%
(as a percentage of revenues)				
From continuing operations				
EBITDA	8.2%	8.4%	7.2%	7.2%
EBIT	5.8%	5.5%	4.2%	3.7%
EBT	4.0%	3.9%	2.5%	2.3%

<sup>(1)</sup> Certain comparative figures have been reclassified to conform with the current fiscal year's presentation.

<sup>(2)</sup> Includes net losses (gains) on certain financial instruments, foreign exchange losses (gains), severance and other involuntary termination costs (including changes in estimates), settlement of claims, the effect of the adjustment of program accounting ending dates for the CRJ700 and CRJ900 aircraft programs and loss (income) from equity-accounted investees.

<sup>(3)</sup> For fiscal year 2008, the special item relates to BT's write-off of the carrying value of its investment in Metronet. For fiscal year 2007, it relates to the restructuring plan initiated in fiscal year 2005 to reduce the BT cost structure.

<sup>(4)</sup> Related to Bombardier Capital's ("BC's") operations.

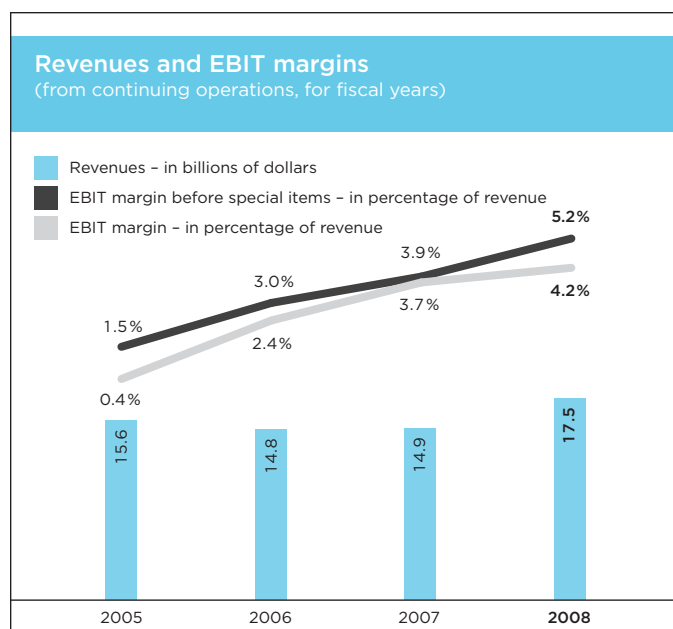
## Reconciliation of EPS from continuing operations before and after special items

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
Income from continuing operations	\$ 218	\$ 112	\$ 317	\$ 243
Special items, net of tax	-	-	162	22
Income from continuing operations before special items	\$ 218	\$ 112	\$ 479	\$ 265
Basic earnings per share (in dollars):				
From continuing operations	\$ 0.12	\$ 0.06	\$ 0.17	\$ 0.12
Special items, net of tax	-	-	0.09	0.01
From continuing operations before special items	\$ 0.12	\$ 0.06	\$ 0.26	\$ 0.14
Diluted earnings per share (in dollars):				
From continuing operations	\$ 0.12	\$ 0.06	\$ 0.16	\$ 0.12
Special items, net of tax	-	-	0.09	0.01
From continuing operations before special items	\$ 0.12	\$ 0.06	\$ 0.26	\$ 0.14

## Revenues and EBIT margin

### Analysis of results

	Fourth quarters ended January 31			Fiscal years ended January 31		
	2008	2007	Increase (decrease)	2008	2007	Increase (decrease)
<b>Revenues</b>			%			%
BA	\$ 2,893	\$ 2,589	12	\$ 9,713	\$ 8,296	17
BT	2,377	1,829	30	7,793	6,586	18
	\$ 5,270	\$ 4,418	19	\$ 17,506	\$ 14,882	18
<b>EBIT margin before special items</b>			Percentage points			Percentage points
BA	6.8%	6.1%	0.7	5.8%	3.9%	1.9
BT	4.6%	4.7%	(0.1)	4.4%	3.9%	0.5
	5.8%	5.5%	0.3	5.2%	3.9%	1.3
<b>EBIT margin</b>						
BA	6.8%	6.1%	0.7	5.8%	3.9%	1.9
BT	4.6%	4.7%	(0.1)	2.3%	3.5%	(1.2)
	5.8%	5.5%	0.3	4.2%	3.7%	0.5



A detailed analysis of results is provided in the BA and BT Analysis of results sections of this MD&A.

## Financing income and financing expense

### Fourth quarter

Net financing expense amounted to \$92 million, compared to \$70 million for the same period last fiscal year. The \$22-million increase is mainly due to:

- net losses on certain financial instruments (\$21 million);
- higher interest expense on long-term debt (\$13 million); and
- financing costs in relation to the early repayment of \$1.0 billion of long-term debt (\$22 million), compared to \$11 million for the same period last fiscal year.

Partially offset by:

- higher interest income on invested collateral (\$13 million); and
- higher interest income on cash and cash equivalents (\$11 million).

### Fiscal year

Net financing expense amounted to \$301 million, compared to \$218 million last fiscal year. The \$83-million increase is mainly due to:

- higher interest expense on long-term debt (\$96 million); and
- net losses on certain financial instruments, including certain call options on long-term debt (\$41 million).

Partially offset by:

- higher interest income on invested collateral (\$46 million); and
- higher interest income on cash and cash equivalents (\$25 million).

## Income taxes

### Fourth quarter

For the three-month period ended January 31, 2008, the Corporation recorded an income tax recovery of \$5 million on an EBT of \$213 million as a result of a net change in the recognition of tax benefits related to operating losses and temporary differences, partially offset by a write-down of deferred income tax assets, permanent differences and by the impact of the tax rate decreases on the deferred income tax assets.

For the three-month period ended January 31, 2007, the effective income tax rate was 35.6%, compared to the statutory income tax rate of 32.8%. The higher effective tax rate is mainly due to the write-down of deferred income tax assets, partially offset by permanent differences and the net change in the recognition of tax benefits related to operating losses and temporary differences.

### Fiscal year

For fiscal year 2008, the effective income tax rate was 27.8%, compared to the statutory income tax rate of 32.8%. The lower effective tax rate compared to the statutory income tax rate is mainly due to a net change in the recognition of tax benefits related to operating losses and temporary differences, partially offset by a write-down of deferred income tax assets, the non-recognition of tax benefits on the write-off of the carrying value of the investment in Metronet, the impact of tax rate decreases on the deferred income tax assets and permanent differences.

For fiscal year 2007, the effective income tax rate was 27.5%, compared to the statutory income tax rate of 32.8%. The lower effective tax rate is mainly due to the net change in the recognition of tax benefits related to operating losses and temporary differences, permanent differences and lower income tax rates of foreign investees, partially offset by the write-down of income tax benefits related to deferred tax assets.

## LIQUIDITY AND CAPITAL RESOURCES

### LIQUIDITY

#### Reconciliation of free cash flow to cash flow from operating activities

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
Segmented free cash flow				
BA	\$ 554	\$ 771	\$ 1,676 <sup>(1)</sup>	\$ 814
BT	525	443	688 <sup>(2)</sup>	95
Income taxes and net financing expense <sup>(3)</sup>	(155)	(94)	(401)	(299)
<b>Free cash flow</b>	<b>924</b>	<b>1,120</b>	<b>1,963</b>	<b>610</b>
Add back: Net additions to property, plant and equipment	172	69	370	281
<b>Cash flow from operating activities</b>	<b>\$1,096</b>	<b>\$1,189</b>	<b>\$2,333</b>	<b>\$ 891</b>

<sup>(1)</sup> Includes payments of discretionary pension fund contributions totalling \$249 million in fiscal year 2008.

<sup>(2)</sup> Includes payments of discretionary pension fund contributions totalling \$135 million in fiscal year 2008.

<sup>(3)</sup> Income taxes and net financing expense are not allocated to segments.

A detailed analysis of free cash flow is provided in the BA and BT Results of operations sections of this MD&A.

#### Variation in cash and cash equivalents

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
Balance as at beginning of period	\$ 3,634	\$ 1,681	\$ 2,648	\$ 2,917
Proceeds from issuance of long-term debt	-	2,442 <sup>(1)</sup>	-	2,442 <sup>(1)</sup>
Free cash flow	924	1,120	1,963	610
Effect of exchange rate changes on cash and cash equivalents	83	51	264	134
Repayments of long-term debt <sup>(2)</sup>	(1,047)	(1,312)	(1,076)	(2,306)
Invested collateral <sup>(3)</sup>	-	(1,145)	-	(1,145)
Purchase of common shares held in trust <sup>(4)</sup>	-	-	(55)	(20)
Disposal of discontinued operations, net of cash disposed	-	-	-	161
Payments of dividends	(8)	(7)	(30)	(28)
Cash flows from discontinued operations	-	-	-	63
Prepayment under an exchange agreement	-	(150)	-	(150)
Other	16	(32)	(112) <sup>(5)</sup>	(30)
<b>Balance as at end of fiscal year</b>	<b>\$ 3,602</b>	<b>\$ 2,648</b>	<b>\$ 3,602</b>	<b>\$ 2,648</b>

<sup>(1)</sup> Mainly reflects the issuance of €1.6 billion (\$2.1 billion) and \$385 million of Senior Notes.

<sup>(2)</sup> See Repayments of long-term debt table hereafter.

<sup>(3)</sup> Reflects the purchase of invested collateral used to secure the Corporation's obligations under the letters of credit facility. See Letters of credit facilities hereafter for further details.

<sup>(4)</sup> Reflects the purchase in the open market, under the terms of a Trust Agreement, of 9,426,000 Class B Shares (Subordinate Voting) of the Corporation, in connection with the performance share unit ("PSU") plan in fiscal year 2008 (6,413,000 Class B Shares in fiscal year 2007).

<sup>(5)</sup> Includes the additional investment in Metronet prior to the write-off (\$55 million) and the investment in securities held as collateral for guarantees issued in connection with the sale of aircraft (\$55 million).



## Repayments of long-term debt

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
BC's notes, £300 million, prior to maturity, in January 2008	\$ 589	\$ -	\$ 589	\$ -
Notes, €282 million of the original €500 million, prior to maturity, in January 2008	414	-	414	-
BC's notes, \$220 million, prior to maturity, in November 2006	-	220	-	220
BC's notes, €500 million, prior to maturity, in November 2006	-	640	-	640
Notes, €218 million of the original €500 million, prior to maturity, in November 2006	-	279	-	279
BC's notes, \$450 million, at maturity, in June 2006	-	-	-	450
BC's notes, \$200 million Cdn, at maturity, in July 2006	-	-	-	176
Debentures, £175 million, at maturity, in February 2006	-	-	-	305
Debentures, \$150 million Cdn, at maturity, in December 2006	-	-	-	130
Notes, \$24 million Cdn, prior to maturity, in January 2008	24	-	24	-
Other	20	173	49	106
	<b>\$1,047</b>	<b>\$1,312</b>	<b>\$1,076</b>	<b>\$2,306</b>

The Corporation's liquidity needs arise principally from working capital requirements, capital expenditures, product development, principal and interest payments on long-term debt, employee future benefit obligations, lease payment obligations and distributions to shareholders.

The Corporation's future cash contributions to the funded pension plans are subject to changes based on discount rates,

actual returns on plan assets and other factors such as plan amendments and, as a consequence, have not been reflected in the table below.

The payments required in connection with sales incentives offered by BA have also not been reflected in the table below, since it is impracticable for the Corporation to determine the expected timing of payments.

## Expected timing of future liquidity requirements

	January 31, 2008				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter
Long-term debt <sup>(1)</sup>	\$ 4,291	\$ 3	\$ 8	\$ 576	\$3,704
Capital lease obligations <sup>(1)</sup>	102	8	16	22	56
Operating lease obligations <sup>(2)</sup>	720	104	162	103	351
Outsourcing commitments	667	225	274	60	108
Purchase obligations <sup>(3)</sup>	11,818	7,364	2,608	683	1,163
	<b>\$17,598</b>	<b>\$7,704</b>	<b>\$3,068</b>	<b>\$1,444</b>	<b>\$5,382</b>

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

<sup>(2)</sup> Comprises sale and leaseback and operating lease obligations.

<sup>(3)</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.

The Corporation considers that its cash and cash equivalents, amounting to \$3.6 billion as at January 31, 2008, combined with expected free cash flow, will enable the implementation of investment programs, the development

of new products, the pursued growth of its activities, the payment of dividends on preferred shares and will allow it to meet all other expected financial requirements over the near term.

## LETTERS OF CREDIT FACILITIES

### Letters of credit facilities

	Amounts committed	Amounts available	Maturity (fiscal year) <sup>(2)</sup>
<b>January 31, 2008</b>	<b>\$6,381<sup>(1)</sup></b>	<b>\$ 893</b>	<b>2012</b>
January 31, 2007	\$5,590 <sup>(1)</sup>	\$1,179	2012

<sup>(1)</sup> €4,300 million.

<sup>(2)</sup> In December 2009, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature, up to December 2011.

In addition to the above, letters of credit of \$467 million were outstanding under various bilateral agreements as at January 31, 2008 (\$240 million as at January 31, 2007).

As at January 31, 2008, the Corporation was in compliance with all its covenants.

## FINANCIAL POSITION

On February 1, 2007, the Corporation adopted the new accounting standards on financial instruments, which require that all derivative financial instruments, including certain embedded derivative instruments, be recognized at fair value on the balance sheet. Also, certain regional aircraft loans and lease receivables, credit and residual value guarantees

and related liabilities are measured at fair value under the new accounting standards. These new accounting standards also introduce comprehensive income, which is comprised of net income and other comprehensive income ("OCI"). See Changes in accounting policies in the Other section of this MD&A for further details.

### Highlights

Assets (liabilities)	2008	2007	Explanation of variances
Cash and cash equivalents	\$ 3,602	\$ 2,648	See Liquidity section before for details.
Invested collateral	1,295	1,129	Invested collateral of €869 million required under the letters of credit facility. Increase is mainly due to a translation adjustment <sup>(1)</sup> (\$161 million).
Receivables	1,998	1,789	Increase is mainly due to a higher level of receivables in BT (\$142 million) and a translation adjustment <sup>(2)</sup> (\$80 million).
Aircraft financing	626	1,042	Decrease is mainly due to the reduction of interim financing loans and lease receivables (\$460 million).
Gross inventories	7,739	7,168	Increase in gross inventories is mainly due to an increase in BT inventories mainly relating to long-term contract inventory (\$405 million) and a translation adjustment <sup>(2)</sup> (\$374 million), partially offset by a decrease in BA inventories relating to aerospace programs, finished products and long-term contract (\$208 million). Increase in total payments received, advances and progress billings mainly reflects higher advances and progress billings in BT (\$1.2 billion) and in BA (\$959 million), and to a translation adjustment <sup>(2)</sup> (\$511 million).
Payments received and progress billings	(4,191)	(3,207)	
Inventories	3,548	3,961	
Advances and progress billings in excess of related costs	(4,159)	(2,443)	
Property, plant and equipment	2,980	2,936	Increase is mainly due to net additions (\$410 million) and a translation adjustment <sup>(2)</sup> (\$110 million), partially offset by the amortization (\$476 million).
Fractional ownership deferred costs	500	390	Increase is mainly due to additional aircraft deliveries related to the fractional ownership program.
Fractional ownership deferred revenues	(631)	(487)	
Deferred income tax asset	935	813	Increase is mainly due to a translation adjustment <sup>(3)</sup> (\$97 million), and to the deferred income tax recovery recorded in fiscal year 2008 (\$25 million).
Accrued benefit assets	924	461	Increase in accrued benefit assets mainly reflects discretionary pension fund contributions (\$384 million).
Accrued benefit liabilities	(1,066)	(995)	

**Highlights** (cont'd)

Assets (liabilities)	2008	2007	Explanation of variances
Derivative financial Instruments			These derivative financial instruments, mostly forward foreign exchange contracts, interest-rate swap and cross-currency interest-rate swap agreements used as part of the Corporation's hedging program, as well as embedded derivative financial instruments, are now all recognized at fair value on the balance sheet as a result of adopting the new accounting standards on financial instruments effective February 1, 2007. See Changes in accounting policies in the Other section for further details.
Assets	\$ 458	\$ 39	
Liabilities	(276)	(13)	
Goodwill	2,533	2,286	Increase is mainly due to a translation adjustment <sup>(2)</sup> (\$254 million).
Other assets	1,163	1,083	Increase is mainly due to an increase in investment in securities (\$117 million), the additional investment in Metronet (\$55 million) prior to the write-off, as well as to increases in prepaid expenses (\$71 million) and finite-life intangible assets (\$31 million). The increase was partially offset by the write-off of the carrying value of the investment in Metronet (\$162 million) and to the reclassification of deferred financing charges to the carrying amount of long-term debt (\$44 million) as a result of the adoption of the new accounting standards on financial instruments.
Accounts payable and accrued liabilities	(6,919)	(6,826)	Increase is mainly due to a translation adjustment <sup>(2)</sup> (\$425 million), partially offset by a lower level of accounts payable and accrued liabilities in BT (\$154 million) and BA (\$83 million), as well as adjustments and reclassifications as a result of adopting the new accounting standards (\$73 million).
Long-term debt	(4,393)	(5,080)	Decrease is mainly due to the repayments (\$1.1 billion) and adjustments, partially offset by a translation adjustment <sup>(1)</sup> (\$370 million).

<sup>(1)</sup> Arising from the strengthening of the euro versus the U.S. dollar as at January 31, 2008, compared to January 31, 2007.

<sup>(2)</sup> Arising in BT mainly from the strengthening of the euro and pound sterling versus the U.S. dollar as at January 31, 2008, compared to January 31, 2007.

<sup>(3)</sup> Arising mainly from the strengthening of the euro and Canadian dollar versus the U.S. dollar as at January 31, 2008, compared to January 31, 2007.

**NON-GAAP FINANCIAL MEASURES**

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

**Non-GAAP financial measures**

Profitability	
EBITDA	Earnings (loss) before financing income, financing expense, income taxes and depreciation and amortization
EBITDA before special items	Earnings (loss) before financing income, financing expense, income taxes, depreciation and amortization and special items
EBIT before special items	Earnings (loss) before financing income, financing expense, income taxes and special items
EBT before special items	Earnings (loss) before income taxes and special items
EPS before special items	Earnings (loss) per share before special items
Liquidity	
Free cash flow	Cash flows from operating activities less net additions to property, plant and equipment
Capital structure	
Adjusted debt	Long-term debt plus pension deficit and discounted operating lease obligations
Adjusted EBIT	EBIT before special items plus interest adjustment for operating leases and pension deficit
Adjusted EBITDA	EBITDA before special items plus amortization adjustment for capital leases and interest adjustment for operating leases and pension deficit
Adjusted net interest	Financing income and financing expense plus interest adjustment for operating leases and pension deficit
Adjusted total capitalization	Adjusted debt plus shareholders' equity

Management believes that a significant portion of the users of its MD&A analyze the Corporation's results based on these performance measures. Management views special items as potentially distorting the analysis of trends.

These non-GAAP measures are directly derived from the Consolidated Financial Statements, but do not have a standardized meaning prescribed by GAAP; therefore, others using these terms may calculate them differently.

### Profitability

A reconciliation to the most comparable GAAP financial measures is provided in the following sections:

- EBITDA to EBIT – see Results of operations table in the BA and BT sections;
- EBITDA and EBIT, before special items, to EBIT – see the Results of operations table before and in the BT section;
- EBT before special items to EBT – see Results of operations table before; and
- basic and diluted EPS before special items, to basic and diluted EPS – see Reconciliation of EPS from continuing operations before and after special items table before.

### Liquidity

A reconciliation of free cash flow to the most comparable GAAP financial measure, cash flows from operating activities, is provided in the Reconciliation of free cash flow to cash flow from operating activities table before.

### Capital structure

A reconciliation to the most comparable GAAP financial measure is provided hereafter:

- adjusted debt to long-term debt;
- adjusted EBIT and adjusted EBITDA, to EBIT from continuing operations;
- adjusted net interest to financing income and financing expenses; and
- adjusted total capitalization to Shareholder's equity.

#### Reconciliation of adjusted debt to long-term debt

	January 31 2008	January 31 2007
Long-term debt	<b>\$4,393</b>	\$5,080
Pension deficit	<b>1,180</b>	1,774
Operating lease obligations <sup>(1)</sup>	<b>518</b>	516
Adjusted debt	<b>\$6,091</b>	\$7,370

<sup>(1)</sup> Discounted using the average five-year U.S. treasury notes plus the average credit spread, given the Corporation's credit rating, for the fiscal year.

**Reconciliation of adjusted EBITDA and adjusted EBIT, to EBIT from continuing operations**

	Fiscal year 2008	Fiscal year 2007
EBIT from continuing operations	\$ 740	\$ 553
Special items	162	24
EBIT from continuing operations before special items	902	577
Interest adjustment for operating leases and pension deficit <sup>(1)</sup>	111	183
Adjusted EBIT	1,013	760
Amortization adjustment for operating leases <sup>(2)</sup>	58	57
Amortization	512	518
Adjusted EBITDA	\$1,583	\$1,335

<sup>(1)</sup> Represent the interest cost of a debt equivalent to the amount included in adjusted debt for these two items, bearing interest at the average five-year U.S. treasury notes plus the average credit spread, given the Corporation's credit rating, for the fiscal year.

<sup>(2)</sup> Represent a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

**Reconciliation of adjusted net interest to financing income and financing expense**

	Fiscal year 2008	Fiscal year 2007
Financing income and financing expense	\$301	\$218
Interest adjustment for operating leases and pension deficit <sup>(1)</sup>	111	183
Adjusted net interest	\$412	\$401

<sup>(1)</sup> Represent the interest cost of a debt equivalent to the amount included in adjusted debt for these two items, bearing interest at the average five-year U.S. treasury notes plus the average credit spread, given the Corporation's credit rating, for the fiscal year.

**Reconciliation of adjusted total capitalization to shareholders' equity**

	January 31 2008	January 31 2007
Shareholders' equity	\$3,118	\$ 2,733
Adjusted debt	6,091	7,370
Adjusted total capitalization	\$9,209	\$10,103

# AEROSPACE

## Forward-looking statements<sup>(1)</sup>

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

- current firm order backlog and estimated future order intake determined by<sup>(2)</sup>:
  - lower business aircraft demand (defined as orders) from the U.S. market in the short term and continued growth in business aircraft demand from international markets;
  - sustained demand for larger regional jets and turboprops; and
  - expected growth in after-market services.
- continued deployment and execution of strategic initiatives related to cost reductions;
- steady foreign exchange rate, mainly the Canadian dollar being at par with the U.S. dollar; and
- ability of the supply base to support planned production rates.

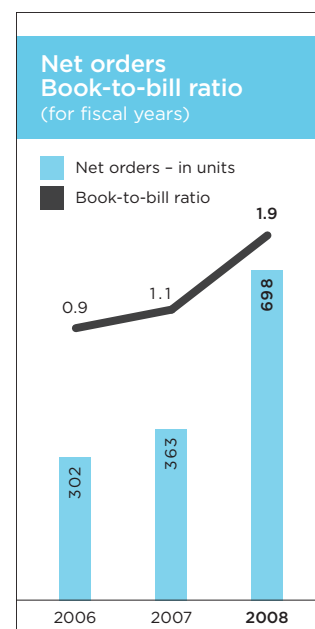
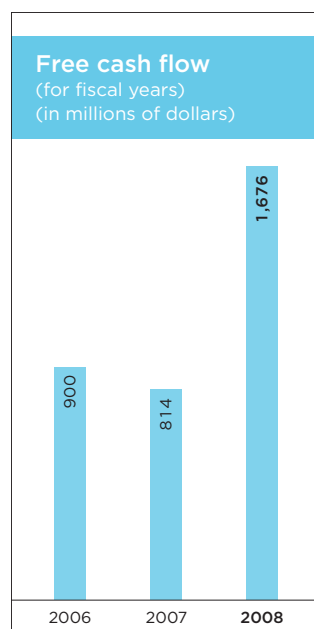
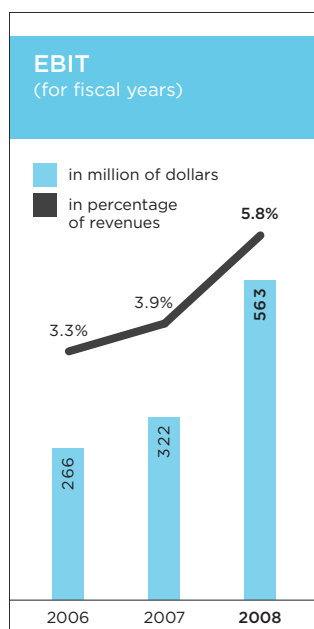
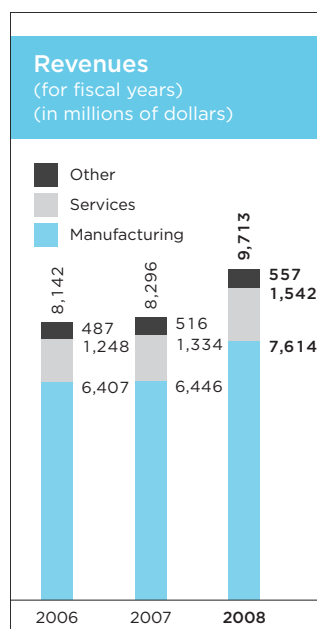
<sup>(1)</sup> See also the forward-looking statements in the Overview section.

<sup>(2)</sup> Demand forecasts are based on the main market drivers analysis, as detailed in the respective Market and outlook sections.

The data presented in this section of the MD&A is structured by product line (business aircraft, commercial aircraft and services), which is consistent with internal reports presented and reviewed by Management.

The table below summarizes the most relevant key performance measures and related metrics. Management's incentive compensation is linked to the achievement of targeted results, based on EBIT and average net segmented assets.

Profitability	• EBIT, as a measure of performance.
Liquidity	• Free cash flow, as a measure of liquidity generation.
Growth	• Order backlog, as a measure of future revenue growth. • Book-to-bill ratio, as an indicator of future revenue growth. The ratio represents the net orders received over aircraft deliveries, measured in units in a given period. • Market share and scale, as measures of competitive positioning.
Capital employed	• Average net segmented assets, as a measure of capital efficiency.



FISCAL YEAR 2008

Revenues

**\$9.7**  
billion

EBIT

**\$563**  
million

Free cash flow

**\$1.7**  
billion

JANUARY 31, 2008

Order backlog

**\$22.7**  
billion

## HIGHLIGHTS

### Fourth quarter

- Revenues of \$2.9 billion, compared to \$2.6 billion for the same period last fiscal year.
- EBIT of \$196 million, or 6.8% of revenues, compared to \$158 million, or 6.1%, for the same period last fiscal year.
- Free cash flow of \$554 million, compared to \$771 million for the same period last fiscal year, after payment of discretionary pension fund contributions totalling \$249 million.
- 213 net orders and 115 deliveries for business, regional and amphibious aircraft, compared to 139 and 101, respectively, for the same period last fiscal year.

### Fiscal year

- Revenues of \$9.7 billion, compared to \$8.3 billion in the last fiscal year, making this a record year in terms of revenues.
- EBIT of \$563 million or 5.8% of revenues, compared to \$322 million, or 3.9%, last fiscal year.
- Free cash flow of \$1.7 billion, compared to \$814 million last fiscal year, after payment of discretionary pension fund contributions totalling \$249 million.
- 698 net orders and 361 deliveries for business, regional and amphibious aircraft, compared to 363 and 326, respectively, last fiscal year. Business aircraft had a record year in terms of deliveries and net orders.
- Record year in terms of overall orders, which led to a record level of order backlog of \$22.7 billion, compared to \$13.2 billion as at January 31, 2007.

### Product announcements

- Launch of the *Q400 NextGen* turboprop in March 2008, in addition to the next generation versions of its regional jets announced during the fiscal year.
- In February 2008, the Board of Directors has granted the authority to offer formal sales proposals to customers for the *C Series* aircraft family.
- In October 2007, launch of the all-new *Learjet 85* aircraft, which is set to redefine the midsize jet category.
- In September 2007, the new *Global Vision* flight deck for *Global 5000* and *Global Express XRS* aircraft was unveiled.

## PROFILE

BA is a world leader in the design and manufacture of innovative aviation products and is a provider of related services for the business, commercial and specialized aircraft markets. BA has production sites in Canada, the U.S., the United Kingdom (Northern Ireland) and in Mexico. In addition, BA has maintenance service centres, authorized service facilities, distribution centres and depots for spare parts and several sales and marketing offices around the world. BA has a presence in 22 countries and had a workforce of 27,900 employees as at January 31, 2008, of which 56% were covered by collective agreements.

## CUSTOMERS

BA's customers consist primarily of corporations and high net worth individuals for business aircraft, and airlines and leasing companies for commercial aircraft, and are located in over 100 countries. The U.S. market represented 51% of total BA revenues in fiscal year 2008. BA also provides services related to those markets.

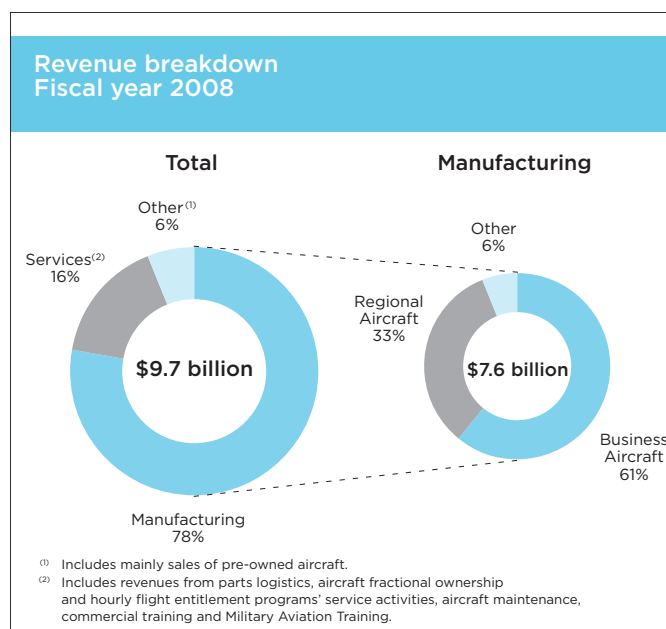
## PRODUCTS AND SERVICES

The table below presents BA's main product and service offerings:

BUSINESS AIRCRAFT	COMMERCIAL AIRCRAFT	AMPHIBIOUS AIRCRAFT AND SPECIALIZED AIRCRAFT SOLUTIONS	AIRCRAFT SERVICES
<p><b>Narrow-body business jets</b> Learjet family:</p> <ul style="list-style-type: none"> <li>Learjet 40 XR</li> <li>Learjet 45 XR</li> <li>Learjet 60 XR</li> <li>Learjet 85<sup>(1)</sup></li> </ul> <p><b>Wide-body business jets</b> Challenger family:</p> <ul style="list-style-type: none"> <li>Challenger 300</li> <li>Challenger 605</li> <li>Challenger 800 Series</li> </ul> <p>Global family:</p> <ul style="list-style-type: none"> <li>Global 5000</li> <li>Global Express XRS</li> </ul>	<p><b>Regional jets</b></p> <ul style="list-style-type: none"> <li>CRJ200</li> <li>CRJ700/705 NextGen</li> <li>CRJ900 NextGen</li> <li>CRJ1000 NextGen<sup>(1)</sup></li> </ul> <p><b>Turboprops</b></p> <ul style="list-style-type: none"> <li>Q400/Q400 NextGen<sup>(1)</sup></li> </ul> <p><b>Single-aisle mainline jets</b></p> <ul style="list-style-type: none"> <li>CSeries<sup>(2)</sup></li> </ul>	<p><b>Amphibious turboprops</b></p> <ul style="list-style-type: none"> <li>Bombardier 415</li> <li>Bombardier 415 MP</li> </ul> <p><b>Specialized aircraft solutions</b></p>	<p><b>Aftermarket solutions</b></p> <ul style="list-style-type: none"> <li>Parts logistics</li> <li>Aircraft maintenance</li> <li>Training solutions</li> </ul> <p><b>Flexjet and Skyjet</b></p> <ul style="list-style-type: none"> <li>Fractional ownership</li> <li>Jet card programs</li> <li>On-demand charter</li> <li>Flexjet One</li> </ul>

<sup>(1)</sup> Learjet 85, CRJ1000 NextGen and Q400 NextGen aircraft are currently under development.

<sup>(2)</sup> CSeries aircraft program has not yet been launched. Authority to offer was granted on February 22, 2008.





BA's aircraft program portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets (the latter being subject to the launch of the *C-Series* aircraft program), as well as amphibious aircraft. BA also offers special mission aircraft solutions, aircraft services, including aftermarket support as well as fractional ownership and flight entitlement programs.

## Business aircraft

The business aircraft market is segmented into narrow-body and wide-body aircraft, based on cabin size, aircraft range and price. Narrow-body aircraft is divided into four categories: very light, light, super light and midsize. Wide-body aircraft is divided into five categories: super midsize, large, super large, ultra long range and corporate airliner. BA currently has three proven families of business jets in the business aircraft market, the *Learjet*, the *Challenger* and the *Global* aircraft families, which cover eight of the nine market categories from light to corporate airliner. On a revenue basis, these market categories represented 95% of the total business aircraft market for calendar year 2007.

BA has the most comprehensive product offering of all business aircraft Original Equipment Manufacturers ("OEM"). In the aerospace industry, OEM refers to aircraft manufacturers. The *Learjet* family of aircraft is comprised of narrow-body business jets in the light, super light and midsize categories while the *Challenger* and *Global* aircraft families are comprised of wide-body business jets in the super midsize, large, super large, ultra long range and corporate airliner categories.

## Commercial aircraft

### Regional jets and turboprops

Regional airlines generally operate regional aircraft (jets and turboprops) of up to 100 seats in domestic and regional route networks. Regional airlines feed hubs for mainline airlines worldwide and provide high-frequency point-to-point services traditionally served by mainline airlines.

BA currently has two proven families of regional aircraft in the regional jet and turboprop categories. The *CRJ* Series family of aircraft offers regional airlines a network solution with products ranging from 50 to 100 seats, with product commonality including common crew qualifications, spare parts and maintenance procedures. The *Q-Series* family of turboprops consists of products ranging from 37 to 78 seats with product commonality including common crew qualifications, spare parts and maintenance procedures. Due to a shift in demand toward larger turboprops, BA has increased the production rate of its 78-seat *Q400* aircraft and will discontinue the production of the 37-seat *Q200* and the

50-seat *Q300* aircraft. Deliveries of existing *Q200* aircraft and *Q300* aircraft firm orders will continue until May 2009 when all outstanding delivery commitments will be satisfied. BA will continue to support all *Q200* and *Q300* aircraft operators.

### Single-aisle mainline jets

Mainline airlines generally operate aircraft over 100 seats in a network consisting of both domestic and international routes. A significant number of smaller single-aisle five- and six-abreast aircraft, those specifically designed for the 100- to 149-seat market were produced from the 1960s through the 1980s. Since that time, there has not been a new family designed specifically for this category resulting in many carriers extending their utilization of older aircraft beyond their originally intended economic life. Others have used derivative products of aircraft designed for smaller or larger seating capacity to address this category.

The *C-Series* aircraft is a five-abreast family specifically designed for the lower end of the 100- to 149-seat mainline commercial aircraft market category. It is designed to achieve up to 15% lower cash operating costs under certain operating conditions, transcontinental range and superior field performance, compared to current aircraft in that category. A launch decision is expected in fiscal year 2009.

## Amphibious aircraft and specialized aircraft solutions

BA manufactures and markets the *Bombardier 415* amphibious aircraft, a purpose-built firefighting aircraft. This aircraft can also be adapted to a multi-purpose version, the *Bombardier 415 MP* aircraft, which can be used in a variety of specialized missions such as search and rescue, environmental protection, coastal patrol and transportation.

BA continues to identify and provide special-mission aircraft solutions to governments and special-requirement organizations worldwide. BA recognizes the potential market for special-mission versions of both regional and business aircraft.

## Aircraft services

BA provides a broad range of services related to its aircraft portfolio. In fiscal year 2008, BA continued to develop more integrated services, as demanded by regional aircraft operators, while expanding its already well-established business aircraft services. BA's focus is to provide customers with total life cycle solutions that address the complete aftermarket experience, including parts requirements, maintenance services and pilot training. Through *Flexjet* and *Skyjet*, BA also offers business aircraft management and flight service solutions.

### Parts logistics

BA provides worldwide 24-hour spare parts sales and support through various programs such as aircraft-on-ground (“AOG”) service, lease programs, hourly programs, Smart Services program and rotatable management programs. Customers are currently served from:

- main distribution centres in Chicago (238,000 sq ft – 22,110 m<sup>2</sup>) and Frankfurt (50,000 sq ft – 4,650 m<sup>2</sup>); and
- spare parts depots in Montréal, Singapore, Sydney, Dubai, Beijing, as well as two recently opened depots in São Paulo, and in Narita.

### Aircraft maintenance

BA offers maintenance services for its business aircraft customers at its six main OEM service centres located in the U.S. at Bridgeport, Dallas, Fort Lauderdale, Hartford, Tucson and Wichita.

In addition, BA has 40 authorized service and line maintenance facilities for business aircraft. These service facilities are located in North America, Europe, Asia, Australia, Africa, and South America.

BA also offers maintenance services to its regional aircraft customers at two OEM service centres in the U.S., at Tucson and Bridgeport. BA has four authorized service facilities for regional aircraft in Europe, Asia and Australia.

### Training solutions

Training is an essential part of a complete aircraft services portfolio, and BA provides a full suite of flight and maintenance training solutions to its business and commercial aircraft customers. BA provides customized business aircraft pilot and maintenance training through its training centres located in Montréal and at Dallas/Fort Worth International Airport. To support BA's intent to expand its international training footprint, a third-party supplier was selected as an Authorized Training Provider for the *Global* family of aircraft and the *Challenger 300* aircraft in fiscal year 2008. BA also offers a complete range of pilot and maintenance training programs for *CRJ* Series aircraft in Montréal, and in Berlin through a joint venture. A third-party supplier provides training for BA's turboprop customers.

BA's Military Aviation Training (“MAT”) unit, in collaboration with a team of sub-contractors, delivers integrated aviation training solutions. MAT currently has two major Canadian military aviation training contracts: the NATO Flying Training

in Canada (“NFTC”) program and the CF-18 Advanced Distributed Combat Training System (“ADCTS”) program. Countries currently participating in the NFTC program include Australia, Austria, Canada, Denmark, Hungary, Italy, the Republic of Singapore and the United Kingdom. The ADCTS program includes the design and construction of purpose-designed facilities, as well as the provision of full instructional and support services for up to 15 years for the Canadian Air Force's CF-18 ADCTS program.

### Flexjet and Skyjet

Through the North American *Flexjet* program, owners purchase shares of business aircraft with operations and support, including flight crew, maintenance, hangar fees and insurance. *Flexjet* also markets, on behalf of Jet Solutions L.L.C., the *Flexjet* 25 jet card (25- to 35-hour block of flight time entitlement). In addition, during fiscal year 2008, the *Flexjet* One program was launched, providing an aircraft management solution for owners interested in purchasing a whole aircraft and having it managed by *Flexjet*.

The North American *Skyjet* program offers hours of both on-demand and flight time entitlement charter services, the latter of which is also offered to European, Asian, and Middle Eastern customers through the *Skyjet International* program. The *Skyjet* program arranges for its customers' business jet charters using selected air charter operators.

## MARKET AND OUTLOOK

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### BUSINESS AIRCRAFT

#### Market

There was continued growth in demand in the business aircraft market during calendar year 2007. According to a report released by the General Aviation Manufacturers Association (“GAMA”) on February 12, 2008, calendar year 2007 was a record-setting year in terms of total industry billings and business jet shipments, with deliveries exceeding 1,000 aircraft for the first time in history. According to this report, in the categories in which BA competes (the light to corporate airliner categories), 863 business aircraft were delivered in calendar year 2007, compared with the previous peak of 798 in calendar year 2006.

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

		Calendar year 2007			Calendar year 2006		
Category	Product	BA			BA		
		Total market (in units) <sup>(1)</sup>	Total deliveries (in units)	Market share <sup>(2)</sup>	Total market (in units) <sup>(1)</sup>	Total deliveries (in units)	Market share <sup>(2)</sup>
Light/Super light	<i>Learjet 40 XR/ Learjet 45 XR</i>	<b>282</b>	<b>57</b>	<b>20%</b>	284	56	20%
Midsized	<i>Learjet 60/60 XR</i>	<b>186</b>	<b>23</b>	<b>12%</b>	152	15	10%
Super midsized	<i>Challenger 300</i>	<b>98</b>	<b>51</b>	<b>52%</b>	98	55	56%
Large	<i>Challenger 604/605</i>	<b>70</b>	<b>35</b>	<b>50%</b>	73	29	40%
Super large/Ultra long range	<i>Global 5000/ Global Express XRS</i>	<b>160</b>	<b>48</b>	<b>30%</b>	123	40	33%
Corporate airliner	<i>Challenger 800 Series</i>	<b>67</b>	<b>12</b>	<b>18%</b>	68	18	26%
		<b>863</b>	<b>226</b>	<b>26%</b>	798	213	27%

<sup>(1)</sup> Deliveries in the very light category (275 units in calendar year 2007 and 87 units in calendar year 2006) are not included in the market total shown above as BA has no product offering in this category.

<sup>(2)</sup> Assessment of market share in the business aircraft industry is based on delivery data from GAMA for the calendar year, and thus does not correspond with the number of aircraft deliveries recorded during the Corporation's fiscal years ended January 31. For some competitors, GAMA only provides the information by product family. In those cases, BA estimates the deliveries by category using FAA records, other public databases, historical trends and competitive analyses.

The GAMA report confirms that BA was again the leader in terms of revenues in the business aircraft market categories in which it competes, with 29% revenue market share, and was second in terms of units delivered, with a market share of 26%.

## Competition

As market timing is crucial to the success of a new business aircraft program, and because of the significant investment in design and development required, new aircraft program launches are often indicative of OEMs' confidence in the market going forward. These new aircraft tend to offer more value than older models at similar prices. They can also increase the scope of the overall product offering by increasing the number of categories. As indicated by past trends, an influx of new models stimulates demand, promotes growth in OEM backlogs and sustains deliveries in the first years after entry into service of these new aircraft.

Competition between manufacturers has increased in recent years as new participants have entered various market

categories. BA is the only manufacturer to have launched a new product or derivative during calendar year 2007, the clean-sheet designed *Learjet 85* aircraft, although some competitors have publicly announced or further disclosed their intentions to enter new market categories. In January and March 2008, three competitors formally launched new products in development.

BA has seven main competitors in the business aircraft market categories in which it competes: Cessna Aircraft Company ("Cessna"), a subsidiary of Textron Inc., Hawker Beechcraft Corporation ("Hawker Beechcraft", formerly known as Raytheon Aircraft Company), Gulfstream Aerospace Corporation ("Gulfstream"), a subsidiary of General Dynamics, Dassault Aviation ("Dassault"), Embraer-Empresa Brasileira de Aeronáutica S.A. ("Embraer"), The Boeing Company ("Boeing") and Airbus S.A.S. ("Airbus"). The table hereafter illustrates BA's competitors by category.

	Narrow-body					Wide-body				
	Very light	Light	Super light	Midsize	Super midsize	Large	Super large	Ultra long range	Converted airliners	
BA <sup>(1)</sup>		L40 XR	L45 XR	L60 XR	L85	CL300	CL605	G5000	GEX XRS	CL800 Series
Cessna		◆	◆				◆			
Dassault						◆				
Gulfstream								◆		
Hawker Beechcraft			◆			◆				
Embraer	◆	◆	◆	◆						◆
Boeing										
Airbus										

■ Product in service  
◆ Product under development

<sup>(1)</sup> L refers to *Learjet*, CL to *Challenger*, G to *Global* and GEX XRS to *Global Express XRS*.

## Competitive positioning

With the entry into service of its *Learjet 60 XR* aircraft in the second quarter of fiscal year 2008, BA further strengthened its product portfolio, which is the most complete in the business

aircraft industry. In each category in which it competes, BA offers aircraft with distinct value propositions that respond to customers' needs.

Family of business jets	Value proposition
<i>Learjet</i>	Value relies on its performance based on a combination of speed, handling, time-to-climb and operating ceiling.
<i>Challenger</i>	Value relies on its efficiency together with its combination of speed, range and cabin comfort.
<i>Global</i>	Value relies on its design and performance in terms of speed, long range, additional comfort and advanced technology.

Upcoming product developments are aimed at strengthening these distinct value propositions:

	Aircraft economics	Cabin comfort
<i>Learjet 85</i>	<ul style="list-style-type: none"> <li>Expected to be the first U.S. Federal Aviation Regulations Part 25 certified all-composite structure business aircraft<sup>(1)</sup>, which will provide: <ul style="list-style-type: none"> <li>Less drag and superior aerodynamics;</li> <li>Reduced maintenance; and</li> <li>Extended service life.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Improved cabin volume compared to currently in-service midsize business jets.</li> </ul>
<i>Global Vision</i> flight deck		<ul style="list-style-type: none"> <li>Superior avionics suite aesthetics.</li> <li>Unprecedented level of situational awareness and comfort.</li> </ul>

<sup>(1)</sup> The U.S. Federal Aviation Regulations Part 25 contains airworthiness standards for aircraft in the transport category.

## Market drivers

### U.S. and international economic environment

The U.S. market still remains the single most important market for the sale of business aircraft; however, the international market has grown rapidly in recent years and represented approximately 55% of the worldwide market in calendar year 2007, as measured by orders. Consistent with this trend, BA is becoming less dependent on the U.S. market and has expanded its customer base internationally to 67% of orders received in calendar year 2007, as compared to 59% in calendar year 2006. As noted in the 2007 edition of Merrill Lynch and Capgemini's World Wealth Report, there has been an increase in the number of high net worth individuals in emerging countries such as Russia, China and India.

The weakening of the U.S. dollar in recent years, most notably against the euro, and the stronger economic performance of many emerging countries have helped stimulate sales internationally. The relative strength of the euro versus the U.S. dollar has given European business jet buyers a pricing edge as aircraft are generally sold in U.S. dollars. In fiscal year 2008, the euro appreciated by 14% vis-à-vis the U.S. dollar.

### Pre-owned business jet inventory level and market values

As the inventory level of pre-owned aircraft available for sale increases, their prices may fall, making it more attractive for buyers to purchase pre-owned aircraft. When the availability of pre-owned aircraft for sale on the market is low, their prices may increase, diminishing the price gap to buy a new aircraft and making the choice of a new aircraft more attractive to potential buyers. According to BA's analysis using Jetnet

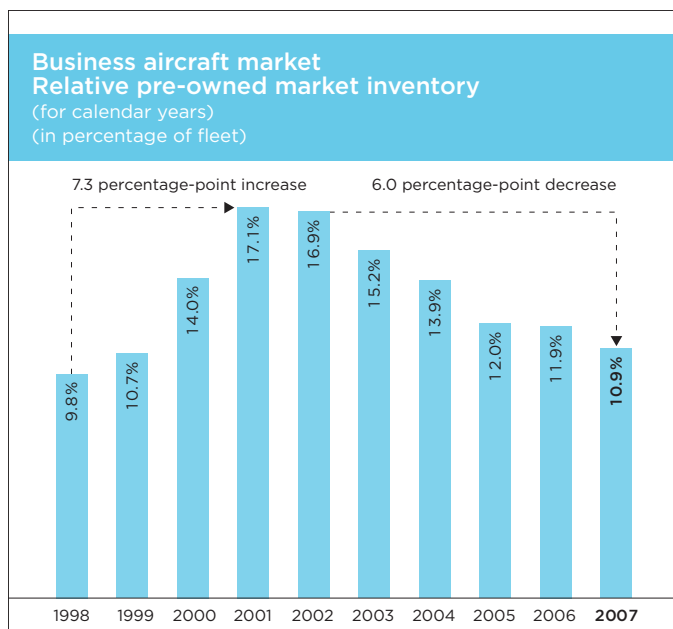
and CASE databases, the absolute number of pre-owned business jets available for sale amounted to 1,655 units as at December 31, 2007, or 10.9% of the in-service fleet, compared to 1,679 units as at December 31, 2006, or 11.9%. This decrease in percentage has contributed to a firming-up of prices of pre-owned aircraft, making the choice of a new aircraft more attractive to potential buyers.

### Non-traditional demand

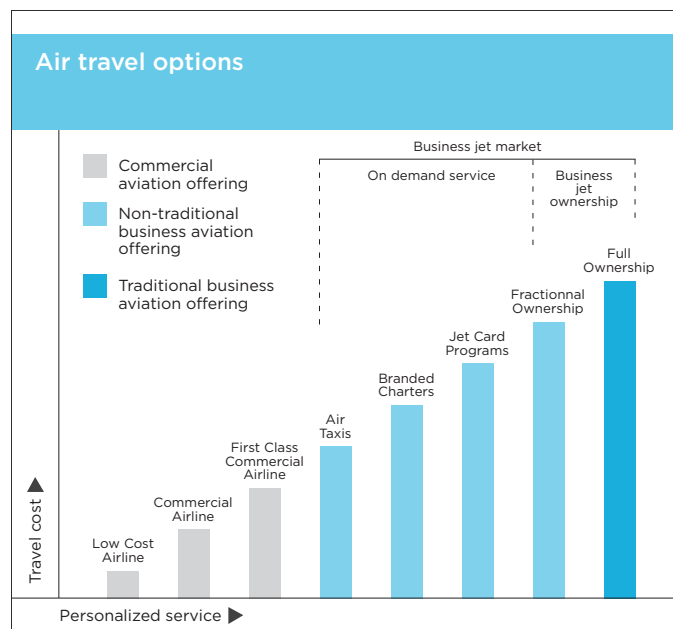
New business models are emerging in response to the demand for affordable personalized business aviation services. Those business models are now filling the value gap between full aircraft ownership and commercial airline offerings.

During their initial growth phase (calendar years 1995 to 2000), fractional ownership programs generated a significant level of new business jet deliveries. According to BA estimates, fractional ownership programs' demand for new aircraft has matured over the last ten years and has stabilized around 10% to 15% of traditional market deliveries.

Air Taxi refers to air carriers providing individual aircraft seats. Branded Charter refers to air carriers who offer their fleet to provide renting services of entire aircraft. Air Taxi and Branded Charter demand could potentially account for a large share of future non-traditional market deliveries. Many Air Taxi companies are basing their service offerings on the use of very light jets, and thus represent the main demand for this market category. Customer acceptance, access to capital and competition from commercial airlines are among the challenges Air Taxi and Branded Charter start-ups will face in executing their business plans.



Source: BA's analysis of Jetnet and CASE databases



## Business aircraft market outlook

The following table illustrates the anticipated trend over the next three calendar years of the above-mentioned market drivers in the market categories in which BA competes:

Market drivers outlook		
Market driver	Trend	Justification
U.S. economic environment	▼	At the date of this report, there is an anticipated slowdown in the U.S. economy. According to the Blue Chip's Economic Indicators February 2008 edition, the probability of a U.S. recession in the next 12 months is approximately 49%. However, according to data provided by Global Insight, Inc. in February 2008, real annual GDP growth is expected to reach 3.0% by calendar year 2010, compared to 2.2% in calendar year 2007. Historically, for the U.S. business jet market, an annual real GDP growth of 3% or more is deemed sufficient to maintain a healthy business jet market.
International economic environment	▲	According to data provided by Global Insight, Inc., it is estimated that average real GDP growth in emerging markets and developing economies will remain above worldwide average real GDP growth levels over the next three calendar years. According to Merrill Lynch and Cag Gemini's World Wealth Report, from calendar year 2006 to 2011, the fastest growth in high net worth individuals' financial wealth will come from the Middle East, Latin America and Asia-Pacific regions. Honeywell's Business Aviation Outlook also stated that the percentage of actual owners who intend to purchase a new business aircraft over the next five calendar years is higher internationally than in the U.S. Emerging markets in China, India, Russia and Eastern European countries offer the most potential for developing business aircraft operations and associated infrastructure.
Pre-owned business jet inventory level and market values	▶	There are no current signs of weakness in the pre-owned business jet market. However, increased new aircraft deliveries could put downward pressure on the market value of pre-owned aircraft in the upcoming years.
Non-traditional demand	▶	According to the UBS Business Jet Monthly dated September 2007, fractional deliveries should continue to represent over 10% of annual industry deliveries going forward, with the majority of fractional deliveries replacing older fractional aircraft fleet.

▲ Indicates a favourable trend in the market categories in which BA competes.

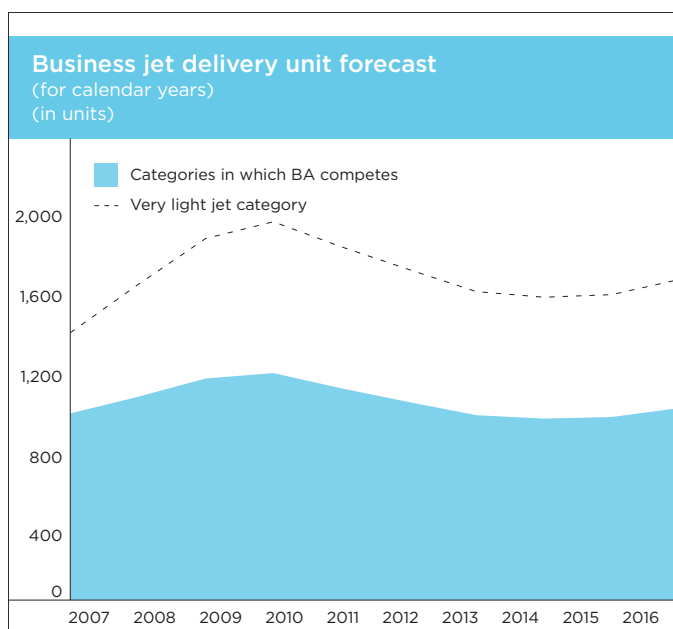
▼ Indicates an unfavourable trend in the market categories in which BA competes.

▶ Indicates a neutral trend in the market categories in which BA competes.

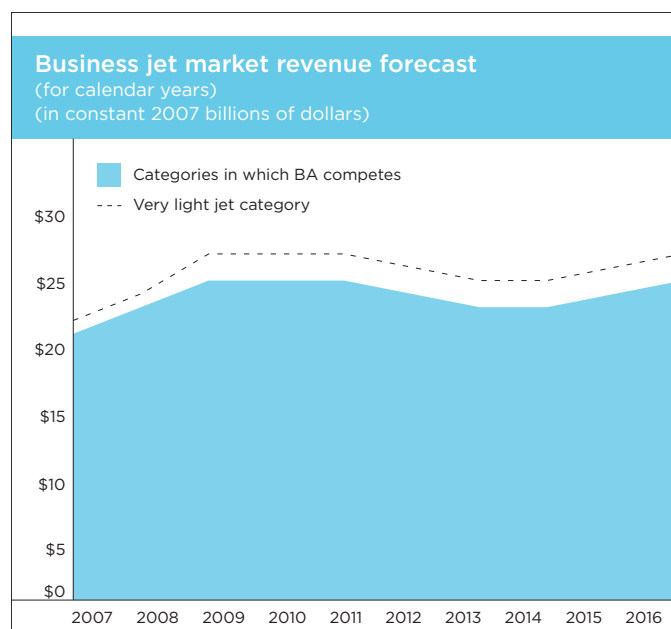
According to the BA Business Aircraft Market Forecast published in September 2007 (based on market driver data available at that time), and confirmed by Honeywell's Business Aviation Outlook also dated September 2007, business aircraft deliveries should remain strong through calendar year 2010. From a longer term perspective, this BA forecast predicts 9,950 aircraft deliveries worldwide in the categories in which BA operates from calendar year 2007 to 2016 (995 aircraft per

year), generating industry revenues of \$228 billion (\$23 billion per year), as compared to 5,722 aircraft and \$104 billion in total revenue over the previous ten calendar years.

Although BA's forecast was based on market driver data available at the time that it was prepared, BA does not expect that using the current market drivers outlook as described above would lead to significant changes in its forecast.



Source: Based on BA's demand model.



## COMMERCIAL AIRCRAFT

### Regional jets and turboprops

#### Market

The assessment of market share is based on the up to 100-seat categories, representing the market in which BA has a product offering. According to publicly available competitor reports, a total of 288 regional aircraft of up to 100 seats was delivered worldwide in calendar year 2007, compared to 245 regional aircraft in calendar year 2006. The 18% increase in the worldwide regional aircraft market, measured by deliveries,

is mainly due to an increase in deliveries in large regional jets and turboprops.

In calendar year 2007, low-fare carriers in Europe and the U.S. have expanded their use of regional jets and turboprops. Emerging economies are also contributing to the growth of regional airlines, employing both new and pre-owned aircraft.

	Calendar year 2007			Calendar year 2006		
	Total market (in units)	BA		Total market (in units)	BA	
		Total deliveries (in units)	Market share <sup>(1)</sup>		Total deliveries (in units)	Market share <sup>(1)</sup>
Regional jets	184 <sup>(2)</sup>	61	33%	173 <sup>(2)</sup>	78	45%
Turboprops	104 <sup>(3)</sup>	60	58%	72 <sup>(3)</sup>	48	67%
	<b>288</b>	<b>121</b>	<b>42%</b>	245	126	51%

<sup>(1)</sup> Assessment of market share in the regional aircraft industry is calculated on the basis of aircraft deliveries recorded during the calendar year, which does not correspond to the number of aircraft deliveries recorded during the Corporation's fiscal years ended January 31.

<sup>(2)</sup> 40- to 100-seat aircraft.

<sup>(3)</sup> 20- to 90-seat aircraft.

Source: Competitor reports publicly available.

BA delivered 121 regional aircraft in calendar year 2007, compared to 126 regional aircraft in calendar year 2006, resulting in a market share of 42% in the markets in which it has a product offering. The nine percentage-point decrease in market share compared to calendar year 2006 is mainly explained by:

- An increase in the number of 100-seat aircraft deliveries in calendar year 2007 compared to calendar year 2006, which is an aircraft category for which BA is currently developing its *CRJ1000 NextGen* aircraft.
- For regional jets, adjustments in the production rate made during fiscal year 2007 limited the number of aircraft available for delivery in fiscal year 2008. However, as a result of the increasing number of regional jet firm orders since that time, a decision was made in the second quarter of fiscal year 2008 to increase the production rate for the *CRJ700 NextGen* and *CRJ900 NextGen* aircraft from a rate of one aircraft every five days to a rate of one aircraft every four days. In addition, in the third quarter




of fiscal year 2008, it was decided to further increase the production rate to one aircraft every three days. Due to the timing of these production rate adjustments, BA expects to produce 64 aircraft in fiscal year 2009 and further benefit from these adjustments in later fiscal years.

- For turboprops, BA increased deliveries by 25%, but could not increase them further as a result of a challenging production rate adjustment in its supply base.

## Competition

BA's main competitors are Embraer in the regional jet category and Avions de Transport Régional ("ATR") in the turboprop category. Additional companies currently developing competitive products in the regional jet category include AVIC I Commercial Aircraft Co. ("AVIC I"), Mitsubishi Heavy Industries Ltd. ("MHI") and Sukhoi Company (JSC) ("Sukhoi").

The table below illustrates BA's main competitors in the up to 100-seat categories, representing the market in which BA had a product offering.

	Regional jets				Turboprops		
	20 - 39	40 - 59	60 - 79	80 - 100	20 - 39	40 - 59	60 - 90
<b>BA</b>		<i>CRJ200</i>	<i>CRJ700/705<sup>(1)</sup></i>	<i>CRJ900<sup>(1)</sup></i> 	<i>Q200<sup>(2)</sup></i>	<i>Q300<sup>(2)</sup></i>	<i>Q400<sup>(1)</sup></i>
Embraer							
AVIC I							
MHI							
Sukhoi							
ATR							

■ Product in service

◆ Product under development

<sup>(1)</sup> *NextGen* aircraft models.

<sup>(2)</sup> Subsequent to January 31, 2008, BA decided that the *Q200* and *Q300* aircraft will no longer be offered.



## Competitive positioning

BA believes that it is well positioned in the regional jet and regional turboprop categories, due to the economic advantage of its products and family commonality benefits across the 40- to 100-seat *CRJ* Series aircraft and across the 37- to

78-seat *Q-Series* aircraft. According to an Air Transport World publication dated January 2008, BA's regional aircraft are in service with 11 of the world's 20 largest airlines, their subsidiaries or affiliated companies.

Aircraft	Value proposition
<i>CRJ NextGen</i> family	Value relies on lower operating costs (the aircraft's closest competitor has up to 15% higher trip cash operating costs, under certain operating conditions), lower weight and reduced fuel burn resulting in reduced greenhouse gas emissions compared to the nearest competitors, product commonality including common crew qualifications, spare parts and maintenance procedures, an all-new cabin and an increased use of composite materials.
<i>Q400 NextGen</i>	Value relies on operating costs being the lowest of any regional aircraft on flights up to 500 nautical miles under certain operating conditions, thus further satisfying the economic demands of airlines in short-haul sectors. It also provides jet-like speed on shorter routes and an extended range, which allow regional airlines to operate the <i>Q400 NextGen</i> aircraft in markets not traditionally served by turboprops, as well as Active Noise and Vibration Suppression (ANVS) system improving cabin comfort and reduced carbon dioxide and other gaseous emissions.

Upcoming product developments are aimed at strengthening the economic advantage of BA regional jets and to offer aircraft with distinct value propositions that respond to customers' needs.

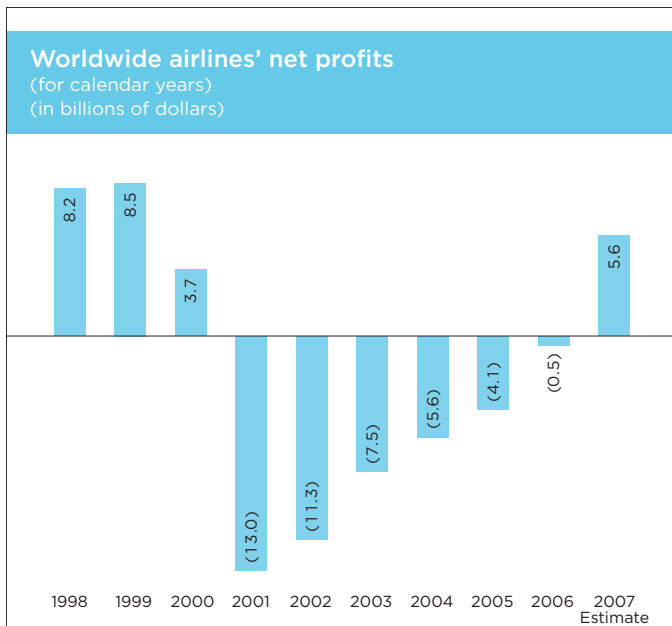
Aircraft	Aircraft economics	Cabin comfort and performance	Environmental footprint <sup>(1)</sup>
<i>CRJ1000 NextGen</i>	<ul style="list-style-type: none"> <li>Low operating costs; the aircraft's closest competitor has up to 15% higher trip cash operating costs under certain operating conditions.</li> <li>Approximately 90% parts commonality with other <i>CRJ</i> aircraft family members and common crew qualifications.</li> </ul>	<ul style="list-style-type: none"> <li>A maximum range of up to 2,926 kilometres (1,580 nautical miles) with 100 passengers, under certain operating conditions.</li> <li>Improvements in cabin comfort.</li> </ul>	<ul style="list-style-type: none"> <li>Substantially lower fuel consumption compared to older-generation aircraft of similar seat capacity currently in operation.</li> <li>Up to 30% reduced carbon dioxide emissions.</li> </ul>

<sup>(1)</sup> The environmental footprint is a measure of the aircraft's burden on the environment, including greenhouse gas emissions, energy consumption, air pollutant releases and water discharges.

## Market drivers

### Economic environment

A strong worldwide economy in calendar year 2007 has led to an upswing in the aviation industry. According to the International Air Transport Association (“IATA”) Financial Forecast dated March 2008, it is estimated that the worldwide airline industry reached overall profitability for the first time since calendar year 2000, with a net profit of \$5.6 billion in calendar year 2007, compared to a net loss of \$0.5 billion in calendar year 2006.



Source: IATA

### Fuel prices and environmental regulations

Fuel is an important variable component of airlines' costs, and significantly impacts their profitability. New environmental regulations related to the aviation industry are also putting additional pressure on airlines to renew their fleets with more fuel-efficient aircraft thereby reducing their environmental footprint.

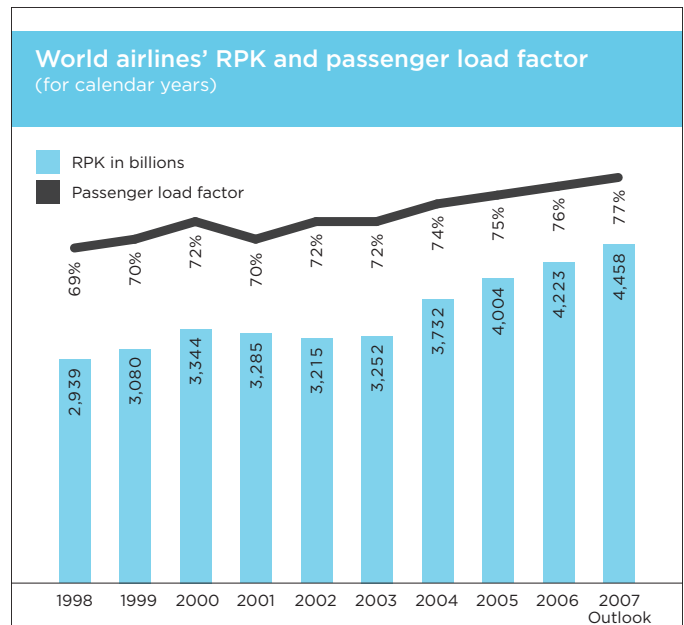
The sustained high prices of crude oil since mid-2003 calendar year and the recent increases continue to put pressure on airlines' results. Turboprop economics, built on significantly lower fuel, maintenance and acquisition costs for short-haul flights up to 500 nautical miles compared to similarly sized jets, have become more appealing in a higher fuel price environment.

### Demand for air travel

Mainline airlines continue to outsource routes to their regional airline partners to reduce costs. Regional airlines are shifting new aircraft purchases to larger-capacity aircraft. This shift is due to the lower seat-kilometre costs offered by larger aircraft, which help maintain the airlines' profitability even in a depressed fare environment.

Demand for air travel can be assessed through the following:

- revenue Passenger Kilometres (“RPK”), which is a measure of paying passenger traffic and represents passenger demand for air transport (defined as one fare-paying passenger transported one kilometre, expressed in billions);
- available Seat Kilometres (“ASK”), which is a measure of available passenger capacity (defined as one seat carried for one kilometre, whether a passenger occupies it or not); and
- passenger load factor is a measure of the health of the airline industry (defined as the number of passengers flown divided by seat capacity (RPK/ASK)). High passenger load factors indicate demand for larger-capacity regional aircraft in order to satisfy high traffic demand.



Source: Airline Monitor

According to Airline Monitor's January/February 2008 publication, worldwide passenger traffic measured in RPK was forecasted to increase by 5.6% in calendar year 2007 compared to calendar year 2006. In the same time period, average passenger load factors increased from 76% to 77%, representing the sixth consecutive year of growth. Since calendar year 1992, the combined passenger traffic of the European Regional Airline Association (ERAA) and the U.S. Regional Airlines Association (RAA) has increased by 7.5% per year, significantly outpacing the industry average for worldwide airlines.

### Aircraft financing

Since aircraft ownership costs represent a significant portion of regional airlines' operating expenses, the availability of competitive aircraft financing is an important part of the aircraft purchase process. Although regional aircraft financing remains challenging, regional airlines were able to

access improved lending and leasing markets in 2007. BA continues to work closely with leading financial institutions and government agencies to assist its regional airline customers in obtaining financing.

In addition, the Organisation for Economic Co-operation and Development (OECD) countries plus Brazil have agreed to a new Aircraft Sector Understanding (ASU), which came into effect in July 2007. The purpose of the ASU is to provide a framework for the predictable, consistent and transparent use of officially supported export financing for the sale and lease of aircraft and related goods and services.

### Scope clauses

In the U.S. and Europe, the pilot scope-clause environment continues to evolve to gradually permit a higher number of larger regional jets to be flown by regional airlines affiliated with mainline airlines through a code-sharing agreement.

### Regional aircraft market outlook

The following table illustrates the anticipated trend over the next three calendar years of the above-mentioned market drivers in the market categories in which BA competes.

#### Market drivers outlook

Market driver	Trend	Justification
Economic environment	▶	According to data provided by Global Insight, Inc. in February 2008, worldwide economic growth should average 3.5% for the next three calendar years with the higher growth rates in developing markets. The IATA Financial Forecast dated March 2008 forecasts that total airline industry net profits will remain positive at \$4.5 billion for calendar year 2008.
Fuel prices and environmental regulations	▶	Fuel is an important variable component of airlines' profitability but is also a positive driver for larger, more efficient regional jets and turboprops. According to the Financial Forecast dated March 2008, IATA predicts that fuel costs will represent 32% of total airline costs by calendar year 2008, up from 14% in calendar year 2003.
Demand for air travel	▲	According to the IATA Economic Briefing dated October 2007, passenger demand in domestic markets is predicted to increase by 5.3% per year between calendar year 2007 and 2011 compared to an average rate of 4.4% between calendar year 2002 and 2006. Regional airlines have benefited and will continue to benefit from growth in passenger demand. The demand for larger capacity regional aircraft is driven by this growth and will continue to push regional airline requirements toward larger capacity aircraft.
Aircraft financing	▶	Although regional aircraft financing remains challenging, regional airlines should continue to be able to access lending and leasing markets in the near future. However, the current turmoil in global credit markets could affect airlines' ability to obtain permanent financing.
Scope clauses	▲	In the medium term, the relaxation of pilot scope clauses appears to be trending from 50-seat aircraft toward 100-seat aircraft. These changes will progressively affect the regional airline industry over the next few years.

▲ Indicates a favourable trend in the market categories in which BA competes.

▶ Indicates a neutral trend in the market categories in which BA competes.

According to the BA Commercial Aircraft Market Forecast published in June 2007, BA estimates that the worldwide regional airline fleet will grow from the current 5,200 aircraft to 7,900 aircraft (net of 2,600 retired aircraft) by calendar year 2026. From calendar year 2007 to 2026, BA forecasts 5,300 deliveries worldwide of regional aircraft, estimated to be worth \$166 billion. North America and Europe will continue

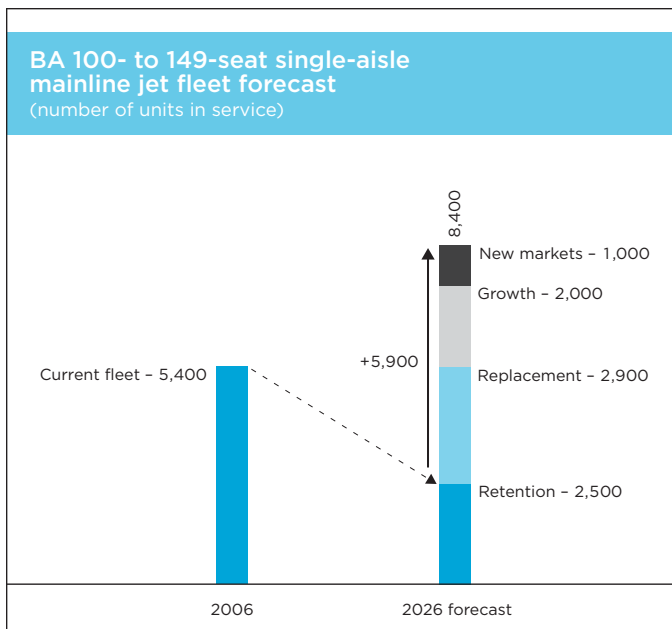
to represent the largest markets. The highest capacity growth rate is expected to be in China and India.

Although BA's forecast was based on market driver data available at the time that it was prepared, BA does not expect that using the current market drivers outlook described above would lead to significant changes in its forecast.

## Single-aisle mainline jets

The 100- to 149-seat commercial aircraft market segment provides the foundation for a future wave of industry growth. This segment was key in the development of the mainline carriers of today and currently has an estimated 5,400 aircraft in service. From the 1960s through the 1980s, this segment represented the staple of the mainline fleet and was comprised of five-abreast aircraft such as the DC9 and MD80, originally manufactured by the Douglas Aircraft Company and the McDonnell Douglas Corporation respectively, and the six-abreast Boeing 737-200/300/400 families of aircraft.

Driving the demand in this segment will be the retirement of a large number of aircraft currently in service. As unit cost, environmental and right-sizing pressures increase; new and efficient jets will replace thousands of old-generation types of aircraft. According to the BA Commercial Aircraft Market Forecast published in June 2007, BA estimates 5,900 new aircraft deliveries in the 20-year period up to calendar year 2026, and that 54% of the current in-service aircraft fleet is to be retired in the same period.



BA's target is to achieve 50% of the market with the *CSeries* family of aircraft. The *CSeries* family of aircraft is specifically designed for the five-abreast lower end of the 100- to 149-seat mainline commercial aircraft market category. The aircraft design will incorporate the latest technologies:

- new, largely composite and aluminum-lithium alloy structure;
- latest systems include fly-by-wire combined with fourth-generation aerodynamics; and
- Pratt & Whitney's next-generation high-bypass Geared Turbofan engine.

The *CSeries* family of 110- and 130-seat aircraft, for which a launch decision is expected in fiscal year 2009, will produce, under certain operating conditions<sup>(1)</sup>:

- up to 20% lower fuel burn;
- unmatched reductions in noise and emissions;
- unprecedented combination of field length and range performance; and
- up to 15% better overall cash operating costs.

## AIRCRAFT SERVICES

According to a 2007 publication by AeroStrategy Management Consulting, there is an overall increase in industry demand for aircraft services, which is influenced by a number of factors, including the size and aging of fleets, an overall increase in aircraft utilization, and a trend toward outsourcing maintenance, repair and overhaul operations. The rationalization activities initiated by many regional airlines have also provided some opportunities for aircraft maintenance services. In addition, the increased level of business aircraft deliveries during fiscal year 2008 has had a positive impact on commercial training services.

As a result, the demand for total in-service fleet management support, including comprehensive spare parts and service programs ("one-stop shopping"), is expected to continue to grow. As the aircraft designer, system integrator and manufacturer of a large installed base of business and regional aircraft currently in service around the world, BA's competitive strengths rely on its ability to assess the life cycle costs incurred by its customers and design life cycle solutions to optimize cost savings and aircraft availability. BA is at an advantage to capitalize on this growth by offering OEM certification along with OEM technical advice.

<sup>(1)</sup> Compared to current competing aircraft in the lower end of the 100- to 149-seat, five-abreast mainline aircraft market category, which includes the Airbus A318 and A319, Boeing 737-600W and 737-700W and Embraer 195 aircraft.

## STRATEGIES AND CAPABILITY TO DELIVER RESULTS

### Vision and goal

BA's vision is "Giving people wings, around the world, through innovation, pride and setting the highest standard for excellence". The primary financial goal of BA is to continue to implement its plan to improve EBIT. The goal established in fiscal year 2006 was EBIT margin of 8% to be achieved by fiscal year 2010. There were three main areas of focus for EBIT margin improvement:

- reduction in EOAPC;
- expense reduction and operational improvement; and
- non-aircraft margin improvement.

Effective February 1, 2008, the Corporation has changed its accounting policy for aerospace programs from the average cost method to the unit cost method to comply with new accounting standards. The remaining EOAPC balance of \$277 million as at that date has been written off to opening retained earnings and the EOAPC charge to income will be nil for fiscal year 2009. This has accelerated the planned reduction in EOAPC and will likely result in meeting the 8% EBIT margin target earlier than planned. As a result, the focus is now concentrated on the other two elements of the EBIT improvement plan.

### Key success factors

The competitive factors in the current business and commercial aircraft markets include: aircraft price, aircraft operating costs, product quality and reliability, cabin size and comfort, aircraft range, speed, as well as product and service support. BA believes that in the current business environment, key success factors include the following:

- competitive performance of existing products and services in specific target markets, as well as continuous development of innovative products and services that meet customer demand and industry challenges;
- ability to deliver an amazing customer experience through all customer interaction points;
- effective industrial strategy and supply chain management; and
- ability to benefit from increasing market opportunities in Russia and Eastern Europe, China and India.

### STRATEGIES

In order for BA to sustain its competitive advantage in the market segments in which it competes and to capture future opportunities, BA has aligned its current strategies with these key success factors and is focusing on four strategic cornerstones:

Product strategy	Services strategy	Industrial strategy	Capital employed strategy
Continuous development of innovative products and technologies that meet customer demand and industry challenges.	Provide customers with total life cycle solutions that address the complete aftermarket experience and help deliver an amazing customer experience.	Improve performance of current operations and optimize industrial networks.	Optimize cash flow through the effective management of operations and working capital.

## Product strategy

**Goal**

- Continuously invest in the development of innovative products and technology and leverage past investment in product platforms in order to provide customers with an innovative product offering with superior aircraft economics, cabin comfort, speed, range and environmental footprint.

**Leading initiatives**

BA's initiatives will focus on:

- developing competency and capability in the areas of advanced composites, new metallic materials, electrical components such as fly-by-wire technology, emerging technologies and novel future aircraft configurations, as well as enhancing engineering core competencies;
- continuously enhancing the existing product offering; and
- building on the significant installed base of regional jets and turboprops, and concentrating the regional aircraft portfolio on larger-capacity regional jets and turboprops while maintaining product commonality.

**Fiscal year 2008 highlights**

### *Business aircraft*

- Launched the all-new *Learjet 85* aircraft, in October 2007, which is set to redefine the midsize jet category with an all-new composite structure. Initial market interest in this next-generation offering is strong, as BA has received more than 100 funded letters of intent from potential customers for this aircraft as at January 31, 2008.
- Unveiled in September 2007, the new *Global Vision* flight deck for *Global 5000* and *Global Express XRS* aircraft. Flight deck enhancements include improved avionics system features and functionalities, increased situational awareness and comfort as well as superior design aesthetics.

### *Regional aircraft*

- Launched the *CRJ1000 NextGen* aircraft and introduced the next-generation versions of its *CRJ700* and *CRJ900* regional jets, all of which are designed to meet customer demand in terms of improved aircraft economics, cabin comfort and a reduced environmental footprint. The *CRJ1000 NextGen* regional jet is designed specifically to meet the growing needs of regional airlines for jets up to 100 seats. First flight is scheduled for mid-fiscal year 2009 and entry into service is scheduled for the fourth quarter of fiscal year 2010.
- Introduced the new *Q400 NextGen* turboprop in March 2008 as the next step in the continuing evolution of the *Q400* aircraft. Revised in the same spirit as the *CRJ NextGen* family, the *Q400 NextGen* aircraft remains one of the most technologically advanced turboprop.

### *Single-aisle mainline jets*

- Announced on February 22, 2008, that the Board of Directors had granted BA the authority to offer formal sales proposals to customers for the optimized *CSeries* family. A launch decision is expected in fiscal year 2009 with an entry into service scheduled for calendar year 2013.
- As part of the *CSeries* development, a Memorandum of Understanding was signed with AVIC I, during the second quarter of fiscal year 2008, subject to the execution of definitive agreements.

### *Other*

- Cooperated with leading industry organizations, as well as with the governmental and scientific community through research programs or partnerships like the Integrated Wing and Environmentally Friendly Engine UK national research programs aimed at improving the environmental performance of BA's aircraft.

## Services strategy

Goals	<ul style="list-style-type: none"> <li>• Provide customers with total life-cycle solutions that address the complete aftermarket experience and deliver an amazing customer experience.</li> <li>• Capture a greater share of the currently estimated \$3.6 billion annual aftermarket business generated from its growing installed base of more than 5,600 business, regional and amphibious aircraft currently in service around the world.</li> </ul>
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Leading initiatives	<p>BA believes that constant developments and improvements in its service offerings is an essential part of meeting the growing demand from its customers and delivering an amazing customer experience. These initiatives will focus on:</p> <ul style="list-style-type: none"> <li>• migrating toward a fleet management support business model to meet customer requirements;</li> <li>• expanding its parts logistics and aircraft maintenance network to better support its customers around the world; and</li> <li>• expanding and diversifying <i>Flexjet's</i> product portfolio to capture growth opportunities in the non-traditional demand markets.</li> </ul>
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Fiscal year 2008 highlights	<p>BA is in line with its plan to increase service levels and offerings and capture a greater share of the aftermarket business.</p> <p><i>Expansion of the after-market network</i></p> <ul style="list-style-type: none"> <li>• Opened two new spare parts depots in São Paulo, Brazil, and in Narita, Japan, designed to provide 24-hour spare parts support.</li> <li>• Expanded its maintenance and service capabilities at three Business Aircraft authorized service facilities ("ASF") in Switzerland, Germany and Brazil.</li> <li>• Certified a recognized regional aircraft service facility in Australia.</li> </ul> <p><i>Flexjet</i></p> <ul style="list-style-type: none"> <li>• Diversified its offering by launching <i>Flexjet One</i>, an aircraft management solution for owners interested in purchasing a whole aircraft and having it managed by <i>Flexjet</i>, and by marketing <i>Flexjet 25</i> jet cards on behalf of Jet Solutions, L.L.C.</li> <li>• Expanded its in-service fleet in North America, from 93 aircraft as at January 31, 2007, to 99 aircraft as at January 31, 2008, mainly due to the continued popularity of the <i>Challenger 300</i> aircraft and the <i>Learjet 40 XR</i> aircraft.</li> </ul> <p><i>Commercial training</i></p> <ul style="list-style-type: none"> <li>• Signed a 20-year agreement with a third-party to become a BA authorized training provider for the <i>Global</i> family of aircraft and the <i>Challenger 300</i> aircraft.</li> </ul>
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## Industrial strategy

Goal	Improve profitability, liquidity and capital employed through: <ul style="list-style-type: none"><li>• improving the performance of current operations; and</li><li>• optimizing industrial networks.</li></ul>
Leading initiatives	These initiatives will focus on: <ul style="list-style-type: none"><li>• implementing operational improvement initiatives such as Achieving Excellence, lean manufacturing and supplier development, which are aimed at improving current operations and reducing waste;</li><li>• further developing the manufacturing base in low-cost countries, which is intended to complement BA's third-party supply base and contribute to reducing operating costs; and</li><li>• selective outsourcing of engineering activities and business process operations to external providers based in India to support its core activities and reduce costs.</li></ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"><li>• Continued implementation of lean manufacturing initiatives, with the pursuit of low-cost sourcing initiatives and improvements in overall operations.</li><li>• Started operations in a new facility next to Querétaro airport in Mexico to complement existing manufacturing sites. Since the start of operations in May 2006, the manufacturing site has created over 900 jobs and is still ramping-up production.</li><li>• Transferred Q400 work packages to Querétaro, Saint-Laurent and Belfast facilities and to AVIC I's Shenyang Aircraft Corporation ("SAC") in China from previous supplier.</li><li>• Signed long-term titanium and aluminum sourcing agreements with suppliers, limiting the exposure to price fluctuations and ensuring supply availability.</li><li>• Selected AVIC I's SAC as a structural supplier on the CSeries aircraft program, should it be launched.</li></ul>

## Capital employed strategy

Goals	<ul style="list-style-type: none"><li>• Optimize cash flow through the effective management of operations and net segmented assets, mainly inventories, advances from customers and capital expenditures.</li><li>• Generate free cash flow in line with EBIT.</li></ul>
Leading initiatives	<ul style="list-style-type: none"><li>• Improve inventory turnover through lean manufacturing initiatives and the Achieving Excellence program.</li><li>• Target capital expenditures to improve productivity, increase quality and support product development and planned growth.</li><li>• Establish risk-sharing partnerships with key suppliers and governments to support product development.</li><li>• Assist regional aircraft customers in timing their permanent financing to coincide with aircraft delivery thereby limiting interim aircraft financing.</li></ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"><li>• Improved free cash flow by \$862 million to \$1.7 billion, after payment of discretionary pension fund contributions totalling \$249 million.</li><li>• Decreased inventories and increased total advances from customers in excess of related costs.</li><li>• Reduced aircraft interim financing to nil as at January 31, 2008, compared to \$460 million as at January 31, 2007.</li></ul>

In fiscal year 2008, BA made significant progress toward its primary financial goal through continued focus on the four strategic cornerstones and leading initiatives. BA is confident that its primary financial goal will be attained.



## CAPABILITY TO DELIVER RESULTS

While determined to increase its competitive advantage and capture future opportunities for its aircraft product and service offerings through existing strategies, the primary financial goal of BA is to continue implementing its plan to improve EBIT. The plan is anchored by three priorities, which have been widely communicated, understood, and can be articulated by employees at all levels of the organization:

- engage all employees and provide a safe and rewarding workplace;
- provide an amazing customer experience; and
- reduce operating costs through waste elimination.

BA has put in place many initiatives to support the above priorities, the most significant of which are the following:

- the Achieving Excellence program;
- talent management;
- health and safety;
- amazing customer experience;
- lean manufacturing/waste elimination initiatives; and
- supplier development and sourcing initiatives.

### Achieving Excellence program

The Achieving Excellence program is an engaging initiative that impacts all other BA initiatives since it provides all business units and functions with a continuous improvement roadmap based on five levels from Bronze to Platinum, that defines and integrates world-class best practices. The setting of Key Performance Indicators (“KPIs”) and the implementation of a certification and recognition plan support and measure the achievement of sustained performance levels.

INITIATIVE	Achieving Excellence program
Goals	<ul style="list-style-type: none"> <li>• Achieve world-class best practices.</li> <li>• Constantly and progressively improve performance, as measured by the KPI and certification levels reached.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Continue to roll out the Achieving Excellence program to achieve 100% of work cells certified Bronze and 90% of work cells to be qualified Silver by the end of fiscal year 2009.</li> <li>• Launch enriched version of the current program, called the Achieving Excellence system, at pilot sites in Belfast, Saint-Laurent and Mirabel. This enriched version will integrate lean manufacturing principles and will ensure that BA's progress toward world-class performance is supported and that momentum is maintained.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Increased the number of employees that are certified Bronze from 62% to 94% as at January 31, 2008.</li> <li>• 6% of work cells achieved Silver certification as at January 31, 2008.</li> </ul>

INITIATIVE	Talent management
Goal	<ul style="list-style-type: none"> <li>• Develop talent management tools and processes.</li> </ul>
Leading initiative	<ul style="list-style-type: none"> <li>• Focus Annual Leadership Review process on top talent discussion and key positions succession, and hold ongoing talent management discussions throughout the year as part of the governance process.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Implemented Talent Acceleration Pool (“TAP”) process in all business units and functions, where top high-potential employees are appointed to participate in an “accelerated” development process through stretch job/assignment, special projects, feedback and coaching. Each TAP appointee works with an assigned learning-coach and is rigorously monitored by a central human resources system.</li> <li>• Improved initiatives to streamline the Annual Leadership Review process and focused more on talent discussion.</li> </ul>

INITIATIVE	Health & safety
Goal	<ul style="list-style-type: none"> <li>Enhance occupational health and safety standards and leverage best practices across all manufacturing sites. In order to achieve its health and safety objectives, BA strongly believes that partnerships with unions and sharing best practices among sites are essential.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>Reduce frequency of accidents ratio to 1.1 accidents per 200,000 hours worked, including hours worked for restricted duty.</li> <li>Reduce severity of accident ratio to 32 days lost due to accidents per 200,000 worked hours, including hours worked for restricted duty.</li> <li>Have 100% of manufacturing and service sites with more than 150 employees certified to the standard of the Occupational Health and Safety Audit System (“OHSAS”) 18001 by the end of fiscal year 2010.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>Belfast facilities received OHSAS 18001 certification in December 2007. Most of the other sites have started to implement prevention activities based on helping employees adapt health and safety principles in their work habits.</li> <li>Toronto facilities passed a successful OHSAS maintenance audit.</li> <li>All Montréal and Wichita facilities have been audited for OHSAS compliance in 2007 with no major non-compliance items identified.</li> <li>Reduced frequency of accidents ratio to 1.23 accidents per 200,000 hours worked, including hours worked for restricted duty, compared to 1.53 accidents in fiscal year 2007.</li> </ul>

INITIATIVE	Amazing customer experience
Goal	<ul style="list-style-type: none"> <li>Improve customer satisfaction through all customer interactions, by providing a consistently reliable experience throughout the purchase, delivery and support process. This is a BA-wide effort that encompasses both business and commercial aircraft.</li> </ul>
Leading initiatives	<p>Continue to improve customer satisfaction through all customer interactions:</p> <p><i>Delivery</i></p> <ul style="list-style-type: none"> <li>Improve aircraft completion cycle time for business aircraft customers.</li> <li>Continue to focus on product improvements to enhance product reliability.</li> <li>Improve aircraft on-time delivery performance.</li> </ul> <p><i>Support</i></p> <ul style="list-style-type: none"> <li>Continue parts availability and regional depot inventory optimization plan.</li> <li>Further expand regional support office network for commercial aircraft customers.</li> <li>Provide additional field service support, maintenance and service capabilities to enhance international support capabilities.</li> <li>Improve AOG return-to-service cycle time.</li> </ul>

INITIATIVE	Amazing customer experience (cont'd)
Fiscal year 2008 highlights	<p data-bbox="428 218 1016 239"><i>Improved parts availability and delivery performance</i></p> <ul data-bbox="428 254 1484 464" style="list-style-type: none"> <li>• Opened two new spare parts depots in São Paulo, Brazil, and in Narita, Japan.</li> <li>• Implemented a new parts inventory program, earmarking more than \$25 million toward stocking additional quantities of the top 25 high-demand parts. The program targets the parts distribution network for current production of <i>Learjet</i>, <i>Challenger</i> and <i>Global</i> aircraft models.</li> <li>• Reduced cycle time and improved on-time delivery on most aircraft programs through lean manufacturing initiatives.</li> <li>• Improved overall parts availability and delivery performance.</li> </ul> <p data-bbox="428 474 813 495"><i>Launched additional AOG services</i></p> <ul data-bbox="428 510 1507 684" style="list-style-type: none"> <li>• Launched integrated 24/7 customer response centres in Wichita (<i>Learjet</i>) and Montréal (<i>Challenger</i> and <i>Global</i>) for AOG services for business aircraft customers and continued to improve the regional customer response centres in Toronto and Montréal.</li> <li>• Launched the dedicated AOG parts delivery service <i>Parts Express</i> for <i>Learjet</i>, <i>Challenger</i> and <i>Global</i> aircraft operators, aiming to leverage on the flexibility of the <i>Flexjet</i> aircraft fleet for AOG parts deliveries in the U.S.</li> </ul> <p data-bbox="428 695 737 716"><i>Expanded support network</i></p> <ul data-bbox="428 730 1377 848" style="list-style-type: none"> <li>• Expanded its maintenance and service capabilities at three business aircraft authorized service facilities.</li> <li>• Certified a fourth recognized regional aircraft service facility.</li> <li>• Opened a regional support office in Japan for regional aircraft customers.</li> </ul>

INITIATIVE	Lean manufacturing/waste elimination initiatives
Goal	<ul data-bbox="428 978 1459 1035" style="list-style-type: none"> <li>• Eliminate waste in the manufacturing processes and align production with customer demand in order to reduce costs and increase quality.</li> </ul>
Leading initiatives	<ul data-bbox="428 1052 1360 1140" style="list-style-type: none"> <li>• Further deploy and integrate lean manufacturing principles at pilot facilities in Belfast, Saint-Laurent and Mirabel through the Achieving Excellence system.</li> <li>• Continue to identify potential improvements across the manufacturing network.</li> </ul>
Fiscal year 2008 highlights	<ul data-bbox="428 1157 1484 1274" style="list-style-type: none"> <li>• Reduced cost through lean initiatives in production facilities.</li> <li>• Continued to invest in automated equipment to increase productivity, quality and reduce costs, for example, by planning the deployment of a new robotics assembly system at the Saint-Laurent facility in partnership with the National Research Council of Canada ("NRC").</li> </ul>

INITIATIVE	Supplier development and sourcing initiatives
Goal	<ul style="list-style-type: none"> <li>• Improve level of delivery and quality performance in the supply base.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Improve supply chain risk management processes to achieve better lead-time control, multi-program coordination and capacity planning.</li> <li>• Perform a proactive assessment of the supply base performance and risks, with on-site intervention teams to help suppliers recover from supply difficulties.</li> <li>• Continue the deployment of joint multi-disciplinary teams to proactively work with the supply chain.</li> <li>• Secure additional competitive value proposition, including long-term inflation protection on new and existing programs through commodities strategies.</li> <li>• Launch the supplier scorecard and performance management process, as part of the active deployment of the supplier development approach.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Signed agreements that cover both manufacturing and aftermarket requirements with suppliers, limiting the exposure to price fluctuations and ensuring availability of supply.</li> <li>• Extended commodities strategies to include aftermarket commodities.</li> <li>• Deployed supplier development approach, including creation of a multi-site supplier development team for commodities presenting high operational risk.</li> </ul>

Since the launch of these initiatives, BA has made progress toward the three priorities and has engaged the whole organization through these initiatives in focused improvement efforts.

## ANALYSIS OF RESULTS

The record level of order intake and revenues achieved in fiscal year 2008 illustrate the solid competitiveness of BA's product and service portfolio, despite increased pressure from competitors. The progress realized over the last three fiscal years, centered on the three priorities and supported through various initiatives such as lean manufacturing/waste elimination initiatives and the Achieving Excellence program, have contributed to the steady improvement in the EBIT margin from 2.5% in fiscal year 2005 to 5.8% in fiscal year 2008.

### *Important notice regarding the predictive value of the historical financial information*

Effective February 1, 2008, the Corporation has changed its accounting policy for aerospace programs from the average cost method to the unit cost method to comply with new accounting standards. Accordingly, the EOAPC charge to income will be nil for fiscal year 2009, compared to \$271 million in fiscal year 2008 (see Accounting and reporting developments in the Other section of this MD&A).

## Results of operations

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007 <sup>(1)</sup>	2008	2007 <sup>(1)</sup>
Revenues				
Manufacturing:				
Business aircraft	\$ 1,453	\$ 1,304	\$ 4,673	\$ 3,907
Regional aircraft	759	604	2,503	2,139
Other	140	127	438	400
Total manufacturing revenues	2,352	2,035	7,614	6,446
Services <sup>(2)</sup>	415	362	1,542	1,334
Other <sup>(3)</sup>	126	192	557	516
Total revenues	2,893	2,589	9,713	8,296
Cost of sales	2,461	2,205	8,216	7,025
Margin	432	384	1,497	1,271
Selling, general and administrative	163	149	552	474
Research and development	13	16	37	78
Other expense (income) <sup>(4)</sup>	(39)	(34)	(58)	(12)
EBITDA	295	253	966	731
Amortization	99	95	403	409
EBIT	\$ 196	\$ 158	\$ 563	\$ 322
(as a percentage of total revenues)				
Margin	14.9%	14.8%	15.4%	15.3%
EBITDA	10.2%	9.8%	9.9%	8.8%
EBIT	6.8%	6.1%	5.8%	3.9%

<sup>(1)</sup> Certain comparative figures have been reclassified to conform with the current year's presentation.

<sup>(2)</sup> Includes revenues from parts logistics, aircraft fractional ownership and hourly flight entitlement programs' service activities, aircraft maintenance, commercial training and Military Aviation Training.

<sup>(3)</sup> Includes mainly sales of pre-owned aircraft.

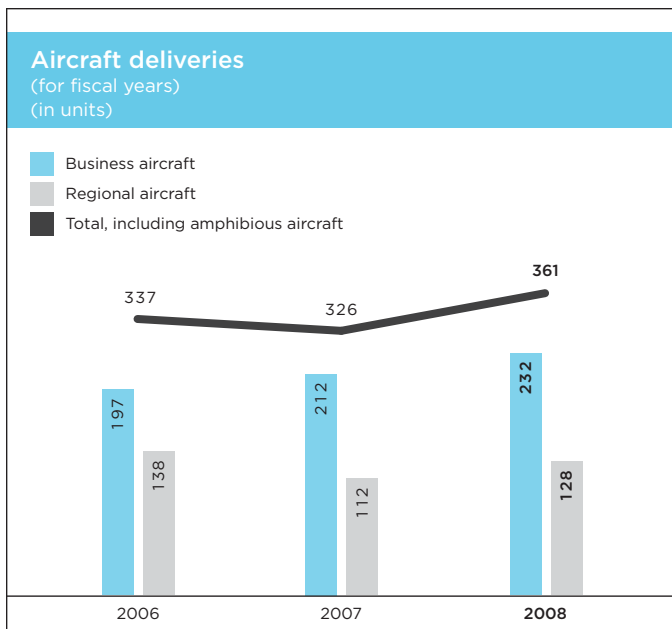
<sup>(4)</sup> Includes net losses (gains) on certain financial instruments, foreign exchange losses (gains), severance and other involuntary termination costs (including changes in estimates), settlement of claims and the effect of the adjustment of program accounting ending dates for the CRJ700 and CRJ900 aircraft programs.

## Total aircraft deliveries

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
Business aircraft (including those in the fractional ownership program <sup>(1)</sup> )	76	69	232	212
Regional aircraft	38	31	128	112
Amphibious aircraft	1	1	1	2
	115	101	361	326

<sup>(1)</sup> An aircraft delivery is included in the above table when the equivalent of 100% of the fractional shares of an aircraft model has been sold to external customers.

BA expects an increase in business aircraft deliveries along with an improved mix in fiscal year 2009, while regional aircraft deliveries are expected to remain at a similar level to that in fiscal year 2008.



## Manufacturing revenues

The \$317-million and \$1.2-billion increases for the fourth quarter and fiscal year are mainly due to increased deliveries and improved selling prices for business aircraft (\$149 million for the fourth quarter, \$766 million for the fiscal year) and for regional aircraft (\$155 million for the fourth quarter, \$364 million for the fiscal year).

## Service revenues

The \$53-million and \$208-million increases for the fourth quarter and fiscal year are mainly due to:

- higher volume and improved selling prices of spare parts (\$16 million for the fourth quarter, \$98 million for the fiscal year);
- higher fractional ownership and hourly flight entitlement programs' service activities (\$23 million for the fourth quarter, \$62 million for the fiscal year); and
- higher revenues from Military Aviation Training, mainly as a result of the achievement during the third quarter of fiscal year 2008 of a significant milestone on the CF-18 Advanced Distributed Combat Training System contract (\$32 million for the fiscal year).

## EBIT margin

The 0.7 percentage-point increase for the fourth quarter is mainly due to:

- improved selling prices for business aircraft and regional aircraft;
- improved margins on service activities, mainly for spare parts sales and training; and
- better absorption of amortization expense due to higher revenues.

Partially offset by:

- higher production costs, mainly due to escalation in the price of materials and the negative impact of the strengthening of the Canadian dollar and pound sterling.

The 1.9 percentage-point increase for the fiscal year is mainly due to:

- improved selling prices for business aircraft and regional aircraft;
- improved margins on service activities, mainly for spare parts sales and training;
- lower research and development expenses due to the launch of the *CRJ1000* regional jet in February 2007, since the pre-launch research and development costs were expensed in fiscal year 2007;
- net gains due to the impact of lower interest rates and the impact of a general improvement in the financial condition of regional airlines on certain financial instruments carried at fair value; and
- better absorption of amortization expense due to higher revenues.

Partially offset by:

- higher production costs, mainly due to escalation in the price of materials and the negative impact of the strengthening of the Canadian dollar and pound sterling versus the U.S. dollar, including a charge of \$45 million following changes in the long-term foreign exchange assumption for the Canadian dollar, which led to revisions of cost estimates for programs under average cost accounting; and
- lower gains resulting from the revision of cost estimates for programs under average cost accounting.

## FREE CASH FLOW

Free cash flow	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
EBIT	\$ 196	\$158	\$ 563	\$ 322
Non-cash items:				
Amortization				
Program tooling	74	63	289	269
Other	25	32	114	140
Loss on disposals of property, plant and equipment	-	1	-	-
Stock-based compensation	7	3	17	8
Net change in non-cash balances related to operations	380	547	969	292
Net additions to property, plant and equipment	(128)	(33)	(276)	(217)
	\$ 554	\$771	\$1,676	\$ 814

**Fourth quarter**

The \$217-million decrease is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations (\$167 million) (see explanation below); and
- higher net additions to property, plant and equipment (\$95 million), reflecting investments in the *CRJ1000 NextGen* regional jet program and the purchase of tooling previously under an operating lease related to the *Challenger 300* aircraft program.

Partially offset by:

- higher profitability (\$38 million).

**Fiscal year**

The \$862-million increase is mainly due to:

- a positive year-over-year variation in net change in non-cash balances related to operations (\$677 million) (see explanation below); and
- higher profitability (\$241 million).

Partially offset by:

- higher net additions to property, plant and equipment (\$59 million), reflecting the investments in the *CRJ1000 NextGen* regional jet program and the recently launched *Learjet 85* aircraft program.

**Net change in non-cash balances related to operations**

The \$380-million and \$969-million cash inflows for the fourth quarter and fiscal year ended January 31, 2008 are mainly due to decreases in inventories and aircraft financing and an increase in advances in excess of related costs, partially offset by a decrease in accounts payable and accrued liabilities and discretionary pension fund contributions totalling \$249 million.

For the fourth quarter ended January 31, 2007, the \$547-million cash inflow was mainly due to decreases in inventories and aircraft financing. For the fiscal year ended January 31, 2007, the \$292-million cash inflow was mainly due to a decrease in aircraft financing and an increase in accounts payable and accrued liabilities.

## PROGRAM INFORMATION

The carrying amounts of EOAPC, included in inventories, and program tooling costs, included in property, plant and equipment, were as follows as at:

Program family	January 31, 2008			January 31, 2007		
	EOAPC	Program tooling	Total	EOAPC	Program tooling	Total
<b>Business aircraft</b>						
<i>Learjet Series</i>	\$ 81	\$ 95	\$ 176	\$ 163	\$ 89	\$ 252
<i>Challenger 300</i>	85	343	428	122	380	502
<i>Challenger 604/ Challenger 605</i>	-	47	47	-	56	56
<i>Global Series</i>	111	210	321	245	268	513
<b>Regional aircraft</b>						
<i>CRJ Series</i>	-	432	432	-	403	403
<i>Q-Series</i>	-	69	69	-	80	80
	<b>\$277</b>	<b>\$1,196</b>	<b>\$1,473</b>	<b>\$530</b>	<b>\$1,276</b>	<b>\$1,806</b>

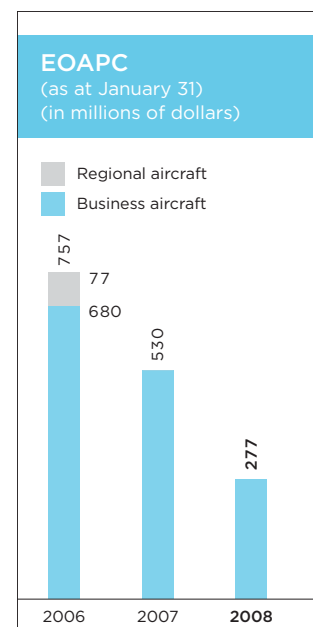
### EOAPC

The \$253-million decrease in EOAPC is mainly due to all program families having reached the point where the actual unit cost is less than the average cost recognized in Cost of sales and to the reduction following the previously discussed \$45 million charge following the changes in the long-term foreign exchange assumption for the Canadian dollar, partially offset by an increase in connection with the purchase of tooling previously under an operating lease related to the *Challenger 300* aircraft program.

The EOAPC charges included in EBIT were as follows for:

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
EOAPC charge	\$ 67	\$ 66	\$ 271	\$ 277 <sup>(1)</sup>
As a percentage of total revenues	2.3%	2.5%	2.8%	3.3%

<sup>(1)</sup> This amount is after a charge of \$74 million arising from the alignment of the *CRJ700* and *CRJ900* aircraft program accounting ending dates. Without taking into consideration this \$74 million charge, the EOAPC charge in fiscal year 2007 amounts to \$203 million or 2.4% of total revenues.





### Program tooling

The \$80-million decrease in program tooling is mainly due to amortization charges exceeding tooling additions. The *CRJ1000 NextGen* aircraft program, which is currently under

development, benefits from leveraging prior investments in product platforms, whereas clean-sheet programs under development, such as the recently launched *Learjet 85* aircraft, typically require higher tooling investments.

### Product development costs

	Fiscal year 2008	Fiscal year 2007
Program tooling <sup>(1)</sup>	\$ 209	\$ 160
Program change and engineering <sup>(2)</sup>	94	91
Research and development <sup>(3)</sup>	37	78
	<b>\$ 340</b>	<b>\$ 329</b>
As a percentage of manufacturing revenues	<b>4.5%</b>	5.1%

<sup>(1)</sup> Capitalized in Property, plant and equipment.

<sup>(2)</sup> Included in Cost of sales.

<sup>(3)</sup> Included in Research and development.

BA is continuously investing in strategic technology development to support its current aircraft portfolio and align with its aircraft development programs. As

the *CRJ1000 NextGen* aircraft has been launched, the development costs were included in program tooling in fiscal year 2008.

## AIRCRAFT DELIVERIES

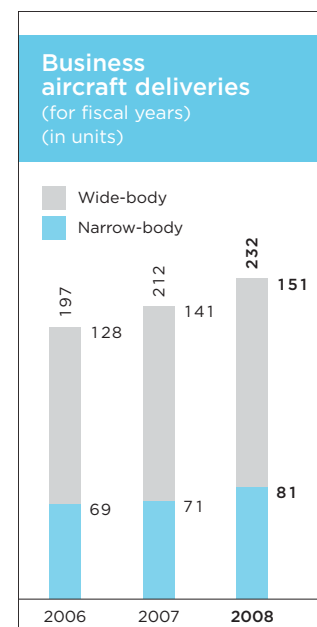
### Business aircraft deliveries

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>
<b>Narrow-body business jets</b>				
<i>Learjet 40/40 XR/Learjet 45/45 XR</i>	17	14	60	52
<i>Learjet 60/60 XR</i>	9	6	21	19
<b>Wide-body business jets</b>				
<i>Challenger 300</i>	17	19	52	55
<i>Challenger 604/Challenger 605</i>	16	12	38	32
<i>Global 5000/Global Express XRS</i>	12	14	48	42
<i>Challenger 800 Series</i>	5	4	13	12
	<b>76</b>	<b>69</b>	<b>232</b>	<b>212</b>

<sup>(1)</sup> An aircraft delivery is included in the above table when the equivalent of 100% of the fractional shares of an aircraft model have been sold to external customers. This resulted in 8 and 19 aircraft deliveries for the three- and twelve-month periods ended January 31, 2008 respectively (8 and 15 aircraft deliveries, respectively, for the same periods last fiscal year).

Business aircraft deliveries reached a record level in the fiscal year ended January 31, 2008, due to higher deliveries of all business aircraft, except for the *Challenger 300* aircraft due to the timing of adjustments in the production rate and to

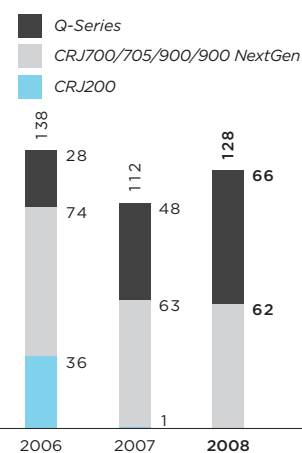
more production positions being reserved for inter-company transfers to *Flexjet* during fiscal year 2008 compared to the prior fiscal year.



## Regional aircraft deliveries

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
<b>Regional jets</b>				
CRJ200	-	-	-	1
CRJ700	-	-	5	13
CRJ705	1	-	1	-
CRJ900/CRJ900 NextGen	18	14	56	50
<b>Turboprops</b>				
Q200	-	-	3	1
Q300	4	5	16	16
Q400	15	12	47	31
	<b>38</b>	31	<b>128</b>	112

## Regional aircraft deliveries (for fiscal years) (in units)



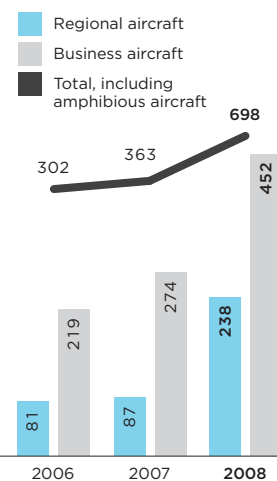
Regional aircraft deliveries increased during the fiscal year ended January 31, 2008, mainly due to increased deliveries of Q400 turboprops, reflecting the market's continued sensitivity to operating costs, in particular fuel costs.

## ORDERS AND BACKLOG

### Total aircraft net orders

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
Business aircraft	154	117	452	274
Regional aircraft	51	21	238	87
Amphibious aircraft	8	1	8	2
	<b>213</b>	139	<b>698</b>	363

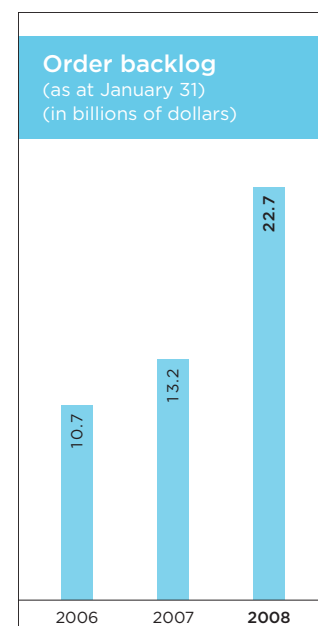
## Net orders (for fiscal years) (in units)



### Total order backlog

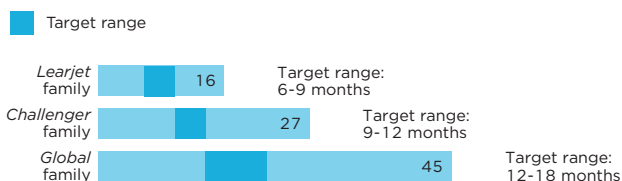
(in billions of dollars)	January 31 2008	January 31 2007
Aircraft programs	\$21.7	\$12.2
Military aviation training	1.0	1.0
	<b>\$22.7</b>	<b>\$13.2</b>

The order backlog was at a record level as at January 31, 2008. The 72% increase reflects strong order intake in both business and regional aircraft. In business aircraft, both narrow-body and wide-body business aircraft order backlogs have increased, and the order backlog for each product family remains strong. In regional aircraft, the decision to introduce the next generation version of the CRJ700 and CRJ900 regional jets as well as the launch of the CRJ1000 NextGen regional jet have contributed to this increase. There has been a significant increase in the number of Q400 aircraft orders demonstrating an increasing demand for large turboprops.



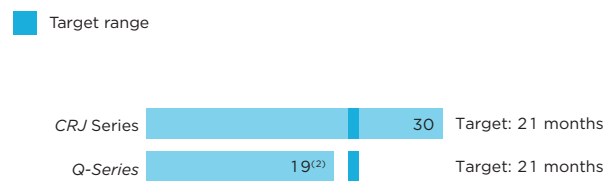
### BA business aircraft backlog

(as at January 31, 2008)  
(in months of production<sup>(1)</sup>)



### BA regional aircraft order backlog

(as at January 31, 2008)  
(in months of production<sup>(1)</sup>)



<sup>(1)</sup> The number of months in production is calculated by dividing the order backlog in units as at January 31, 2008, by the number of aircraft delivered during the current fiscal year, converted into an equivalent number of months.

<sup>(2)</sup> The number of months in production for the Q400 aircraft is 23 months.

Order intake has been consistently growing for the past three fiscal years, resulting in a strong order backlog. The firm order backlog is an indication of future deliveries; the stronger the order backlog, the higher the future deliveries. A strong order backlog also provides an added level of resilience, as BA would be able to decrease its production rates gradually if order intake were to drop significantly. However, a strong order backlog (which represents the period of time from

order to delivery for a customer when measured in months) may discourage potential customers from placing an order. BA's order backlog is currently above target range for all business aircraft families. BA manages its order backlog by reviewing the production horizon for its products including the establishment of production rates and the assessment of its supply base capacity.

## Business aircraft net orders

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
Net orders	154	117	452	274
Book-to-bill ratio <sup>(1)</sup>	2.0	1.7	1.9	1.3

<sup>(1)</sup> Defined as the net orders received over the aircraft deliveries, in units, in a given period.

The increase in business aircraft orders reflects the competitive products and continued strength of the business aircraft market. Net orders received in fiscal year 2008 represent a record level for BA.

## Regional aircraft net orders

	Fourth quarters ended January 31		Fiscal years ended January 31			
	2008	2007	2008	2007		
	Net orders	Net orders	Orders	Swaps	Net orders	Net orders
<b>Regional jets</b>						
<i>CRJ200</i>	-	-	-	-	-	(16)
<i>CRJ700/CRJ700 NextGen</i>	22	3	30	2 <sup>(1)</sup>	32	(33)
<i>CRJ900/CRJ900 NextGen</i>	9	7	87	(17) <sup>(1)(2)</sup>	70	98
<i>CRJ1000 NextGen</i>	1	-	24	15 <sup>(2)</sup>	39	-
<b>Turboprops</b>						
<i>Q200</i>	-	-	4	-	4	3
<i>Q300</i>	3	7	13	-	13	11
<i>Q400</i>	16	4	80	-	80	24
	51	21	238	-	238	87
Book-to-bill ratio	1.3	0.7			1.9	0.8

<sup>(1)</sup> Mesa Air Group, Inc. has converted its two orders of *CRJ900* regional jets to two *CRJ700 NextGen* regional jets.

<sup>(2)</sup> My Way Airlines has converted its remaining 15 orders of *CRJ900 NextGen* regional jets to *CRJ1000 NextGen* regional jets.

## Regional aircraft significant net orders

Fiscal year 2008

Aircraft	Units
<b>CRJ700 NextGen</b>	
SkyWest Inc.	18
Mesa Air Group	10
<b>CRJ900/CRJ900 NextGen</b>	
Delta Air Lines	44
Deutsche Lufthansa AG	15
Pluna Líneas Aéreas Uruguayas S.A.	7
Tatarstan Airlines	6
<b>CRJ1000 NextGen</b>	
Undisclosed customer	15
Brit Air	8
<b>Q400 turboprops</b>	
Flybe	15
Horizon Air	15
Pinnacle Airlines Corp.	15
Qantas Airways	12
Air Berlin PLC	10

## Regional aircraft order backlog

	January 31, 2008	
	Aircraft on firm order	Options and conditional orders
<b>Regional jets</b>		
<i>CRJ200</i>	-	24
<i>CRJ700 NextGen</i>	32	72
<i>CRJ900 NextGen</i> <sup>(1)</sup>	84	212
<i>CRJ1000 NextGen</i>	39	24
<b>Turboprops</b>		
<i>Q200</i>	5	-
<i>Q300</i>	12	4 <sup>(2)</sup>
<i>Q400</i> <sup>(1)</sup>	90	145
	262	481

<sup>(1)</sup> There are 19 firm orders in the order backlog with conversion rights from the *CRJ900 NextGen* aircraft to the *CRJ1000 NextGen* aircraft. In addition, there are three firm orders in the order backlog with conversion rights from the *Q400* turboprops to other regional aircraft.

<sup>(2)</sup> Subsequent to fiscal year 2008, the options for the *Q300* turboprop have been converted to options for the *Q400* turboprop.

### Regional aircraft other events

During the third quarter of fiscal year 2008, certain landing gear incidents occurred with the *Q400* turboprop aircraft. In March 2008, BA announced that Scandinavian Airlines System ("SAS") and its affiliates placed a firm order for 13 *CRJ900 NextGen* regional jets and 14 *Q400 NextGen* turboprops, and took options for an additional 24 aircraft. As a result of this order, BA, SAS and Goodrich, the manufacturer of the landing gear, have come to a mutually satisfactory agreement, the terms of which do not result in a material impact to the Corporation. With respect to the other incidents related to the *Q400* aircraft not involving SAS, the Corporation does not expect the incidents to have a material impact on the Corporation's financial results.

On May 3, 2007, Delta emerged from a 19-month period under bankruptcy protection. In addition, on March 6, 2007, the U.S. Bankruptcy Court for the Southern District of New York entered an order granting the Corporation an allowed general unsecured claim in the amount of \$34 million against Northwest Airlines ("Northwest"). On May 31, 2007, Northwest emerged from a 20-month period under bankruptcy protection, and the Corporation received shares of new equity in the reorganized Northwest as a primary distribution on account of its claim. The shares were monetized for proceeds of \$18 million, resulting in a gain of the same amount, recorded in other expense (income) in the second quarter of fiscal year 2008. During the third quarter of fiscal year 2008, additional shares were received and monetized for proceeds of \$2 million, also recorded as a gain in other expense (income).

## WORKFORCE AND LABOUR RELATIONS

	<b>January 31 2008</b>	January 31 2007
Total number of employees	<b>27,900</b>	27,130
Percentage of employees covered by collective agreements	<b>56%</b>	57%

The increase in the total number of employees is mainly due to a ramp up in employee levels at the manufacturing facilities in Querétaro, Mexico, and to an overall increase in the level of activities.

**Major collective agreements**

Location	Union	Approximate number of employees covered	Expiration of current agreement
Montréal	International Association of Machinists and Aerospace Workers 712 ("IAMAW")	5,300	November 20, 2008
Belfast	The Amicus, the Amalgamated Transport & General Workers Union and the General Machinists & Boilermakers	4,400	January 25, 2010 <sup>(1)</sup>
Toronto	Canadian Auto Workers	3,000	June 22, 2009
Wichita	IAMAW	1,100	October 5, 2009
Montréal	National Automobile, Aerospace, Transport and Other Workers of Canada (Canadian Auto Workers)	1,050	December 5, 2010 <sup>(2)</sup>

<sup>(1)</sup> These collective agreements expired on January 24, 2007. On April 5, 2007, new three-year collective agreements were ratified, effective January 25, 2007.

<sup>(2)</sup> This collective agreement expired on December 5, 2007. On December 2, 2007, a new three-year collective agreement was ratified, which became effective on December 6, 2007.

# TRANSPORTATION

## Forward-looking statements<sup>(1)</sup>

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

- current order backlog and estimated future order intake;
- maintaining market leadership in rolling stock, system and services;
- normal contract execution and continued deployment of strategic initiatives, especially those linked to cost reductions, including procurement and operational improvement initiatives;
- market forecasts, using long-term market demand models and future project databases, consistent with publicly available market forecasts;
- recent industry trends that are expected to continue in the foreseeable future, based on main market drivers analysis as detailed in the respective Market and outlook sections; and
- a sustained level of public sector spending.

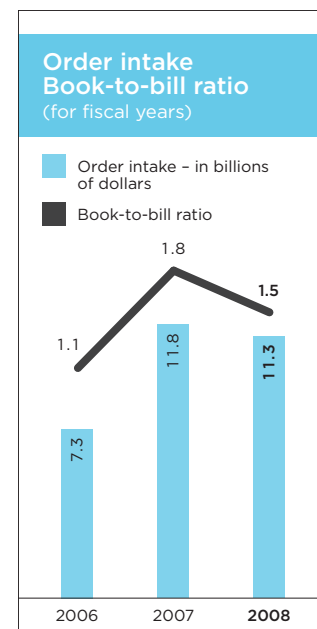
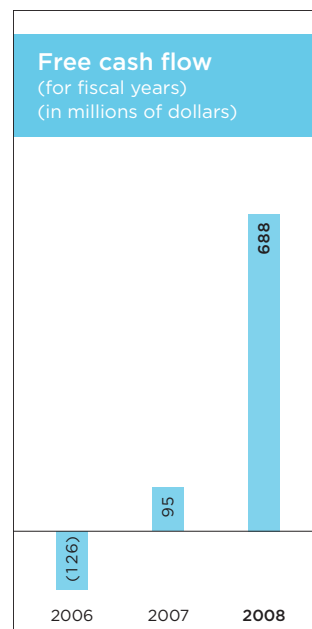
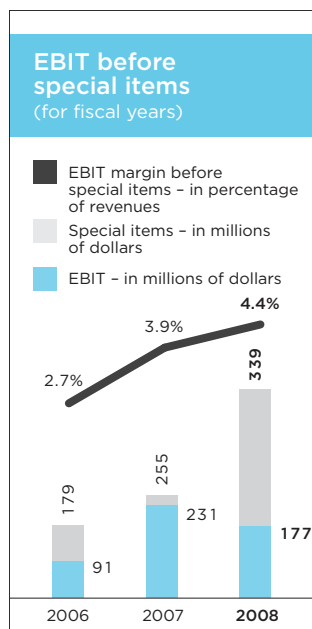
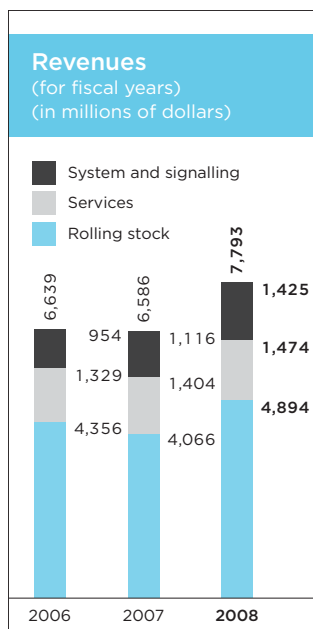
<sup>(1)</sup> See also the forward-looking statements in the Overview section.

The data presented in this section of the MD&A is structured by product line (Rolling stock, Services, System and Signalling) and by geographic region (Europe, North America, Asia-Pacific and Other), which is consistent with internal reports presented and reviewed by Management.

The table below summarizes the most relevant key performance measures and related metrics. Management views special items as potentially distorting the analysis of trends, and as such they are excluded from the profitability metrics. Management's incentive compensation is linked to the achievement of targeted results, based on EBIT and free cash flow.

Profitability	• EBIT before special items, as a measure of performance.
Liquidity	• Free cash flow, as a measure of liquidity generation.
Growth	• Order backlog, as a measure of future revenue growth. • Book-to-bill ratio, as an indicator of future revenue growth. The ratio represents new orders over revenues, measured in dollars in a given period. • Market share and scale, as measures of competitive positioning.
Capital employed	• Average net segmented assets, as a measure of capital efficiency.





FISCAL YEAR 2008

Revenues

**\$7.8**  
billion

EBIT before special items

**\$339**  
million

Free cash flow

**\$688**  
million

JANUARY 31, 2008

Order backlog

**\$30.9**  
billion

## HIGHLIGHTS

### Fourth quarter

- Revenues of \$2.4 billion, an improvement of 30% compared to the same period last fiscal year.
- EBIT of \$109 million, or 4.6% of revenues, compared to \$86 million, or 4.7%, for the same period last fiscal year.
- Free cash flow of \$525 million, an improvement of \$82 million compared to the same period last fiscal year.
- \$3.9 billion in new orders (book-to-bill ratio of 1.6), compared to \$5.4 billion (book-to-bill ratio of 3.0) for the same period last fiscal year.

### Fiscal year

- Revenues of \$7.8 billion, an improvement of 18% compared to last fiscal year.
- EBIT before special items of \$339 million, or 4.4% of revenues, compared to \$255 million, or 3.9%, last fiscal year. EBIT of \$177 million, or 2.3% of revenues, compared to \$231 million, or 3.5%, last fiscal year.
- Free cash flow of \$688 million, an improvement of \$593 million compared to last fiscal year, after discretionary pension fund contributions totalling \$135 million.
- \$11.3 billion in new orders (book-to-bill ratio of 1.5), compared to \$11.8 billion (book-to-bill ratio of 1.8) last fiscal year.
- On April 1, 2008, an agreement was reached in connection with the Metronet's long-term contracts, which resulted in a reduction of \$2.6 billion in the order backlog. The carrying value of the investment in Metronet was already written off in the second quarter of fiscal year 2008, resulting in a special item of \$162 million.
- Order backlog of \$30.9 billion as at January 31, 2008, the highest backlog in the rail industry, despite the Metronet adjustment.

## PROFILE

BT is dedicated to develop, manufacture and service advanced transportation solutions for today's and tomorrow's railways. As the global leader in rail technology, BT places environmental sustainability firmly at the top of its agenda. BT's products and services combine energy-conserving technology with optimal safety, reliability and cost efficiency. Its products and services are designed for sustainable mobility. BT's worldwide presence includes 43 production sites in 21 countries and over 40 service centres around the world, with a workforce of 31,485 employees as at January 31, 2008.

### Sustainable mobility

As the global leader in the rail industry, BT seeks to create greater awareness for sustainable mobility as a step toward fighting global warming. In line with this green approach, in fiscal year 2008, BT launched its *"The Climate is right for Trains"* campaign, promoting the benefits of rail as a preferred mode of transit, thus helping to reduce the congestion and pollution. A new website, [theclimateisrightfortrains.com](http://theclimateisrightfortrains.com), was developed, along with a series of new advertisements in daily newspapers and the trade press around the world, designed to present BT trains, trams and people movers in this perspective.

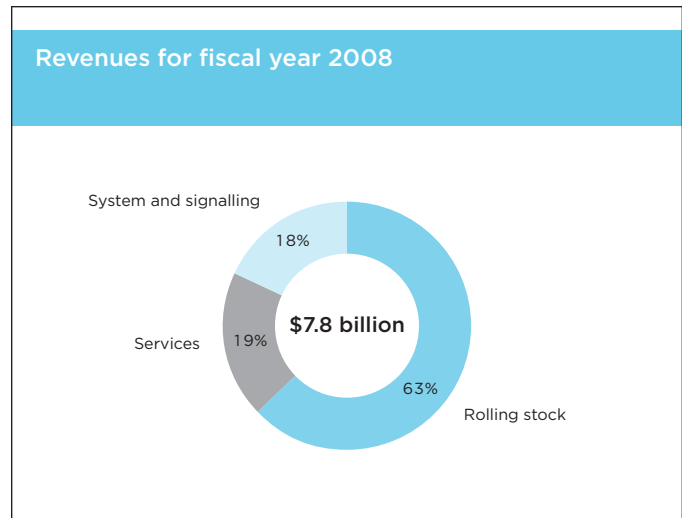
## CUSTOMERS

The rail market consists primarily of customers in the public or quasi-public sectors, such as large national railways, regional railways and municipal transit authorities. Deregulation in some markets, in particular in regional passenger and freight transportation, has led to the emergence of private operators. However, public-sector entities still dominate the market, and they benefit from various forms of public involvement related to financing of operations or funding of infrastructure. Most of these operators are regional or national, but some former national railway companies are starting to internationalize their operations, in addition to emerging private transnational operators.

BT's customers are located in approximately 60 countries, with Europe representing 74% of revenues in fiscal year 2008. Customers' key selection criteria include: compliance with customer requirements, reliability, availability, maintainability and safety of the vehicle, price, energy efficiency and design. For most public operators, local content is also an important criterion.

## PRODUCTS AND SERVICES

BT covers a full spectrum of railway solutions, ranging from complete trains to subsystems, maintenance services, system integration and signalling. Rolling stock still represents the main business of BT, accounting for 63% of revenues. BT's worldwide installed base of rolling stock exceeds 100,000 cars and locomotives. Contracts tend to be large in size and relatively complex in design, resulting in significant engineering and design lead times before delivery. Building on modular platforms allows for shorter lead times, lower cost and reduced execution risk, while enhancing product flexibility to address specific customer needs.



The table below presents the main market segments, as well as an overview of the main products and services.

ROLLING STOCK			SERVICES	SYSTEM AND SIGNALLING	
Rolling stock	Propulsion & controls	Bogies	Services	System	Signalling
<b>Mainline</b> <ul style="list-style-type: none"> <li>• Locomotives</li> <li>• Very high-speed trains</li> <li>• High-speed trains</li> <li>• Intercity trains</li> <li>• Regional trains</li> <li>• Commuter trains</li> </ul> <b>Mass Transit</b> <ul style="list-style-type: none"> <li>• Metro cars</li> <li>• Light rail vehicles</li> </ul>	<ul style="list-style-type: none"> <li>• Traction converters</li> <li>• Auxiliary converters</li> <li>• Traction drivers</li> <li>• Train control and management systems</li> </ul>	<ul style="list-style-type: none"> <li>• Portfolio of products to match the entire range of rail vehicles</li> <li>• Full scope of services throughout the life cycle of bogies</li> </ul>	<ul style="list-style-type: none"> <li>• Fleet management</li> <li>• Material and logistics management</li> <li>• Vehicle renovation and overhaul</li> <li>• Component refurbishment and overhaul</li> <li>• Technical support</li> </ul>	<ul style="list-style-type: none"> <li>• Automated people movers</li> <li>• Advanced rapid transit</li> <li>• Light rapid transit</li> <li>• Turnkey systems</li> <li>• Automated monorail</li> <li>• Operations and maintenance</li> <li>• Transit security</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated control systems</li> <li>• Onboard computer systems for automatic train protection and operation</li> <li>• Wayside interlocking and equipment</li> <li>• Services for signalling equipment</li> </ul>

## Rolling stock

### Locomotives

BT offers locomotives and powerheads for use in high-speed, intercity, regional and freight traffic, in both electric and diesel-electric versions, to suit the specific needs of railway operators. The *TRAXX* locomotive family has become the standard in the industry with innovative, standardized and modular locomotives, offering interoperability, outstanding reliability, long-term availability, as well as excellent maintenance and operational economy.

### Intercity, High-speed and Very high-speed trains

BT's product line includes multiple units and coaches for intercity and high-speed passenger transportation, adapted to the requirements of customers throughout the world. BT has launched the modular high-speed platform *ZEFIRO*, featuring unique characteristics to respond to the emerging needs of operators and passengers alike. BT is also actively involved in various high-speed and very high-speed programs around the world, such as the French TGV, German ICE, Spanish Talgo, Italian ETR 500 and American Acela.

### Commuter and Regional trains

BT offers a wide range of passenger railcars for suburban and regional markets. The product line includes electrical multiple units ("EMUs"), diesel multiple units (DMUs), as well as coaches in both single and double-deck configurations. BT's modular and flexible product platforms, such as the *TALENT 2*, the *SPACIUM 3.06* or the Autorail Grande Capacité (high-capacity regional to multiple unit) ("AGC"), are designed to meet the evolving expectations of operators and end users, but also optimize environmental performance and operating economics.

### Metro cars

BT offers a full range of technologies adapted to the needs of urban transit systems. Its *MOVIA* platform offers a modern, mass transit vehicle designed to respond to the need for a rapid, efficient and cost-effective high-performance operation. Operating requirements such as passenger capacity and acceleration performance are adaptable to customer requirements across the world.

### Light rail vehicles

BT offers the world's most complete portfolio of trams and light rail solutions. Ranging from 100% low-floor trams to high-capacity light rail vehicles, its proven *FLEXITY* family has a suitable and economically superior product for every urban centre across the globe. In addition to improving its customers' operational and performance targets, BT's vehicles have won numerous international awards for innovative technology and exclusive designs.

### Propulsion & controls

BT offers complete propulsion, train control and management systems to internal and third-party customers. The *MITRAC* propulsion systems cover transformers, traction converters, traction motors, gears, auxiliary converters and train control management systems, featuring cutting-edge, energy-saving technology.

### Bogies

BT offers reliable and innovative bogie solutions for all types of rolling stock to internal and third-party customers; small-sized bogies for light rail vehicles, medium-sized bogies for metro cars and commuter, regional, intercity and very high-speed trains, as well as large-sized bogies for locomotives and heavy haul. In addition, BT offers a full scope of services throughout the life cycle of the bogies.

## Services

BT provides a complete service portfolio, including full train and fleet maintenance, materials and logistics programs, plus the modernization, re-engineering and overhaul of vehicles and components. Each product offering can be tailored to meet the needs of individual customers with a range of core and optional services for particular fleets.

## System

BT has unique expertise in developing, designing and building turnkey transportation systems, which includes extensive experience in complete project financing, public private partnership approaches and more than 30 years of operations and maintenance experience. BT offers complete transportation solutions from high-capacity intercity systems to fully automated rapid transit, people movers and monorail systems.

## Signalling

BT offers a comprehensive portfolio of on-board and wayside rail control solutions for both mass transit and mainline applications, catering to the needs of customers in over 50 countries. *CITYFLO* mass transit solutions extend from manual applications to fully automated communication-based systems. *INTERFLO* mainline solutions range from conventional systems to European Rail Traffic Management System ("ERTMS") technology.

## MARKET AND OUTLOOK

### OVERALL MARKET

The worldwide rail market is comprised of rolling stock, services, system and signalling, including rail-related telecommunication equipment and infrastructure. Market data referred to in the MD&A represents the market in which BT has a product offering ("relevant market"), defined as the worldwide rail market excluding Japan and the share of local contractors in emerging markets, which are not accessible to BT. Segments where BT has no product offering, such as North American diesel locomotives, worldwide freight cars, rail infrastructure, electrification and pure communications equipment, are also excluded.

Due to the cyclical nature of the market and in line with common industry practice, BT's relevant market is stated as the average of a three-year period. Market shares are calculated based on published order intake for rolling stock and system, and are calculated based on revenues for services and signalling. The Market and outlook discussion is based on calendar-year figures, consistent with reported data for market and market share.

### Market by geographical region

(in billions of dollars)	Calendar years 2005-07		Calendar years 2004-06	
Europe	\$ 25.8	60%	\$ 23.6	61%
Asia-Pacific	7.3	17%	6.5	17%
North America	4.1	9%	3.7	9%
Other	5.9	14%	5.0	13%
	\$ 43.1	100%	\$ 38.8	100%
BT's market share	23%		20% <sup>(1)</sup>	

<sup>(1)</sup> Restated from 21% to 20%, reflecting new competitive intelligence.

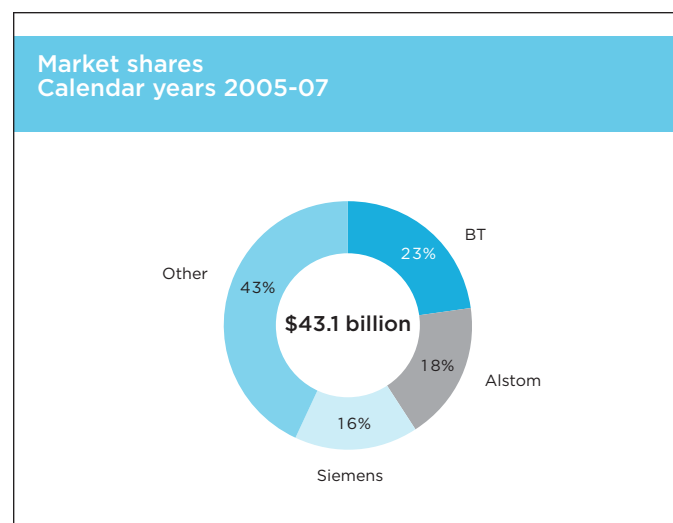
The market for calendar years 2005-07 showed a strong growth of 11% compared to calendar years 2004-06, supported by all world regions. The growth in Europe, Asia-Pacific, and North America markets was mainly driven by a higher level of investments in rolling stock. The Other region market grew mainly as a result of high demand for both rolling stock and systems.

Based on a three-year average for calendar years 2005-07, BT remains the market leader in the rail industry, increasing its market share from 20% to 23% of the relevant market, mainly due to strong order intake in the commuter and regional trains, electric locomotives and propulsion & controls segments.

## Competition

The three largest OEMs account for approximately 57% of the relevant market.

BT is well positioned in all segments and ranks number one in nine out of eleven market segments. BT's major competitors are Alstom Transport ("Alstom"), a business unit of Alstom SA and Siemens Transportation Systems ("Siemens"), a business unit of Siemens AG. Both are active in the same markets as BT. All other competitors in the relevant market hold less than 10% of total market share.



Source: Published information and BT market analysis.

### Competitors with at least 10% market share in one segment

	ROLLING STOCK									SERVICES	SYSTEM	SIGNALLING
	Light rail	Metros	Commuter	Regional	High speed & Intercity	Electric loco-motives	Bogies	Propulsion & controls				
<b>BT</b>	<b>#1</b>	<b>#1</b>	<b>#1</b>	<b>#1</b>	<b>#3</b>	<b>#1</b>	<b>#1</b>	<b>#1</b>		<b>#1</b>	<b>#1</b>	<b>#6</b>
Alstom												
Siemens												
Stadler Rail AG												
Kawasaki Rail Car Inc.												
Mitsubishi Electric Corporation												
Patentes Talgo S.A.												
CJSC Transmashholding												
Ansaldo STS												
Invensys PLC												

Source: BT market analysis.

Depending on the product segments, countries and regions, BT is facing competition from specialized competitors. In the service segment, competition mainly comes from railway

operators, subsystem and component suppliers, as well as from third-party service providers.

## Outlook for calendar years 2008-10

The table below summarizes the main drivers in the overall market, and the product lines and regions they affect. Other specific drivers are discussed under the individual market sections.

### Market drivers outlook

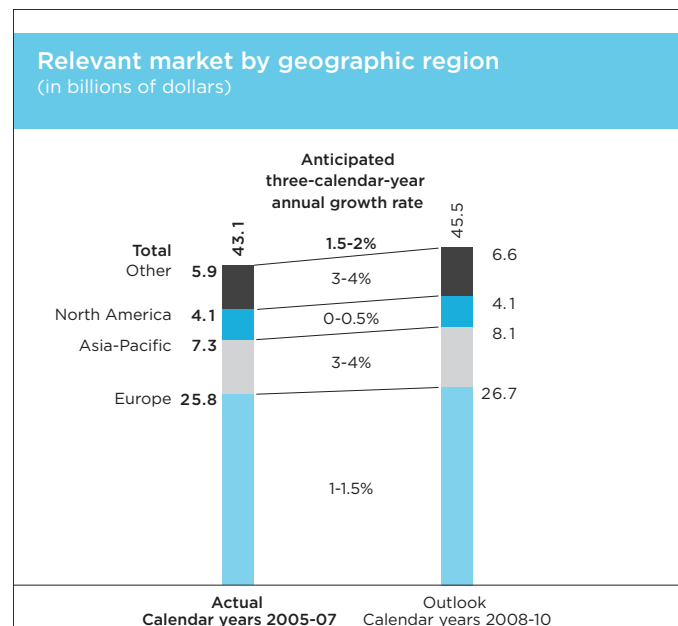
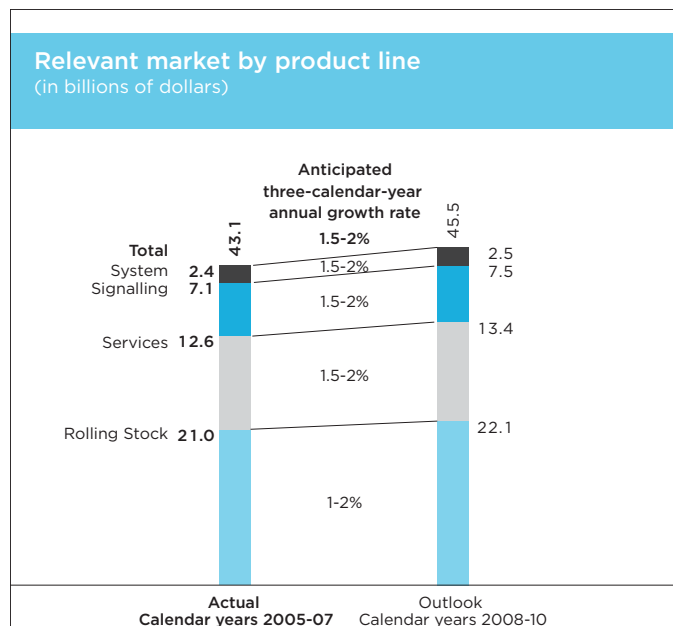
Market driver	Product lines	Geographic regions	Trend	Justification
Urbanization, population growth and economic development	All	Asia-Pacific and Other	▲	According to data provided by Global Insight, Inc., the average real GDP growth in emerging markets and developing economies will remain above worldwide average real GDP growth levels over the next three years, continuing the urbanization trend started in these markets. This will create a higher demand for new, high-performance rail equipment for public urban and intercity passenger transport, as well as freight transportation.
Demand for environmentally friendly transportation modes	Rolling stock, services and system	Worldwide	▲	General ecological awareness continues to increase in most of the world, recognizing sustainable mobility as a step toward fighting global warming. Increasing fuel costs are also leading to an increase in ridership for rail transport across the world, driving demand for new trains and green technologies.
Replacement of aging rail equipment	Rolling stock, services and signalling	Europe and North America	▲	The average age of the existing rolling stock fleet is around 20 years, approaching the 30-year replacement threshold. Increasing ridership and growing competition among operators, as well as higher comfort levels expected by passengers are all pushing operators to replace, update and/or modernize their rolling stock. To cope with the higher usage of the existing infrastructure, modernization of the signalling equipment is key to improving both safety standards and network capacity.
Liberalization of rail transport markets	Rolling stock and services	Europe	▶	The creation of open market conditions for new railway operators is sharing a positive effect on the demand for rolling stock and services. The effect is strongest in freight transportation, with a high demand for locomotives for national and cross-border traffic, as well as associated services. The effect on the passenger market is more moderate, as new franchises are being attributed gradually. Most public operators still perform the major portion of their maintenance services in-house, even if some have started to outsource key maintenance processes, similar to private operators.

▲ Indicates a favourable trend in the market categories in which BT competes.

▶ Indicates a neutral trend in the market categories in which BT competes.

The previous trends should drive operators to replace and/or modernize their fleet and maintain the high demand for rail equipment and services realized in both calendar years 2006 and 2007. These trends heavily depend on a sustained level of

public sector spending. BT's relevant market, already at a high level, is expected to grow further by around 1.5-2% annually, in real terms, over the next three calendar years with increases in all regions and product lines.



## ROLLING STOCK MARKET

The rolling stock market encompasses all passenger rail vehicles, including light rail vehicles and metro cars, commuter, regional, intercity, high-speed and very high-speed trains, passenger locomotives, as well as freight electric and diesel locomotives.

Market by geographical region				
(in billions of dollars)	Calendar years 2005-07		Calendar years 2004-06	
Europe	\$ 12.4	59%	\$ 11.1	61%
Asia-Pacific	3.9	19%	3.4	19%
North America	2.1	10%	1.7	9%
Other	2.6	12%	2.0	11%
	<b>\$ 21.0</b>	<b>100%</b>	<b>\$ 18.2</b>	<b>100%</b>
BT's market share	<b>31%</b>		<b>27%<sup>(1)</sup></b>	

<sup>(1)</sup> Restated from 28% to 27%, reflecting new competitive intelligence.

The rolling stock market in calendar years 2005-07 has shown strong growth throughout all world regions. In Europe, market growth came from locomotives and the mainline segment, while the metro cars market declined and the market for light rail vehicles remained stable at a high level. In Asia-Pacific, the market grew further, driven by

investments in locomotives and metro cars. The North America market increased due to a higher demand for metro cars and commuter trains. The growth in the Other region market was mainly driven by orders for light rail vehicles, metro cars and freight locomotives.

## Competitive positioning

BT's outstanding product and technology portfolio, which comprises all train types and major subsystems from urban to very high-speed applications, is a key competitive advantage. The rolling stock portfolio benefits from an excellent reputation in the rail industry, due to its delivery record, customer focus, product reliability and the value for price delivered to customers. This was demonstrated by BT's substantial order intake in calendar year 2007.

Another competitive advantage is BT's global footprint, which has recently been extended to the emerging markets of India and Russia, as BT set up a plant in India to manufacture metro cars and bogies for the order received from Delhi Metro, and created two propulsion and controls joint ventures with CJSC Transmashholding for the Russian market.

Continuous research on modular and flexible train platforms paved the way to win a key framework agreement in Germany for the new *TALENT 2* regional train, as well as to introduce the first application of the modular *ZEFIRO*

high-speed technology in China. In calendar year 2007, the demand for the standardized *TRAXX* locomotive platform was also unprecedented.

BT continuously works on improving its product portfolio with a focus on further developing the "intelligence" of its trains and reducing energy consumption and CO<sub>2</sub> emissions. In calendar year 2007, BT introduced the world's first hybrid AGC, and successfully demonstrated a 20% reduction in power consumption in regular service with the *MITRAC* energy saver.

As the market leader in Rolling Stock, BT is well positioned to benefit from a growing demand in the rolling stock market.

## Outlook for calendar years 2008-10

The strong growth in emerging markets and renewed demand for environmentally friendly transportation modes should maintain the high demand for rolling stock. The rolling stock market relevant to BT, already at a high level, is expected to grow further at 1-2% annually, in real terms, over the next three calendar years.

## SERVICES MARKET

The services market comprises all activities in the fields of fleet management, material and logistics management, vehicle and component refurbishment and overhaul, as well as technical support.

### Market by geographical region

(in billions of dollars)	Calendar years 2005-07		Calendar years 2004-06	
Europe	\$ 8.8	70%	\$ 8.4	71%
Asia-Pacific	1.4	11%	1.2	10%
North America	0.8	6%	0.8	7%
Other	1.6	13%	1.5	12%
	\$ 12.6	100%	\$ 11.9	100%
BT's market share		11%		12%

The services market in calendar years 2005-07 grew throughout all regions. In Europe, national railway operators have developed strong expertise and capability to perform vehicle maintenance and refurbishment in-house, but have begun to award maintenance contracts for some of their new fleets as they focus more on their core competencies, as do private operators. In North America, new commuter rail services tend to involve private-sector operations and maintenance (O&M) subcontractors. Emerging markets in the Asia-Pacific and Other region markets are currently mainly accessible within the scope of system projects.

## Competitive positioning

BT's main strategic advantage is its worldwide large rolling stock installed base of over 100,000 cars and locomotives in key markets. This installed base, combined with BT's expertise, represents a significant growth opportunity in the services segment as some national operators, like Spanish national operator RENFE, have started outsourcing their maintenance activities to focus on their core competencies.



BT's extensive material supply chain and global footprint ensure competitiveness in the services segment, as demonstrated by the fact that BT won key projects across the world. In the U.K., BT won key fleet maintenance orders from East Midlands Trains, Virgin West Coast and retained the Cross Country franchise. BT won several *TRAXX* locomotive maintenance orders in continental Europe and two key projects with Toronto operator GO Transit in North America.

In calendar year 2007, BT exited the low-end vehicle refurbishment market, but continues to position itself as the leader in selected value-added refurbishment segments, such as repowering and high-end modernization. In calendar year 2007, BT won three key orders in this field in the European market.

## SYSTEM MARKET

The system market covers the complete scope of turnkey projects: systems integration, engineering, project-related services and equipment supplies such as rolling stock, automation, signalling, operations and maintenance. The civil work portion of the projects is excluded from the relevant market.

### Market by geographical region

(in billions of dollars)	Calendar years 2005-07		Calendar years 2004-06	
Asia-Pacific	\$ 1.0	24%	\$ 0.9	27%
North America	0.6	15%	0.5	15%
Europe	0.6	15%	0.4	12%
Other	1.9	46%	1.5	46%
	\$ 4.1 <sup>(1)</sup>	100%	\$ 3.3 <sup>(1)(2)</sup>	100%
BT's market share	22%		29% <sup>(2)</sup>	

<sup>(1)</sup> Of which approximately \$1.7 billion related to the rolling stock, services and signalling portion of the orders in calendar years 2005-07, compared to \$1.2 billion in calendar years 2004-06, are also included in their respective sections of the market.

<sup>(2)</sup> Restated from 34% to 29%, and from \$2.5 billion to \$3.3 billion, reflecting new competitive intelligence.

The market size in calendar years 2005-07 grew throughout all regions, driven by continuous demand for automated people movers and medium-sized investments in metro cars and light rail systems. It should be noted that the system market size reached an unusually high level in calendar year 2006, as a result of very large mass transit projects awarded in calendar year 2006 in South Africa and the United Arab Emirates.

Despite lower order intake in calendar year 2007, BT kept its global leadership in the system market, with a market share of 22% over calendar years 2005-07.

### Competitive positioning

BT is well positioned in the system market as a leader in the design, manufacturing, commissioning, operation and maintenance of automated people movers and mass transit systems. BT offers a complete portfolio of rubber tire and steel wheel solutions for highly reliable unattended train operation in high passenger traffic airports and urban areas.

With its wide range of value solutions addressing all phases of the life cycle of its installed base and new fleets, BT is well positioned to benefit from a growing demand in the services market.

### Outlook for calendar years 2008-10

Modernization of rolling stock and a moderate level of growth in the outsourcing are driving the market for services, particularly in Europe. The accessible market is expected to grow at around 1.5-2% annually, in real terms, over the next three calendar years. Further market growth will depend on the progress of liberalization in passenger transportation.

In calendar year 2007, BT won several contracts for automated people movers in Europe, North America and Asia. In the mass transit segment, BT won an order in Kuala Lumpur to support the order won in calendar year 2006 for additional advanced rapid transit vehicles. In addition, a new operations and maintenance contract was secured for Beijing Capital International Airport.

### Outlook for calendar years 2008-10

Environmental concerns and urbanization will grow the market for mass transit systems in the future, in particular in emerging markets in Asia-Pacific, the Middle East and Africa. After two exceptionally large contracts were awarded in calendar year 2006, the market is expected to return to a more sustainable level of around \$3.5 billion over the next three calendar years, or \$2.5 billion, net of the rolling stock, services and signalling portion of the orders.

## SIGNALLING MARKET

The signalling market comprises all areas of rail control and signalling automation solutions, train routing systems, operations and traffic control and other signalling fields. The market covers the mass transit and mainline segments with on-board and wayside equipment.

### Market by geographical region

(in billions of dollars)	Calendar years 2005-07		Calendar years 2004-06	
Europe	\$ 4.1	58%	\$ 3.9	59%
Asia-Pacific	1.4	20%	1.2	18%
North America	0.8	11%	0.8	12%
Other	0.8	11%	0.7	11%
	<b>\$ 7.1</b>	<b>100%</b>	\$ 6.6	100%
BT's market share	<b>8%</b>		8%	

The signalling market grew steadily throughout all regions in calendar years 2005-07. Market development in Europe was dominated by the rollout of ERTMS, with an increased focus on priority corridors and the submission of national ERTMS implementation plans to the European Union by each member state. ERTMS introduces a new signalling standard, allowing interoperability across national railway systems and ensuring the highest level of safety. The Asia-Pacific market was primarily driven by the mass transit segment, with a large number of projects awarded in China and India. The adoption of ERTMS in China is opening the mainline market to Western suppliers. In North America, the freight market benefited from investments to address capacity constraints. In the Other region market, particularly in the Middle East and in North Africa, investments in new infrastructure increased, triggering demand for new signalling systems.

### Competitive positioning

Continuous product development in mainline ERTMS solutions and the development of a mass transit engineering centre based in Bangkok enhance BT's competitiveness in the signalling market. Strategic alliances in Poland and Russia also provide a competitive advantage when addressing these two key growth markets. Other alliances established in calendar year 2007 will also enhance BT's competitive advantage in Germany and Sweden. Building on its signalling capabilities, BT was able to extend its customer footprint by winning key orders for ERTMS systems in China and Europe, as well as for mass transit solutions in India and Turkey.

### Outlook for calendar years 2008-10

ERTMS investment in Europe and infrastructure development projects in Asia-Pacific and the Middle East should drive the high demand for signalling equipment. The market is expected to grow by around 1.5-2% annually, in real terms, over the next three calendar years.

## STRATEGIES AND CAPABILITY TO DELIVER RESULTS

### Vision and commitment

BT's vision is to be the global leader in rail transport solutions, by:

- providing superior value and services to its customers;
- creating profitable growth through investments in its people and products;
- optimizing the safety, efficiency and environmental performance of its products; and
- setting high standards and delivering as promised.

BT's ultimate vision is to become the first choice for customers, the best performer and the most rewarding workplace for employees in the industry. Its more immediate strategic goals are to maintain global market leadership, create sustainable and profitable growth, and to achieve an EBIT margin of 6% by fiscal year 2010.

## Key success factors

The key success factors in the current business environment are:

- broad, leading-edge portfolio of flexible platforms that can be customized to customer requirements;
- superior engineering capability linked with highly evolved project management processes;
- global presence with local capabilities;
- competitive initial purchase cost and attractive total lifecycle costs;
- comprehensive and state-of-the-art service offering;
- environmentally friendly technology; and
- talent pool of well-trained and motivated employees.

## STRATEGIES

With a strong order backlog of \$30.9 billion, a consistently high level of order intake of over \$11 billion in each of the last two fiscal years, revenues close to \$8 billion and a global market share of 23% for calendar years 2005-07, BT is the market leader in the rail industry. As a result of its comprehensive and innovative product portfolio, BT is leading the market in nine out of eleven market segments. Since the launch of the BT-wide turnaround program in fiscal year 2005, BT has improved its profitability year after year, for the last three fiscal years.

To fully realize its vision and reach its strategic goals, BT focuses on four long-term strategic cornerstones:

Flawless execution	Profitable growth	Value-based solutions	Increased focus
Deliver projects on time, quality and budget.	Realize above-industry growth, while supporting EBIT target.	Evolve toward being a proactive solution provider.	Focus resources on higher return areas.

### Flawless execution

Goal	<ul style="list-style-type: none"> <li>• Deliver projects on time, quality and budget.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Execute margin and quality-enhancement programs focusing on engineering, procurement, manufacturing and project management.</li> <li>• Ramp up resources on time and quality to execute the order backlog of \$30.9 billion as at January 31, 2008.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Major projects delivered on time and on quality, for example:                             <ul style="list-style-type: none"> <li>• first batch of 300 out of 698 ordered AGC cars delivered on time, with reliability exceeding initial customer expectations; and</li> <li>• Beijing Airport system for 2008 Summer Games completed on time on a very tight schedule; only 18 months after contract signature.</li> </ul> </li> <li>• Approximately 2,400 new employees deployed across the organization, mainly in operations, engineering, quality and project management, to ensure flawless execution of the strong order backlog.</li> <li>• Further rolled out margin and quality-enhancement program across the organization.</li> </ul>

## Profitable growth

Goal	<ul style="list-style-type: none"><li>• Realize above-industry growth, while supporting EBIT target.</li></ul>
Leading initiatives	<ul style="list-style-type: none"><li>• Achieve a sustainable book-to-bill ratio above one.</li><li>• Expand market presence in emerging markets, with a focus on Russia, India and China.</li><li>• Improve profitability of order backlog through improved bidding.</li></ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"><li>• Realized strong order intake of \$11.3 billion across all world regions, with a book-to-bill ratio of 1.5, leading to an order backlog of \$30.9 billion, the highest backlog in the rail industry.</li><li>• Achieved revenue growth of 18%, mainly due to the ramp up of major contracts, following two fiscal years of revenue contraction.</li><li>• Improved profitability of order backlog through improved bidding processes and selective bidding, contributing to increase the EBIT margin before special items from 3.9% in fiscal year 2007 to 4.4% in fiscal year 2008.</li><li>• Focused and reached key milestones in emerging markets:<ul style="list-style-type: none"><li>• Russia: Created two joint ventures with CJSC Transmashholding to develop and manufacture <i>MITRAC</i> propulsion equipment;</li><li>• India: Won key contracts for the Delhi Metro, including 340 <i>MOVIA</i> metro cars and the installation of <i>CITYFLO</i> 350 train control and signalling systems and <i>MITRAC</i> propulsion &amp; controls equipment. BT is currently setting up a manufacturing site in Vadodara, India, to produce the metro cars and bogies; and</li><li>• China: Won several high-profile contracts, including the launch of <i>ZEFIRO</i> high-speed trains, a signalling system for the first ERTMS high-speed line in China, 192 <i>MOVIA</i> cars with <i>MITRAC</i> propulsion equipment for the Shanghai metro and <i>MITRAC</i> propulsion equipment for 500 electric freight locomotives.</li></ul></li></ul>

## Value-based solutions

Goal	<ul style="list-style-type: none"><li>• Evolve toward being a proactive solution provider.</li></ul>
Leading initiatives	<ul style="list-style-type: none"><li>• Develop and intensify proactive customer relationships to anticipate evolving customer needs.</li><li>• Develop and package value-added solutions to market BT's innovations.</li></ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"><li>• Successfully introduced innovative value-added solutions with a focus on modularity, operational flexibility and environmental performance, for example:<ul style="list-style-type: none"><li>• <i>TALENT 2</i> regional and commuter trains, which can be reconfigured to changing operational requirements even once put into service;</li><li>• AGC "bi-bi", the world's first hybrid train, able to run on both electrified and non-electrified lines without interruption;</li><li>• Green Train concept based on the successful <i>TURBOSTAR</i> platform and the B5000 bogie with 20% less weight, 20% higher fuel efficiency and 20% lower CO<sub>2</sub> emissions;</li><li>• Modular <i>ZEFIRO</i> high-speed technology partially fitted with sleeping berths, offering a new dimension in long-distance overnight travel; and</li><li>• <i>MITRAC</i> Energy Saver, with 20% power saving compared to conventional light rail vehicle equipment.</li></ul></li><li>• Won several awards highlighting the unique value proposition of the BT fleet, for example:<ul style="list-style-type: none"><li>• electrical and diesel multiple units have been ranked most reliable in the U.K. for the sixth consecutive year;</li><li>• <i>FLEXITY</i> Outlook trams in Brussels, Belgium, won a quality award for innovation, creativity and added value; and</li><li>• BT, jointly with its consortium partner, received a supplier award from Deutsche Bahn ("DB") for product quality and commercial relationship for the Hamburg S-Bahn line in Germany.</li></ul></li></ul>

## Increased focus

Goal	<ul style="list-style-type: none"> <li>• Focus resources on higher return areas.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Be more selective on order intake to further improve quality of order backlog.</li> <li>• Continuously review BT's activity portfolio to maximize value creation and reduce risk levels.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Improved success rate on bids as a result of a more focused tender selection and reinforced bidding processes.</li> <li>• Refocused services business in the U.K. on lower risk areas of fleet management and fleet support. As a result, low-end vehicle refurbishment business will be exited, once current commitments have been fulfilled.</li> </ul>

In fiscal year 2008, BT made significant progress on the implementation of its strategic cornerstones, improving its competitive positioning and financial performance. Employees across all countries, divisions and sites are aligned behind the strategy. BT is confident on reaching the strategic goals set for the coming fiscal years.

## CAPABILITY TO DELIVER RESULTS

To implement its long-term strategy and improve its competitive position with regards to the key success factors, BT launched a company-wide improvement program in fiscal year 2005. The program, called TOPSIX, aims to continuously improve BT's key business processes and covers six areas: market leadership, product portfolio, operational excellence, project management, procurement and human resources.

The TOPSIX actions are transversal initiatives across all BT divisions, countries and projects and support its long-term strategy as follows:

INITIATIVE	LEAD: Market leadership
Goal	<ul style="list-style-type: none"> <li>• Maintain and reinforce market leadership through sustainable profitable growth.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Expand international presence, with a particular focus on emerging markets.</li> <li>• Strengthen bid and sales processes.</li> <li>• Continuously develop and train sales force.</li> <li>• Intensify relationships with key customers.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Grew global market share from 20% to 23% despite strong competition.</li> <li>• Strengthened the mandate of chief country representatives and appointed new representatives in several new markets.</li> <li>• Reached key milestones in development of emerging markets: India, Russia and China.</li> <li>• Further improved bid processes.</li> <li>• Launched new customer relationship management initiative, starting with selected customers.</li> </ul>

<b>INITIATIVE</b>	<b>SUPRO: Product management</b>
Goal	<ul style="list-style-type: none"> <li>• Develop and sustain a world-class product portfolio that satisfies current and future customer needs, while ensuring environmental sustainability.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Leverage strength of current products and continuously optimize product portfolio.</li> <li>• Increase standardization and modularization on both component and platform levels.</li> <li>• Strengthen design review process to improve product design quality and reduce non-conformity costs throughout the life cycle.</li> <li>• Improve innovation management capabilities to remain ahead of competition.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Reached key milestones in standardization: product architectures now using close to 70% of standard components.</li> <li>• Improved knowledge management and launched engineering efficiency program.</li> <li>• Launched BT-wide research and development initiative to help customers reduce their environmental footprint.</li> <li>• Launched innovation management program to foster a culture of innovation and coordinate activities across the organization.</li> </ul>

<b>INITIATIVE</b>	<b>BOS: World-class operations</b>
Goal	<ul style="list-style-type: none"> <li>• Continuously improve performance of sites and deliver products on time, with no defects and to the full satisfaction of its customers.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Reduce non-conformity costs and increase quality by minimizing defects.</li> <li>• Shorten cycle times and improve on-time deliveries.</li> <li>• Increase productivity and reduce inventories.</li> <li>• Continuously develop a safe and secure workplace.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Launched the new BT Operations System (BOS), a world-class lean production system.</li> <li>• Completed base line assessments at all major sites and developed fiscal year 2009 improvement plan to implement best practices.</li> <li>• Awarded several quality and industry certifications: <ul style="list-style-type: none"> <li>• International Railway Industry Standard (IRIS) certification for three main sites in Germany and Sweden; and</li> <li>• Eco Management and Audit Scheme (EMAS) for BT Poland.</li> </ul> </li> </ul>

INITIATIVE	PRO: Project management excellence
Goal	<ul style="list-style-type: none"> <li>Continuously improve project management performance to deliver contracts on time, on cost and on quality.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>Reinforce process deployment and project management competencies and continue to audit and monitor key projects.</li> <li>Capture and share lessons learned and best practices across the organization.</li> <li>Continue to develop and expand the project management talent pool.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>Performed over 100 in-depth project audits across the divisions to support margin and quality-enhancement program.</li> <li>Performed an external benchmarking of BT's project management capabilities, providing a basis for further improvements in fiscal year 2009.</li> <li>Launched new knowledge management process to support continuous improvement.</li> <li>Improved process for planning and scheduling projects.</li> <li>Introduced advanced training for project managers across the organization.</li> </ul>

INITIATIVE	CODE30+: Procurement optimization
Goal	<ul style="list-style-type: none"> <li>Improve supply chain reliability and reduce cost of ownership of procured materials and services.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>Reduce material prices through global sourcing.</li> <li>Launch joint improvement initiatives with suppliers to reduce total cost.</li> <li>Optimize supply chain for on time and on-quality sourcing.</li> <li>Expand supplier performance management program.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>Improved competitiveness and profitability.</li> <li>Expanded scope of initiative from material cost optimization to total cost of ownership, covering aspects such as design, manufacture and life cycle costs.</li> <li>Started initiative on supplier quality and performance improvement.</li> </ul>

<b>INITIATIVE</b>	<b>PEOPLE: People development</b>
Goal	<ul style="list-style-type: none"> <li>• Create and sustain a workplace that motivates employees to do their best.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Acquire external, and leverage internal talent.</li> <li>• Develop competencies throughout key functions.</li> <li>• Create an engaged and boundary-free organization.</li> <li>• Invest in retaining and developing people.</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Launched new global graduate program to attract skilled workforce.</li> <li>• Gave leadership training to more than 650 employees to improve execution of strategies.</li> <li>• Introduced shared service centres for North American employees in Montréal, Canada, and for European employees in Derby, U.K., Vasteras, Sweden, and Brussels, Belgium, to improve human resource service levels offered to employees.</li> <li>• Introduced and created global centres of expertise for talent and compensation/benefit management.</li> </ul>

In addition to its focus on operational improvement to enhance its competitive position and profitability through the company-wide improvement program TOPSIX, BT is aiming at optimizing its cash flow management.

<b>INITIATIVE</b>	<b>Cash flow management</b>
Goals	<ul style="list-style-type: none"> <li>• Optimize free cash flow through the effective management of operations and net segmented assets, mainly inventories and advances from customers.</li> <li>• Generate free cash flow in line with EBIT.</li> </ul>
Leading initiatives	<ul style="list-style-type: none"> <li>• Profitable growth: achieve a sustainable book-to-bill ratio above one by maintaining market leadership in traditional markets and expanding in emerging markets, leading to higher levels of customer advances and profitability.</li> <li>• TOPSIX improvement program: reduce net segmented assets through an optimized supply chain and shorter production lead times (CODE 30+ and BOS), as well as through strengthened contract management (PRO).</li> </ul>
Fiscal year 2008 highlights	<ul style="list-style-type: none"> <li>• Realized a free cash flow of \$688 million in fiscal year 2008, an improvement of \$593 million compared to last fiscal year, despite discretionary pension fund contributions totalling \$135 million.</li> <li>• Free cash flow in excess of two times EBIT before special items, mostly as a result of strong order intake above \$11 billion and a book-to-bill ratio of 1.5.</li> </ul>

Since the launch of the company-wide improvement initiative in fiscal year 2005, BT has made very good progress in all targeted areas. Going forward, BT will continuously review the TOPSIX program and adapt the initiatives to maintain and further improve its competitive advantage.



## ANALYSIS OF RESULTS

The high level of order intake achieved in fiscal year 2008 illustrates the solid competitiveness of BT's product and service portfolio, with a growing number of large contracts won across numerous market segments and geographic areas. The company-wide turnaround program that BT launched in fiscal year 2005 has been a major contributor to this success. Structured around the TOPSIX improvement initiatives, this

program has allowed BT to improve contract execution, reduce risks and realize profitable growth. The steady progress realized over the last three fiscal years through various initiatives has been a main contributor to the improvement in EBIT margin before special items from 0.4% in fiscal year 2005 to 4.4% in fiscal year 2008.

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

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
Revenues				
Rolling stock	\$ 1,545	\$ 1,118	\$ 4,894	\$ 4,066
Services	389	386	1,474	1,404
System and signalling <sup>(2)(3)</sup>	443	325	1,425	1,116
Total revenues	2,377	1,829	7,793	6,586
Cost of sales	2,057	1,561	6,703	5,642
Margin	320	268	1,090	944
Selling, general and administrative	157	130	544	455
Research and development	28	28	102	95
Other expense (income) <sup>(4)</sup>	(2)	(9)	(4)	30
EBITDA before special items	137	119	448	364
Amortization	28	33	109	109
EBIT before special items	109	86	339	255
Special items	-	-	162	24
EBIT	\$ 109	\$ 86	\$ 177	\$ 231
(as a percentage of revenues)				
Margin	13.5%	14.7%	14.0%	14.3%
EBITDA before special items	5.8%	6.5%	5.7%	5.5%
EBITDA	5.8%	6.5%	3.7%	5.2%
EBIT before special items	4.6%	4.7%	4.4%	3.9%
EBIT	4.6%	4.7%	2.3%	3.5%

<sup>(1)</sup> The results of operations using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other Western European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. Mainly due to the higher exchange rates of the euro and other European currencies versus the U.S. dollar for fiscal year 2008 compared to fiscal year 2007, revenues have been positively impacted ("positive currency impact") and expenses have been negatively impacted ("negative currency impact"). See the Foreign exchange rates section for the average exchange rates used to translate revenues and expenses.

<sup>(2)</sup> The revenues of system and signalling are presented in the caption other revenues in the Consolidated Statements of Income.

<sup>(3)</sup> Excluding the rolling stock portion of system orders manufactured by other divisions within BT.

<sup>(4)</sup> Includes net losses (gains) on certain financial instruments, foreign exchange losses (gains), severance and other involuntary termination costs (including changes in estimates), settlement of claims and loss (income) from equity accounted investees.

## Revenues by geographic region

	Fourth quarters ended January 31				Fiscal years ended January 31			
	2008		2007		2008		2007	
Europe	\$1,752	74%	\$1,243	68%	\$5,782	74%	\$4,618	70%
Asia Pacific	257	11%	247	14%	919	12%	714	11%
North America	288	12%	221	12%	888	11%	1,015	15%
Other	80	3%	118	6%	204	3%	239	4%
	\$2,377	100%	\$1,829	100%	\$7,793	100%	\$6,586	100%

## Rolling stock revenues

### Fourth quarter

The \$427-million increase is mainly due to increased activity:

- in the locomotive segment in Europe (\$97 million);
- in the regional train segment, mainly in France and Germany (\$78 million);
- in North America (\$54 million) due to ramping up of new contracts; and
- in the propulsion & controls segment, mainly in Asia and Europe (\$46 million).

This increase also reflects a positive currency impact (\$119 million).

### Fiscal year

The \$828-million increase is mainly due to increased activity:

- in the regional train segment, mainly in France, Germany and China (\$318 million);
- in the propulsion & controls segment, mainly in Asia and Europe (\$140 million); and
- in the locomotive segment in Europe (\$92 million).

Partially offset by lower activity:

- in the North America region (\$138 million), mainly due to the phasing out of a major commuter train contract.

This increase also reflects a positive currency impact (\$328 million).

## Services revenues

### Fourth quarter

Revenues are essentially stable. Significant variances are mainly related to:

- higher activity in the North America region (\$20 million).

Offset by:

- negative adjustments for contracts and lower activities, mainly in the U.K.

There is also a positive currency impact (\$23 million).

### Fiscal year

The \$70-million increase is mainly due to:

- a higher level of activities in the North America region (\$55 million).

Partially offset by:

- negative adjustments for contracts, mainly in the U.K.

This increase also reflects a positive currency impact (\$103 million).

In fiscal year 2008, BT refocused its services business in the U.K. on lower risk areas of fleet management and fleet support. As a result, the low-end refurbishment business will be exited, once current commitments have been fulfilled.

## System and signalling revenues

### Fourth quarter

The \$118-million increase is mainly due to:

- higher system revenues in South Africa, Taiwan and on the London Underground project (\$68 million); and
- increased activity in the North America region (\$14 million).

This increase also reflects a positive currency impact (\$33 million).

### Fiscal year

The \$309-million increase is mainly due to:

- higher system revenues, mainly in South Africa, South Korea, and on the London Underground project (\$191 million); and
- higher activity in the North America region (\$46 million).

This increase also reflects a positive currency impact (\$78 million).

## EBIT margin before special items

### Fourth quarter

The 0.1 percentage-point decrease is mainly due to:

- negative adjustments for service contracts, mainly in the U.K.; and
- a negative contract adjustment in the North America region.

Partially offset by:

- the positive impact of procurement initiatives and the quality-enhancement program; and
- better absorption of amortization and research and development expenses due to higher revenues.

### Fiscal year

The 0.5 percentage-point increase is mainly due to:

- the positive impact of procurement initiatives and the quality-enhancement program;
- better absorption of amortization expense due to higher revenues; and

- foreign exchange losses in fiscal year 2007, arising from the translation of balance sheet exposure, after the effect of hedges.

Partially offset by:

- negative adjustments for service contracts, mainly in the U.K.;
- a negative contract adjustment in the North America region; and
- initial costs for a new platform in relation to the first order received under the DB framework agreement for the new *TALENT 2* trains.

## Special items

The special item for fiscal year 2008 relates to the write-off of the carrying value of the investment in Metronet (see Metronet section hereafter). The special item for fiscal year 2007 was related to the restructuring plan initiated in fiscal year 2005 to reduce the cost structure in BT.

## FREE CASH FLOW

### Free cash flow

	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
EBIT	\$ 109	\$ 86	\$ 177	\$ 231
Non-cash items:				
Amortization	28	33	109	109
Gain on disposals of property, plant and equipment	(1)	-	(3)	(1)
Stock-based compensation	8	1	17	7
Special items	-	-	162	24
Net change in non-cash balances related to operations	425	361	320	(209)
Net additions to property, plant and equipment	(44)	(38)	(94)	(66)
	\$ 525	\$ 443	\$ 688	\$ 95

### Fourth quarter

The \$82-million improvement is mainly due to:

- a positive period-over-period variation in net change in non-cash balances related to operations (\$64 million) (see explanation below); and
- higher EBIT (\$23 million).

### Fiscal year

The \$593-million increase is mainly due to:

- a book-to-bill ratio of 1.5 or above in each of the last two fiscal years, arising from a high level of order intake, creating a positive year-over-year variation in net change in non-cash balances related to operations (\$529 million) (see explanation below); and
- higher EBIT before special items (\$84 million).

Partially offset by:

- higher net additions to property, plant and equipment (\$28 million).

## Net change in non cash balances related to operations

### Fourth quarter

The \$425-million cash inflow for the fourth quarter of fiscal year 2008 is mainly due to an increase in advances and progress billings in excess of related costs, and in accounts payable and accrued liabilities, partially offset by an increase in inventories and in receivables. The \$361 million cash inflow for the fourth quarter of fiscal year 2007 is mainly due to an increase in advances and progress billings in excess of related costs and a decrease in receivables, partially offset by a decrease in accounts payables and accrued liabilities.

### Fiscal year

The \$320 million cash inflow for fiscal year 2008 was mainly due to an increase in advances and progress billings in excess of related costs and a decrease in inventories, partially offset by the payment of discretionary pension fund contributions (\$135 million), an increase in receivables and a decrease in accounts payable and accrued liabilities. The \$209 million cash outflow for fiscal year 2007 was mainly due to the decrease in accounts payables and accrued liabilities, partially offset by an increase in advances and progress billings in excess of related costs and a decrease in receivables.

## ORDERS AND BACKLOG

### Order intake

(in billions of dollars)	Fourth quarters ended January 31		Fiscal years ended January 31	
	2008	2007	2008	2007
Rolling stock	\$ 2.7	\$ 4.6	\$ 7.7	\$ 7.8
Services	0.9	0.5	2.4	2.5
System and signalling	0.3	0.3	1.2	1.5
	\$ 3.9	\$ 5.4	\$ 11.3	\$ 11.8
Book-to-bill ratio	1.6	3.0	1.5	1.8

The increase in sales combined with the strong order intake realized in the previous fiscal year, especially in the fourth quarter, explains the decrease of the book-to-bill ratio for the three- and twelve-month periods.

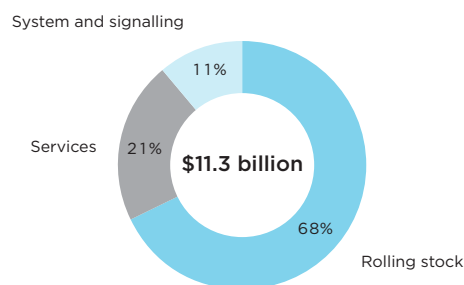
### Fourth quarter

The decrease is mainly due to the particularly high level of order intake in Rolling Stock (Europe) in the fourth quarter of fiscal year 2007. The decrease was partially offset by a higher order intake in services (Canada and Europe) in the fourth quarter of fiscal year 2008 and a positive currency impact (\$250 million).

### Fiscal year

The decrease is mainly due to the particularly high level of order intake in Rolling stock (Europe) in fiscal year 2007, including the major orders from the Société Nationale des Chemins de fer Français ("SNCF") to supply high capacity commuter and regional trains, as well as in services and system (South Africa). This decrease was partially offset by a positive currency impact (\$770 million).

### Order intake Fiscal year 2008



## Major orders

Fiscal year 2008

Customer	Product/Service	Number of cars	Rolling stock	Services
Chinese Ministry of Railways, China	40 high-speed EMUs, 20 of which are based on <i>ZEFIRO</i> technology	<b>640</b>	\$596 <sup>(1)</sup>	\$ -
Delhi Metro Rail Corporation Ltd. (DMRC), India	<i>MOVIA</i> metro cars	<b>340</b>	590	-
Angel Trains Cargo, U.K.	<i>TRAXX</i> locomotives, type F140 AC/DC/MS	<b>100</b>	548	-
SNCF, France	High-capacity trains, type AGC	<b>324</b>	527	-
Trenitalia, Italy	Electric locomotives, type E464	<b>150</b>	487	-
Dalian Locomotives and Rolling Stock Company Ltd., China	<i>MITRAC</i> propulsion and train control equipment, design and technical support for high-power electric freight locomotives	<b>500</b>	480 <sup>(2)</sup>	-
Agence métropolitaine de transport, Canada	Multilevel commuter rail cars	<b>160</b>	381	-
Greater Toronto Transit Authority, Canada	5-year fleet operations and maintenance	-	-	265
DB, Germany	<i>TALENT 2</i> EMUs	<b>168</b>	242	-
East Midlands Trains, U.K.	Fleet provision and maintenance	<b>127</b>	-	236
Nederlandse Spoorwegen (NS – Netherlands Railways), Netherlands	Sprinter EMUs	<b>128<sup>(3)</sup></b>	226 <sup>(4)</sup>	-
Rotterdamse Elektrische Tram, Netherlands	<i>FLEXITY</i> Swift light rail vehicles	<b>43</b>	205	-
Porterbrook Leasing Ltd., U.K.	<i>TURBOSTAR</i> cars	<b>69</b>	189	-
Swiss Federal Railways (SBB), Switzerland	Low-floor passenger coaches	<b>140</b>	178	-
SNCF, France	EMUs, type TER 2N NG and power bogies	<b>95<sup>(5)</sup></b>	156 <sup>(6)</sup>	-
Green Cargo, Sweden	Modernization of electric locomotives, type Rc2 and diesel locomotives, type T44	<b>104</b>	-	153
DB, Germany	Double-deck coaches	<b>64</b>	130	-
Southern Railway and Porterbrook Leasing Ltd., U.K.	<i>ELECTROSTAR</i> cars	<b>48</b>	115	-

(1) Total contract value, including consortium partner, is \$1.5 billion.

(2) Total contract value, including consortium partner, is \$1.4 billion.

(3) Total contract, including consortium partner, is for 320 cars.

(4) Total contract value, including consortium partner, is \$557 million.

(5) Contract includes 150 power bogies in addition to the 95 cars.

(6) Total contract value, including consortium partner, is \$646 million.

In addition, subsequent to the end of fiscal year 2008, BT signed the following contracts, which are not included in the order backlog as at January 31, 2008:

- an order amounting to €195 million (\$285 million) for the supply of 87 *FLEXITY* Outlook trams, as part of a framework agreement concluded with Brussels transport company (STIB) in fiscal year 2004; and

- a contract valued at \$229 million for 27 ALP-46A locomotives awarded by the New Jersey Transit Corporation to haul BT multilevel commuter rail cars.

## Order backlog

(in billions of dollars)	January 31 2008	January 31 2007
Rolling stock <sup>(1)</sup>	<b>\$ 20.5</b>	\$ 15.9
Services	<b>6.6</b>	5.9
System and signalling	<b>3.8</b>	5.7
	<b>\$ 30.9</b>	\$ 27.5

<sup>(1)</sup> Of which \$14.8 billion, or 72% of rolling stock order backlog, had a percentage of completion from 0% to 25% as at January 31, 2008 (\$10.0 billion, or 63%, as at January 31, 2007).

The increase in order backlog is due to a higher order intake compared to revenues recorded (\$3.5 billion) and to the strengthening of the euro and the pound sterling versus to the U.S. dollar (\$2.5 billion), partially offset by the cancellation of \$2.6 billion of the order backlog related to the Metronet contract (see Metronet section hereafter).

## METRONET

Metronet Rail BCV Ltd. and Metronet Rail SSL Ltd. (together "Metronet"), an equity accounted investee in which the Corporation is a 20% shareholder, is responsible for maintaining and upgrading approximately 75% of the London Underground's rail system as part of a public private partnership ("PPP") under a service contract signed with London Underground Ltd. ("LUL") in April 2003.

As a result of significant cost overruns related to Metronet's capital programs, mainly the modernization and refurbishment of the stations and tracks, and the lack of financial resources to meet such cost overruns, a PPP Administrator was appointed on July 18, 2007. The PPP Administrator has the responsibility to first stabilize Metronet's operations, to settle all Metronet suppliers' liabilities accrued before the request for its appointment, and then to proceed with the transfer of all or part of Metronet's activities. Following these events, the Corporation wrote-off the carrying value of £82 million (\$162 million) of its investment in Metronet in the second quarter of fiscal year 2008. The charge was recorded as a special item in the consolidated statements of income.

On October 25, 2007, Transport for London ("TfL") announced that it had lodged a bid with the PPP Administrator to take control of Metronet. TfL was the only bidder for Metronet's activities. TfL is the public entity responsible to manage transport in London, on behalf of the Greater London Authority, a public body led by the Mayor of London and responsible for strategic planning related to certain key services in London. LUL is one of TfL's subsidiaries, and is responsible for the underground network of railways. Since

LUL is the prime interface with Metronet, it is likely that the contracts with Metronet will be transferred to a LUL nominee or possibly LUL itself.

The difficulties encountered by Metronet and its subsequent entry into administration have caused a significant number of challenges in relation to the scheduled modernization program for the London Underground network. Since Metronet entered into administration, LUL has been negotiating with the PPP Administrator and the current contractors (including BT) the basis upon which the Metronet undertaking can be transferred to a LUL nominee company.

As a result of these negotiations, and subject to a Court decision that will be sought shortly by the PPP Administrator:

- There will be no change in the BT's scope of work for the Bakerloo, Central and Victoria Lines ("BCV") program, consisting of the upgrade of the Victoria Line with new rolling stock and the supply of new signalling by its subcontractor Westinghouse Rail Systems Limited ("WRSL"). BT has continued to work on this contract during the course of Metronet's administration and work is progressing well.
- The Sub-Surface Lines ("SSL") upgrade program, which is less advanced in its implementation than the BCV program, will be de-scoped with regard to the signalling portion predominantly sub-contracted to WRSL. As a result, BT made a payment of £95 million (\$189 million) to WRSL, in full and final settlement of its obligations toward WRSL under the current contract. The de-scoping of the signalling elements and the revision of the contract from an integration- and performance-based contract to a conventional product approach, more typical of the rolling stock industry, has resulted in a significant reduction of BT's technical and execution risks. The results of operations have not been impacted by this payment as the reduction of related contingency reserves, following the reduction of risks, fully offset the payment made to WRSL.

- BT will continue to supply new rolling stock, with a small increase in the scope of the SSL program.
- The original BCV and SSL maintenance contracts will be amended so that the maintenance remains with Metronet, while BT will retain a Technical Support and Spares Supply Agreement (TSSSA). These changes were made at the request of Metronet to assist with the resolution of the industrial relation issues arising from the proposed transfer of staff to BT.

In addition, the payment of an outstanding receivable of £28 million (\$56 million) due to BT will be made. This payment is related to signalling and rolling stock work performed predominantly under procurement contracts prior to the appointment of the PPP Administrator (£26 million or \$52 million), and costs incurred related to the original

maintenance program (£2 million or \$4 million). Other work performed has been paid in accordance with the contracts.

The net impact on the order backlog has been reflected as at January 31, 2008, resulting in a reduction of the Metronet order backlog of £1.3 billion (\$2.6 billion) from an order backlog of £3.2 billion (\$6.4 billion), and a reduction of the BT total order backlog from \$33.5 billion to \$30.9 billion.

The reduction of the order backlog is as follows:

- A reduction of £950 million (\$1.9 billion) for the signalling de-scoping of the SSL program, which represents predominantly the sub-contracted WRSL signalling and integration and project management activities for BT.
- A reduction of £400 million (\$0.8 billion) for the maintenance portion of the BCV and SSL programs.
- An increase of £50 million (\$0.1 billion) for additional work requested by Metronet for the rolling stock portion of the SSL program.

## WORKFORCE AND LABOUR RELATIONS

The 8% increase is mainly due to the ramp up of resources in Europe, mostly in Poland, France, Germany, Hungary and Sweden, as well as in North America. Approximately 2,400 new employees were deployed across the organization, mainly in operations, engineering, quality and project management, to ensure flawless execution of the strong order backlog. In Europe and North America, respectively 80% and 40% of the employees were covered by collective agreements as at January 31, 2008.

### Total number of employees

	January 31 2008	January 31 2007
Europe	23,734	22,387
North America	6,453	5,690
Asia-Pacific and Other	1,298	1,027
	<b>31,485<sup>(1)</sup></b>	29,104 <sup>(1)</sup>

<sup>(1)</sup> Including 3,568 and 2,899 contractual employees as at January 31, 2008 and 2007, respectively.

# OTHER

## OFF-BALANCE SHEET ARRANGEMENTS

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### COMMITMENTS AND CONTINGENCIES

The Corporation's commitments and contingencies are described in Note 26 – Commitments and contingencies to the Consolidated Financial Statements.

#### Credit and residual value guarantees

In connection with the sale of certain of its products, mainly regional aircraft, the Corporation provides financing support in the form of credit and residual value guarantees to enhance the ability of certain customers to arrange third-party financing for their asset acquisition.

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 (ranging from 1 to 19 years) under the relevant financing arrangements. In the event of default, the Corporation usually acts as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. The Corporation typically receives a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset is below the guaranteed value. In most cases, these are guarantees provided at the end of a financing arrangement, ranging from 2 to 19 years. The value of the underlying asset may be adversely affected by a number of factors, including, but not limited to, an economic downturn. To mitigate the Corporation's exposure, the financing arrangements generally require the collateral to meet certain contractual return conditions 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 the first loss from a guaranteed level. A claim under the guarantee may typically be made only on the sale of the underlying asset to a third party.

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

#### Financing commitments

The Corporation sometimes provides financing support to facilitate its customers' access to capital. This support may take a variety of forms, including providing assistance to customers in accessing and structuring debt and equity for aircraft acquisitions, or providing assurance that debt and equity are available to finance such acquisitions. The

Corporation may provide interim financing to customers while permanent financing is being arranged.

As at January 31, 2008, the Corporation had outstanding financing commitments to five customers in relation to the future sale of aircraft scheduled for delivery through fiscal year 2013, amounting to \$1.8 billion. The Corporation mitigates its exposure to credit and interest rate risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment and by entering into interest rate cap agreements. Total customer financing arranged by the Corporation in fiscal year 2008 amounted to \$2.0 billion (\$1.9 billion in fiscal year 2007).

The Corporation anticipates that it will be able to satisfy its financing commitments to its customers through third-party financing. However, the Corporation's ability to satisfy its financing commitments may be affected by financial difficulties in the commercial airline industry in general and of certain customers in particular, and by the Corporation's current and future credit condition.

#### Other commitments and contingencies

In connection with its contracts with Metronet for the modernization of the London Underground, the Corporation is committed to providing collateral (surety bonds and letters of credit) in support of its obligations. These commitments extend to calendar year 2018. As at January 31, 2008, £181 million (\$360 million) of surety bonds maturing in 2013 were outstanding. The period covered by the surety bonds must be extended by one year, every year. In the event that the bonds are not extended, the Corporation could have to provide, within one year, alternate collateral, which could reduce availability under the letters of credit facility.

Over the years, BA has invested \$3.5 billion in program tooling as well as other significant amounts in product development and capital assets. The Corporation receives government financial support related to the development of aircraft from various levels of government.

Certain of these financial support programs require the Corporation to repay amounts to governments at the time of the delivery of products, contingent on a minimum agreed upon level of related product sales being achieved. If such minimum agreed upon level is not reached, no amount is repayable. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. In connection with BA aircraft programs, the Corporation has received from Federal and Provincial Canadian governments cumulative contingently repayable government support amounting to \$546 million Cdn as at January 31, 2008 (\$545 million translated at the closing balance sheet rate). In connection with such government support, the total amount repaid amounted



to \$472 million Cdn as at January 31, 2008 (\$471 million translated at the closing balance sheet rate). Reimbursements to Federal and Provincial Canadian governments included \$86 million Cdn (\$86 million) paid on January 31, 2008 in full and final settlement of one such government financial support program. The remaining undiscounted maximum amount repayable under such programs, mostly based on future deliveries of aircraft, amounted to \$371 million Cdn (\$370 million) as at January 31, 2008.

In addition, the Corporation has received from the U.K. government contingently repayable support in the amount of £11 million as at January 31, 2008 (\$22 million translated at the closing balance sheet rate), which is mainly repayable if certain conditions such as minimum employment levels are not maintained over certain periods.

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. District Court of the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others for alleged violations of federal securities laws relating to

BCMSC's Senior/Subordinated Pass-Through Certificates, Series 2000-A, due January 15, 2030. On April 15, 2005, the plaintiffs filed an amended complaint. The amendments include the inclusion of all open market purchasers of BCMSC's Senior/Subordinated Pass-Through Certificates, Series 1998-A, Series 1998-B, Series 1998-C, Series 1999-A, Series 1999-B, Series 2000-A and Series 2000-B as part of the putative class. While the Corporation cannot predict the outcome of any legal proceedings, based on information currently available, the Corporation intends to vigorously defend its position.

The Corporation is also a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of legal proceedings pending as at January 31, 2008, 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.

## VARIABLE INTEREST ENTITIES

### Variable interest entities ("VIEs")<sup>(1)</sup> in which the Corporation has a significant variable interest

	January 31 2008		January 31 2007	
	Assets	Liabilities	Assets	Liabilities
<b>BA</b>				
Financing structures related to the sale of regional aircraft <sup>(2)</sup>	\$6,970	\$4,083	\$ 6,985	\$ 4,245
Sale and leaseback structure	-	-	13	13
<b>BT</b>				
Partnership arrangements <sup>(3)</sup>	1,468	1,350	5,993	5,450
Sale support guarantee	579	587	579	572
Cash collateral accounts	82	82	75	75
	<b>9,099</b>	<b>6,102</b>	13,645	10,355
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	16	7	8	7
Sale and leaseback structure	-	-	13	13
Cash collateral accounts	82	82	75	75
	<b>98</b>	<b>89</b>	96	95
Assets and liabilities of non-consolidated VIEs	<b>\$9,001</b>	<b>\$6,013</b>	\$13,549	\$10,260

<sup>(1)</sup> See also in Note 27 - Variable Interest Entities to the Consolidated Financial Statements.

<sup>(2)</sup> The Corporation has provided credit and/or residual value guarantees to certain special purpose entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional aircraft. In September 2005, a \$1.7-billion securitization transaction was completed to provide financing in the form of long-term leases for 70 regional aircraft. The Corporation has provided certain credit enhancements and has acquired a subordinated beneficial interest in connection with this transaction.

<sup>(3)</sup> The Corporation is a party to partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long-term services, such as the operation and maintenance of rail equipment. The Corporation's involvement with these entities results mainly from investments in their equity and/or in subordinated loans and through manufacturing, selling and long-term service contracts.

As at January 31, 2007, Metronet was considered a VIE with related assets and liabilities of £2.5 billion (\$4.9 billion) and £2.3 billion (\$4.5 billion), respectively, although the Corporation was not the primary beneficiary. Following the petition for administration and given the anticipated transfer of all the activities of Metronet to LUL, the Corporation considers its interest in Metronet to be a non-significant interest and therefore, Metronet's assets and liabilities are no longer included in the table above as at January 31, 2008.

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. The consolidation of debt resulting from the application of AcG-15 is excluded from the computation of the Corporation's financial covenant ratio for structures existing prior to May 1, 2004, or when the debt of the consolidated VIEs is non-recourse to the Corporation for structures created on or after May 1, 2004. All consolidated debt is related to structures existing prior to May 1, 2004. Additionally, the consolidation of VIEs does not result in any change in the underlying tax, legal or credit exposure of the Corporation.

## FINANCIAL ARRANGEMENTS

In addition to the off-balance sheet lease obligations disclosed elsewhere in this MD&A, the Corporation has access to factoring facilities and other off-balance sheet arrangements.

### Factoring facilities

The Corporation occasionally uses factoring facilities in Europe under which it can sell without recourse qualifying trade receivables in the normal course of business. The amount available under these facilities was €220 million (\$326 million)

as at January 31, 2008. During fiscal year 2008, the Corporation did not use these facilities as a result of its strong free cash flow. During fiscal year 2007, the Corporation sold \$298 million of trade receivables to such facilities, of which \$113 million were outstanding as at January 31, 2007.

### Sale and leaseback agreement

In fiscal year 2008, the Corporation entered into a \$150-million three-year sale and leaseback agreement with a third party. This agreement replaced a previous agreement that had expired in August 2007. Under the new agreement, the Corporation can sell certain business aircraft and had leased them back for a 24-month period. The Corporation has the right to buy back the aircraft during the term of the lease for predetermined amounts. Aircraft amounting to \$40 million and \$64 million were sold and leased back as at January 31, 2008 and 2007, with respect to these sale and leaseback agreements.

## RISKS AND UNCERTAINTIES

The Corporation operates in industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties described below are risks that could materially affect the Corporation's business, financial condition and results of operations, but are not necessarily the only risks faced by the Corporation. Additional risks and uncertainties not presently known to the Corporation, or that the Corporation currently believes to be immaterial, may also adversely affect its business. To the extent possible, the Corporation has developed and applies risk assessment, mitigation and management practices to reduce the nature and extent of its exposure to these risks (see Strategies and Capability to Deliver Results–Risk Management in the Overview section for further details).

<b>General economic risk</b>	Potential loss due to unfavourable economic conditions, such as a macroeconomic downturn in important markets or an increase in commodity prices, which could result in a lower order intake, would adversely affect the Corporation's business. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Corporation incurring significant costs associated with temporary layoffs or the termination of employees.
<b>Business environment risk</b>	Potential loss due to external risk factors, more specifically the financial condition of the airline industry (see below) and major rail operators, government policies related to import and export restrictions, changing priorities and possible spending cuts by government agencies, government support to export sales, world trade policies, competition from other businesses, as well as scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates. In addition, acts of terrorism, global health risks and political instability, 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 the Corporation's products.

<b>Operational risk</b>	Potential loss due to risks related to business partners, developing new products and services, product performance warranty and casualty claim losses, regulatory and legal risk, environmental risks, as well as dependence on customers, suppliers and human resources (see below). In addition, large and complex projects for customers are common for the Corporation's businesses, including fixed-price contracts (see below). The Corporation is also subject to risks related to problems with supply management, production and project execution, reliance on information systems, as well as the successful integration of new acquisitions. These risks could affect the Corporation's ability to meet its obligations.
<b>Financing risk</b>	Potential loss related to liquidity and access to capital markets, restrictive debt covenants, financing support provided on behalf of certain customers, as well as government support (see below).
<b>Market risk</b>	Potential loss due to adverse movements in market rates, including foreign currency fluctuations, changing interest rates and commodity price risks (see below).

## Business environment risk

### *Airline industry financial condition*

Airline industry financial condition and viability influence the demand for BA's commercial aircraft. Continued cost pressure in the airline industry puts pressure on the price of BA's products. BA is faced with the challenge of finding ways to reduce costs and improve productivity to sustain a favourable market position at acceptable profit margins. The loss of any major commercial airline as a customer or the termination of a contract could significantly reduce the Corporation's revenue.

BA has a proven family of regional aircraft in the regional jet and turboprop segments, which offer airlines product commonality such as common crew qualifications, spare parts and maintenance procedures. It is well-positioned for the trend toward larger aircraft with its portfolio of next-generation versions of its *CRJ700/900/1000 NextGen* regional jets, with seating capacity of 70 to 100 seats. *Q400 NextGen* turboprop economics, built on significantly lower maintenance, fuel and acquisition costs for short haul flights of up to 500 nautical miles, compared to similarly sized jets, have also become more appealing in a higher operating cost environment.

## Operational risk

### *Business partners*

In some of the projects carried out through consortia or other partnership vehicles in BT, all partners are jointly and severally liable to the customer. The success of these partnerships is dependent on the satisfactory performance of the Corporation and its business partners. Failure of the business partners to fulfill their contractual obligations could subject the Corporation to additional financial and performance obligations that could result in increased costs, unforeseen delays, losses or write-down of assets. In addition, in the BT's systems business, the loss of potential order intake may result from a partner withdrawing from a consortium during the bid phase.

In order to address this, a risk analysis and assessment is done at the beginning of each project and on a continuing basis thereafter, and this analysis constitutes one of the key elements that the Corporation takes in consideration when it decides to pursue a certain project. In addition, these projects normally provide counter-indemnities among the partners.

### *Developing new products and services*

The principal markets in which the Corporation's businesses operate experience changes due to the introduction of new technologies. To meet its customers' needs in these businesses, the Corporation must continuously design new products, update existing products and services, and invest and develop new technologies, which may require significant capital investments. Introducing new products requires a significant commitment to research and development, which may or may not be successful.

The Corporation's sales may be impacted if it invests in products that are not accepted in the marketplace, if customer demand or preferences change, if the products are not approved by regulatory authorities, or if the products are not brought to market in a timely manner or become obsolete. The Corporation is subject to stringent certification or approval requirements, which could differ by country and could delay the certification of the Corporation's products. Non-compliance with current or future regulatory requirements imposed by Transport Canada ("TC"), the Federal Aviation Administration ("FAA"), the European Aviation Safety Agency ("EASA"), the Transportation Safety Institute ("TSI") and national rail regulatory bodies or other regulatory authorities, could result in the service interruption of the Corporation's products, which may materially and adversely affect the Corporation's business, financial condition and results of operations.

BA's risk mitigation strategy starts long before the design of a new product is initiated and continues throughout the product cycle. In collaboration with industrial partners and academic institutions, BA performs research and development activities to investigate and validate the use of new technologies before they are introduced on new products. This allows BA to confirm a technology's technical and financial benefits and to train a team of experts on important aspects of its applications. One of the key processes used to monitor the progression of technology and to measure the associated risk is the Technology Readiness Level ("TRL"), developed by NASA. The TRL scale begins with TRL 1, pre-competitive, public domain research, and ends with TRL 9, at which point the technology is proven through successful mission operations. By applying a rigorous approach to this process, BA minimizes the risk associated with the introduction of new technology into its product portfolio.

The Aircraft Portfolio Strategy Board ("APSB") at BA, consisting of senior management including the president of the business units, is responsible for an integrated product portfolio. As part of its mandate, the APSB looks at multiple product development scenarios spanning the next ten years. Its focus is on ensuring proper portfolio diversification through all market segments. The APSB reviews the product portfolio from a consolidated standpoint in order to optimize human and financial resources across the BA organization and to evaluate the overall risk associated with specific scenarios.

BA relies on a gated process to evaluate new product development ideas. At each stage of the process, specific criteria derived from past product development experience must be met before a new product is allowed to continue its progression toward launch. The value of each new idea is analyzed within the context of a long-term product portfolio strategy and is measured against different facets of BA's operations. Human resource availability, funding accessibility and supply base capacity are examples of the elements that are part of this rigorous evaluation. In parallel, product development ideas are benchmarked against the available information on competitor products, obtained through the Corporation's competitive intelligence process. By understanding the competition's situation, BA can better assess a product development opportunity and further reduce the risk inherent in its pursuit.

While BT's products are also very advanced technologically, they do not require the same level of research, and as such the risks are minimized. BT mitigates this risk through a formal Product Planning process, which starts with the gathering of market requirements in order to establish short-, medium- and long-term technology and product roadmaps and development plans, and is then subject throughout the process to regular reviews by senior management. Product performance is monitored through regular design and gate reviews, verification, testing and validation steps, to be finally validated by an independent review from the Centre of Competences.

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

Products manufactured by the Corporation are highly complex and sophisticated and may contain defects that are difficult to detect and correct. Defects may be found in the Corporation's products after they are delivered to the customer. If discovered, the Corporation may not be able to correct them in a timely manner, or at all. The occurrence of defects and failures in the Corporation's products could result in warranty claims or the loss of customers. Correcting such defects could require significant capital investment. Any claims, defects or failures may materially and adversely affect the Corporation's business, financial condition and results of operations.

In addition, due to the nature of the Corporation's business, the Corporation may be subject to liability claims arising from accidents or disasters involving the Corporation's products, or products for which the Corporation has provided services, including claims for serious personal injuries or death, and these accidents may include accidents caused by climatic factors (such as snow and icy weather), or by pilot or driver error. The Corporation cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Corporation will be able to obtain insurance coverage at acceptable levels and cost in the future.

The Corporation's products are subject to stringent certification or approval requirements, as well as detailed specifications listed in the individual contracts with customers. Technical risk is mitigated through strict compliance with the regulatory requirements of various bodies, as well as stringent quality monitoring during the production cycle.

### **Regulatory and legal risks**

The Corporation is subject to numerous risks relating to new regulations or legal proceedings to which it is currently a party or that could be developed in the future. In the ordinary course of its business, the Corporation becomes party to lawsuits, including those involving allegations of improper delivery of goods or services, product liability, product defects, quality problems and intellectual property infringement. There can be no assurance that the results of these or other legal proceedings will not materially and adversely affect the Corporation's business, financial condition or results of operations. The Corporation may incur losses relating to litigation beyond the limits, or outside the coverage of its insurance, and such losses may materially and adversely affect the Corporation's business, financial condition and results of operations, and the Corporation's provisions for litigation related losses may not be sufficient to cover the Corporation's ultimate loss or expenditure.

The Corporation maintains liability and property insurance for certain legal risks at levels that the Corporation's Management believes are appropriate and consistent with industry practice. The Corporation's in-house legal counsels closely monitor and coordinate with external counsels representing the Corporation's entities that are party to arbitration or other litigious proceedings. In addition, BA and BT contracts include certain limitations of liability.

### **Environmental risk**

The Corporation's products, as well as its manufacturing and service activities, are subject to environmental laws and regulations in each of the jurisdictions in which it operates, governing among other things: product performance or content; air and water pollution; the use, disposal, storage, transportation, labelling and release of hazardous substances; human health risks arising from the exposure to hazardous or toxic materials; and the remediation of soil and groundwater contamination on or under the Corporation's properties (whether or not caused by the Corporation), or on or under other properties and caused by its current or past operations.

Environmental regulatory requirements, or enforcements thereof, may become more stringent in the future, and additional costs may be incurred by the Corporation to be compliant with such future requirements or enforcements. In addition, the Corporation may have contractual or other liabilities for environmental matters relating to businesses, products or properties that the Corporation has in the past closed, sold or otherwise disposed of, or that the Corporation closes, sells or disposes of in the future. There can be no assurance that limitations imposed by, or costs of compliance with, current or future environmental laws, liabilities arising from a failure to comply with environmental laws, obligations to perform environmental investigations or remediation, or any other environmental problem, will not materially and adversely affect the Corporation's business, financial condition and results of operations.

The Corporation has established and periodically updates a health, safety and environment policy that defines the Corporation's vision for its worldwide operations. Consistent with this policy, approximately 90% of the Corporation's manufacturing and service locations with over 150 employees have been certified according to the ISO 14001 Standard for Environmental Management by third-party auditors.

Consistent with the Corporation's policy stressing environmental responsibility and its desire to maintain legal compliance, the Corporation routinely procures, installs and operates pollution-control devices, such as waste water treatment plants, groundwater monitoring devices, air strippers or separators, and incinerators at new and existing facilities constructed or upgraded in the normal course of business. Future expenditures for pollution-control systems are not expected to have a material effect on the Corporation's consolidated financial position.

### **Customers and suppliers**

The Corporation is dependent on a limited number of customers. In BT, three customers represented 33% of the order backlog as at January 31, 2008. The Corporation believes that it will continue to depend on a limited number of customers; consequently, the loss of any such customer could result in fewer sales or a lower market share. Since the majority of BT's customers are public companies or operate under public contracts, BT's order intake is dependent on public budgets and spending policies.

The Corporation's manufacturing operations are dependent on a limited number of suppliers for the delivery of materials, services and major systems, such as aluminum, titanium, power plants, wings, nacelles and fuselages in BA, and brakes in BT. A failure to meet performance specifications, quality standards, and delivery schedules by one or more suppliers could adversely affect the Corporation's ability to meet its commitments to customers. If one or more suppliers were unable to meet their contractual obligations to the Corporation, this could materially and adversely affect the Corporation's business, financial condition and results of operations. Some of these suppliers participate in the development of products such as aircraft or rolling stock platforms and the subsequent delivery of materials and major components, plus they own some of the intellectual property on the key components they develop. The Corporation's contracts with these suppliers are therefore on a long-term basis. The replacement of suppliers could be costly and take a significant amount of time.

In an effort to manage these risks, the Corporation seeks to enter into long-term arrangements with its supplier base. The Corporation normally enters into certain inventory procurement contracts that specify prices and quantities, as well as long-term delivery time frames. These agreements require suppliers to build and deliver components in time to meet the Corporation's production schedules. Such arrangements arise as a result of the production planning horizon for many of the Corporation's products, where the delivery of products to customers takes place over an extended period of time. A significant portion of the Corporation's exposure to inventory-procurement contracts is mitigated by firm contracts with customers or through risk-sharing arrangements with suppliers. The Corporation continues to seek protection from cost inflation by negotiating escalation caps for a portion of its bill of material requirements.

Many supplier sources generally exist for the procurement of materials. This is however less frequent in the aerospace industry, where industry supply capacity continues to be tight. For major components, BA has moved from a reactive model, supporting its suppliers once difficulties arise, to a proactive model, working with its suppliers to identify and resolve potential challenges before they occur. The process includes a series of surveys conducted both with the supplier and BA. If the outcome of any survey identifies a risk, BA quickly performs an on-site audit at the supplier's site to develop a jointly owned action road map.

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

Human resource risk would arise if the Corporation was unable to recruit, retain, and motivate highly skilled employees to assist in the Corporation's business, including the research and development activities that are essential to the success of the Corporation. Failure to recruit and retain highly skilled personnel could materially and adversely affect the Corporation's business, financial condition and results of operations.

In addition, in many of the business segments, the Corporation is party to several collective agreements that are due to expire at various times in the future. If the Corporation is unable to renew these collective agreements as they become subject to renegotiation from time to time, this could result in work stoppages or other labour disturbances that could materially and adversely affect the Corporation's business, financial condition and results of operations.

BA, through its Achieving Excellence program and with human resources initiatives such as talent management tools and processes, is currently focused on engaging its employees and attracting new talent. All collective agreements that expired in fiscal year 2008 were renewed without any work stoppage.

BT is performing a transformation project in which a very high priority is given to recruiting talent and retaining especially high achievers and highly qualified people. During fiscal year 2008, shared service centres were created in Derby, Vasteras and Montréal to improve the quality of recruitment and reduce lead times and costs. BT maintains stable relationships with its various unions and employee representatives, and regular meetings are held with site and national unions, as well as with Bombardier's European Works Council and its Liaison Committee, to ensure this relationship is maintained.

### **Fixed-term commitments**

The Corporation has historically offered, and will continue to offer, a significant portion of its products on fixed-term contracts, rather than contracts under which payment is determined solely on a time-and-material basis. Generally, the Corporation may not terminate these contracts unilaterally. The Corporation is exposed to risks associated with these projects, including unexpected technological problems, difficulties with the Corporation's partners and subcontractors and logistical difficulties that could lead to cost overruns and late delivery penalties.

The Corporation relies on tools, methodologies and past experience to manage the risks associated with estimating, planning and performing these projects. The Corporation's risk-management strategy includes a governance process to assess the risk of any deviation from the revenue, cost, schedule and technical targets, established as part of a detailed plan to develop specific risk-mitigation plans. Such practices include a sales contract evaluation process, ensuring

compliance with internal policy. Risk-management for product cost includes developing of long-term relationships with suppliers, along with supplier evaluation and competitive bidding processes.

## **Financing risk**

### **Liquidity and access to capital markets**

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

The Corporation centrally manages its financial position, the pension deficit, as well as the level and adequacy of liquidity and capital resources. A central treasury function manages the Corporation's exposure to interest rate risks, access to capital markets, as well as its relationships with major financial suppliers in the banking and insurance industries.

### **Restrictive debt covenants**

The indentures governing certain of the Corporation's indebtedness and the letters of credit facility contain covenants that, among other things, restrict the Corporation's ability to:

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

These restrictions could impair the Corporation's ability to finance its future operations or its capital needs, or engage in other business activities that may be in its interest.

In addition, the Corporation is subject to various financial covenants under its letters of credit facility, including the requirement to maintain (as defined in the related agreements):

- a minimum EBITDA before special items to fixed charges ratio of 3.5 at the end of each fiscal quarter;
- a maximum modified gross debt-to-modified capitalization ratio of 70% at the end of each fiscal quarter until April 30, 2008, and 65% thereafter; and
- a maximum modified net debt to EBITDA before special items ratio of 2.5 as at January 31, 2008 and July 31, 2008; 2.75 as at April 30, 2008; and 2.0 as at October 31, 2008 and at the end of each fiscal quarter thereafter.

The Corporation's ability to comply with these covenants may be affected by events beyond its control. A breach of any of these agreements or the Corporation's inability to comply with these covenants could also result in a default under its letters of credit facility, which would permit the Corporation's banks to request the immediate cash collateralization of all outstanding letters of credit and the bond holders and other lenders of the Corporation to declare amounts owed to them to be immediately payable. If the Corporation's indebtedness is accelerated, it may not be able to repay its indebtedness or borrow sufficient funds to refinance it.

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

#### **Financing support provided on behalf of certain customers**

From time to time, the Corporation provides aircraft financing support to regional aircraft customers. The Corporation may also provide interim financing (while a permanent financing solution is being arranged), which includes loans made to customers and, on a very limited basis, the leasing of aircraft to customers. The Corporation faces the risk that certain customers, mainly regional aircraft customers, may not be able to obtain permanent financing. This, in turn, could materially and adversely affect the Corporation's business, financial condition and results of operations.

The Corporation may also provide, directly or indirectly, credit and residual value guarantees to airlines, to support financing for airlines or to support financings by certain SPEs created solely i) to purchase regional aircraft from the Corporation and to lease those aircraft to airlines, and ii) to purchase financial assets related to regional aircraft manufactured by the Corporation. Under these arrangements, the Corporation is obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make the lease or loan payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at an agreed-upon date, generally the expiry date of the related financing and lease arrangements. A substantial portion of these guarantees has been extended to support original debtors or lessees with less than investment grade credit. Significant claims under these guarantees could materially and adversely affect the Corporation's business, financial condition and results of operations

(see Commitments and Contingencies section for a discussion on credit and residual value guarantees).

The Corporation has undertaken initiatives to restrict various types of financing support provided on behalf of certain customers, notably credit guarantees. The Corporation's risk-management framework for credit and residual value risks consists of risk control, risk measurement, risk monitoring and risk transfer. The Corporation practices active risk control through the inclusion of protective covenants and asset-collateral protection in commercial contracts to mitigate its exposure to these risks.

Quantitative assessments of the risk relating to these guarantees and the determination of the liabilities to be recorded in the Consolidated Financial Statements, if any, are performed using a stochastic simulation model to evaluate the potential risks of paying on guarantees as well as to determine the fair value of loans and sales incentives provided to customers. By simulating many scenarios where default may or may not occur, based on published default probabilities, the Corporation calculates the fair value of the guarantees at a given point in time. These fair value calculations are updated on a quarterly basis with the latest assumptions available.

Risk monitoring includes the ongoing reporting of exposures to Management, active credit watch, on-site credit due diligence and active intervention. In addition, asset value trends for the Corporation's products are closely monitored.

#### **Government support**

From time to time, the Corporation receives various types of government support. Some of these financial support programs require the Corporation to pay amounts to the government at the time of delivery of products, contingent on an agreed-upon minimum level of related product sales being achieved. The level of government support reflects government policy and depends on fiscal spending levels and other political and economic factors. The Corporation cannot predict if future government-sponsored support will be available. The loss or any substantial reduction in the availability of government support could, among others, negatively impact the Corporation's liquidity assumptions regarding the development of aircraft. In addition, any future government support received by the Corporation's competitors could have a negative impact on the Corporation's competitiveness, sales and market share.

The Corporation monitors available government support programs on an ongoing basis and factors the availability of funding support into the various investment decisions it makes through the funding strategy. The risk of non-availability of support is mitigated by signing formal letters of agreement with the appropriate governmental body, which detail the criteria to which the parties to the agreement must adhere. Adherence to these agreements is monitored internally on a regular basis.

## Market risk

### *Foreign currency fluctuations*

The Corporation's financial results are reported in U.S. dollars and a portion of its sales and operating costs are realized in currencies other than U.S. dollars, in particular euros, Canadian dollars and pounds sterling. The Corporation's results of operations are therefore affected by movements of these currencies against the U.S. dollar. Significant long-term fluctuations in relative currency values could have an adverse effect on its future profitability.

Although the Corporation's foreign currency policy is to use derivative financial instruments to manage cash flow foreign currency exposures, given the volatility of currency exchange rates and the policy to hedge only a portion of this exposure in BA (see Capability to deliver results in Overview section of this MD&A), the Corporation may not be able to manage these risks effectively. Volatility in currency exchange rates may generate losses, which could materially and adversely affect the Corporation's business, financial condition and results of operations.

The Corporation's main exposures to cash flow foreign currency exposures are managed by the segments and are covered by a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's foreign currency policy and procedures. This policy requires each segment to identify all potential foreign currency exposures arising from their operations and to hedge that exposure according to pre-set criteria.

The Corporation's foreign currency hedging programs are typically unaffected by changes in market conditions, since the related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates on the hedged item.

Derivative financial instruments used to manage foreign currency exposure consist mainly of forward foreign exchange contract and cross-currency interest rate swap agreements.

### *Changing interest rates*

The Corporation is exposed to risks from fluctuating interest rates that could materially and adversely affect the Corporation's business, financial condition and results of operations.

The Corporation manages its exposure to interest rates mostly through the prudent use of interest rate swaps, in the context of an asset/liability management strategy. Under this strategy, certain long-term debts are synthetically converted from fixed to variable interest rates to match the variable interest rates of assets such as cash and cash equivalent and invested collateral, while also considering the fixed-rate nature of its unfunded pension obligations.

### *Commodity price risk*

The Corporation is subject to commodity price risk relating principally to fluctuations in material prices used in the supply chain, such as aluminum and titanium, which could materially and adversely affect the Corporation's business, financial condition and results of operations.

For materials with large usage volumes such as aluminum and titanium, the Corporation has secured long-term agreements, covering a significant portion of its supply requirements. In most cases, the Corporation also has alternate sources for commodities or is actively developing them.

BA also has agreements in place with aluminum and titanium suppliers to cover the raw-material needs of its supply base. These agreements with suppliers also contain provisions limiting its exposure to price fluctuations and ensuring availability of supply.



## ACCOUNTING AND REPORTING DEVELOPMENTS

### Changes in accounting policies including initial adoption

#### *Financial Instruments*

In April 2005, the Accounting Standards Board ("AcSB") issued three new accounting standards: Section 1530 "Comprehensive Income"; Section 3855 "Financial Instruments - Recognition and Measurement"; and Section 3865 "Hedges". Effective February 1, 2007, the Corporation adopted these new accounting standards. The comparative consolidated financial statements have not been restated.

Section 3855 requires that financial assets and financial liabilities, including derivative financial instruments, be recognized on the balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments subject to Section 3855, including embedded derivative financial instruments that are not closely related to the host contract, must be measured at fair value. Derivatives qualifying as hedges are accounted for using special hedge accounting rules which are detailed below. After initial recognition, the measurement of financial instruments depends on their classification: held for trading ("HFT"); available-for-sale ("AFS"); loans and receivables ("L&R"); or other than HFT liabilities. Financial assets and financial liabilities are subsequently measured at amortized cost, unless they are classified as AFS or HFT, in which case they are subsequently measured at fair value. See Note 4 - Financial Instruments to the Consolidated Financial Statements for the details of their classification.

Section 3865 specifies the conditions for applying hedge accounting and how hedge accounting may be applied for each of the permitted hedging strategies. When derivative financial instruments are used to manage the Corporation's exposure, the Corporation determines whether hedge accounting can be applied to each derivative financial instrument. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of a net investment in a self-sustaining foreign operation.

The effect of adopting these new accounting standards as at February 1, 2007 is discussed in Note 1 - Basis of presentation to the Consolidated Financial Statements and the impact upon adoption is presented in Note 3 - Financial Instruments - Impact upon adoption to the Consolidated Financial Statements.

In December 2006, the AcSB issued two new accounting standards: Section 3862 "Financial Instruments - Disclosures";

and Section 3863 "Financial Instruments - Presentation" which replace Section 3860 "Financial Instruments - Disclosure and Presentation". The new section 3862 enhances disclosure requirements on the nature and extent of risk arising from financial instruments and how the Corporation manages those risks. The Corporation early adopted these two sections in its Consolidated Financial Statements for fiscal year 2008. The new disclosures requirements are mainly presented in Note 23 - Fair value of financial instruments and Note 24 - Financial risk-management to the Consolidated Financial Statements.

### Future changes in accounting policies

#### *Inventories*

In June 2007, the AcSB released Section 3031 "Inventories", which replaces Section 3030 "Inventories". It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS 2 "Inventories". This accounting standard is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2008. The section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies used to assign costs to inventories and describes additional disclosure requirements.

As a result of these changes in accounting policies, the Corporation adopted the unit cost method for its aerospace programs in replacement of the average cost method. The unit cost method is a prescribed cost method under which actual production costs are charged to each unit produced and recognized to income as the unit is delivered. The notion of the deferral of a portion of initial costs as EOAPC, embedded in the average cost method, does not exist under the unit cost method. In addition, as a result of the more restrictive guidance on the determination of costs, the Corporation also changed its overhead allocation policy on its aerospace programs, whereby all general and administrative ("G&A") overhead costs are now expensed. In accordance with Section 3031, the Corporation has applied these changes in accounting policies by adjusting the opening retained earnings as at February 1, 2008 (prior fiscal periods are not restated).

Also, effective February 1, 2008, the Corporation changed its G&A overhead allocation policy for its long-term contracts and aerospace program tooling, to conform with the method applicable to its aerospace programs. Management believes that this new overhead allocation policy results in more relevant information.

As at February 1, 2008, the effect of these accounting changes on the Corporation's consolidated balance sheets is as follows:

	Reported as at January 31 2008	Impact of accounting changes	Restated as at February 1 2008
<b>Assets</b>			
Inventories	\$ 3,548	\$ (311) <sup>(1)</sup>	\$ 3,237
Aerospace program tooling	1,196	(23) <sup>(2)</sup>	1,173
Deferred income taxes	935	126	1,061
	\$ 5,679	\$ (208)	\$ 5,471
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 6,919	\$ 29	\$ 6,948
Advances and progress billings in excess of related costs	4,159	11	4,170
	\$ 11,078	\$ 40	\$ 11,118
<b>Shareholders' equity</b>			
	\$ 3,118	\$ (248)	\$ 2,870

<sup>(1)</sup> Represents a write-off of \$277 million relating to EOAPC and \$34 million relating to G&A overhead included in inventories.

<sup>(2)</sup> Relates to G&A overhead.

As a result of the change to the unit cost method, the EOAPC charge to income will be nil for fiscal year 2009, compared to \$271 million in fiscal year 2008, and the change in the G&A overhead allocation method is not expected to be significant.

In addition, the Corporation is assessing whether certain balance sheet reclassifications may be required as a result of these accounting changes.

### Capital disclosures

In December 2006, the AcSB issued Section 1535 "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2008.

### Intangibles

In February 2008, the AcSB issued Section 3064 "Goodwill and Intangible Assets" which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This Section is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2009. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The provisions relating

to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38 "Intangible Assets". The Corporation is currently evaluating the impact of this new standard on its Consolidated Financial Statements, notably on its aerospace program tooling.

### International Financial Reporting Standards

In February 2008, the AcSB confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Corporation, for interim and annual financial statements beginning on February 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible Assets", thus mitigating the impact of adopting IFRS at the mandatory transition date. The Corporation is currently evaluating the impact of the adoption of IFRS on its Consolidated Financial Statements.

## FINANCIAL INSTRUMENTS

An important portion of the Corporation's consolidated balance sheets is composed of financial instruments. The implementation of the new financial instruments accounting standards on February 1, 2007 requires that certain financial instruments be now recognized on the balance sheet.

The Corporation's financial assets mainly comprise cash and cash equivalents, invested collateral, trade receivables, commercial aircraft loans and leases receivables, prepayment under an exchange agreement, investment in securities, restricted cash and derivative financial instruments with a positive fair value. The Corporation's financial liabilities mainly comprise trade account payables, accrued liabilities, sales incentives, certain payroll-related liabilities, long-term debt and derivative financial instruments with a negative fair value. Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest rate risks. They consist mostly of forward foreign exchange contracts, interest rate swap agreements, cross-currency interest rate swap agreements and interest rate cap agreements. The classification of the Corporation's financial instruments as well as the revenues, expenses, gains and losses associated with these instruments is provided in Note 2 – Summary of significant accounting policies and in Note 4 – Financial instruments, to the Consolidated Financial Statements.

The use of financial instruments exposes primarily the Corporation to credit and liquidity risks as well as market risks including foreign exchange, interest rate and residual value risks. A description on how the Corporation manages these risks is included in Note 24 – Financial risk-management to the Consolidated Financial Statements and in the Overview Section of this MD&A.

## CRITICAL ACCOUNTING ESTIMATES

The Corporation's significant accounting policies are described in the Consolidated Financial Statements. The preparation of financial statements, in conformity with GAAP, requires the use of estimates, judgment and assumptions. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if the estimate requires Management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates could reasonably have been used, or if changes in the estimate that could have a material impact on the Corporation's financial condition or results of operations are likely to occur from period to period.

The sensitivity analysis included in this section should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

## Fair value of financial instruments

Following the Corporation's implementation of the three new accounting Standards related to financial instruments on February 1, 2007, a greater portion of the Corporation's consolidated balance sheet is now measured at fair value. Under the new standards, all financial instruments are required to be recognized at their fair value on initial recognition. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as HFT or AFS are carried at fair value. Descriptions of the financial instruments that are carried at fair value are provided in Note 2 – Summary of significant accounting policies and Note 4 – Financial instruments to the Consolidated Financial Statements.

Fair value is subjective in nature, requiring a variety of valuation techniques and assumptions. Fair value amounts disclosed in the 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 most advantageous active market for that instrument to which the Corporation has immediate access. When an active market exists, quoted prices from this market are used to calculate fair value. There is no active market for a significant portion of the Corporation 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 analysis. 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 tables and generic industrial bond spreads. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, default probability tables, interest rate spreads, 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 is unavailable. These calculations represent the Corporation's best estimates based on a range of methodologies and assumptions. Since it is based on estimates, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

A detailed description of the methods and assumptions used to measure the fair value of the Corporation's financial instruments are discussed in Note 23 – Fair value of financial instruments, to the Consolidated Financial Statements.

## Sensitivity analysis

The Corporation's main exposures to changes in fair value of financial instruments are related to foreign exchange and interest rate derivative financial instruments, loans and lease receivables and credit and residual value guarantees. These financial instruments are all measured at fair value in the Corporation's Consolidated Financial Statements.

### Derivatives financial instruments

Derivative financial instruments are mostly exposed to changes in foreign exchange rates and interest rates. For derivative financial instruments exposed to foreign currency movements, an appreciation of 1% in the following currencies would have had the following impact on income and OCI, before income taxes, as at January 31, 2008:

Gain (loss)	CAD/USD	GBP/USD	Other	Total
Impact on income before income taxes	\$ (1)	\$ -	\$ 5	\$ 4
Impact on OCI before income taxes	\$ 31	\$ 7	\$ -	\$ 38

Since the majority of the Corporation's interest rate derivative financial instruments are designated in a fair value hedge relationship, a shift of 100 basis points in the yield curves as at January 31, 2008, would have had no significant impact on net income.

### Loans and lease receivables and credit and residual value guarantees

Changes in the fair value of these financial instruments are mostly affected by changes in the residual value curves of the collaterals. The residual value sensitivity results primarily from loans and lease receivables and credit and residual value guarantees. Assuming an adverse change of 1% in the residual value curves, income before income taxes would have been impacted by a loss of \$21 million.

## Average cost accounting

Average cost accounting, used in Aerospace for the initial lot of a program, is a method of accounting for the costs associated with the manufacturing of aircraft, whereby the estimated average unit production cost is charged to cost of sales.

The determination of the estimated average unit production cost per aircraft involves estimates of accounting program quantities and total production costs for the initial lot of a selected program, as well as the period over which the units can reasonably be expected to be produced.

Accounting program quantities are based on an assessment of prevailing market conditions and anticipated demand for the aircraft, considering, among other factors, the firm order backlog.

Production costs include material, direct labour and manufacturing overhead costs. Total production costs are estimated based on actual and forecasted costs of materials, foreign exchange rates, labour productivity and employment levels and salaries. Cost estimates are based mainly on historical performance trends, economic trends, labour agreements and information provided by suppliers. Production costs are also based on the learning curve concept, which anticipates a decrease in costs as tasks and production techniques become more efficient through repetition. As a result, the actual unit production cost, incurred in the early stage of the program, will exceed the estimated average unit production cost for the entire program. This difference, referred to as excess-over-average production costs, is included in inventories and is expected to be recovered from sales of aircraft to be produced later at lower-than-average production costs.

Management conducts quarterly reviews, as well as a detailed annual review as part of its annual budget process, of its cost estimates and program quantities. The effect of any revision is accounted for by way of a cumulative catch-up adjustment in the period in which the revision takes place.

## Aerospace program tooling

Aerospace program tooling is amortized over ten years and is reviewed for impairment when certain events or changes in circumstances indicate that the carrying amount of the tooling may not be recoverable. The recoverability test is performed using undiscounted expected future net cash flows that are directly associated with the asset's use. An impairment charge is recorded in amortization when the undiscounted value of the expected future cash flow is less than the carrying value of program tooling. The amount of impairment, if any, is measured as the difference between the carrying value and the fair value of the program tooling. Estimates of net future cash flows, over the remaining useful life of program tooling, are subject to uncertainties with respect to expected selling prices, as well as to the estimates and judgments described in the Average Cost Accounting section above.

## Long-term contracts

Transportation conducts most of its business under long-term contracts with customers. Revenues and margins from long-term contracts relating to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method. Revenues and margins from maintenance contracts entered into on, or after December 17, 2003, are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract. The long-term nature of contracts involves considerable use of estimates in determining total contract costs, revenues and percentage of completion.

Contract costs include material, direct labour, manufacturing overhead and other costs, such as warranty and freight. Total contract costs are estimated based on forecasted costs of materials, inflation rates, foreign exchange rates, labour productivity, and employment levels and salaries, and are influenced by the nature and complexity of the work to be performed, the impact of change orders and the impact of delayed delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and information provided by suppliers.

Revenue estimates are based on the negotiated contract price adjusted for change orders, claims and contract terms that provide for the adjustment of prices in the event of variations from projected inflationary trends. Contract change orders and claims are included in revenue when they can be reliably estimated and realization is probable.

The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance.

Recognized revenues and margins are subject to revisions as the contract progresses to completion. Management conducts quarterly reviews, and a detailed annual review as part of its annual budget process, of its estimated costs to complete, percentage-of-completion estimates and revenues and margins recognized, on a contract-by-contract basis. The effect of any revision is accounted for by way of a cumulative catch-up adjustment in the period in which the revision takes place.

If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in the period in which the negative gross margin is identified.

## Sensitivity analysis

A 1% increase in the estimated future costs to complete all ongoing contracts accounted for under the percentage-of-completion method in BT would have decreased margin by approximately \$73 million, while a 1% decrease in the estimated future costs would have increased margin by approximately \$63 million for fiscal year 2008.

## Goodwill

Goodwill recorded is the result of the purchase of Adtranz.

Goodwill is reviewed for impairment using a two-step test, annually or more frequently if events or circumstances, such as significant declines in expected sales, earnings or cash flows, indicate that it is more likely than not that the asset might be impaired. Under the first step, the fair value of a reporting unit, based on discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, the second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income. The Corporation selected its fourth quarter as its annual testing period for goodwill.

Future cash flows are forecasted based on the Corporation's best estimate of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, collective agreements and general market conditions, and are subject to review and approval by senior Management.

### Variable interest entities

The Corporation consolidates VIEs for which it assumes a majority of the risk of losses, is entitled to receive a majority of the residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the variable interest holder became the primary beneficiary. See Note 27 - Variable interest entities to the Consolidated Financial Statements, for additional information on VIEs. The Corporation revises its initial determination of the accounting for VIEs when certain events occur, such as changes in related governing documents or contractual arrangements.

The Corporation uses a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and to analyze and calculate its expected losses and its expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows from expected cash flows, and allocating the expected losses and expected returns among the identified parties holding variable interests to then determine who is the primary beneficiary. In addition, there is a significant amount of judgment exercised in applying these consolidation rules to the Corporation's transactions.

Variable interest includes mostly credit and residual value guarantees to certain SPEs created solely to purchase regional aircraft, subordinated loans, as well as partnership arrangements entered into to provide manufactured rail equipment and civil engineering work as well as related long-term services.

### Product warranties

The Corporation issues warranties for products sold related to systems, accessories, equipment, parts and software developed by the Corporation.

A provision for warranty cost is recorded when revenue for the underlying product is recognized. The cost is estimated based on a number of factors, including historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of the products sold and the counter-warranty coverage available from the Corporation's suppliers.

The Corporation reviews its recorded product warranty provisions quarterly, and any adjustment is recognized to income. Warranty expense is recorded as a component of Cost of sales.

### Employee future benefits

Pension and certain other employee benefit costs and obligations are dependent on assumptions used in calculating such amounts. The discount rate, the expected long-term rate of return on plan assets and the rate of compensation increase are important elements of cost and obligation measurement. Other assumptions include the inflation rate and the health-care cost trend rate, as well as demographic factors such as retirement ages of employees, mortality rates and turnover. Assumptions are reviewed and updated on an annual basis.

The discount rate allows the Corporation to measure estimated future benefit payments at their present value on the measurement date. Management has little discretion in selecting the discount rate, as it must represent the market rates for high quality fixed income investments available for the period to maturity of the benefits. A lower discount rate increases the benefit obligation and generally increases benefit cost.

The expected long-term rate of return on plan assets is determined considering historical returns, future estimates of long-term investment returns and asset allocations. A lower return assumption increases benefit cost.

The rate of compensation increase is determined considering current salary structure, historical wage increases and anticipated wage increases.

### Sensitivity analysis

	Impact of a 0.25% change on:	
	Pension cost for fiscal year 2009	Pension deficit as at December 31 2008
Discount rate	\$25	\$264
Expected return on plan assets	\$15	\$ -
Rate of compensation increase assumption	\$14	\$ 67

## Income taxes

The Corporation recognizes deferred income tax assets resulting from operating losses carry-forward and deductible temporary differences.

Management assesses the realization of these deferred tax assets regularly to determine whether a valuation allowance is required. Based on evidence, both positive and negative, the Corporation determines whether it is more likely than not that all or a portion of the deferred income tax assets will be realized. The factors considered include estimated future earnings based on internal forecasts, cumulative losses in recent years, history of losses carry-forward and other tax assets expiring unused, as well as prudent and feasible tax planning strategies.

## CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 52-109"), the Corporation has 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 of internal controls over financial reporting. The implementation of MI 52-109 represents a continuous improvement process, which has prompted the Corporation to ensure that all relevant processes and controls were formalized.

### 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, to provide reasonable assurance that material information relating to the Corporation has been made known to them and has been properly disclosed in the annual regulatory filings.

During fiscal year 2008, an evaluation was carried out, under the supervision of the CEO and the CFO, of the effectiveness of the Corporation's disclosure controls and procedures as defined in MI 52-109. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective.

This evaluation took into consideration the Corporation's disclosure policy, a cascading certification process.

### 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, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

During fiscal year 2008, an evaluation was carried out, under the supervision of the CEO and the CFO, of the design of the Corporation's internal controls over financial reporting as defined in MI 52-109. Based on this evaluation, the CEO and the CFO concluded that the internal controls over financial reporting are designed to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's Consolidated Financial Statements were prepared in accordance with GAAP.

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### Changes in internal controls over financial reporting

There were no changes in the Corporation's internal controls over financial reporting that occurred during fiscal year 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

## FOREIGN EXCHANGE RATES

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

The year-end exchange rates used to translate assets and liabilities were as follows as at January 31:

	2008	2007	Increase
Euro	1.4840	1.2999	14%
Canadian dollar	0.9978	0.8480	18%
Pound sterling	1.9894	1.9609	1%

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

	2008	2007	Increase
Euro	1.4650	1.3007	13%
Canadian dollar	1.0070	0.8667	16%
Pound sterling	2.0197	1.9414	4%

The average exchange rates used to translate revenues and expenses were as follows for fiscal years:

	2008	2007	Increase
Euro	1.3853	1.2628	10%
Canadian dollar	0.9465	0.8808	7%
Pound sterling	2.0029	1.8581	8%

## INVESTOR INFORMATION

### Authorized, issued and outstanding share data as at January 31, 2008

	Authorized	Issued and outstanding
Class A Shares (Multiple Voting) <sup>(1)</sup>	1,842,000,000	316,961,957
Class B Shares (Subordinate Voting) <sup>(2)</sup>	1,892,000,000	1,413,700,636 <sup>(3)</sup>
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,464,920
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,535,080
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 Share (Subordinate Voting).

<sup>(2)</sup> Convertible at the option of the holder into one Class A Share (Multiple Voting) only under certain conditions (see Note 14 - Share capital to the Consolidated Financial Statements).

<sup>(3)</sup> Net of 21,273,000 Class B Shares (Subordinate Voting) purchased and held in trust in connection with the PSU plan.

In connection with the conversion privilege for holders of the Corporation's Series 2 Cumulative Redeemable Preferred Shares ("Series 2") and Series 3 Cumulative Redeemable Preferred Shares ("Series 3"), 6,949,749 Series 3 were converted into Series 2 and 82,736 Series 2 were converted into Series 3 in August 2007.

### Share option and PSU data as at January 31, 2008

Options issued and outstanding under share option plans	43,395,125
PSUs issued and outstanding under the PSU plan	13,696,996
Class B Shares held in trust to satisfy PSU obligations	21,273,000

### Expected issuance date of the Corporation's financial reports for the next 12 months

First Quarterly Report, for the period ended April 30, 2008	June 4, 2008
Second Quarterly Report, for the period ended July 31, 2008	September 4, 2008
Third Quarterly Report, for the period ended October 31, 2008	December 4, 2008
Annual Report, for the fiscal year ended January 31, 2009	April 3, 2009



## SELECTED FINANCIAL DATA

The following selected financial information has been derived from and should be read in conjunction with the Consolidated Financial Statements for fiscal years 2006 to 2008.

The following table provides selected financial information for the last three fiscal years.

(in millions of U.S. dollars, except per share amounts)	2008	2007	2006
Revenues	<b>\$ 17,506</b>	\$14,882	\$14,781
EBIT from continuing operations before special items	<b>902</b>	577	445
EBIT from continuing operations	<b>740</b>	553	357
EBT from continuing operations before special items	<b>601</b>	359	238
EBT from continuing operations	<b>439</b>	335	150
Income from continuing operations	<b>317</b>	243	135
Income from discontinued operations, net of tax	-	25	114
Net income	<b>317</b>	268	249
Basic earnings per share:			
From continuing operations	<b>0.17</b>	0.12	0.06
Net income	<b>0.17</b>	0.14	0.13
Diluted earnings per share:			
From continuing operations	<b>0.16</b>	0.12	0.06
Net income	<b>0.16</b>	0.14	0.13
Cash dividends declared per share (Cdn\$):			
Class A Shares (Multiple Voting)	-	-	-
Class B Shares (Subordinate Voting)	-	-	-
Series 2 Preferred Shares	<b>1.52</b>	1.46	1.12
Series 3 Preferred Shares	<b>1.34</b>	1.37	1.37
Series 4 Preferred Shares	<b>1.56</b>	1.56	1.56
Total assets	<b>20,562</b>	18,577	17,482
Long-term debt	<b>4,393</b>	5,080	4,747

The table presenting the quarterly data is shown at the end of this MD&A.

### April 2, 2008

Additional information relating to Bombardier, including the Corporation's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on Bombardier's website at [www.bombardier.com](http://www.bombardier.com).

# QUARTERLY DATA

## (unaudited)

(in millions of U.S. dollars, except per share amounts)

For the fiscal years ended January 31	2008	2008
	TOTAL	FOURTH QUARTER
<b>Revenues<sup>(1)</sup></b>		
BA	\$ 9,713	\$ 2,893
BT	7,793	2,377
	\$ 17,506	\$ 5,270
<b>Income from continuing operations before special items, financing income and expense and income taxes<sup>(1)</sup></b>		
BA	\$ 563	\$ 196
BT	339	109
	902	305
<b>Special items</b>		
BT	162	-
	162	-
<b>Income (loss) from continuing operations before financing income and expense and income taxes</b>		
BA	563	196
BT	177	109
	740	305
Financing income	(225)	(69)
Financing expense	526	161
Income (loss) from continuing operations before income taxes	439	213
Income tax expense (recovery)	122	(5)
Income (loss) from discontinued operations	317	218
Income from discontinued operations, net of tax	-	-
<b>Net income (loss)</b>	\$ 317	\$ 218
<b>Earnings (loss) per share:</b>		
Basic		
From continuing operations	\$ 0.17	\$ 0.12
Net income (loss)	\$ 0.17	\$ 0.12
Diluted		
From continuing operations	\$ 0.16	\$ 0.12
Net income (loss)	\$ 0.16	\$ 0.12
<b>Market price range of Class B Shares</b> (in Cdn dollars)		
High	\$ 6.97	\$ 6.35
Low	\$ 4.06	\$ 4.06

<sup>(1)</sup> The fourth quarter has historically been the strongest in terms of revenues and profitability.

2008	2008	2008	2007	2007	2007	2007	2007
THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	TOTAL	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
\$ 2,350	\$ 2,210	\$ 2,260	\$ 8,296	\$ 2,589	\$ 1,855	\$ 1,899	\$ 1,953
1,878	1,831	1,707	6,586	1,829	1,547	1,624	1,586
\$ 4,228	\$ 4,041	\$ 3,967	\$ 14,882	\$ 4,418	\$ 3,402	\$ 3,523	\$ 3,539
\$ 122	\$ 133	\$ 112	\$ 322	\$ 158	\$ 43	\$ 66	\$ 55
79	80	71	255	86	62	60	47
201	213	183	577	244	105	126	102
-	162	-	24	-	-	-	24
-	162	-	24	-	-	-	24
122	133	112	322	158	43	66	55
79	(82)	71	231	86	62	60	23
201	51	183	553	244	105	126	78
(50)	(55)	(51)	(157)	(48)	(31)	(39)	(39)
118	127	120	375	118	81	88	88
133	(21)	114	335	174	55	77	29
42	50	35	92	62	2	20	8
91	(71)	79	243	112	53	57	21
-	-	-	25	-	21	1	3
\$ 91	\$ (71)	\$ 79	\$ 268	\$ 112	\$ 74	\$ 58	\$ 24
\$ 0.05	\$ (0.05)	\$ 0.04	\$ 0.12	\$ 0.06	\$ 0.03	\$ 0.03	\$ 0.01
\$ 0.05	\$ (0.05)	\$ 0.04	\$ 0.14	\$ 0.06	\$ 0.04	\$ 0.03	\$ 0.01
\$ 0.05	\$ (0.05)	\$ 0.04	\$ 0.12	\$ 0.06	\$ 0.03	\$ 0.03	\$ 0.01
\$ 0.05	\$ (0.05)	\$ 0.04	\$ 0.14	\$ 0.06	\$ 0.04	\$ 0.03	\$ 0.01
\$ 6.50	\$ 6.97	\$ 4.87	\$ 4.62	\$ 4.62	\$ 4.14	\$ 4.31	\$ 4.32
\$ 4.75	\$ 4.60	\$ 4.36	\$ 2.68	\$ 3.67	\$ 2.98	\$ 2.90	\$ 2.68

# HISTORICAL FINANCIAL SUMMARY

## CONSOLIDATED BALANCE SHEETS

(in millions of U.S. dollars)

As at January 31	2008	2007	2006	2005	2004
<b>Assets</b>					
Cash and cash equivalents	\$ 3,602	\$ 2,648	\$ 2,917	\$ 2,344	\$ 1,214
Invested collateral	1,295	1,129	-	-	-
Receivables	1,998	1,789	1,684	1,513	1,730
Aircraft financing	626	1,042	1,457	1,791	1,463
Inventories	3,548	3,961	3,805	4,013	4,340
Property, plant and equipment	2,980	2,936	3,090	3,412	3,550
Fractional ownership deferred costs	500	390	270	142	-
Deferred income taxes	935	813	653	522	401
Accrued benefit assets	924	461	384	353	375
Derivative financial instruments	458	39	42	211	224
Goodwill	2,533	2,286	2,142	2,357	2,290
Assets held for sale	-	-	237	2,582	2,526
Other assets	1,163	1,083	801	890	1,164
	<b>\$20,562</b>	<b>\$18,577</b>	<b>\$17,482</b>	<b>\$20,130</b>	<b>\$19,277</b>
<b>Liabilities and shareholders' equity</b>					
Accounts payable and accrued liabilities	\$ 6,919	\$ 6,826	\$ 6,849	\$ 7,074	\$ 6,710
Advances and progress billings in excess of related costs	4,159	2,443	2,191	2,359	2,686
Fractional ownership deferred revenues	631	487	325	163	-
Deferred income taxes	-	-	9	41	104
Long-term debt	4,393	5,080	4,747	5,716	5,125
Accrued benefit liabilities	1,066	995	877	897	932
Derivative financial instruments	276	13	17	11	-
Liabilities related to assets held for sale	-	-	42	1,571	1,270
Preferred shares	347	347	347	347	347
Common shareholders' equity	2,771	2,386	2,078	1,951	2,103
	<b>\$20,562</b>	<b>\$18,577</b>	<b>\$17,482</b>	<b>\$20,130</b>	<b>\$19,277</b>

# HISTORICAL FINANCIAL SUMMARY

(in millions of U.S. dollars, except per share amounts, number of common shares and shareholders of record)

For the fiscal years ended January 31	2008	2007	2006	2005	2004
<b>Revenues</b>					
BA	\$ 9,713	\$ 8,296	\$ 8,142	\$ 8,019	\$ 8,276
BT	7,793	6,586	6,639	7,566	6,940
	\$ 17,506	\$ 14,882	\$ 14,781	\$ 15,585	\$ 15,216
<b>Income from continuing operations before special items, financing income and expense and income taxes</b>					
BA	\$ 563	\$ 322	\$ 266	\$ 203	\$ 419
BT	339	255	179	33	43
	902	577	445	236	462
<b>Special items</b>					
BA	-	-	-	-	(19)
BT	162	24	88	172	349
	162	24	88	172	330
<b>Income (loss) from continuing operations before financing income and expense and income taxes</b>					
BA	563	322	266	203	438
BT	177	231	91	(139)	(306)
	740	553	357	64	132
Financing income	(225)	(157)	(156)	(104)	(96)
Financing expense	526	375	363	328	327
Income (loss) from continuing operations before income taxes	439	335	150	(160)	(99)
Income tax expense (recovery)	122	92	15	(38)	121
Income (loss) from continuing operations	317	243	135	(122)	(220)
Income from discontinued operations, net of tax	-	25	114	37	135
<b>Net income (loss)</b>	\$ 317	\$ 268	\$ 249	\$ (85)	\$ (85)
<b>Earnings (loss) per share:</b>					
Basic					
From continuing operations	\$ 0.17	\$ 0.12	\$ 0.06	\$ (0.08)	\$ (0.15)
Net income (loss)	\$ 0.17	\$ 0.14	\$ 0.13	\$ (0.06)	\$ (0.07)
Diluted					
From continuing operations	\$ 0.16	\$ 0.12	\$ 0.06	\$ (0.08)	\$ (0.15)
Net income (loss)	\$ 0.16	\$ 0.14	\$ 0.13	\$ (0.06)	\$ (0.07)
<b>General information for continuing operations</b>					
Export revenues from Canada	\$ 6,670	\$ 5,715	\$ 5,271	\$ 5,430	\$ 5,851
Additions to property, plant and equipment	\$ 425	\$ 344	\$ 329	\$ 305	\$ 300
Amortization	\$ 512	\$ 518	\$ 545	\$ 549	\$ 560
Dividend per common share (in Cdn dollars)					
Class A	\$ -	\$ -	\$ -	\$ 0.09	\$ 0.09
Class B	\$ -	\$ -	\$ -	\$ 0.09	\$ 0.09
Dividend per preferred share (in Cdn dollars)					
Series 2	\$ 1.52	\$ 1.46	\$ 1.12	\$ 1.00	\$ 1.17
Series 3	\$ 1.34	\$ 1.37	\$ 1.37	\$ 1.37	\$ 1.37
Series 4	\$ 1.56	\$ 1.56	\$ 1.56	\$ 1.56	\$ 1.56
Number of common shares (in millions)	1,731	1,739	1,745	1,750	1,750
Book value per common share (in U.S. dollars)	\$ 1.60	\$ 1.37	\$ 1.19	\$ 1.11	\$ 1.20
Shareholders of record	13,843	13,539	13,600	13,008	12,371
<b>Market price ranges</b> (in Cdn dollars)					
<b>Class A</b>					
High	\$ 7.00	\$ 4.61	\$ 3.69	\$ 7.11	\$ 6.32
Low	\$ 4.10	\$ 2.69	\$ 2.34	\$ 2.01	\$ 2.95
Close	\$ 4.96	\$ 4.48	\$ 3.02	\$ 2.80	\$ 5.96
<b>Class B</b>					
High	\$ 6.97	\$ 4.62	\$ 3.66	\$ 7.13	\$ 6.28
Low	\$ 4.06	\$ 2.68	\$ 2.28	\$ 1.87	\$ 2.56
Close	\$ 4.95	\$ 4.45	\$ 2.98	\$ 2.62	\$ 5.99

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and Management Discussion and Analysis ("MD&A") of Bombardier Inc. and all other information in this Annual Report are the responsibility of Management and have been reviewed and approved by its Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

Bombardier's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Corporation has been made known to them and has been properly disclosed in the Consolidated Financial Statements and MD&A. Bombardier's CEO and CFO have also evaluated the effectiveness of such disclosure controls and procedures as of the end of fiscal 2008 and believe that they effectively provide reasonable assurance that material information related to the Corporation has been disclosed in the Consolidated Financial Statements and MD&A. Bombardier's CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. In compliance with MI 52-109, Bombardier's CEO and CFO have provided a certification related to Bombardier'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 external auditors, to review the Consolidated Financial Statements, external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the Consolidated Financial Statements as presented by Management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the Consolidated Financial Statements and MD&A for issuance to shareholders.

The Consolidated Financial Statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

(Signed by)

Laurent Beaudoin, FCA  
Chairman of the Board and  
Chief Executive Officer

April 2, 2008

(Signed by)

Pierre Alary, CA  
Senior Vice President and  
Chief Financial Officer

## AUDITORS' REPORT

TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the consolidated balance sheets of Bombardier Inc. as at January 31, 2008 and 2007 and the consolidated statements of shareholders' equity, income, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed by)

Ernst & Young LLP  
Chartered Accountants  
Montréal, Canada  
April 2, 2008

# CONSOLIDATED BALANCE SHEETS

(in millions of U.S. dollars)

As at January 31	2008 <sup>(1)</sup>	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 3,602	\$ 2,648
Invested collateral (Note 11)	1,295	1,129
Receivables (Note 5)	1,998	1,789
Aircraft financing (Note 6)	626	1,042
Inventories (Note 7)	3,548	3,961
Property, plant and equipment (Note 8)	2,980	2,936
Fractional ownership deferred costs	500	390
Deferred income taxes (Note 20)	935	813
Accrued benefit assets (Note 25)	924	461
Derivative financial instruments (Note 4)	458	39
Goodwill (Note 9)	2,533	2,286
Other assets (Note 10)	1,163	1,083
	<b>\$ 20,562</b>	<b>\$ 18,577</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 12)	\$ 6,919	\$ 6,826
Advances and progress billings in excess of related costs (Note 7)	4,159	2,443
Fractional ownership deferred revenues	631	487
Long-term debt (Note 13)	4,393	5,080
Accrued benefit liabilities (Note 25)	1,066	995
Derivative financial instruments (Note 4)	276	13
	<b>17,444</b>	<b>15,844</b>
<b>Shareholders' equity</b>	<b>3,118</b>	<b>2,733</b>
	<b>\$ 20,562</b>	<b>\$ 18,577</b>
Commitments and contingencies (Note 26)		

<sup>(1)</sup> Refer to Note 3 for impact of new accounting policies related to financial instruments, effective February 1, 2007.

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the Board of Directors,

(Signed by)

Laurent Beaudoin  
Director

(Signed by)

L. Denis Desautels  
Director

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions of U.S. dollars)

For the fiscal years ended January 31	2008 <sup>(1)</sup>		2007	
	Number (in thousands)	Amount	Number (in thousands)	Amount
<b>SHARE CAPITAL</b> (Note 14)				
<b>Preferred shares</b>				
Series 2	9,465	\$ 159	2,598	\$ 51
Series 3	2,535	40	9,402	148
Series 4	9,400	148	9,400	148
	<b>21,400</b>	<b>347</b>	21,400	347
<b>Common shares</b>				
<b>Class A Shares (Multiple Voting)</b>				
Balance at beginning of year	317,044	29	319,260	29
Converted to Class B	(82)	-	(2,216)	-
Balance at end of year	<b>316,962</b>	<b>29</b>	317,044	29
<b>Class B Shares (Subordinate Voting)</b>				
Balance at beginning of year	1,433,423	1,413	1,431,207	1,413
Issuance of shares	1,469	6	-	-
Converted from Class A	82	-	2,216	-
	<b>1,434,974</b>	<b>1,419</b>	1,433,423	1,413
Purchased and held in trust under the performance share unit plan (Note 14)	(21,273)	(89)	(11,847)	(34)
Balance at end of year	<b>1,413,701</b>	<b>1,330</b>	1,421,576	1,379
<b>Balance at end of year - common shares</b>	<b>1,730,663</b>	<b>1,359</b>	1,738,620	1,408
<b>Total - share capital</b>		<b>1,706</b>		1,755
<b>CONTRIBUTED SURPLUS</b>				
Balance at beginning of year		35		20
Stock-based compensation expense (Note 15)		34		15
Stock options exercised		(1)		-
<b>Balance at end of year</b>		<b>68</b>		35
<b>RETAINED EARNINGS</b>				
Balance at beginning of year		765		525
Transition adjustment - Financial instruments (Note 3)		(12)		-
Net income		317		268
Dividends on preferred shares		(30)		(28)
<b>Balance at end of year</b>		<b>1,040</b>		765
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX</b> (Note 16)				
Balance at beginning of year		178		105
Transition adjustment - Financial instruments (Note 3)		(4)		-
Other comprehensive income		130		73
<b>Balance at end of year</b>		<b>304</b>		178
<b>Total - shareholders' equity</b>		<b>\$ 3,118</b>		\$2,733

<sup>(1)</sup> Refer to Note 3 for impact of new accounting policies related to financial instruments, effective February 1, 2007. The accompanying notes are an integral part of these Consolidated Financial Statements.



# CONSOLIDATED STATEMENTS OF INCOME

(in millions of U.S. dollars, except per share amounts)

For the fiscal years ended January 31	2008 <sup>(1)</sup>	2007
<b>Revenues</b>		
Manufacturing	\$ 12,508	\$ 10,512
Services	3,016	2,738
Other	1,982	1,632
	<b>17,506</b>	14,882
Cost of sales	14,919	12,667
Selling, general and administrative	1,096	929
Research and development	139	173
Other expense (income) (Note 17)	(62)	18
Amortization	512	518
Special items (Note 18)	162	24
	<b>16,766</b>	14,329
Income from continuing operations before the following:	740	553
Financing income (Note 19)	(225)	(157)
Financing expense (Note 19)	526	375
Income from continuing operations before income taxes	439	335
Income taxes (Note 20)	122	92
Income from continuing operations	317	243
Income from discontinued operations, net of tax	-	25
<b>Net income</b>	<b>\$ 317</b>	\$ 268
<b>Earnings per share:</b> (Note 21)		
Basic		
From continuing operations	\$ 0.17	\$ 0.12
Net income	\$ 0.17	\$ 0.14
Diluted		
From continuing operations	\$ 0.16	\$ 0.12
Net income	\$ 0.16	\$ 0.14

<sup>(1)</sup> Refer to Note 3 for impact of new accounting policies related to financial instruments, effective February 1, 2007.

The accompanying notes are an integral part of these Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of U.S. dollars)

For the fiscal years ended January 31	2008 <sup>(1)</sup>	2007
<b>Net income</b>	<b>\$ 317</b>	<b>\$ 268</b>
<b>Other comprehensive income</b>		
Net unrealized loss on available for sale financial assets, net of tax	(1)	-
Net changes in cash flow hedges:		
Foreign exchange re-evaluation	(1)	-
Net gains on derivatives designated as cash flow hedges	394	-
Reclassification to income or to the related non financial asset	(212)	-
Income taxes	(62)	-
	119	-
Cumulative translation adjustment:		
Net investments in self-sustaining foreign operations	364	162
Net losses on related hedging items <sup>(2)</sup>	(352)	(89)
	12	73
<b>Total Other comprehensive income</b>	<b>130</b>	<b>73</b>
<b>Total Comprehensive income</b>	<b>\$ 447</b>	<b>\$ 341</b>

<sup>(1)</sup> Refer to Note 3 for impact of new accounting policies related to financial instruments, effective February 1, 2007.

<sup>(2)</sup> Net of income taxes of \$25 million as at January 31, 2008 (\$33 million as at January 31, 2007).

The accompanying notes are an integral part of these Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of U.S. dollars)

For the fiscal years ended January 31	2008	2007
<b>Operating activities</b>		
Income from continuing operations	\$ 317	\$ 243
Non-cash items:		
Amortization	512	518
Deferred income taxes (Note 20)	(25)	(87)
Gain on disposals of property, plant and equipment	(3)	(1)
Stock-based compensation	34	15
Special items (Note 18)	162	24
Net change in non-cash balances related to operations (Note 22)	1,336	179
Cash flows from operating activities	2,333	891
<b>Investing activities</b>		
Additions to property, plant and equipment	(425)	(308)
Disposals of property, plant and equipment	55	27
Disposal of discontinued operations, net of cash disposed	-	161
Invested collateral	-	(1,145)
Other	(117)	(154)
Cash flows from investing activities	(487)	(1,419)
<b>Financing activities</b>		
Proceeds from issuance of long-term debt	-	2,442
Repayments of long-term debt	(1,076)	(2,306)
Purchase of common shares - held in trust (Note 14)	(55)	(20)
Issuance of shares, net of related cost	5	-
Dividends paid	(30)	(28)
Other	-	(31)
Cash flows from financing activities	(1,156)	57
Effect of exchange rate changes on cash and cash equivalents	264	134
Cash flows from continuing operations	954	(337)
Cash flows from discontinued operations	-	63
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>954</b>	<b>(274)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,648</b>	<b>2,922<sup>(1)</sup></b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,602</b>	<b>\$ 2,648</b>

<sup>(1)</sup> Including \$5 million of cash and cash equivalents related to discontinued operations.

<b>Supplemental information</b>		
Cash paid for:		
Interest	\$ 559	\$ 400
Income taxes	\$ 108	\$ 86

The accompanying notes are an integral part of these Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended January 31, 2008 and January 31, 2007

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

Bombardier Inc. (the "Corporation") is incorporated under the laws of Canada and is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services.

## NOTE 1 BASIS OF PRESENTATION

The Consolidated Financial Statements are expressed in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The Corporation and its subsidiaries carry out their operations in two distinct segments, the aerospace segment ("BA") and the transportation segment ("BT"), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified.

### Changes in accounting policies

In April 2005, the Accounting Standards Board ("AcSB") issued three new accounting standards: Section 1530 "Comprehensive Income"; Section 3855 "Financial Instruments - Recognition and Measurement"; and Section 3865 "Hedges". Effective February 1, 2007, the Corporation adopted these new accounting standards. The comparative Consolidated Financial Statements have not been restated. The effect of adopting the new accounting standards as at February 1, 2007 are presented as Transition adjustment - Financial instruments in the consolidated statements of shareholders' equity (See Note 3 - Financial Instruments - Impact upon adoption).

In December 2006, the AcSB issued two new accounting standards: Section 3862 "Financial Instruments - Disclosures"; and Section 3863 "Financial Instruments - Presentation". The Corporation early adopted these two standards in its Consolidated Financial Statements for fiscal year 2008.

### Comprehensive income

Section 1530 introduces comprehensive income, which is comprised of Net income and other comprehensive income ("OCI"). OCI comprises all changes in Shareholders' equity from transactions and other events and circumstances from non-owner sources, and includes unrealized gains and losses arising from the translation of the financial statements of self-sustaining foreign operations, unrealized gains and losses, net of tax, arising from changes in the fair value of available-for-sale ("AFS") financial assets, as well as the portion of gains or losses, net of tax, on the hedging item that is determined to be an effective cash flow hedge or hedge of net investments in self-sustaining foreign operations.

### Financial instruments - recognition and measurement

Section 3855 requires that financial assets and financial liabilities, including derivative financial instruments, be recognized on the balance sheet when the Corporation becomes a party to contractual provisions of financial instruments. On initial recognition, all financial instruments subject to Section 3855, including embedded derivative financial instruments that are not closely related to the host contract, must be measured at fair value. The Corporation has selected February 1, 2003 as the date for identification of embedded derivatives. Derivatives qualifying as hedges are accounted for using special hedge accounting rules (see Hedges section hereafter).

After initial recognition, the measurement of financial instruments depends on their classification: held-for-trading ("HFT"); AFS; loans and receivables ("L&R"); or other than HFT liabilities. See Note 4 - Financial Instruments for the details of their classification.

**NOTE 1. BASIS OF PRESENTATION (cont'd)**

- **Held for trading** – Financial assets and financial liabilities required to be classified or designated as HFT are measured at fair value, with gains and losses recorded in net income for the period in which they arise. Section 3855 allows an entity to designate any financial instrument as HFT on initial recognition or adoption of the accounting standard if reliable fair values are available, even if that instrument would not otherwise satisfy the definition of HFT (“fair value option”).
- **Available for sale** – Financial assets classified as AFS are measured at fair value, except for investments in equity instruments classified as AFS that do not have a quoted market price in an active market, which are measured at cost. Unrealized gains and losses, including the effect of changes in foreign exchange rates, are recognized directly in OCI, except for impairment losses, which are recognized in net income. Upon derecognition of the financial asset, the cumulative gains or losses, previously recognized in Accumulated other comprehensive income (“AOCI”) are reclassified to net income.
- **Loans and receivables** – Financial assets classified as L&R are measured at amortized cost using the effective interest method. Interest income, calculated using the effective interest method, is recorded in financing income in the period.
- **Other than HFT liabilities** – Financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method. Interest expense, calculated using the effective interest method, is recorded in financing expense in the period.

**Hedges**

Section 3865 specifies the conditions for applying hedge accounting and how hedge accounting may be applied for each of the permitted hedging strategies. When derivative financial instruments are used to manage the Corporation’s exposure, the Corporation determines for each derivative financial instrument whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of a net investment in a self-sustaining foreign operation.

**Disclosure and presentation**

Section 3862 “Financial Instruments – Disclosures”; and Section 3863 “Financial Instruments – Presentation” replace Section 3860 “Financial Instruments – Disclosure and presentation”. The new section 3862 enhances disclosure requirements on the nature and extent of risks arising from financial instruments and how the Corporation manages those risks.

**Future changes in accounting policies****Inventories**

In June 2007, the AcSB released Section 3031 “Inventories”, which replaces Section 3030 “Inventories”. It provides the Canadian equivalent to International Financial Reporting Standard (“IFRS”) IAS 2 “Inventories”. This accounting standard is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2008. The Section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies that are used to assign costs to inventories and describes additional disclosure requirements.

As a result of these changes in accounting policies, the Corporation adopted the unit cost method for its aerospace programs in replacement of the average cost method. The unit cost method is a prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is delivered. The notion of deferral of a portion of initial costs as excess over average production costs (“EOAPC”), embedded in the average cost method, does not exist under the unit cost method. In addition, as a result of the more restrictive guidance on the determination of costs, the Corporation also changed its overhead allocation policy on its aerospace programs, whereby all general and administrative (“G&A”) overhead costs are now expensed. In accordance with Section 3031, the Corporation has applied these changes in accounting policies by adjusting the opening retained earnings as at February 1, 2008 (prior fiscal periods were not restated).

Also, effective February 1, 2008, the Corporation changed its G&A overhead allocation policy for its long-term contracts and aerospace program tooling, to conform with the method applicable to its aerospace programs. Management believes that this new overhead allocation policy results in more relevant information.

## NOTE 1. BASIS OF PRESENTATION (cont'd)

As at February 1, 2008, the effect of these accounting changes on the Corporation's consolidated balance sheets is as follows:

	Reported as at January 31 2008	Impact of accounting changes	Restated as at February 1 2008
<b>Assets</b>			
Inventories	\$ 3,548	\$(311) <sup>(1)</sup>	\$ 3,237
Aerospace program tooling	1,196	(23) <sup>(2)</sup>	1,173
Deferred income taxes	935	126	1,061
	\$ 5,679	\$(208)	\$ 5,471
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 6,919	\$ 29	\$ 6,948
Advances and progress billings in excess of related costs	4,159	11	4,170
	\$ 11,078	\$ 40	\$ 11,118
<b>Shareholders' equity</b>	\$ 3,118	\$(248)	\$ 2,870

<sup>(1)</sup> Represents a write-off of \$277 million relating to EOAPC and \$34 million relating to G&A overhead included in inventories.

<sup>(2)</sup> Relates to G&A overhead.

In addition, the Corporation is assessing whether certain balance sheet reclassifications may be required as a result of these accounting changes.

### Capital disclosures

In December 2006, the AcSB issued Section 1535 "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2008.

### Intangibles

In February 2008, the AcSB issued Section 3064 "Goodwill and intangible assets" which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and development costs". This Section is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2009. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38 "Intangible assets". The Corporation is currently evaluating the impact of this new standard on its Consolidated Financial Statements, notably on its aerospace program tooling.

### International Financial Reporting Standards

In February 2008, the AcSB confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Corporation, for interim and annual financial statements beginning on February 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible assets", thus mitigating the impact of adopting IFRS at the mandatory transition date. The Corporation is currently evaluating the impact of the adoption of IFRS on its Consolidated Financial Statements.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The Consolidated Financial Statements include:

- the accounts of Bombardier Inc. and its subsidiaries, substantially all of which are wholly owned;
- the accounts of variable interest entities (“VIEs”) when the Corporation is the primary beneficiary; and
- the Corporation’s proportionate share of the assets, liabilities and results of operations and cash flows of its joint ventures.

**Subsidiaries** – The principal subsidiaries of the Corporation, whose revenues represent more than 10% of total revenues of each respective segment, are as follows:

Subsidiary	Location
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Learjet Inc.	U.S.
Bombardier Transportation GmbH	Germany
Bombardier Transport France S.A.S.	France

Most legal entities of BT use a December 31 fiscal year end. As a result, the Corporation consolidates the operations of BT with a one-month lag with the remainder of its operations. To the extent that significant unusual transactions or events occur during the one-month lag period, the Corporation’s Consolidated Financial Statements are adjusted accordingly.

**VIEs** – AcG-15 “Consolidation of Variable Interest Entities” (“AcG-15”) requires the consolidation of VIEs if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE’s activities, is entitled to receive a majority of the VIE’s residual returns (if no party is exposed to a majority of the VIE’s losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary must initially record all of the VIE’s assets, liabilities and non-controlling interests at fair value at the date the variable interest holder became the primary beneficiary. See Note 27 – Variable interest entities, for additional information on VIEs. The Corporation revises its determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

### Use of estimates

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions, particularly as they relate to long-term contracts and average cost accounting, fair value measurement of financial instruments, actuarial and economic assumptions used in determining employee future benefits, useful lives of long-lived assets, recovery of goodwill, variable interest entities, accrual of product warranties and income taxes. Management’s best estimates are based on the facts and circumstances available at the time estimates are made, historical experience, general economic conditions and trends, and Management assessment of probable future outcomes of these matters. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates, and such differences could be material.

### Translation of foreign currencies

The Corporation’s functional currencies are mainly the U.S. dollar in BA and various Western European currencies, and the U.S. dollar in BT. All significant foreign operations are classified as self-sustaining foreign operations.

**Self-sustaining foreign operations** – All assets and liabilities are translated using the exchange rates in effect at year end. Revenues and expenses are translated using the average exchange rates for the period. Translation gains or losses are included in comprehensive income.

**Accounts denominated in foreign currencies** – Accounts denominated in foreign currencies are translated using the temporal method. Under this method, monetary balance sheet items are translated using the exchange rates in effect at year end and non-monetary items are translated using the historical exchange rates. Revenues and expenses (other than amortization, which is translated using the same exchange rates as the related assets) are translated using the average exchange rates for the period.

**Hedging items designated as hedges of net investments in self-sustaining foreign operations** – Translation gains or losses, net of tax, related to the hedging items designated as hedges of the Corporation’s net investments in self-sustaining foreign operations are included in comprehensive income.

## 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 mainly comprises cash and cash equivalents, invested collateral, trade receivables, regional aircraft loans and leases receivables, prepayment under an exchange agreement, investment in securities, restricted cash and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation mainly comprises trade account payables, accrued liabilities, sales incentives, interest, certain payroll-related liabilities, long-term debt and derivative financial instruments with a negative fair value.

Financial instruments are recognized on the balance sheet when the Corporation becomes a party to the contractual obligations of the instrument. Initially, financial instruments are recognized at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are recognized in determining the carrying value of financial assets and financial liabilities not classified as HFT. Subsequently, financial assets and financial liabilities are measured according to the category to which they are assigned (AFS financial assets, L&R, other than HFT financial liabilities or financial assets and liabilities classified as HFT). See Note 4 – Financial instruments, for their classifications. Financial assets and financial liabilities are subsequently measured at amortized cost, unless they are classified as AFS or HFT, in which case they are subsequently measured at fair value.

## Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions, with maturities of three months or less from the date of acquisition. Cash and cash equivalents are classified as HFT and measured at fair value.

## Invested collateral

Invested collateral consists mainly of bonds (corporate bonds and asset backed bonds), commercial paper and certificates of deposit, held with a custodian. The portfolio weighted-average maturity is not to exceed one year and should have a minimum average rating of A. These investments serve as collateral for the €4.3-billion (\$6.4-billion) letter of credit facility. (see Note 11 – Letter of credit facilities). Invested collateral are designated as HFT using the fair value option and measured at fair value. Gains and losses arising on the re-evaluation of the Invested collateral are recorded in financing income.

## Sales of receivables

Transfers of loans and receivables are recognized as sales when control over these assets has been surrendered and consideration other than beneficial interests in the transferred assets was received. Retained interests are accounted for as loans or lease receivables in accordance with their substance.

When the transfer is considered a sale, all assets sold are derecognized. Assets received and the liabilities incurred, such as those arising from credit enhancement support, are recognized at fair value. Gains and losses are recognized upon the sale of assets. Fair values are generally estimated based on the present value of future expected cash flows using Management's best estimates for credit losses, forward yield curves and discount rates commensurate with the risks involved.

## Loans and lease receivables

Aircraft leased under terms which transfer substantially all of the benefits and risks of ownership to customers are accounted for as sales-type leases and are presented in aircraft financing.

Loans and lease receivables presented in aircraft financing are classified as L&R unless they have been designated as HFT using the fair value option. Loans and lease receivables classified as L&R are carried at amortized cost.

Loans and lease receivables designated as HFT are measured at fair value. Gains and losses arising on the re-evaluation of loans and lease receivables classified as HFT are mostly recorded in cost of sales or other expense (income), except for the interest portion of the gains and losses, which is recorded in financing income.

## Long-term investments

Investments in entities over which the Corporation exercises significant influence are accounted for under the equity method and are presented in other assets. Investments in financing structures are classified as L&R, carried at amortized cost and presented in aircraft financing. All other long-term investments are designated as HFT using the fair value option (measured at fair value) and presented in other assets.

## Impairment of financial assets

**Allowance for doubtful accounts** – Trade receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of Management, there is a reasonable doubt that credit related losses are expected to be incurred taking into consideration all circumstances known at the date of review.



**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Allowance for credit losses** – Loans and lease receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of Management, there is reasonable doubt as to the ultimate collectibility of a portion of principal and interest, generally when contractually due payments are 90 days in arrears or customers have filed for bankruptcy.

The Corporation maintains an allowance for credit losses in an amount sufficient to absorb expected losses. The level of allowance is based on Management's assessment of the risks associated with each of the Corporation's portfolios, including delinquencies, loss and recovery experience, collateral-specific factors, including age and type of aircraft, risk of individual customer credit, published historical default rates for different credit rating categories, commercial airline industry performance, and the impact of current and projected economic conditions.

**Other-than-temporary impairment for other long-term investments** – When there is objective evidence that a decline in fair value of an AFS financial asset is other than temporary, the cumulative loss equals to the difference between the acquisition cost of the investments and its current fair value, less any impairment loss on that financial asset previously recognized in net income, is removed from AOCI and recognized in net income. Impairment losses recognized in net income for a financial instruments classified as AFS cannot be reversed.

**Inventory valuation**

**Aerospace programs** – Inventory, determined under the average cost accounting method for the initial lot of a program and under the unit cost method thereafter, is recorded at the lower of cost or net recoverable value. It includes materials, direct labour and manufacturing overhead.

Average cost accounting is a method of accounting that reflects higher unit costs at the early phase of a program and lower unit costs at the end of the program (the learning curve concept). The difference between actual and average costs in the early stage of a program is recorded as EOAPC and is included in inventories.

To the extent that inventory costs are expected to exceed their net recoverable amount, charges are recorded in cost of sales to reduce inventoried costs to their estimated net recoverable value.

**Long-term contracts** – Long-term contract inventory accounted for under the percentage-of-completion method includes materials, direct labour and manufacturing overhead as well as estimated contract margins. Inventory related to long-term service contracts accounted for as services are rendered includes materials, direct labour and manufacturing overhead.

**Finished products** – Finished product inventories, which include spare parts and new and pre-owned aircraft, are valued at the lower of cost or net realizable value. The cost of finished products includes the cost of materials, direct labour and related manufacturing overhead. A provision for excess or inactive spare parts inventories is recorded based upon an analysis of current inventory levels, historical usage patterns, future sale expectations and salvage value.

The Corporation estimates net realizable value by using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

**Payments, advances and progress billings** – Payments received on account of work performed for long-term contracts and aerospace programs are deducted from related costs in inventories. Advances received and progress billings in excess of related costs are shown as liabilities.

**Long-lived assets**

Long-lived assets comprise assets under operating leases, property, plant and equipment, and finite-life intangible assets.

**Assets under operating leases** – Assets under operating leases are recorded at cost. Amortization is computed under the straight-line method over periods representing their estimated useful lives. Assets under operating leases related to aircraft, most of which are pre-owned, are presented in aircraft financing.

**Property, plant and equipment** – Property, plant and equipment are recorded at cost. Equipment leases where the risks and rewards of ownership are transferred to the Corporation are included in property, plant and equipment. Costs related to aerospace programs incurred once technical feasibility is proven and program launch takes place, including prototype design, development and testing costs, are accounted for as aerospace program tooling. Aerospace program tooling consists mostly of engineering labour and manufacturing overhead costs, testing and certification costs, and purchased tooling. Self-constructed aerospace program tooling includes interest charges incurred during construction.

Amortization is computed under the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Equipment	2 to 15 years
Aerospace program tooling	10 years
Other	3 to 20 years

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Amortization of assets under construction begins when they are ready for their intended use. Amortization of aerospace program tooling costs begins at the date of delivery of the first aircraft of the program.

Improvements to existing property, plant and equipment that significantly extend the useful life or utility of the assets are capitalized, while maintenance and repair costs are charged to income when incurred.

**Finite-life intangible assets** – Finite-life intangible assets represent the cost of acquired licences, patents and trademarks and are amortized on a straight-line basis over their estimated useful lives, not exceeding 20 years.

**Impairment** – Long-lived assets are tested for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets and is recorded in amortization.

Long-lived assets held for sale are recorded at the lower of cost or fair value, less cost to sell.

### Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of the identifiable net assets acquired.

Goodwill is reviewed for impairment annually, or more frequently if events or circumstances, such as significant declines in expected sales, earnings or cash flows, indicate that it is more likely than not that the asset might be impaired.

The Corporation evaluates the recoverability of goodwill using a two-step test approach at the segment level ("reporting unit"). Under the first step, the fair value of the reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income.

### Guarantees

Guarantees include contracts that contingently require the guarantor to make payments to the guaranteed party based on:

- changes in an underlying that is related to an asset, a liability or an equity security of the guaranteed party;
- another entity's failure to perform under an obligating agreement (a performance guarantee); or
- failure of a third-party to pay its indebtedness when due.

Guarantees are initially recognized at fair value on the date the guarantees are unconditionally given. Guarantees that are designated as HFT under the fair value option, or that qualify as derivatives, are subsequently measured at fair value. Other guarantees are subsequently remeasured when a loss becomes probable.

The Corporation issued credit guarantees, residual value guarantees ("RVGs"), trade-in commitment and performance guarantees. Credit guarantees and RVGs related to the sales of aircraft are designated as HFT using the fair value option. Gains and losses arising on the re-evaluation of guarantees designated as HFT are recorded in cost of sale, except for the interest portion of the gains and losses, which is recorded in financing expense. Guarantees that are also considered sales incentives are discussed below.

### Derivative financial instruments

Derivative financial instruments are mainly used to manage the Corporation's exposure to interest-rate and foreign exchange market risks. They consist of forward foreign exchange contracts, interest rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements. Derivative financial instruments are measured at fair value, including those 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 HFT, 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 derivative, are recognized in other expense (income) or financing income or financing expense.

Embedded derivatives of the Corporation comprise financing rate commitments, call options on long-term debt and foreign exchange instruments. Upon initial recognition, the fair value of financing rate commitments is recognized as deferred charge in other assets. The deferred charge is recorded as an adjustment of the sale price of the aircraft. 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 other expense (income). Gains and losses arising on the re-evaluation of embedded derivatives are recorded in cost of sales, other expense (income) or financing income or financing expense.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Hedge accounting**

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative financial 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 foreign currency cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There are three permitted hedging strategies.

- **Fair value hedges** – The Corporation has designated certain interest-rate swap and forward foreign exchange contracts as fair value hedges. 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 has designated forward foreign exchange contracts and interest-rate swap agreements as cash flow hedges. 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 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 self-sustaining foreign operations** – The Corporation has designated certain cross-currency interest-rate swap agreements, long-term debt and intercompany loans as hedges of its net investments in self-sustaining foreign operations. 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 to net income when corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recorded in net income.

The portion of gains or losses on the hedging item that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item. Other gains and losses on derivative financial instruments are recorded in other expense (income), or in financing income or financing expense 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.

**Stock-based compensation and other stock-based payments**

**Share option plans** – All awards granted or modified after January 31, 2003, are accounted for under the fair value method. Under this method, the value of the compensation is measured at the grant date using a modified Black-Scholes option pricing model. The value of the compensation expense is recognized over the vesting period of the stock options with a corresponding increase in Contributed surplus.

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. No compensation expense is recorded in income for these awards.

Any consideration paid by plan participants on the exercise of stock options is credited to Share capital.

**Performance stock unit plan (“PSUs”)** – The value of the compensation for PSUs that are expected to vest is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange on the date of grant. The value of the compensation expense is recognized on a straight-line basis over the vesting period with a corresponding increase in Contributed surplus. The effect of any change in the number of PSUs that are expected to vest is accounted for in the period in which the estimate is revised.

**Employee share purchase plan** – The Corporation's contributions to the employee share purchase plan are accounted for in the same manner as the related employee payroll costs.

## Revenue recognition

**Aerospace programs** – Revenues from the sale of regional aircraft and narrow-body business aircraft (*Learjet Series*) are recognized upon final delivery of products and presented in manufacturing revenues.

Wide-body business aircraft (*Challenger* and *Global Series*) contracts are segmented between green aircraft (i.e. before exterior painting and installation of customer-selected interiors and optional avionics) and completion. Revenues are recognized based on green aircraft deliveries (when certain conditions are met), and upon final acceptance of interiors and optional avionics by customers. Revenues for green aircraft delivery and completion are presented in manufacturing revenues.

**Fractional shares** – Revenues from the sale of aircraft fractional shares are recognized over the period during which the related services are rendered to the customer, generally five years, and are included in manufacturing revenues. At the time of sale, the proceeds from the sale are recorded in fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to Fractional ownership deferred costs and is charged to cost of sales over the same period. Other revenues from the fractional share ownership program, including flight crew and maintenance support, are recognized at the time the service is rendered to the customer and are presented in services revenues.

**Long-term contracts** – Revenues from long-term contracts related to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method of accounting consistent with Statement of Position 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1") published by the American Institute of Certified Public Accountants. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Vehicle and component overhaul revenues are presented in services revenues. System and signalling revenues are presented in other revenues. All other long-term manufacturing contract revenues are presented in manufacturing revenues.

Revenues from maintenance service contracts entered into, on or after December 17, 2003 are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract and are presented in services revenues. Maintenance service contracts entered into before this date are recognized using the percentage-of-completion method of accounting.

Revenues from other long-term service contracts are generally recognized as services are rendered and are presented in services revenues.

Estimated revenues from long-term contracts include revenues from change orders and claims when it is probable that they will result in additional revenues in an amount that can be reliably estimated.

**Other** – Revenues from the sale of pre-owned aircraft and spare parts are recognized upon delivery. Pre-owned aircraft revenues are presented in other revenues and spare parts revenues are included in services revenues. Operating lease income, mainly from pre-owned aircraft, is recognized on a straight-line basis over the term of the lease and is included in other revenues. Interest income related to aircraft financing is recognized over the terms of the applicable loans or leases using the effective interest method and is included in financing income.

## Cost of sales

**Aerospace programs** – The Corporation follows the average cost accounting method for the initial lot of a program and the unit cost thereafter.

Average cost for regional and business aircraft is determined based on the estimated total production costs for a predetermined program quantity for the initial lot of a program. Estimates of total production costs and of program quantities are an integral component of average cost accounting. Production costs include material, direct labour and manufacturing overhead costs. Total production costs are estimated based on actual and forecasted costs of materials, foreign exchange rates, labour productivity, and employment levels and salaries. Cost estimates are based mainly on historical performance trends, economic trends, labour agreements and information provided by suppliers. Program quantities are established based on Management's assessment of market conditions and foreseeable demand at the beginning of the production stage for each program, taking into consideration, among other factors, existing firm orders and the expected learning curve period.

The average cost is recorded in cost of sales at the time of each aircraft delivery. Under the learning curve concept, which anticipates a decrease in costs as tasks and production techniques become more efficient through repetition and management action, EOAPC during the early stages of a program are deferred in inventories and recovered from sales of aircraft to be produced later at lower-than-average costs.

Management conducts quarterly reviews, as well as a detailed annual review as part of its annual budgeting process, of its cost estimates and program quantities. The effect of any revision is accounted for by way of a cumulative catch-up adjustment to cost of sales in the period in which the revision takes place.

Subsequent to the completion of the initial lot, the actual unit cost is recorded in cost of sales at the time of each aircraft delivery. Actual unit cost comprises the same costs as those included in average cost but no deferral of costs arises as a result of the learning curve concept.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Long-term contracts** – Cost of sales for long-term contracts is established based on actual costs incurred, including materials, direct labour, manufacturing overhead costs and other costs such as warranty and freight costs. If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in the period in which the negative gross margin is identified.

Management conducts quarterly reviews as well as a detailed annual review of its cost estimates, as part of its annual budget process. The effect of any revision is accounted for by way of a cumulative catch-up adjustment to Cost of sales in the period in which the revision takes place.

**Sales incentives**

In connection with the sale of new aircraft, the Corporation may provide sales incentives in the form of credit guarantees, RVGs, financing rate commitment, trade-in commitments and conditional repurchase obligations.

Credit guarantees and RVGs are recorded at fair value at the time they are issued. Subsequent changes in the fair value of these guarantees are recorded in cost of sales.

Trade-in commitments are recorded at fair value at the time of the sale. Subsequent adverse changes in the fair value of the trade-in aircraft are recorded in cost of sales as they occur.

Conditional repurchase obligations become trade-in commitments at the time the Corporation enters into an agreement for the sale of a new aircraft and the customer exercises its right to partially pay for the new aircraft by trading in its pre-owned aircraft. No provision is recorded for conditional repurchase obligations until they become trade-in commitments.

Other sales incentives, such as free training and spare parts, are recorded as a reduction of manufacturing revenues or included in cost of sales at the time of the sale.

**Research and development**

Development costs are capitalized when certain criteria are met for deferral and their recovery is reasonably assured. Capitalized development costs related to aerospace programs are included in property, plant and equipment under aerospace program tooling. Research and development costs related to long-term contracts are recorded as inventory costs and charged to cost of sales under long-term contract accounting. When the recoverability of capitalized costs is no longer reasonably assured, these costs are written off. Research and development expenses presented in the consolidated statements of income exclude those incurred under long-term contracts and development costs capitalized to program tooling.

**Government assistance**

Government assistance, including investment tax credits, relating to the acquisition of inventory and/or property, plant and equipment, is recorded as a reduction of the cost of the related asset. Government assistance, including investment tax credits, related to current expenses is recorded as a reduction of the related expenses.

**Product warranties**

A provision for warranty cost is recorded in cost of sales when revenue for the underlying product is recognized. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and in service and counter-warranty coverage available from the Corporation's suppliers.

The Corporation reviews its recorded product warranty provisions quarterly and any adjustment is recorded in Cost of sales.

**Income taxes**

The Corporation applies the liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for income tax losses carried forward. Deferred income tax assets and liabilities are measured using substantively enacted tax rates, which will be in effect for the year in which the differences are expected to reverse.

A valuation allowance is recorded to reduce the carrying amount of deferred income tax assets when it is more likely than not that these assets will not be realized.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Earnings per share

Basic earnings per share are computed based on net income less dividends on preferred shares, net of tax, divided by the weighted-average number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the fiscal year.

Diluted earnings per share are computed using the treasury stock method, giving effect to the exercise of all dilutive elements.

### Employee future benefits

The defined benefit plans are accounted for as follows:

- Plan assets are measured at fair value.
- With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values.
- The net actuarial gains and losses, based on the market-related value of plan assets, over 10% of the greater of the projected benefit obligation and the market-related value of plan assets as well as past service costs are amortized over the estimated weighted-average remaining service life of plan participants of approximately 15 years.
- Plan obligations are determined based on expected future benefit payments discounted using current market interest rates.
- When an event, such as the sale of a segment, gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's obligation.
- The cost of pension and other benefits earned by employees is actuarially determined using the projected benefit method prorated on services, and Management's best estimate of expected plan investment performance, salary escalation, retirement ages, mortality and health care costs.
- Benefit cost is capitalized as part of labour costs and included in inventories and aerospace program tooling or is recognized directly through income.
- The Corporation uses a December 31 measurement date.

### Environmental obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Environmental costs that are not legal asset retirement obligations are expensed or capitalized, as appropriate.

Environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent environmental contamination that has yet to occur are included in property, plant and equipment and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.

## NOTE 3 FINANCIAL INSTRUMENTS - IMPACT UPON ADOPTION

### Accounting rules upon transition on February 1, 2007 ("transition date")

#### Financial instruments

The accounting rules to account for gains and losses arising from the remeasurement of financial instruments at the transition date are as follows:

- All derivative financial instruments, including embedded derivatives that are not closely related to the host contract, are recorded on the balance sheet at fair value. Gains and losses, net of tax, related to financial instruments classified as HFT, including derivatives not qualifying for hedge accounting under the new accounting standards and that were not previously recorded at fair value, are recognized in the opening balance of retained earnings.
- Gains and losses, net of tax, arising from the difference at transition between the carrying amount of financial assets classified as L&R and financial liabilities classified as other than HFT, using the effective interest method, and their carrying value as at January 31, 2007, are recognized in the opening balance of retained earnings.
- Gains and losses, net of tax, related to financial instruments classified as AFS, including changes in foreign exchange rates, are recognized in the opening balance of AOCI.

## NOTE 3. FINANCIAL INSTRUMENTS - IMPACT UPON ADOPTION (cont'd)

## Hedges

The accounting rules for hedges that have not been discontinued prior to the transition date and that qualify for hedge accounting under the new accounting standards are as follows:

- **Fair value hedges** - Any gain or loss on the hedging item is included in the opening balance of retained earnings, net of tax, at the transition date. The carrying amount of the hedged item is adjusted by the portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk. The adjustment is recognized in the opening balance of retained earnings, net of tax, at the transition date.
- **Cash flow hedges** - The component of AOCI associated with the hedged item is adjusted to the extent of the lesser of: 1) the cumulative change in the fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge and 2) the cumulative gain or loss on the hedging item from inception of the hedge, less the component of such gain or loss excluded from the assessment of hedge effectiveness. Any remaining gain or loss on the hedging item is included in the opening balance of retained earnings, net of tax, at the transition date.

## Impact upon adoption on February 1, 2007

The impact on the consolidated balance sheet was as follows as at February 1, 2007:

	Reclassification	Increase (decrease)	Total
<b>Assets</b>			
Invested collateral	\$ 5	\$ -	\$ 5
Receivables	(5)	-	(5)
Aircraft financing	5	(25)	(20)
Inventories	(24)	(2)	(26)
Deferred income taxes	-	18	18
Derivative financial instruments	61	116	177
Other assets	(91)	16	(75)
	\$ (49)	\$ 123	\$ 74
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ (51)	\$ (22)	\$ (73)
Long-term debt	(44)	(72)	(116)
Derivative financial instruments	46	233	279
	(49)	139	90
<b>Shareholders' equity</b>			
Retained earnings	-	(12)	(12)
Accumulated other comprehensive income	-	(4)	(4)
	\$ (49)	\$ 123	\$ 74

### NOTE 3. FINANCIAL INSTRUMENTS – IMPACT UPON ADOPTION (cont'd)

The detail of the Shareholders' equity adjustments was as follows as at February 1, 2007:

	Transition adjustment	
	Increase (decrease)	
	AOCI	Retained earnings
Derivative financial instruments designated as cash flow hedges, net of tax of \$4 million	\$ (8)	\$ -
AFS financial assets, net of tax of nil <sup>(1)</sup>	4	-
HFT financial assets, net of tax of \$3 million <sup>(1)</sup>	-	(6)
HFT financial liabilities, net of tax of \$6 million <sup>(1)</sup>	-	13
Portion excluded from the assessment of effectiveness in hedged relationships, net of tax of \$7 million	-	(15)
Other, net of tax of \$10 million	-	(4)
	\$ (4)	\$ (12)

<sup>(1)</sup> Represents the fair value adjustment on financial instruments not previously recorded at fair value.

In addition, the cumulative translation adjustment ("CTA"), previously presented as a separate component of Shareholders' equity, was reclassified to AOCI.

### NOTE 4 FINANCIAL INSTRUMENTS

The classification of financial instruments under the new accounting standards effective February 1, 2007, and their carrying amounts and fair values were as follows as at:

	January 31, 2008					January 31, 2007 <sup>(1)</sup>		
	Carrying value		Fair value			Carrying value		Fair value
	HFT	AFS	L&R	Total <sup>(2)</sup>		HFT <sup>(2)</sup>	AFS <sup>(2)</sup>	
<b>Financial assets</b>								
Cash and cash equivalents	\$3,602	\$ -	\$ -	\$ 3,602	\$ 3,602	\$ 2,648	\$ -	\$ 2,648
Invested collateral	1,295 <sup>(3)</sup>	-	-	1,295	1,295	1,129	-	1,134
Receivables	-	-	1,855 <sup>(4)</sup>	1,855	1,855	-	-	-
Aircraft financing	398 <sup>(3)(5)</sup>	-	119 <sup>(6)</sup>	517	548	233	-	221
Derivative financial instruments	97 <sup>(7)</sup>	-	-	97	97	-	-	-
Other assets	249 <sup>(3)(8)</sup>	207 <sup>(9)</sup>	181 <sup>(10)</sup>	637	637	223	90	317
	\$5,641	\$207	\$2,155	\$ 8,003	\$ 8,034	\$ 4,233	\$90	\$ 4,320

<sup>(1)</sup> Includes only financial instruments classified as HFT and AFS as at February 1, 2007.

<sup>(2)</sup> Represents only the carrying value of financial assets included in the corresponding balance sheet caption.

<sup>(3)</sup> The Corporation has chosen to designate these financial assets as HFT under the fair value option.

<sup>(4)</sup> Comprised of trade receivables and certain other receivables.

<sup>(5)</sup> Comprised of certain regional aircraft loans and lease receivables.

<sup>(6)</sup> Comprised of certain regional aircraft loans and lease receivables, investments in financing structures and business aircraft loans.

<sup>(7)</sup> Comprised of derivative financial instruments not designated in a hedging relationship but that are economic hedges, and embedded derivatives accounted for separately.

<sup>(8)</sup> Comprised of a prepayment under an exchange agreement and servicing fees.

<sup>(9)</sup> Represents investments in securities.

<sup>(10)</sup> Comprised of restricted cash.



## NOTE 4. FINANCIAL INSTRUMENTS (cont'd)

	January 31, 2008			January 31, 2007 <sup>(1)</sup>		
			Carrying value	Fair value	Carrying value	Fair value
	HFT	Other than HFT	Total <sup>(2)</sup>		HFT <sup>(2)</sup>	
<b>Financial liabilities</b>						
Accounts payable and accrued liabilities	\$ 772 <sup>(3)</sup>	\$ 3,515 <sup>(4)</sup>	\$ 4,287	\$ 4,287	\$ 757	\$ 738
Long-term debt	-	4,393	4,393	4,266	-	-
Derivative financial instruments	34 <sup>(5)</sup>	-	34	34	3	3
	\$ 806	\$ 7,908	\$ 8,714	\$ 8,587	\$ 760	\$ 741

<sup>(1)</sup> Includes only financial instruments classified as HFT as at February 1, 2007.

<sup>(2)</sup> Represents only the carrying value of financial liabilities included in the corresponding balance sheet caption.

<sup>(3)</sup> Comprised of credit and residual value guarantees and related liabilities in connection with the sale of regional aircraft designated as HFT under the fair value option.

<sup>(4)</sup> Comprised of trade accounts payable, accrued liabilities, interest and certain payroll-related liabilities.

<sup>(5)</sup> Comprised of derivative financial instruments not designated in a hedging relationship but that are economic hedges, and embedded derivatives accounted for separately.

The methods and assumptions used to measure the fair value of financial instruments are described in Note 23 – Fair value of financial instruments.

**Financial instruments designated as HFT** – Additional information for certain L&R and financial liabilities, for which minimum contractual payments are required, designated as HFT using the fair value option, is as follows:

	Maximum exposure to credit risk	Changes in the fair value attributable to changes in credit risk, cumulatively	Excess of the amount contractually required to be paid over the carrying amount
Loans and lease receivables	\$ 372 <sup>(1)</sup>	\$(11)	n/a
Related liabilities <sup>(2)</sup>	n/a	\$ 4	\$ 50

<sup>(1)</sup> The maximum exposure to credit risk is mitigated by the value of the collateral, which amounted to \$165 million.

<sup>(2)</sup> Represent liabilities recorded in connection with the sale of aircraft, having a carrying value of \$268 million as at January 31, 2008. For credit and residual value guarantees designated as HFT, see Note 26 – Commitments and contingencies.

n/a: Not applicable

To calculate the change in the fair value attributable to changes in credit risk, the Corporation uses the same methods as described in Note 23 – Fair value of financial instruments.

**Net gains (losses) on financial instruments recognized in income**

	Fiscal year 2008
L&R	\$ 15
Financial liabilities measured at amortized cost	\$(21) <sup>(1)</sup>
Financial assets and financial liabilities HFT	
Financial assets and financial liabilities designated as HFT	\$ 22 <sup>(2)</sup>
Financial assets and financial liabilities required to be classified as HFT	\$(58) <sup>(3)(4)</sup>

<sup>(1)</sup> This amount includes fees expense of \$22 million.

<sup>(2)</sup> This amount excludes the interest income portion related to the prepayment under an exchange agreement and invested collateral of \$58 million.

<sup>(3)</sup> This amount excluded the interest income portion related to cash and cash equivalents of \$96 million.

<sup>(4)</sup> A net loss of \$75 million, included in this amount, was incurred in connection with economic hedges not designated in hedging relationships.

#### NOTE 4. FINANCIAL INSTRUMENTS (cont'd)

Net gains (losses) on L&R contain changes in valuation allowance. Net gains (losses) on financial liabilities measured at amortized cost comprises of gains or losses from derecognition. Fees expense represent financing costs on long-term debt repayment. Net gains (losses) on financial assets and financial liabilities HFT consist of changes in fair value, excluding interest income and interest expense for those designated as HFT. For the amounts of unrealized gains or losses on AFS financial assets recognized directly in OCI and the amounts removed from OCI and recognized in net income during the fiscal year, see the consolidated statements of comprehensive income.

<b>Derivative and non-derivative financial instruments</b>		
<b>January 31, 2008</b>		
	<b>Assets</b>	<b>Liabilities</b>
<b>Derivative financial instruments designated as fair value hedges<sup>(1)</sup></b>		
Interest-rate swap agreements	\$ 73	\$ 40
<b>Derivative financial instruments designated as cash flow hedges</b>		
Forward foreign exchange contracts <sup>(2)(3)</sup>	288	135
<b>Derivative financial instruments designated as hedges of net investments</b>		
Cross-currency interest-rate swap agreements	-	67
<b>Derivative financial instruments classified as held for trading</b>		
Forward foreign exchange contracts	59	12
Interest-rate cap agreements	4	4
Interest-rate swap agreements	-	2
Cross-currency interest-rate swap agreements	3	-
Embedded derivative financial instruments:		
Call options on long-term debt	8	-
Foreign exchange	23	9
Financing rate commitments	-	7
	97	34
Total derivative financial instruments	458	276
<b>Non-derivative financial instruments designated as hedges of net investments</b>		
Long-term debt	-	1,191
Inter-company loans	-	687
Total non-derivative financial instruments	-	1,878
Total derivative and non-derivative financial instruments	\$ 458	\$ 2,154

<sup>(1)</sup> For fiscal year 2008, the net gain representing the amount of hedge ineffectiveness amounted to \$2 million.

<sup>(2)</sup> For fiscal year 2008, the net loss representing the component of the hedging item's gain or loss excluded from the assessment of effectiveness amounted to \$21 million.

<sup>(3)</sup> The maximum length of time of the derivative financial instruments which hedge the Corporation's exposure to the variability in future cash flows for anticipated transactions is 46 months.

## NOTE 5 RECEIVABLES

Receivables were as follows as at January 31:

	2008	2007
Trade receivables <sup>(1)</sup>		
BA		
U.S. dollar	\$ 641	\$ 660
Other currencies	25	45
BT		
Euro	402	322
U.S. dollar	298	291
Sterling pound	188	86
Various Western European currencies	82	105
Other currencies	139	121
	<b>1,775</b>	1,630
Sales tax	97	49
Other	201	189
	<b>2,073</b>	1,868
Allowance for doubtful accounts	(75)	(79)
	<b>\$ 1,998</b>	\$ 1,789

<sup>(1)</sup> Trade receivables are presented based on the invoicing currency.

The Corporation has access to factoring facilities in Europe, under which it can sell without recourse trade receivables in the normal course of business. Under these facilities, the Corporation received proceeds of nil during fiscal year 2008 (\$298 million during fiscal year 2007). The outstanding balance of receivables transferred under these facilities amounted to nil as at January 31, 2008 (\$113 million as at January 31, 2007).

**Allowance for doubtful accounts** - Changes in the allowance for doubtful accounts were as follows as at January 31:

	2008	2007
Balance at beginning of year	\$ (79)	\$ (101)
Provision for doubtful accounts	(14)	(15)
Amounts charged off, net of recoveries	29	42
Effect of foreign currency exchange rate changes	(11)	(5)
Balance at end of year	<b>\$ (75)</b>	\$ (79)

**Receivables that are past due but not impaired** - The trade receivables that are past due but not impaired for BA amounted to \$118 million as at January 31, 2008, of which \$29 million were more than 90 days past due.

In addition, \$474 million of trade receivables related to BT long-term contracts is past due and had no specific bad debt provision as at January 31, 2008, of which \$251 million were more than 90 days past due. BT assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole. Accordingly, the Corporation has not recorded specific bad debt provisions for these receivables but has recorded contract provisions as part of its normal risk management practices for long-term contracts which cover the collection risk associated to these receivables.

**Receivables that are impaired** - The Corporation has determined that a gross amount of \$53 million of trade receivables are individually determined to be impaired as of January 31, 2008. The factors the Corporation consider are as follows: the customer is in bankruptcy or under administration or payments are in dispute.

## NOTE 6 AIRCRAFT FINANCING

Aircraft financing was as follows as at January 31:

	2008				2007			
	Weighted-average				Weighted-average			
	Total	Maturity (in months)	Rate (in %) <sup>(1)</sup>	Fixed/ variable rate <sup>(1)</sup>	Total	Maturity (in months)	Rate (in %) <sup>(1)</sup>	Fixed/ variable rate <sup>(1)</sup>
Regional aircraft								
Interim financing <sup>(2)</sup>								
Loans	\$ -	-	-	-	\$ 206	56	8.4	Variable
Lease receivables	-	-	-	-	254	212	8.8	Variable
	-				460			
Long-term financing								
Loans	280	129	8.1	Fix./var.	362	127	7.8	Fix./var.
Lease receivables <sup>(3)</sup>	170	64	6.4	Fix./var.	55	20	8.0	Fix./var.
	450				417			
Business aircraft loans <sup>(4)</sup>	32	26	7.9	Fix./var.	36	36	7.8	Fix./var.
Total loans and lease receivables	482				913			
Allowance for credit losses	(15)				(111)			
	467				802			
Assets under operating leases	109				185			
Investment in financing structures	50				55			
	\$ 626				\$ 1,042			

<sup>(1)</sup> Interest rates are before giving effect to the related hedging derivative financial instruments.

<sup>(2)</sup> The regional aircraft interim financing portfolio consists of bridge financing to customers until third-party permanent financing is put in place.

<sup>(3)</sup> Includes \$16 million of lease receivables related to consolidated VIEs as at January 31, 2008 (\$8 million as at January 31, 2007).

<sup>(4)</sup> This portfolio is being wound down.

**Loans and lease receivables** - Financing with three airlines represents approximately 38% of the total loans and lease receivables as at January 31, 2008 (three airlines represented 45% as at January 31, 2007). 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. The value of the collateral also fluctuates with economic cycles.

**NOTE 6. AIRCRAFT FINANCING (cont'd)**

Lease receivables consist of the following, before allowance for credit losses, as at January 31:

	2008	2007
Total minimum lease payments	\$ 200	\$ 825
Unearned income	(60)	(518)
Unguaranteed residual value	30	2
	<b>\$ 170</b>	<b>\$ 309</b>

**Allowance for credit losses** – Changes in the allowance for credit losses were as follows as at January 31:

	2008	2007
Balance at beginning of year	\$ 111	\$ 84
Reclassification to long-term financing – loans <sup>(1)</sup>	(96)	-
Provision for credit losses	-	29
Amounts charged off, net of recoveries	-	(2)
Balance at end of year	<b>\$ 15</b>	<b>\$ 111</b>

<sup>(1)</sup> As part of the fair value adjustment upon adoption of the new accounting standards on financial instruments effective February 1, 2007.

The Corporation has determined that a gross amount of \$5 million of loans and leases receivables are individually determined to be impaired as of January 31, 2008 (\$49 million as at January 31, 2007). The factors the Corporation consider are that the counterparty has filed for protection under Chapter 11 or Chapter 7 of the U.S. Bankruptcy Code or payments are in arrears for over 90 days.

**Assets under operating leases** – Assets under operating leases were as follows as at January 31:

	2008		2007	
	Cost	Net book value	Cost	Net book value
Pre-owned regional aircraft	\$ 78	\$ 57	\$ 187	\$ 143
Pre-owned business aircraft	54	52	48	42
	<b>\$ 132</b>	<b>\$ 109</b>	<b>\$ 235</b>	<b>\$ 185</b>

Rental income from operating leases and amortization of assets under operating leases amounted to \$7 million and \$13 million respectively for fiscal year 2008 (\$47 million and \$26 million respectively for fiscal year 2007).

**Loans and lease receivables that are past due but not impaired** – Loans and lease receivables that are past due but not impaired amounted to \$21 million as at January 31, 2008 and were past due for 60 days. Generally, the Corporation holds collateral for loans and lease receivables that mainly consist in aircraft. The fair value of aircraft held as collateral for loans and lease receivables that are past due but not impaired was \$17 million as at January 31, 2008.

## NOTE 7 INVENTORIES

Inventories were as follows as at January 31:

	2008	2007
Long-term contracts		
Costs incurred and recorded margins	\$ 4,206	\$ 3,430
Less: payments received and progress billings <sup>(1)</sup>	(2,633)	(1,893)
	<b>1,573</b>	1,537
Aerospace programs		
Costs incurred	2,668	2,597
Less: payments received <sup>(2)</sup>	(1,558)	(1,314)
	<b>1,110</b>	1,283
Finished products <sup>(3)</sup>	<b>865</b>	1,141
	<b>\$ 3,548</b>	\$ 3,961

<sup>(1)</sup> Payments received and progress billings on account of work performed have been deducted from long-term contract inventories. Advances received and progress billings in excess of related costs, amounting to \$2,791 million as at January 31, 2008 (\$1,882 million as at January 31, 2007), represent a liability presented as Advances and progress billings in excess of related costs in the consolidated balance sheets.

<sup>(2)</sup> Payments received on account of work performed have been deducted from aerospace program inventories. Advances received in excess of related costs, amounting to \$1,368 million as at January 31, 2008 (\$561 million as at January 31, 2007), represent a liability presented as Advances and progress billings in excess of related costs in the consolidated balance sheets.

<sup>(3)</sup> Finished products includes 13 pre-owned aircraft, totalling \$90 million as at January 31, 2008 (six new aircraft not associated with a firm order and 23 pre-owned aircraft, totalling \$230 million as at January 31, 2007).

Anticipated proceeds from future sales of aircraft for each program, net of estimated additional production costs to be incurred, exceeded the related costs in inventories as at January 31, 2008. However, substantial costs may eventually be charged to cost of sales in a given year if fewer than the aircraft program quantities are sold, the proceeds from future sales of aircraft are lower than those anticipated or the costs to be incurred to complete the program exceed current estimates.

**Aerospace programs** – Aerospace program inventories included the following EOAPC as at January 31:

	2008	2007
<b>Business aircraft</b>		
<i>Learjet Series</i>	\$ 81	\$ 163
<i>Challenger 300</i>	85	122
<i>Global Series</i>	111	245
	<b>\$ 277</b>	\$ 530

The entire EOAPC balance is recoverable from the sale of aircraft under firm orders.

During fiscal year 2007, due to increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* aircraft programs as a result of changing scope clauses in the United States (“U.S.”), the Corporation decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a charge of \$74 million related to EOAPC was recorded in cost of sales.

**Payments, advances and progress billings** – Under certain contracts, title to inventories is vested to the customer as the work is performed, in accordance with contractual arrangements and industry practice. In addition, in the normal course of business, the Corporation provides performance bonds, bank guarantees and other forms of guarantees to customers, mainly in BT, as security for payments and 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.

## NOTE 8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were as follows as at January 31:

	2008		2007	
	Cost	Net book value <sup>(1)</sup>	Cost	Net book value <sup>(1)</sup>
Land	\$ 120	\$ 120	\$ 112	\$ 112
Buildings	1,978	939	1,795	873
Equipment	1,513	574	1,448	555
Aerospace program tooling				
Business aircraft	2,013	695	1,917	793
Regional aircraft	1,459	501	1,346	483
Other	154	151	132	120
	<b>\$ 7,237</b>	<b>\$ 2,980</b>	\$ 6,750	\$ 2,936

<sup>(1)</sup> Includes nil related to consolidated VIEs as at January 31, 2008 (\$13 million as at January 31, 2007).

Included in the above table are capital lease assets with a cost and net book value amounting to \$168 million and \$109 million respectively as at January 31, 2008 (\$172 million and \$115 million respectively as at January 31, 2007).

Also included in the above table are assets under construction and development amounting to \$94 million as at January 31, 2008 (\$69 million as at January 31, 2007).

Amortization of property, plant and equipment was as follows for fiscal years:

	2008	2007
Aerospace program tooling	\$ 289	\$ 269
Buildings, equipment and other	187	206
	<b>\$ 476</b>	\$ 475

## NOTE 9 GOODWILL

Goodwill is mainly related to the DaimlerChrysler Rail Systems GmbH ("Adtranz") acquisition in May 2001. Changes in the goodwill balance were as follows for fiscal years:

	2008	2007
Balance at beginning of year	\$ 2,286	\$ 2,142
Recognition of previously unrecognized tax losses	(7)	(22)
Effect of foreign currency exchange rate changes	254	166
Balance at end of year	<b>\$ 2,533</b>	\$ 2,286

The Corporation completed the required annual impairment review during the fourth quarter of fiscal year 2008 and did not identify any impairment.

## NOTE 10 OTHER ASSETS

Other assets were as follows as at January 31:

	2008	2007
Prepaid expenses	\$ 240	\$ 169
Investment in securities <sup>(1)</sup>	207	90
Finite-life intangible assets, net of accumulated amortization of \$159 million as at January 31, 2008 (\$118 million as at January 31, 2007)	172	141
Prepayment under an exchange agreement	150	150
Restricted cash <sup>(2)</sup>	107	81
Servicing fees	56	50
Investment in companies subject to significant influence <sup>(3)(4)</sup>	48	138
Deferred financing charges	39	105
Wind-down portfolios	13	19
Other	131	140
	<b>\$1,163</b>	<b>\$1,083</b>

(1) Includes \$59 million of securities held as collateral for guarantees issued in connection with the sale of aircraft (nil as at January 31, 2007).

(2) Includes \$82 million related to consolidated VIEs as at January 31, 2008 (\$75 million as at January 31, 2007).

(3) Related mostly to BT, including \$12 million of loans as at January 31, 2008 (\$15 million as at January 31, 2007).

(4) The Corporation has pledged shares in investees subject of significant influence, with a carrying value of \$37 million (\$28 million as at January 2007).

## NOTE 11 LETTER OF CREDIT FACILITIES

The principal letter of credit facility and its maturity were as follows as at:

	Amount committed	Letters of credit issued	Amount committed under prior credit facilities	Amount available	Maturity (fiscal year) <sup>(3)</sup>
<b>January 31, 2008</b>	<b>\$6,381<sup>(1)</sup></b>	<b>\$5,488</b>	<b>\$ -</b>	<b>\$ 893</b>	<b>2012</b>
January 31, 2007	\$5,590 <sup>(1)</sup>	\$4,121	\$ 290 <sup>(2)</sup>	\$1,179	2012

(1) €4,300 million.

(2) Including \$140 million (€108 million) of issued letters of credit.

(3) In December 2009, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature up to December 2011.

Under the letter of credit facility, the Corporation must maintain certain financial covenants. In addition, the Corporation must maintain €869 million (\$1,290 million) of invested collateral to secure the obligation to the banks issuing letters of credit under the principal letter of credit facility. These conditions were all met as at January 31, 2008 and 2007.

In addition to the outstanding letters of credit shown in the above tables, letters of credit of \$467 million were outstanding under various bilateral agreements as at January 31, 2008 (\$240 million as at January 31, 2007).



## NOTE 12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows as at January 31:

	2008	2007
Trade accounts payable	<b>\$2,079</b>	\$1,904
Accrued liabilities	<b>1,251</b>	1,112
Product warranties	<b>1,041</b>	985
Sales incentives <sup>(1)</sup>	<b>1,011</b>	1,040
Payroll-related liabilities	<b>496</b>	400
Income and other taxes	<b>213</b>	234
Provision for repurchase obligations	<b>82</b>	75
Interest	<b>77</b>	109
Non-controlling interest	<b>66</b>	47
Severance and other involuntary termination costs	<b>37</b>	105
Other	<b>566</b>	815
	<b>\$6,919</b>	\$6,826

<sup>(1)</sup> Comprises provision for credit and residual value guarantees and trade-in commitments, as well as other related provisions and liabilities in connection with the sale of aircraft (see Note 26 - Commitments and contingencies).

**Product warranties** - Product warranties typically range from one to five years, except for aircraft structural warranties that extend up to 20 years.

Changes in the product warranty provision were as follows for fiscal years 2008 and 2007:

	BA	BT	Total
Balance as at January 31, 2006	\$273	\$697	\$970
Current expense	104	300	404
Changes in estimates	3	(30)	(27)
Cash paid	(89)	(313)	(402)
Effect of foreign currency exchange rate changes	-	40	40
Balance as at January 31, 2007	291	694	985
Current expense	107	335	442
Changes in estimates	(28)	(69)	(97)
Cash paid	(85)	(287)	(372)
Effect of foreign currency exchange rate changes	-	83	83
<b>Balance as at January 31, 2008</b>	<b>\$285</b>	<b>\$756</b>	<b>\$1,041</b>

**NOTE 12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd)**

**Severance and other involuntary termination costs and other related costs** – Changes in the provision for severance and other involuntary termination costs and other related costs were as follows for fiscal years 2008 and 2007:

	<b>Severance and other involuntary termination costs</b>	<b>Other</b>	<b>Total</b>
Balance as at January 31, 2006	\$ 151	\$ 32	\$ 183
Current expense <sup>(1)</sup>	61	22	83
Changes in estimates <sup>(1)</sup>	(31)	-	(31)
Cash paid	(83)	(36)	(119)
Effect of foreign currency exchange rate changes	7	1	8
Balance as at January 31, 2007	105	19	124
Current expense <sup>(2)</sup>	12	(2)	10
Changes in estimates <sup>(2)</sup>	(7)	-	(7)
Non-cash items	(18)	(6)	(24)
Cash paid	(59)	(8)	(67)
Effect of foreign currency exchange rate changes	4	3	7
<b>Balance as at January 31, 2008</b>	<b>\$ 37</b>	<b>\$ 6</b>	<b>\$ 43</b>

<sup>(1)</sup> Of which a charge of \$24 million has been recorded in Special items of BT (see Note 18 - Special items) and \$7 million in other expense (income) of BT, and \$21 million in other expense (income) of BA.

<sup>(2)</sup> Of which a charge of \$5 million in other expense (income) of BT and a reduction of \$2 million in other expense (income) of BA.

## NOTE 13 LONG-TERM DEBT

In January 2008, the Corporation repaid £300 million (\$589 million) of BC's notes due in May 2009, €282 million (\$414 million) of notes due in February 2008 and \$24 million Cdn (\$24 million) of notes due in January 2012.

Long-term debt was as follows as at January 31:

							2008	2007
	Amount in currency of origin 2008/2007	Currency	Fixed/ Variable <sup>(1)</sup>	Interest rate <sup>(1)</sup> 2008/2007	Maturity	Payment of interest <sup>(2)</sup>	Amount	Amount
Senior notes	790/800	EUR	Variable	7.33%/6.71%	Nov. 2013	Q	<b>\$1,159</b>	\$1,040
	385	USD	Fixed	8.00%	Nov. 2014	SA	<b>412</b>	385
	800	EUR	Fixed	7.25%	Nov. 2016	SA	<b>1,154</b>	1,040
Notes	nil/24	CAD	Fixed	7.00%	2009-2012	A	-	21
	nil/282	EUR	Fixed	5.75%	Feb. 2008	A	-	367
	nil/300 <sup>(3)</sup>	GBP	Fixed	6.75%	May 2009	A	-	588
	550	USD	Fixed	6.75%	May 2012	SA	<b>565</b>	550
	500	USD	Fixed	6.30%	May 2014	SA	<b>520</b>	500
	250	USD	Fixed	7.45%	May 2034	SA	<b>247</b>	250
Debentures	150	CAD	Fixed	7.35%	Dec. 2026	SA	<b>150</b>	127
VIEs	7/20	USD	Fixed	8.51%/6.77%	2009-2014	SA	<b>7</b>	20
Other <sup>(4)</sup>	149/147 <sup>(5)</sup>	Various	Fix./var.	6.91%/6.72%	2009-2026	Various	<b>149</b>	147
	31/45	USD	Fix./var.	7.02%/5.57%	2009-2027	Various	<b>30</b>	45
							<b>\$4,393</b>	\$5,080

<sup>(1)</sup> Interest rates are before giving effect to the related hedging derivative financial instruments and, for variable-rate debt, represent the average rate for the fiscal year.

<sup>(2)</sup> Quarterly (Q), semi-annually (SA) and annually (A).

<sup>(3)</sup> Long-term debt related to BC.

<sup>(4)</sup> Includes \$102 million relating to obligations under capital leases as at January 31, 2008 (\$106 million as at January 31, 2007).

<sup>(5)</sup> Amounts are expressed in U.S. dollars and include a portion related to BC.

All long-term debt items rank *pari-passu* and are unsecured, except for the debt of consolidated VIEs, which are secured borrowings.

## NOTE 13. LONG-TERM DEBT (cont'd)

The repayment requirements of the long-term debt during the next five fiscal years and thereafter are as follows:

	Debt	Capital leases	Total
2009	\$ 3	\$ 8	\$ 11
2010	4	8	12
2011	4	8	12
2012	5	10	15
2013	571	12	583
Thereafter	3,704	56	3,760
	\$4,291	\$102	\$4,393

## NOTE 14 SHARE CAPITAL

### Preferred shares

An unlimited number of non-voting preferred shares, without nominal or par value, issuable in series are authorized. The following series have been issued as at January 31, 2008 and 2007:

#### 12,000,000 Series 2 Cumulative Redeemable Preferred Shares

Redemption:	Redeemable, at the Corporation's option, at \$25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Additionally, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than \$24.90 Cdn per share or more than \$25.10 Cdn per share.

## NOTE 14. SHARE CAPITAL (cont'd)

**12,000,000 Series 3 Cumulative Redeemable Preferred Shares**

Redemption:	Redeemable, at the Corporation's option, at \$25.00 Cdn per share on August 1, 2012 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, 2012 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Additionally, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2007 and including July 31, 2012, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.267% or \$1.31675 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.32919 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

**9,400,000 Series 4 Cumulative Redeemable Preferred Shares**

Redemption:	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 \$25.75 Cdn if redeemed on or after March 31, 2008 but prior to March 31, 2009; \$25.50 Cdn if redeemed on or after March 31, 2009 but prior to March 31, 2010; \$25.25 Cdn if redeemed on or after March 31, 2010 but prior to March 31, 2011; and \$25.00 Cdn if redeemed on or after March 31, 2011.
Conversion:	The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of \$2.00 Cdn and 95% of the weighted-average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or \$1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.390625 Cdn per share.

## Common shares

The following classes of common shares, without nominal or par value, were authorized as at January 31, 2008 and 2007:

### 1,892,000,000 Class A Shares (Multiple Voting)

Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

### 1,892,000,000 Class B Shares (Subordinate Voting)

Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.
Dividend:	Annual non-cumulative preferential dividend of \$0.0015625 Cdn per share, in priority to the Class A Shares (Multiple Voting), payable quarterly on the last day of January, April, July and October of each year at a rate of \$0.000390625 Cdn per share, if declared.

In connection with the conversion privilege for holders of the Corporation's Series 2 Cumulative Redeemable Preferred Shares ("Series 2") and Series 3 Cumulative Redeemable Preferred Shares ("Series 3"), 6,949,749 Series 3 were converted into Series 2 and 82,736 Series 2 were converted into Series 3 in August 2007.

In connection with the performance share unit plan, the Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase 9,426,000 Class B Shares (Subordinate Voting) of the Corporation in the open market for \$55 million during fiscal year 2008 (6,413,000 Class B Shares for \$20 million during fiscal year 2007) (see Note 15 – Share-based plans).

## NOTE 15 SHARE-BASED PLANS

### Share option plans

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 60,255,846 were available for issuance under these share option plans as at January 31, 2008.

**Current performance share option plan** – Effective May 27, 2003, the Corporation amended prospectively the share option plan for key employees. This plan was further amended prospectively on March 30, 2004, on May 29, 2007 and on November 27, 2007. The significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted.
- The options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective.
- As at January 31, 2008, target prices ranged between \$4 Cdn and \$11 Cdn.
- The options terminate no later than seven years after the grant date.

**NOTE 15. SHARE-BASED PLANS (cont'd)**

The summarized information on the performance share option plan is as follows as at January 31, 2008:

Exercise price range (Cdn\$)	Issued and outstanding				Exercisable	
	Number of options	Weighted-average target price (Cdn\$)	Weighted-average remaining life (years)	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
2 to 4	15,840,125	5.74	4.30	3.15	4,423,875	3.05
4 to 6	15,499,500	8.43	4.51	4.78	16,000	5.49
6 to 7	359,000	10.00	3.08	6.83	89,750	6.83
	31,698,625				4,529,625	

The number of options has varied as follows for fiscal years:

	2008		2007	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	29,353,000	3.59	23,216,000	3.72
Granted	6,199,000	5.49	7,792,500	3.23
Exercised	(1,468,625)	2.84	-	-
Cancelled	(2,384,750)	3.71	(1,655,500)	3.68
Balance at end of year	31,698,625	3.99	29,353,000	3.59
Options exercisable at end of year	4,529,625	3.13	2,788,250	3.21

**Prior share option plans** – For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options vest at 25% per year during a period beginning two years following the grant date, except for 45,000 outstanding options granted to directors, which vest at 20% per year beginning on the grant date. The options terminate no later than 10 years after the grant date.

The summarized information on these options is as follows as at January 31, 2008:

Exercise price range (Cdn\$)	Issued and outstanding			Exercisable	
	Number of options	Weighted-average remaining life (years)	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
7 to 10	412,000	0.28	8.67	412,000	8.67
10 to 12	4,884,500	1.23	10.76	4,884,500	10.76
12 to 15	2,563,000	4.05	14.50	2,563,000	14.50
15 to 25	3,837,000	2.65	20.15	3,837,000	20.15
	11,696,500			11,696,500	

## NOTE 15. SHARE-BASED PLANS (cont'd)

The number of options has varied as follows for fiscal years:

	2008		2007	
	Number of options	Weighted-average exercise price (Cdn\$)	Number of options	Weighted-average exercise price (Cdn\$)
Balance at beginning of year	15,256,150	13.25	30,107,900	11.58
Cancelled	(2,210,250)	10.03	(9,349,750)	12.66
Expired	(1,349,400)	6.94	(5,502,000)	5.11
Balance at end of year	11,696,500	14.59	15,256,150	13.25
Options exercisable at end of year	11,696,500	14.59	14,343,900	13.33

### Stock-based compensation expense for options

The weighted-average grant date fair value of stock options granted during fiscal year 2008 was \$2.88 per option (\$1.44 per option for fiscal year 2007). The fair value of each option granted was determined using a modified Black-Scholes option pricing model, which incorporates target prices related to the performance share option plan in the fair value calculation, the share price at the grant date and the following weighted-average assumptions for fiscal years:

	2008	2007
Risk-free interest rate	4.57%	4.20%
Expected life	5 years	5 years
Expected volatility in market price of shares	51.56%	53.01%
Expected dividend yield	nil	nil

Compensation expense of \$11 million was recorded during fiscal year 2008 with respect to share option plans (\$8 million during fiscal year 2007).

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. Therefore no compensation expense is recorded to income for these awards.

### Performance share unit plan

During fiscal year 2006, the Board of Directors of the Corporation approved a performance share unit plan under which performance share units ("PSUs") may be granted to executives and other designated employees ("beneficiaries"). During fiscal year 2008, a total of 6,750,000 PSUs were authorized for issuance (4,500,000 PSUs during fiscal year 2007). The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting).

The number of PSUs has varied as follows for fiscal years:

	2008	2007
Balance at beginning of year	8,040,386	4,014,082
Granted	6,202,000	4,314,500
Cancelled	(545,390)	(288,196)
Balance at end of year	13,696,996	8,040,386



**NOTE 15. SHARE-BASED PLANS (cont'd)**

- The PSUs granted during fiscal year 2008 vest on June 4, 2010, if a financial performance threshold is met. The conversion ratio for vested PSUs ranges from 70% to 150%.
- The PSUs granted during fiscal year 2007 vest on June 7, 2009, if a financial performance threshold is met. The conversion ratio for vested PSUs ranges from 70% to 150%.

The Corporation provided 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 14 – Share capital). These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of the purchase has been deducted from share capital.

Compensation expense of \$23 million was recorded during fiscal year 2008 with respect to the PSUs plan (\$7 million during fiscal year 2007).

**Employee share purchase plan**

Under the employee share purchase plan, employees of the Corporation are eligible to purchase the Corporation's Class B Shares (Subordinate Voting) up to a maximum of 20% of their base salary and a yearly maximum of \$30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to \$4 million for fiscal year 2008 and 2007. Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

**NOTE 16  
ACCUMULATED OTHER COMPREHENSIVE INCOME**

	AFS financial assets	Cash flow hedges	CTA	Total
Balance as at January 31, 2007	\$ -	\$ -	\$178	\$178
Transition adjustment – Financial instruments	4	(8)	-	(4)
Change during the year	(1)	119	12	130
<b>Balance as at January 31, 2008</b>	<b>\$ 3</b>	<b>\$111</b>	<b>\$190</b>	<b>\$304</b>

**NOTE 17  
OTHER EXPENSE (INCOME)**

Other expense (income) was as follows for fiscal years:

	2008	2007
Net gains on financial instruments <sup>(1)</sup>	<b>\$(58)</b>	\$ -
Settlement of claims	<b>(21)</b>	(118)
Loss (income) from equity accounted investees	<b>6</b>	(2)
Foreign exchange losses	<b>5</b>	32
Severance and other involuntary termination costs (including changes in estimates)	<b>3</b>	28
Adjustment of program accounting ending dates for the CRJ700 and CRJ900 aircraft programs	-	74
Other	<b>3</b>	4
	<b>\$(62)</b>	\$ 18

<sup>(1)</sup> Net gains on certain financial instruments classified as HFT, including foreign exchange embedded derivatives and financing rate commitments.

## NOTE 17. OTHER EXPENSE (INCOME) (cont'd)

### Settlement with a supplier

During fiscal year 2007, the Corporation reached an agreement with Mitsubishi Heavy Industries of Japan ("MHI"), a supplier of aircraft components, to transfer the production of certain components for the Q400 turboprop to the Corporation's manufacturing facilities in Belfast, Montréal and Querétaro in Mexico, and to China's Shenyang Aircraft Corporation. As part of this agreement, a payment of \$84 million was made by MHI to the Corporation in connection with the transfer of production. As a result, the Corporation recorded a gain of the same amount during fiscal year 2007.

## NOTE 18 SPECIAL ITEMS

Special items were as follows for fiscal years:

	2008	2007
Write-off of investment in Metronet	\$ 162	\$ -
Costs related to the BT restructuring plan initiated in fiscal year 2005	-	24
	162	24
Income tax recovery	-	(2)
	\$ 162	\$ 22

Metronet Rail BCV Ltd. and Metronet Rail SSL Ltd. (together "Metronet"), an equity accounted investee in which the Corporation is a 20% shareholder, is responsible for maintaining and upgrading approximately 75% of the London Underground's rail system as part of a public private partnership ("PPP") under a service contract signed with London Underground Ltd. ("LUL") in April 2003.

As a result of significant cost overruns related to Metronet's capital programs, mainly the modernization and refurbishment of the stations and tracks, and the lack of financial resources to meet such cost overruns, a PPP Administrator was appointed on July 18, 2007. The PPP Administrator has the responsibility to first stabilize Metronet's operations, to settle all Metronet suppliers' liabilities accrued before the request for its appointment, and then to proceed with the transfer of all or part of Metronet's activities. Following these events, the Corporation wrote-off the carrying value of its investment in Metronet in the second quarter of fiscal year 2008.

On October 25, 2007, Transport for London ("TfL") announced that it had lodged a bid with the PPP Administrator to take control of Metronet. TfL was the only bidder for Metronet's activities. TfL is the public entity responsible to manage transport in London, on behalf of the Greater London Authority, a public body led by the Mayor of London and responsible for strategic planning related to certain key services in London. LUL is one of TfL's subsidiaries, and is responsible for the underground network of railways. Since LUL is the prime interface with Metronet, it is likely that the contracts with Metronet will be transferred to a LUL nominee or possibly LUL itself.

The difficulties encountered by Metronet and its subsequent entry into administration have caused a significant number of problems in relation to the scheduled modernization program for the London Underground network. Since Metronet entered into administration, LUL has been negotiating with the PPP Administrator and the current contractors (including BT) the basis upon which the Metronet undertaking can be transferred to a LUL nominee company.

As a result of these negotiations, and subject to a Court decision that will be sought shortly by the PPP Administrator:

- There will be no change in the BT's scope of work for the Bakerloo, Central and Victoria Lines ("BCV") capital works program, consisting of the upgrade of the Victoria Line with new rolling stock and the supply of new signalling by its subcontractor Westinghouse Rail Systems Limited ("WRSL"). BT has continued to work on this contract during the course of Metronet's administration.
- The Sub-Surface Lines ("SSL") upgrade program, which is less advanced in its implementation than the BCV program, will be de-scoped with regard to the signalling portion predominantly sub-contracted to WRSL. As a result, BT made a payment of £95 million (\$189 million) to WRSL, in full and final settlement of its obligations towards WRSL under the current contract. The de-scoping of the signalling elements and the revision of the contract from an integration- and performance-based contract to a conventional product approach, more typical of the rolling stock industry, has resulted in a significant reduction of BT's technical and execution risks. The results of operations have not been impacted by this payment as the reduction of related contingency reserves, following the reduction of risks, fully offset the payment made to WRSL.
- BT will continue to supply new rolling stock, with a small increase in the scope of the SSL program.
- The original BCV and SSL maintenance contracts will be amended so that the maintenance remains with Metronet, while BT will retain a Technical Support and Spares Supply Agreement (TSSSA). These changes were made at the request of Metronet to assist with the resolution of the industrial relation issues arising from the proposed transfer of staff to BT.

**NOTE 18. SPECIAL ITEMS** (cont'd)

In addition, the payment of an outstanding receivable of £28 million (\$56 million) due to BT will be made. This payment is related to signalling and rolling stock work performed predominantly under procurement contracts prior to the appointment of the PPP Administrator (£26 million or \$52 million), and costs incurred related to the original maintenance program (£2 million or \$4 million). Other work performed has been paid in accordance with the contracts.

The net impact on the order backlog has been reflected as at January 31, 2008, resulting in a reduction of the Metronet order backlog of £1.3 billion (\$2.6 billion) from a backlog of £3.2 billion (\$6.4 billion), and a reduction of the BT total backlog from \$33.5 billion to \$30.9 billion. The reduction of the backlog is as follows:

- A reduction of £950 million (\$1.9 billion) for the signalling de-scoping of the SSL program, which represents predominantly the sub-contracted WRSL signalling and integration and project management activities for BT.
- A reduction of £400 million (\$0.8 billion) for the maintenance portion of the BCV and SSL programs.
- An increase of £50 million (\$0.1 billion) for additional work requested by Metronet for the Rolling Stock portion of the SSL program.

**NOTE 19  
FINANCING INCOME AND FINANCING EXPENSE**

Financing income and financing expense were as follows for fiscal years:

	2008	2007
<b>Financing income</b>		
Cash and cash equivalents	\$ (96)	\$ (71)
Loans and lease receivables – after effect of hedges	(64)	(65)
Invested collateral	(50)	(4)
Other	(15)	(17)
	<b>\$(225)<sup>(1)</sup></b>	<b>\$(157)</b>
<b>Financing expense</b>		
Interest on long-term debt – after effect of hedges	\$ 383	\$ 287
Accretion expense on certain sales incentives	47	54
Net losses on financial instruments <sup>(2)</sup>	41	–
Financing costs on long-term debt repayment	22	11
Other	33	23
	<b>\$ 526<sup>(3)</sup></b>	<b>\$ 375</b>

<sup>(1)</sup> Of which \$45 million for fiscal year 2008 represent the interest income calculated using the effective interest method for financial assets classified as L&R.

<sup>(2)</sup> Net losses on certain financial instruments required to be classified as HFT, including certain call options on long-term debt.

<sup>(3)</sup> Of which \$440 million for fiscal year 2008 represent the interest expense calculated using the effective interest method for financial liabilities classified as other than HFT.

## NOTE 20 INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred income tax asset were as follows as at January 31:

	2008	2007
Operating losses carried forward	<b>\$ 1,640</b>	\$ 1,738
Inventories	<b>751</b>	440
Warranty and other provisions	<b>470</b>	535
Property, plant and equipment	<b>(309)</b>	(313)
Intangible assets	<b>49</b>	22
Derivative financial instruments, net	<b>(48)</b>	-
Accrued benefit liabilities	<b>43</b>	164
Other	<b>9</b>	2
	<b>2,605</b>	2,588
Valuation allowance	<b>(1,670)</b>	(1,775)
Net amount	<b>\$ 935</b>	\$ 813

Details of income tax expense allocated to continuing operations were as follows for fiscal years:

	2008	2007
Current income taxes		
Canada	<b>\$ 56</b>	\$ 93
Foreign	<b>91</b>	86
	<b>147</b>	179
Deferred income taxes		
Recognition of previously unrecognized tax benefits	<b>(380)</b>	(170)
Write down of deferred income tax assets	<b>81</b>	125
Non-recognition of tax benefits and temporary differences	<b>224</b>	(44)
Effect of substantively enacted income tax rate changes	<b>50</b>	2
	<b>(25)</b>	(87)
Income tax expense	<b>\$ 122</b>	\$ 92

## NOTE 20. INCOME TAXES (cont'd)

The reconciliation of income taxes allocated to continuing operations computed at the Canadian statutory rates of 32.8% in fiscal years 2008 and 2007 to income tax expense was as follows for fiscal years:

	2008	2007
Income tax expense at statutory rates	<b>\$ 144</b>	\$ 110
Increase (decrease) resulting from:		
Recognition of previously unrecognized tax benefits	<b>(380)</b>	(170)
Write down of deferred income tax assets	<b>81</b>	125
Non-recognition of tax benefits related to foreign investees' losses and temporary differences	<b>239</b>	106
Effect of substantively enacted income tax rate changes	<b>50</b>	2
Permanent differences	<b>4</b>	(60)
Income tax rates differential of foreign investees	<b>(24)</b>	(38)
Foreign exchange revaluation of deferred income tax	<b>4</b>	6
Other	<b>4</b>	11
Income tax expense	<b>\$ 122</b>	\$ 92

The net operating losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which a valuation allowance has been recognized, as well as the period in which they can be exercised, are as follows as at January 31, 2008:

Less than 1 year	\$ 137
From 1 to 5 years	274
From 6 to 10 years	288
No expiration date	5,426
	<b>\$6,125</b>

Approximately \$1.8 billion of the above net operating losses carried forward and other temporary differences relate to business acquisitions. Any subsequent recognition of these future tax benefits will be recorded as a reduction of the goodwill related to these acquisitions.

Approximately \$2.5 billion of the above operating losses carried forward relate to the Corporation's operations in Germany, where a minimum income tax is payable on 40% of taxable income.

In addition, the Corporation has approximately \$400 million of available net capital losses, most of which can be carried forward indefinitely. Net capital losses can only be used against future taxable capital gains, and therefore no deferred tax benefit has been recognized.

Undistributed earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for income taxes has been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

## NOTE 21 EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows for fiscal years:

(Number of shares and stock options in thousands)	2008	2007
Income from continuing operations	\$ 317	\$ 243
Preferred share dividends, net of tax	(30)	(28)
Income from continuing operations attributable to common shareholders	287	215
Income from discontinued operations, net of tax	-	25
Net income attributable to common shareholders	\$ 287	\$ 240
Weighted-average basic number of common shares outstanding	1,733,163	1,742,628
Net effect of stock options and PSU	23,198	1,822
Weighted-average diluted number of common shares outstanding	1,756,361	1,744,450
Basic earnings per share:		
From continuing operations	\$0.17	\$0.12
From discontinued operations	-	0.01
	\$0.17	\$0.14
Diluted earnings per share:		
From continuing operations	\$0.16	\$0.12
From discontinued operations	-	0.01
	\$0.16	\$0.14

The effect of the exercise of stock options was included in the calculation of diluted earnings per share in the above table, except for 24,297,692 stock options for fiscal year 2008 (42,787,384 for fiscal year 2007) since the average market value of the underlying shares was lower than the exercise price or the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) had not been met.

## NOTE 22 NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

Net change in non-cash balances related to operations was as follows for fiscal years:

	2008	2007
Receivables	\$ (151)	\$ (60)
Aircraft financing	392	198
Inventories	451	(47)
Fractional ownership deferred costs	(110)	(120)
Derivative financial instruments, net	(11)	(1)
Accounts payable and accrued liabilities	(237)	(82)
Advances and progress billings in excess of related costs	1,459	159
Fractional ownership deferred revenues	145	162
Accrued benefit liabilities, net	(467)	11
Other	(135)	(41)
	\$1,336	\$ 179

## NOTE 23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments presented in Note 4 – Financial instruments is based on the fair valuation approach explained below.

Fair value is subjective in nature, requiring a variety of valuation techniques and assumptions. 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 most advantageous active market for that instrument to which the Corporation has immediate access. When an active market exists, quoted prices from this market are used to calculate fair value. There is no active market for a significant portion of the Corporation 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 analysis. 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 tables and generic industrial bond spreads. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, default probability tables, interest-rate spreads, 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 based on a range of methods and assumptions. Since it is 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 the fair value are as follows:

- **Financial instruments whose carrying value approximates fair value** – The fair values of receivables, regional aircraft loans and lease receivables, business aircraft loans, restricted cash, trade account payables and accrued liabilities, interest and certain payroll-related liabilities, measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments or because the terms and conditions of loans or leases receivables are comparable to current market terms and conditions for similar items.
- **Invested collateral** – The fair value is determined using external quotations when available. When not available, discounted cash flow analyses are used based on both current market and internal assumptions. The current market assumptions used for the discounted cash flow analysis relate to yield curves and credit spreads.
- **Regional aircraft loans and lease receivables designated as HFT** – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate the fair value. The fair value is calculated using current market assumptions for interest rates, published credit ratings when available and default probabilities. The Corporation also uses internal assumptions to determine the credit rating of customers without published rating. In addition, the Corporation uses aircraft residual value curves obtained from independent appraisers adjusted to reflect current aircraft market's specific factors.
- **Credit and residual value guarantees and related liabilities** – The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of RVGs, credit guarantees and other liabilities incurred in connection with the sale of aircraft. The fair value is calculated using current market assumptions for interest rates, published credit ratings when available and default probabilities from rating agencies. The Corporation also uses internal assumptions to determine the credit rating of customers without published rating. In addition, the Corporation uses aircraft residual values curves obtained from independent appraisers adjusted to reflect current aircraft market's specific factors.
- **Derivative financial instruments** – The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive upon the settlement of favourable contracts, or be required to pay to terminate unfavourable contracts, at the reporting dates. Investment dealers' quotes from the Corporation's Bankers are available for substantially all of the Corporation's derivative financial instruments.

The Corporation uses an option-pricing model adjusted for aircraft financing specific factors to estimate the fair value of financing rate commitments. The fair value is calculated using current market assumptions such as interest rates, credit spread, published credit ratings, when available, and default probabilities. The Corporation also uses internal assumptions to determine the credit rating of customers without public rating.

The Corporation uses an option-adjusted spread model to estimate the fair value of call feature on long-term debt, using current market assumptions such as interest rate swap curves and external quotations.

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

## NOTE 23. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

### Sensitivity to selected changes of assumptions

When the fair value of financial instruments are determined using a valuation technique, some assumptions cannot be fully supported by prices from observable current market transactions. Changing one or more of these assumptions to other reasonably possible alternative assumptions would not change their fair value significantly, except for the assumptions disclosed in the table below, as at January 31, 2008:

Impact on net income (gain (loss))			
	Changes in fair value recognized in net income during fiscal year 2008	Use of residual value curves as established by appraisers, without modification	Downgrade the credit rating of unrated customers by one notch
Loans and lease receivables designated as HFT	\$22	\$ 6	\$(19)
Credit and residual value guarantees and related liabilities	\$ (7)	\$32	\$(10)

## NOTE 24 FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

Credit risk	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Liquidity risk	Risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.
Market risk	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 the following market risks: <ul style="list-style-type: none"><li>• Foreign exchange risk</li><li>• Interest rate risk</li><li>• Residual value risk</li></ul>

### Credit risk

Credit risk is defined as an unexpected loss if a debtor is unable to discharge its obligations toward the Corporation in a timely manner or when a guaranteed party defaults on its obligation. The Corporation is exposed to credit risk through its normal commercial activities, where various types of direct financing or indirect financing support may be provided to third parties. Credit exposure arising from lending activities, primarily relates to interim support provided to BA customers until permanent financing solutions are put in place. Credit exposures arising from indirect financing support, primarily relates to credit guarantees provided to customers in connection with the sale of aircraft. In limited cases, the Corporation may be exposed to credit risk on the supply chain when single sourcing or near single sourcing situation arises. The Corporation is also exposed to credit risk through its normal treasury activities on its derivative instruments, invested collateral and other investing activities.

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 Investment Management Policy ("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 based on pre-established limits per financial institution.



**NOTE 24. FINANCIAL RISK MANAGEMENT (cont'd)**

Credit risks arising from the Corporation's normal commercial activities are managed and controlled by the two manufacturing segments. 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 own experience with the customers. The credit ratings and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

These customer credit ratings and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collaterals 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 recorded and 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 were as follows as at January 31, 2008:

	January 31, 2008		
	HFT	AFS	L&R
Cash and cash equivalents	\$3,602 <sup>(1)</sup>	\$ -	\$ -
Invested collateral	1,295 <sup>(2)</sup>	-	-
Receivables	-	-	1,855 <sup>(3)</sup>
Aircraft financing	372 <sup>(4)</sup>	-	119 <sup>(4)</sup>
Derivative financial instruments	427 <sup>(5)</sup>	-	-
Other assets	249 <sup>(6)</sup>	203 <sup>(6)</sup>	181

<sup>(1)</sup> Held strictly with financial institutions that are investment grade.

<sup>(2)</sup> The weighted average credit ranking of the securities in the portfolio is rated AA+. This includes a portion that is invested in asset-backed and mortgaged-backed securities of the highest credit quality (i.e. AAA).

<sup>(3)</sup> The Corporation holds letter of credits, customer advances and securities deposits as collateral. The credit quality of receivables that are neither past due nor impaired is generally good.

<sup>(4)</sup> The Corporation's customers are mainly regional airlines with a credit rating usually below investment grade. The credit quality of the Corporation's aircraft financing 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.

<sup>(5)</sup> Comprised of derivative financial instruments excluding embedded derivatives. These derivative financial instruments are held strictly with investment-grade financial institutions.

<sup>(6)</sup> The credit quality of other assets that are neither past due nor impaired is mainly investment grade.

Refer to Note 26 – 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

Liquidity risk is the potential inability to meet financial obligations as they become due.

The Corporation manages this risk by maintaining detailed cash forecasts, as well as long-term Operating and Strategic Plans. 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 consolidated liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is assessed in view of historical volatility and seasonal needs, the maturity profile of indebtedness, including off-balance sheet indebtedness, as well as the general level of customer advances and progress billings in excess of related costs. The Corporation also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility.

## NOTE 24. FINANCIAL RISK MANAGEMENT (cont'd)

**Maturity analysis** – The maturity analysis of financial liabilities were as follows as at January 31, 2008:

	Less than 1 year	1 to 3 years	4 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	Total
Account payable and accrued liabilities							
Sales incentives	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 772 <sup>(1)</sup>	\$ 772
Other account payables and accrued liabilities	3,486	7	-	-	-	22	3,515
Long term debt	11	24	598	3,312	448	-	4,393
Derivative financial instruments	62	100	7	107	-	-	276
	\$3,559	\$ 131	\$605	\$3,419	\$448	\$ 794	\$8,956

<sup>(1)</sup> The Corporation has determined the fair value of sales incentives using stochastic calculations of probability where various default and survival scenarios are analyzed to provide a probable outcome of payments under the sales incentives. It is impracticable for the Corporation to determine the expected timing of such payments due to the complexity of the model. These sales incentives expire in different periods up to fiscal year 2026.

## Market risk

### Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks through its international operations, in the ordinary course of business, in particular to the Canadian dollar, pound sterling and euro. The Corporation employs various strategies, including the use of derivative financial instruments and assets/liabilities management techniques, to mitigate these exposures.

The Corporation's main exposures to foreign currencies are managed by the segments and covered by a central treasury function. Foreign currency exposures are managed 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 Consolidated Financial Statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed 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 unauthorized speculative foreign exchange transactions.

Under the FX Policy, it is the responsibility of the segments to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, who has the responsibility to execute the hedge transactions in accordance with the policy requirements.

In order to properly manage their exposures, the segments maintain long term currency forecasts. BA has adopted a progressive hedging strategy while BT hedges all its identified foreign exchange exposure to limit the effect of currency movements on their results. The segments are also mitigating foreign currency risks by maximizing transactions in their functional currency such as material procurement, sale contracts and financing activities.

In addition, the central treasury function manages balance sheet exposures to foreign currency movements through an assets/liabilities management technique. This program consists mainly in matching the long term debt in foreign currency with assets of 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.

## NOTE 24. FINANCIAL RISK MANAGEMENT (cont'd)

**Sensitivity analysis**

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments. As of January 31, 2008, an appreciation of 1% of the following currencies would have had the following impact on income and OCI, before income taxes:

	January 31, 2008				
Gain (loss)	CAD/USD	GBP/USD	EUR/USD	Other	Total
Income before income taxes	\$ 5	\$(1)	\$(14)	\$12	\$ 2
OCI before income taxes	\$31	\$ 7	\$ -	\$ -	\$38

**Interest rate risk**

The Corporation is exposed to interest rate risks through its financial assets and financial obligations bearing variable interest rate, and through its off-balance sheet pension obligations. The Corporation is also exposed to interest rate risks for certain financing commitments, when a financing rate has been guaranteed to a customer. For these items, cash flows could be impacted by an increase in benchmark rates such as Libor, Euribor or Banker's Acceptance (CDOR). The Corporation's main interest rate exposures are managed by a centralized treasury function seeking to match long-term debt with other balance sheet exposures yielding interest using an assets/liabilities management technique. An appropriate mix of fixed and variable interest rate debt is sought to reduce the net impact of fluctuating interest rates. Derivative financial instruments used to synthetically convert interest rate exposures consist mainly of interest rate swap agreements, cross currency interest rate swap agreements and interest rate cap agreements. The Corporation addresses the pension obligations risk together with plan trustees to implement liability-driven investment practices.

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.

**Sensitivity analysis**

The interest rate risk is primarily related to sales incentives, certain aircraft financing loans and lease receivables, cash and cash equivalents, variable long-term debt before giving effect to the related hedging instruments, call features and invested collateral. Assuming a 100-basis point increase in interest rates, the impact on income before income taxes for these financial instruments would have been a positive adjustment of \$19 million.

For derivative financial instruments a shift of 100-basis point increase in the yield curves, as of January 31, 2008, would have had no significant impact on net income, since the majority of the Corporation's interest-rate derivative financial instruments are designated in a fair value hedging relationship.

**Residual value risk**

The Corporation is exposed to residual value risks through RVGs provided in support of sales of aircraft. Residual value risks are mostly concentrated in the regional aircraft market segment.

The Corporation may provide RVGs either directly to the customer or to the financing party that participates in the long-term financing associated with the sale of regional aircraft. RVGs are offered as a strip of the value of the aircraft and are always capped. 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 residual value guarantee. The Corporation is required to make payments under its RVGs when the resale value of the aircraft is below the upper limit of the strip covered by the guarantee.

There are multiple scenarios where RVGs may not give rise to a payment by the Corporation. The aircraft subject to the RVG may be sold or the customer may be in default before the RVG becomes callable, in which cases the Corporation's obligation will generally cease to exist. The beneficiary of the RVG may also choose to keep the aircraft and not exercise its right.

The Corporation uses sophisticated stochastic models to assess a multitude of different scenarios in which RVGs may or may not become callable, and to measure the residual value risk. The Corporation mitigates this risk through active management of the secondary market for the underlying type of aircraft. The Corporation is constantly seeking opportunities to develop emerging markets, fulfill short-term capacity requirements or find new utilizations for used aircraft (cargo, business aircraft, others), to limit any potential decrease in residual values.

**Sensitivity analysis**

Assuming an adverse change of 1% in the residual values curves, the income before income taxes would have been negatively impacted by \$14 million.

## NOTE 25 EMPLOYEE FUTURE BENEFITS

**Defined benefit pension plans** – The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering a majority of its employees. Salaried employees' defined benefit pension plans are generally based on salary and years of service. Some of the hourly employees' defined benefit pension plans provide benefits based on stated amounts for each year of service.

The most recent actuarial valuations for funding purposes of the Corporation's funded pension plans, excluding the United Kingdom ("U.K.") plans, were prepared with an effective date of December 31, 2006. In the U.K., the most recent actuarial valuations for funding purposes were prepared with an effective date ranging between December 2004 and December 2006. The next actuarial valuations for funding purposes will be completed during the first three quarters of fiscal year 2009 with an effective date of December 31, 2007.

**Defined contribution pension plans** – The Corporation offers Canadian and foreign defined contribution pension plans covering a portion of its employees, mainly in BA. Defined contribution plan formulas are based on a percentage of salary.

**Benefits other than pension** – The Corporation provides post-employment and post-retirement benefit plans. These benefit plans consist essentially of self-insured long-term disability plans in Canada and post-retirement health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the accrued benefit assets and liabilities recognized in the consolidated balance sheets as at January 31:

<b>Amounts recognized</b>						
	<b>2008</b>			<b>2007</b>		
	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>
<b>Accrued benefit assets</b>						
Pension plans	\$ 426	\$ 498	\$ 924	\$ 368	\$ 93	\$ 461
<b>Accrued benefit liabilities</b>						
Pension plans	\$ (42)	\$ (684)	\$ (726)	\$ (58)	\$ (628)	\$ (686)
Benefits other than pension	(287)	(53)	(340)	(258)	(51)	(309)
	<b>\$(329)</b>	<b>\$(737)</b>	<b>\$(1,066)</b>	<b>\$(316)</b>	<b>\$(679)</b>	<b>\$(995)</b>

### Defined benefit pension plans

The significant actuarial assumptions adopted to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December 31 measurement date preceding the fiscal year end):

<b>Actuarial assumptions</b>						
	<b>2008</b>			<b>2007</b>		
(in percentage)	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>
<b>Projected benefit obligation</b>						
Discount rate	5.20	5.57	5.39	5.00	4.99	4.99
Rate of compensation increase	3.73	3.92	3.84	3.50	3.72	3.64
<b>Benefit cost</b>						
Discount rate	5.00	4.99	4.99	5.00	4.61	4.77
Expected long-term rate of return on plan assets	7.18	7.60	7.42	7.15	7.30	7.23
Rate of compensation increase	3.50	3.72	3.64	3.25	3.53	3.43

## NOTE 25. EMPLOYEE FUTURE BENEFITS (cont'd)

The following tables present the changes in the projected benefit obligation and fair value of plan assets for the 12-month period ended December 31, and their allocation by major countries as at the December 31 measurement date preceding the fiscal year-end:

<b>Projected benefit obligation</b>						
	<b>2008</b>			2007		
	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	Canada	Foreign	Total
Obligation at beginning of the year	<b>\$2,529</b>	<b>\$3,959</b>	<b>\$6,488</b>	\$2,434	\$3,733	\$6,167
Current service cost	<b>98</b>	<b>117</b>	<b>215</b>	88	118	206
Interest cost	<b>145</b>	<b>207</b>	<b>352</b>	123	180	303
Plan participants' contributions	<b>25</b>	<b>22</b>	<b>47</b>	22	26	48
Plan amendments	<b>50</b>	<b>-</b>	<b>50</b>	60	(152)	(92)
Actuarial gain	<b>(63)</b>	<b>(247)</b>	<b>(310)</b>	(20)	(134)	(154)
Benefits paid	<b>(135)</b>	<b>(130)</b>	<b>(265)</b>	(102)	(107)	(209)
Curtailment	<b>(2)</b>	<b>(4)</b>	<b>(6)</b>	-	(3)	(3)
Settlement	<b>-</b>	<b>-</b>	<b>-</b>	-	(11)	(11)
Other	<b>-</b>	<b>4</b>	<b>4</b>	-	-	-
Effect of exchange rate changes	<b>456</b>	<b>150</b>	<b>606</b>	(76)	309	233
Obligation at end of the year	<b>\$3,103</b>	<b>\$4,078</b>	<b>\$7,181</b>	\$2,529	\$3,959	\$6,488
Canada			<b>\$3,103</b>			\$2,529
U.K.			<b>2,830</b>			2,771
U.S.			<b>461</b>			449
Germany			<b>409</b>			400
Switzerland			<b>193</b>			177
Other			<b>185</b>			162
			<b>\$7,181</b>			\$6,488

**NOTE 25. EMPLOYEE FUTURE BENEFITS (cont'd)**

<b>Plan assets</b>						
	<b>2008</b>			2007		
	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	Canada	Foreign	Total
Fair value at beginning of the year	<b>\$2,083</b>	<b>\$2,631</b>	<b>\$4,714</b>	\$1,783	\$2,133	\$3,916
Employer contributions	<b>233</b>	<b>593</b>	<b>826</b>	199	176	375
Actual return on plan assets	<b>79</b>	<b>176</b>	<b>255</b>	243	220	463
Plan participants' contributions	<b>25</b>	<b>22</b>	<b>47</b>	22	26	48
Benefits paid	<b>(135)</b>	<b>(130)</b>	<b>(265)</b>	(102)	(107)	(209)
Transfers	<b>(25)</b>	-	<b>(25)</b>	-	-	-
Settlement	-	-	-	-	(7)	(7)
Effect of exchange rate changes	<b>384</b>	<b>65</b>	<b>449</b>	(62)	190	128
Fair value at end of the year	<b>\$2,644</b>	<b>\$3,357</b>	<b>\$6,001</b>	\$2,083	\$2,631	\$4,714
U.K.			<b>\$2,679</b>			\$2,085
Canada			<b>2,644</b>			2,083
U.S.			<b>464</b>			356
Switzerland			<b>182</b>			163
Other			<b>32</b>			27
			<b>\$6,001</b>			\$4,714

The reconciliation of the funded status of the pension plans to the amounts recorded on the consolidated balance sheets was as follows as at January 31:

<b>Funded status</b>						
	<b>2008</b>			2007		
	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	Canada	Foreign	Total
Fair value of plan assets	<b>\$ 2,644</b>	<b>\$ 3,357</b>	<b>\$ 6,001</b>	\$ 2,083	\$ 2,631	\$ 4,714
Projected benefit obligation	<b>(3,103)</b>	<b>(4,078)</b>	<b>(7,181)</b>	(2,529)	(3,959)	(6,488)
Funded status - deficit	<b>(459)</b>	<b>(721)</b>	<b>(1,180)</b>	(446)	(1,328)	(1,774)
Unamortized net actuarial loss	<b>681</b>	<b>673</b>	<b>1,354</b>	625	936	1,561
Unamortized past service costs	<b>156</b>	<b>(143)</b>	<b>13</b>	117	(156)	(39)
Contributions paid in January	<b>7</b>	<b>4</b>	<b>11</b>	14	13	27
Accrued benefit assets (liabilities)	<b>\$ 385</b>	<b>\$ (187)</b>	<b>\$ 198</b>	\$ 310	\$ (535)	\$ (225)

## NOTE 25. EMPLOYEE FUTURE BENEFITS (cont'd)

Included in the previous table are plans with projected benefit obligation in excess of plan assets as follows:

<b>Projected benefit obligation in excess of plan assets</b>						
	<b>2008</b>			<b>2007</b>		
	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	Canada	Foreign	Total
Fair value of plan assets	<b>\$ 1,584</b>	<b>\$ 2,507</b>	<b>\$ 4,091</b>	\$ 1,390	\$ 2,335	\$ 3,725
Projected benefit obligation	<b>(2,169)</b>	<b>(3,276)</b>	<b>(5,445)</b>	(1,912)	(3,679)	(5,591)
	<b>\$ (585)</b>	<b>\$ (769)</b>	<b>\$ (1,354)</b>	\$ (522)	\$(1,344)	\$(1,866)

Plan assets are held in trust and their weighted-average allocations were as follows as at the December 31 measurement date:

<b>Plan assets</b>			
	<b>Target allocation</b>		<b>Actual allocation</b>
<b>Asset category</b>	2008	<b>2007</b>	2006
Cash and cash equivalents	2%	<b>4%</b>	5%
Publicly traded equity securities	57%	<b>56%</b>	60%
Publicly traded fixed income securities	36%	<b>36%</b>	35%
Global infrastructure and real estate assets	5%	<b>4%</b>	-

As at December 31, 2007 and 2006, the publicly traded equity securities did not include any of the Corporation's shares.

**NOTE 25. EMPLOYEE FUTURE BENEFITS (cont'd)**

The following table provides the components of the benefit cost for fiscal years:

Benefit cost	2008			2007		
	Canada	Foreign	Total	Canada	Foreign	Total
Current service cost	\$ 98	\$ 117	\$ 215	\$ 88	\$ 118	\$ 206
Interest cost	145	207	352	123	180	303
Actual return on plan assets	(79)	(176)	(255)	(243)	(220)	(463)
Actuarial gain	(63)	(247)	(310)	(20)	(134)	(154)
Plan amendments	50	-	50	60	(152)	(92)
Curtailment loss (gain)	1	(4)	(3)	1	-	1
Other	-	4	4	-	-	-
Benefit cost before adjustments to recognize the long-term nature of the plans	152	(99)	53	9	(208)	(199)
Difference between actual and expected return on plan assets	(84)	(35)	(119)	115	62	177
Difference between actual actuarial loss and the amount recognized	96	301	397	56	230	286
Difference between plan amendments and amounts recognized	(40)	(9)	(49)	(53)	155	102
Benefit cost recognized	\$124	\$ 158	\$ 282	\$ 127	\$ 239	\$ 366

**Defined contribution pension plans**

Cash contributions to the defined contribution pension plans, which correspond to the benefit cost recognized, amounted to \$30 million for fiscal year 2008 (\$28 million for fiscal year 2007).



## NOTE 25. EMPLOYEE FUTURE BENEFITS (cont'd)

**Benefits other than pension**

The significant actuarial assumptions used to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December 31 measurement date preceding the fiscal year-end):

<b>Actuarial assumptions</b>						
	<b>2008</b>			<b>2007</b>		
(in percentage)	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	Canada	Foreign	Total
<b>Projected benefit obligation</b>						
Discount rate	<b>5.20</b>	<b>6.01</b>	<b>5.30</b>	5.00	5.57	5.08
Rate of compensation increase	<b>3.68</b>	<b>3.93</b>	<b>3.75</b>	3.50	3.93	3.62
<b>Benefit cost</b>						
Discount rate	<b>5.00</b>	<b>5.57</b>	<b>5.08</b>	5.00	5.32	5.04
Rate of compensation increase	<b>3.50</b>	<b>3.93</b>	<b>3.62</b>	3.25	3.92	3.43

As at December 31, 2007, the health care cost trend rate, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 9.5% and to decrease to 5% by fiscal year 2018 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:

	<b>One percentage point increase</b>	<b>One percentage point decrease</b>
Effect on projected benefit obligation	\$ 39	\$(34)
Effect on the annual benefit cost recognized	\$ 5	\$(4)

**NOTE 25. EMPLOYEE FUTURE BENEFITS (cont'd)**

The following table presents the changes in the projected benefit obligation for the 12-month period ended December 31 and its allocation by major countries as at the December 31 measurement date preceding the fiscal year-end:

<b>Projected benefit obligation</b>						
	<b>2008</b>			2007		
	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	Canada	Foreign	Total
Obligation at beginning of the year	<b>\$ 330</b>	<b>\$57</b>	<b>\$387</b>	\$361	\$59	\$420
Current service cost	<b>14</b>	<b>1</b>	<b>15</b>	11	2	13
Interest cost	<b>18</b>	<b>3</b>	<b>21</b>	16	3	19
Plan amendments	<b>(20)</b>	<b>-</b>	<b>(20)</b>	(40)	-	(40)
Actuarial loss (gain)	<b>-</b>	<b>(5)</b>	<b>(5)</b>	6	(6)	-
Benefits paid	<b>(18)</b>	<b>(4)</b>	<b>(22)</b>	(14)	(2)	(16)
Effect of exchange rate changes	<b>58</b>	<b>2</b>	<b>60</b>	(10)	1	(9)
Obligation at end of the year	<b>\$ 382</b>	<b>\$54</b>	<b>\$436</b>	\$330	\$57	\$387
Canada			<b>\$382</b>			\$330
U.S.			<b>34</b>			37
U.K.			<b>13</b>			13
Other			<b>7</b>			7
			<b>\$436</b>			\$387

The reconciliation of the funded status of the benefit plans other than pensions to the amounts recorded in the consolidated balance sheets was as follows for fiscal years:

<b>Funded status</b>						
	<b>2008</b>			2007		
	<b>Canada</b>	<b>Foreign</b>	<b>Total</b>	Canada	Foreign	Total
Deficit	<b>\$(382)</b>	<b>\$(54)</b>	<b>\$(436)</b>	\$(330)	\$(57)	\$(387)
Unamortized net actuarial loss	<b>150</b>	<b>1</b>	<b>151</b>	112	6	118
Unamortized past service costs	<b>(56)</b>	<b>-</b>	<b>(56)</b>	(41)	-	(41)
Benefits paid in January	<b>1</b>	<b>-</b>	<b>1</b>	1	-	1
Accrued benefit liabilities	<b>\$(287)</b>	<b>\$(53)</b>	<b>\$(340)</b>	\$(258)	\$(51)	\$(309)

**NOTE 25. EMPLOYEE FUTURE BENEFITS (cont'd)**

The following table provides the components of the benefit cost for fiscal years:

Benefit cost	2008			2007		
	Canada	Foreign	Total	Canada	Foreign	Total
Current service cost	\$ 14	\$ 1	\$ 15	\$ 11	\$ 2	\$ 13
Interest cost	18	3	21	16	3	19
Actuarial loss (gain)	-	(5)	(5)	6	(6)	-
Plan amendments	(20)	-	(20)	(40)	-	(40)
Benefit cost before adjustments to recognize the long-term nature of the plans	12	(1)	11	(7)	(1)	(8)
Difference between actual actuarial loss for the year and the amount recognized	20	4	24	6	5	11
Difference between plan amendments and amounts recognized	17	-	17	39	-	39
Benefit cost recognized	\$ 49	\$ 3	\$ 52	\$ 38	\$ 4	\$ 42

**NOTE 26  
COMMITMENTS AND CONTINGENCIES**

In relation to the sale of regional aircraft and related financing commitments, the Corporation enters into various sale support arrangements including credit and residual value guarantees and financing rate commitments. The Corporation is also subject to other off-balance sheet risks described in the following table, 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 27 - Variable interest 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 January 31:

	2008	2007
<b>Aircraft sales</b>		
Credit (a)	\$ 1,589	\$ 1,407
Residual value (a)	2,674	2,727
Mutually exclusive exposure <sup>(1)</sup>	(952)	(915)
Total credit and residual value exposure	\$ 3,311	\$ 3,219
Trade-in commitments (b)	1,039	894
Conditional repurchase obligations (c)	931	1,031
<b>Other<sup>(2)</sup></b>		
Credit and residual value (f)	186	182
Repurchase obligations (g)	185	182
Performance guarantees (h)	112	129

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

<sup>(2)</sup> The Corporation has also provided other guarantees (see section i) below).

## NOTE 26. COMMITMENTS AND CONTINGENCIES (cont'd)

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 \$504 million as at January 31, 2008 (\$456 million as at January 31, 2007) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third-party evaluations, and the anticipated proceeds from other assets covering such exposures. In addition, related liabilities, which would be extinguished in the event of credit default by certain customers, amounted to \$268 million as at January 31, 2008 (\$300 million as at January 31, 2007). The anticipated proceeds from the underlying aircraft are expected to cover the Corporation's total credit and residual value exposure, after taking into account provisions for anticipated losses and related liabilities.

### Aircraft sales

**a) Credit guarantees and residual value guarantees** – The Corporation may provide 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 62% of the total maximum credit risk as at January 31, 2008.

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, as at January 31, 2008, and the period in which they can be exercised:

Less than 1 year	\$ 29
From 1 to 5 years	551
From 6 to 10 years	1,071
From 11 to 15 years	958
Thereafter	65
	<hr/>
	\$2,674

**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 January 31, 2008:

Less than 1 year	\$ 411
From 1 to 3 years	610
Thereafter	18
	<hr/>
	\$1,039

**c) Conditional repurchase obligations** – In connection with the sale of new aircraft ("Initial 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 purchase of a new aircraft ("Subsequent aircraft"). The Corporation's repurchase of the Initial aircraft is conditional upon a future, mutually acceptable agreement for the sale of a Subsequent 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 becomes a trade-in commitment as described above. No provision is recorded for conditional repurchase obligations until they become trade-in commitments.

## NOTE 26. COMMITMENTS AND CONTINGENCIES (cont'd)

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows as at January 31, 2008:

Less than 1 year	\$ 563
From 1 to 3 years	297
Thereafter	71
	\$ 931

**d) Fractional ownership put options** - Under the North American *Flexjet* fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled \$909 million as at January 31, 2008 (\$733 million as at January 31, 2007). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

**e) Financing commitments** - The Corporation is committed to provide financing, in relation to the future sale of aircraft scheduled for delivery through fiscal year 2013. The Corporation's total financing commitment amounted to \$1.8 billion as at January 31, 2008 (\$1.7 billion as at January 31, 2007). The Corporation mitigates its exposure to interest and credit risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment.

### Other guarantees

**f) Credit and residual value guarantees** - In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to \$46 million as at January 31, 2008 and 2007. This guarantee matures in 2025 and relates to a customer. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements, amounting to \$140 million as at January 31, 2008 (\$136 million as at January 31, 2007), in BT. These guarantees are mainly exercisable in 2013.

**g) Repurchase obligations** - In BT, the Corporation has provided certain financing providers the right, under certain conditions, to sell back equipment to the Corporation at predetermined prices. An amount of \$185 million as at January 31, 2008 (\$182 million as at January 31, 2007), relates to two agreements whereby the Corporation may be required to repurchase the equipment, beginning in fiscal year 2009, upon customer default on payments to the financing providers. In addition, on three separate dates, beginning in fiscal year 2009, the Corporation may also be required to repurchase the equipment. In connection with this commitment, funds have been deposited in cash collateral accounts by the customer, which, together with accumulated interest, are expected to entirely cover the Corporation's exposure.

**h) Performance guarantees** - In certain projects carried out through consortia or other partnership vehicles in BT, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for a default by the other partners. These projects normally provide counter indemnities among the partners. These obligations and guarantees typically extend until final product acceptance by the customer. The Corporation's maximum net exposure to projects, for which the exposure of the Corporation is capped, amounted to \$51 million as at January 31, 2008 (\$48 million as at January 31, 2007), 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 would amount to \$61 million as at January 31, 2008 (\$81 million as at January 31, 2007), assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

**i) 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.

## NOTE 26. COMMITMENTS AND CONTINGENCIES (cont'd)

### Operating leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. In addition, the Corporation concluded third-party sale and leaseback transactions relating to pre-owned aircraft and other equipment. The related minimum lease payments for the next five fiscal years and thereafter are as follows:

	Buildings and equipment	Aircraft	Residual value guarantees	Total
2009	\$ 85	\$ 19	\$ -	\$104
2010	73	10	12	95
2011	67	-	-	67
2012	55	-	-	55
2013	48	-	-	48
Thereafter	301	-	50	351
	\$629	\$29	\$62	\$720

Total minimum lease payments include \$21 million and \$25 million for the sale and leaseback of pre-owned aircraft and equipment, respectively. Rent expense related to these leases was \$125 million for fiscal year 2008 (\$141 million for fiscal year 2007).

### Other commitments

The Corporation has commitments under agreements to outsource a significant portion of its information technology function in BA and BT, as well as the logistics for the centrally located spare parts warehouses in BA. The related minimum payments for the next five fiscal years and thereafter are as follows:

2009	\$225
2010	220
2011	54
2012	29
2013	31
Thereafter	108
	\$667

The Corporation receives government financial support from various levels of government related to the development of aircraft. Certain of these financial support programs require the Corporation to pay amounts to governments at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. The remaining undiscounted contingently repayable government support, mostly based on future deliveries of aircraft, amounted to \$392 million as at January 31, 2008 (\$481 million as at January 31, 2007).

### Litigations

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. district court of the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others for alleged violations of federal securities laws relating to BCMSC's Senior/Subordinated Pass-Through Certificates, Series 2000-A, due January 15, 2030. On April 15, 2005, the plaintiffs filed an amended complaint. The amendments provide for the inclusion of all open market purchasers of BCMSC's Senior/Subordinated Pass-Through Certificates, Series 1998-A, Series 1998-B, Series 1998-C, Series 1999-A, Series 1999-B, Series 2000-A and Series 2000-B as part of the putative class. While the Corporation cannot predict the outcome of any legal proceedings, based on information currently available, the Corporation intends to vigorously defend its position.

**NOTE 26. COMMITMENTS AND CONTINGENCIES (cont'd)**

The Corporation is also a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of legal proceedings pending as at January 31, 2008, 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.

**NOTE 27  
VARIABLE INTEREST ENTITIES**

The following table summarizes by segment the VIEs in which the Corporation had a significant variable interest as at January 31:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
<b>BA</b>				
Financing structures related to the sale of regional aircraft	\$6,970	\$4,083	\$ 6,985	\$ 4,245
Sale and leaseback structure	-	-	13	13
<b>BT</b>				
Partnership arrangements	1,468	1,350	5,993	5,450
Sale support guarantee	579	587	579	572
Cash collateral accounts	82	82	75	75
	<b>9,099</b>	<b>6,102</b>	13,645	10,355
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	16	7	8	7
Sale and leaseback structure	-	-	13	13
Cash collateral accounts	82	82	75	75
	<b>98</b>	<b>89</b>	96	95
Assets and liabilities of non-consolidated VIEs	<b>\$9,001</b>	<b>\$6,013</b>	\$13,549	\$10,260

The Corporation's variable interest in Metronet ceased to be a significant variable interest during fiscal year 2008 (see Note 18 – Special items).

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. The consolidation of debt resulting from the application of AcG-15 is excluded from the computation of the Corporation's financial covenant ratio for structures existing prior to May 1, 2004 or when the debt of the consolidated VIEs is non-recourse to the Corporation for structures created on or after May 1, 2004. All consolidated debt is related to structures existing prior to May 1, 2004. Additionally, the consolidation of VIEs does not result in any change in the underlying tax, legal or credit exposure of the Corporation.

## BA

**Financing structures related to the sale of regional aircraft** – The Corporation has provided credit and/or residual value guarantees to certain special purpose entities (“SPEs”) created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs’ long-term debt. The Corporation’s variable interests in these SPEs are in the form of credit and residual value guarantees, subordinated debt and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only one of them, which was consolidated. For all other SPEs, consolidation is not appropriate under AcG-15. The Corporation’s maximum potential exposure relating to the non-consolidated SPEs was \$2.2 billion, of which \$507 million of provisions and liabilities were available to cover the Corporation’s exposure as at January 31, 2008 (\$2.1 billion and \$418 million respectively as at January 31, 2007). The Corporation’s maximum exposure under these guarantees is included in Note 26 – Commitments and contingencies.

**RASPRO** – In September 2005, a \$1.7-billion securitization transaction was completed to provide financing in the form of long-term leases for 70 regional aircraft. In connection with this transaction, the Corporation has provided certain credit enhancements and has acquired a subordinated beneficial interest. In addition, the Corporation provides administrative services in return for market fees.

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

In addition, in fiscal year 2008, the Corporation finalized the terms of its indirect financial support to a government agency in connection with the agency’s direct support to RASPRO and to other financing structures related to the sale of regional aircraft.

The impact of the above did not have a significant impact on the Corporation’s financial statements.

## BT

**Partnership arrangements** – The Corporation is a party to partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long term services, such as the operation and maintenance of rail equipment.

The Corporation’s involvement with these entities results mainly from investments in their equity and/or in subordinated loans and through manufacturing, selling and long-term service contracts. The Corporation concluded that some of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement.

**Sale support guarantee** – In August 1998, the Corporation provided residual value guarantees on diesel electric multiple unit trains sold to Lombard Leasing Contracts Limited (“Lombard”). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation’s maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of \$140 million as at January 31, 2008 (\$134 million as at January 31, 2007). The Corporation’s maximum exposure under these guarantees is presented in Note 26 – Commitments and contingencies.

**Cash collateral accounts** – In connection with the sale of certain rail equipment by Adtranz prior to its acquisition by the Corporation in May 2001, the purchasers have been provided with the right, under certain conditions, to sell back the equipment to the Corporation at predetermined prices on three separate dates, beginning in fiscal year 2009. In addition, the Corporation may be required to repurchase the equipment, beginning in fiscal year 2009, upon customer default on payments to the financing providers.



**NOTE 27. VARIABLE INTEREST ENTITIES (cont'd)**

As a result of these commitments, Fabian Investments Limited and Lineal Investments Limited were created and cash was deposited in a cash collateral account by the lessee of the equipment. This cash, together with accumulated interest, is expected to entirely cover the Corporation's exposure. The Corporation concluded that these SPEs are VIEs and the Corporation is their primary beneficiary; accordingly, these SPEs were consolidated. Their assets, consisting of restricted cash, are presented in other assets, and their liabilities, consisting of provisions in connection with the Corporation's repurchase obligations, are included in the provision and liabilities disclosed in Note 26 – Commitments and contingencies.

**NOTE 28  
SEGMENT DISCLOSURE**

The Corporation has two reportable segments: BA and BT. Each reportable segment offers different products and services and requires different technology and marketing strategies.

BA	BT
<p>BA is a world leader in the design and manufacture of innovative aviation products and is a provider of related services. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets (the latter being subject to the launch of the <i>CSeries</i> aircraft program) and amphibious aircraft. BA also offers aftermarket services as well as fractional ownership and flight entitlement programs.</p>	<p>BT is the global leader in the rail equipment and system manufacturing and a provider of related services, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.</p>

The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies. Management assesses segment performance based on income before financing income, financing expense and income taxes. Corporate charges are allocated to segments mostly based on each segment's revenues.

Net segmented assets exclude cash and cash equivalents, invested collateral and deferred income taxes, and are net of accounts payable and accrued liabilities (excluding interest and income taxes payable), advances and progress billings in excess of related costs, fractional ownership deferred revenues, accrued benefit liabilities and derivative financial instruments.

The tables containing the detailed segmented data are shown hereafter.

**NOTE 29  
RECLASSIFICATIONS**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current fiscal year. The most significant change consists of the reclassification of the CTA balance previously presented as a separate component of Shareholders' equity, to AOCI.

# SEGMENTED INFORMATION

Industry segments						
	Bombardier Inc. consolidated		BA		BT	
	2008	2007	2008	2007	2008	2007
Revenues						
Manufacturing	\$12,508	\$10,512	\$7,614	\$6,446	\$4,894	\$4,066
Services	3,016	2,738	1,542	1,334	1,474	1,404
Other	1,982	1,632	557	516	1,425	1,116
	<b>17,506</b>	14,882	<b>9,713</b>	8,296	<b>7,793</b>	6,586
Cost of sales	<b>14,919</b>	12,667	<b>8,216</b>	7,025	<b>6,703</b>	5,642
Selling, general and administrative	<b>1,096</b>	929	<b>552</b>	474	<b>544</b>	455
Research and development	<b>139</b>	173	<b>37</b>	78	<b>102</b>	95
Other expense (income)	<b>(62)</b>	18	<b>(58)</b>	(12)	<b>(4)</b>	30
Amortization	<b>512</b>	518	<b>403</b>	409	<b>109</b>	109
Special items	<b>162</b>	24	<b>-</b>	-	<b>162</b>	24
	<b>16,766</b>	14,329	<b>9,150</b>	7,974	<b>7,616</b>	6,355
<b>Income from continuing operations before financing income and expense, and income taxes</b>	<b>\$ 740</b>	\$ 553	<b>\$ 563</b>	\$ 322	<b>\$ 177</b>	\$ 231
<b>Net segmented assets</b>	<b>\$ 1,869</b>	\$ 3,447	<b>\$ 1,838</b>	\$ 2,845	<b>\$ 31</b>	\$ 602
Liabilities allocated to segments:						
Accounts payable and accrued liabilities <sup>(1)</sup>	<b>6,729</b>	6,602				
Advances and progress billings in excess of related costs	<b>4,159</b>	2,443				
Fractional ownership deferred revenues	<b>631</b>	487				
Accrued benefit liabilities	<b>1,066</b>	995				
Derivative financial instruments	<b>276</b>	13				
Assets not allocated to segments:						
Cash and cash equivalents	<b>3,602</b>	2,648				
Invested collateral	<b>1,295</b>	1,129				
Deferred income taxes	<b>935</b>	813				
<b>Total consolidated assets</b>	<b>\$20,562</b>	\$18,577				
<b>Additions to property, plant and equipment</b>	<b>\$ 425</b>	\$ 344	<b>\$ 305</b>	\$ 264	<b>\$ 120</b>	\$ 80

<sup>(1)</sup> Excluding interest and income taxes payable amounting to \$77 million and \$113 million respectively as at January 31, 2008 (\$109 million and \$115 million as at January 31, 2007) which were not allocated to segments.

# SEGMENTED INFORMATION

## Geographic Information

	Revenues <sup>(1)</sup>		Property, plant and equipment, intangible assets and goodwill <sup>(2)</sup>	
	2008	2007	2008	2007
United States	\$ 5,560	\$ 4,749	\$ 396	\$ 270
United Kingdom	1,950	1,420	846	817
Germany	1,235	1,560	1,564	1,384
France	1,183	891	45	32
Canada	668	561	1,599	1,809
Switzerland	532	231	314	286
Italy	507	688	154	135
Spain	466	587	9	8
Austria	400	141	17	6
Other - Europe	1,615	1,213	652	580
Other - Asia	1,397	1,363	59	18
Other - Americas	1,142	778	21	11
Other - Africa	530	311	-	-
Other - Oceania	321	389	9	7
	<b>\$17,506</b>	<b>\$ 14,882</b>	<b>\$5,685</b>	<b>\$5,363</b>

<sup>(1)</sup> Revenues are attributed to countries based on the location of the customer.

<sup>(2)</sup> Property, plant and equipment and intangible assets are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.

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# BOARD OF DIRECTORS, COMMITTEES OF THE BOARD, OFFICE OF THE PRESIDENT, CORPORATE MANAGEMENT

## BOARD OF DIRECTORS

**Laurent Beaudoin, C.C., FCA**  
Chairman of the Board  
and Chief Executive Officer  
Bombardier Inc.

**Pierre Beaudoin**  
President and  
Chief Operating Officer  
Bombardier Aerospace  
Executive Vice President  
Bombardier Inc.

**André Bérard**  
Corporate Director  
**Lead Director**

**J.R. André Bombardier**  
Vice Chairman of the Board  
Bombardier Inc.

**Janine Bombardier**  
President and Governor  
J. Armand Bombardier  
Foundation

**L. Denis Desautels**  
Corporate Director

**Jean-Louis Fontaine**  
Vice Chairman of the Board  
Bombardier Inc.

**Jane F. Garvey**  
Executive Vice President and  
Chairman, Transportation  
Practice, APCO Worldwide, Inc.

**Daniel Johnson**  
Counsel  
McCarthy Tétrault LLP

**Jean C. Monty**  
Corporate Director

**André Navarri**  
President  
Bombardier Transportation  
Executive Vice President  
Bombardier Inc.

**Carlos E. Represas**  
Chairman of the Board  
Nestlé Group México

**Jean-Pierre Rosso**  
Chairman  
World Economic Forum USA Inc.

**Federico Sada G.<sup>(1)</sup>**  
President and  
Chief Executive Officer  
Vitro, S.A. de C.V.

**Heinrich Weiss**  
Chairman and Chief  
Executive Officer  
SMS GmbH

## COMMITTEES OF THE BOARD

**Audit Committee**  
*Chair:* L. Denis Desautels  
*Members:* André Bérard,  
Daniel Johnson,  
Jean-Pierre Rosso

**Human Resources and  
Compensation Committee**  
*Chair:* Jean C. Monty  
*Members:* André Bérard,  
Carlos E. Represas,  
Heinrich Weiss

**Corporate Governance and  
Nominating Committee**  
*Chair:* Jean-Pierre Rosso  
*Members:* Jean C. Monty,  
Federico Sada G.,  
Heinrich Weiss

**Finance and Risk Management  
Committee**  
*Chair:* André Bérard  
*Members:* L. Denis Desautels,  
Daniel Johnson,  
Carlos E. Represas

## OFFICE OF THE PRESIDENT

**Laurent Beaudoin, C.C., FCA**  
Chairman of the Board  
and Chief Executive Officer  
Bombardier Inc.

**Pierre Beaudoin**  
President and  
Chief Operating Officer  
Bombardier Aerospace  
Executive Vice President  
Bombardier Inc.

**André Navarri**  
President  
Bombardier Transportation  
Executive Vice President  
Bombardier Inc.

## CORPORATE MANAGEMENT

**Laurent Beaudoin, C.C., FCA<sup>(2)</sup>**  
Chairman of the Board  
and Chief Executive Officer  
Bombardier Inc.

**André Navarri**  
President  
Bombardier Transportation  
Executive Vice President  
Bombardier Inc.

**Richard C. Bradeen**  
Senior Vice President,  
Strategy and Corporate Audit  
Services and Risk Assessment

**John Paul Macdonald<sup>(3)</sup>**  
Senior Vice President, Human  
Resources and Public Affairs

**Pierre Beaudoin<sup>(2)</sup>**  
President and  
Chief Operating Officer  
Bombardier Aerospace  
Executive Vice President  
Bombardier Inc.

**J.R. André Bombardier**  
Vice Chairman of the Board

**Daniel Desjardins**  
Senior Vice President,  
General Counsel

**Roger Carle**  
Corporate Secretary

**Jean-Louis Fontaine**  
Vice Chairman of the Board

**François Lemarchand**  
Senior Vice President  
and Treasurer

**Marie-Claire Simoneau**  
Executive Assistant  
to the Chairman

**Pierre Alary**  
Senior Vice President and  
Chief Financial Officer

<sup>(1)</sup> Federico Sada G. will not stand for re-election at the June 4, 2008 annual meeting of shareholders.

<sup>(2)</sup> Pierre Beaudoin will become President and Chief Executive Officer of the Corporation on June 4, 2008, after the annual meeting of shareholders held on that same day. Laurent Beaudoin will remain Chairman of the Board.

<sup>(3)</sup> John Paul Macdonald assumed the additional responsibilities of Senior Vice President, Human Resources on February 1, 2008, in replacement of Carroll L'Italien, former Senior Vice President and Chief Talent Officer, who retired on January 31, 2008.

# INVESTOR INFORMATION

## SHARE CAPITAL

Authorized, issued and outstanding as at January 31, 2008

	Authorized	Issued and outstanding
Class A shares	1,892,000,000	316,961,957
Class B shares	1,892,000,000	1,434,973,636 <sup>(1)</sup>
Preferred shares, Series 2	12,000,000	9,464,920
Preferred shares, Series 3	12,000,000	2,535,080
Preferred shares, Series 4	9,400,000	9,400,000

<sup>(1)</sup> Including 21,273,000 shares purchased and held in trust for the performance stock unit plan

## PREFERRED DIVIDENDS PAYMENT DATES

For fiscal year 2009 - Payment subject to approval by the Board of Directors

### Series 2

Record date	Payment date	Record date	Payment date
2008-01-31	2008-02-15	2008-07-31	2008-08-15
2008-02-29	2008-03-15	2008-08-29	2008-09-15
2008-03-31	2008-04-15	2008-09-30	2008-10-15
2008-04-30	2008-05-15	2008-10-31	2008-11-15
2008-05-30	2008-06-15	2008-11-28	2008-12-15
2008-06-30	2008-07-15	2008-12-31	2009-01-15

Convertible on August 1, 2012, into Series 3 Cumulative Redeemable Preferred Shares (See note on Share Capital in the Consolidated Financial Statements)

### Shareholders

If you wish to obtain a copy of this annual report, or other corporate documents, we encourage you to download it from the Corporation's website at [www.bombardier.com](http://www.bombardier.com), providing a practical, timely and environmentally friendly access. You can, however, order paper copies from the Corporation's website by going to Investor Relations, then Contacts, or make a request at the following address:

**Bombardier Inc.**  
**Public Affairs**  
 800 René-Lévesque Blvd. West  
 Montréal, Québec  
 Canada H3B 1Y8  
**Telephone:** +1 514 861-9481,  
 extension 3390  
**Fax:** +1 514 861-2420

### Investors

**Bombardier Inc.**  
**Investor Relations**  
 800 René-Lévesque Blvd. West  
 Montréal, Québec  
 Canada H3B 1Y8  
**Telephone:** +1 514 861-9481,  
 extension 3273  
**Fax:** +1 514 861-2420  
**E-mail:**  
[investors@bombardier.com](mailto:investors@bombardier.com)

## STOCK EXCHANGE LISTINGS

Class A and Class B shares <sup>(2)</sup>	Toronto (Canada)
Preferred shares, Series 2, Series 3 and Series 4	Toronto (Canada)
Stock listing ticker	BBD (Toronto)

<sup>(2)</sup> The Corporation has suspended dividend payments on Class A and Class B common shares

### Series 3

Record date	Payment date
2008-04-18	2008-04-30
2008-07-18	2008-07-31
2008-10-17	2008-10-31
2009-01-16	2009-01-31

Convertible on August 1, 2012, into Series 2 Cumulative Redeemable Preferred Shares (See note on Share Capital in the Consolidated Financial Statements)

### Series 4

Record date	Payment date
2008-04-18	2008-04-30
2008-07-18	2008-07-31
2008-10-17	2008-10-31
2009-01-16	2009-01-31

### Transfer Agent and Registrar

Shareholders with inquiries concerning their shares should contact:

**Computershare Investor Services Inc.**  
 100 University Avenue, 9th Floor  
 Toronto, Ontario  
 Canada M5J 2Y1

1500 University Street, Suite 700  
 Montréal, Québec  
 Canada H3A 3S8  
**Telephone:** +1 514 982-7555 or  
 +1 800 564-6253  
 (toll-free, North America only)  
**Fax:** +1 416 263-9394 or  
 +1 888 453-0330  
 (toll-free, North America only)  
**E-mail:**  
[service@computershare.com](mailto:service@computershare.com)

### Incorporation

The Corporation was incorporated on June 19, 1902, by letters patent and prorogated June 23, 1978, under the Canadian Business Corporations Act.

### Auditors

**Ernst & Young LLP**  
 800 René-Lévesque Blvd. West  
 Montréal, Québec  
 Canada H3B 1X9

### Annual Meeting

The annual meeting of shareholders will be held on Wednesday, June 4, 2008, at 9:30 a.m. at the following address:  
 Hyatt Regency Montréal  
 Grand Salon  
 1255 Jeanne-Mance Street  
 Montréal, Québec  
 Canada H5B 1E5

**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 one of the following numbers: +1 514 982-7555 or +1 800 564-6253 (toll-free, North America only) or send an e-mail to [service@computershare.com](mailto:service@computershare.com).

*Bombardier, Bombardier 415, Bombardier Global 5000, Canadair Regional Jet, Challenger, Challenger 300, Challenger 604, Challenger 605, Challenger 800, CITYFLO, CRJ, CRJ200, CRJ700, CRJ705, CRJ900, CRJ1000, CSeries, ELECTROSTAR, FLEXITY, Flexjet, Global, Global Vision, INTERFLO, Learjet, Learjet 40, Learjet 45, Learjet 60, Learjet 85, MITRAC, MOVIA, NextGen, ORBITA, Parts Express, Q200, Q300, Q400, Q-Series, Skyjet, Skyjet International, SPACIUM, TALENT, TRAXX, TURBOSTAR, XR, XRS and ZEFIRO are trademarks of Bombardier Inc. or its subsidiaries.*

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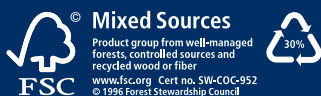
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