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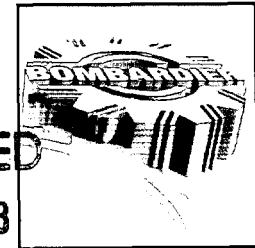
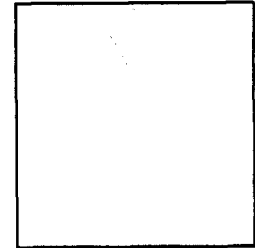
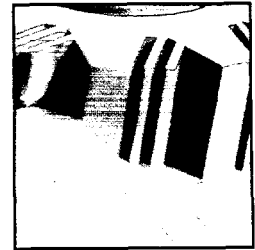
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# Second Quarterly Report

Six months ended July 31, 2003

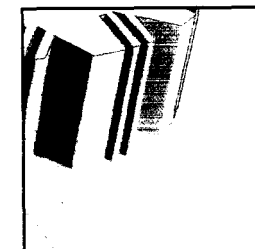
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis that follows is based on the reported earnings in accordance with Canadian generally accepted accounting principles (GAAP). It is also based on earnings (loss) before net interest of the manufacturing segments, income taxes and discontinued operations (EBIT) as well as earnings (loss) before income taxes and discontinued operations (EBT). Special items are viewed by Management as items that do not arise as part of the normal day-to-day business operations or that could potentially distort the analysis of trends. These earnings measures do not have a standardized meaning prescribed by GAAP and are therefore not readily comparable to similar measures presented by other corporations.

## HIGHLIGHTS OF THE QUARTER

- On August 26, 2003, the Corporation reached an agreement for the sale of the recreational products segment. The estimated aggregate purchase price of \$1.2 billion is subject to closing and other purchase price adjustments.
- Bombardier Aerospace received an order from US Airways for the delivery of 60 Bombardier\* CRJ200\* and 25 Bombardier\* CRJ700\* aircraft, for a total value of approximately \$3.2 billion. Deliveries are scheduled to begin in the fourth quarter of the current fiscal year. The 85 firm orders include the transfer of 36 Bombardier\* CRJ\* aircraft firm orders held by GE Capital Aviation Services, for a net backlog increase of 49 aircraft. The contract also included 90 reconfirmable orders and 100 options.
- The Corporation completed the sale of the Belfast City Airport for a total consideration of £35.0 million (\$77.7 million), generating a gain of \$3.4 million.
- The Corporation announced an agreement to sell its Military Aviation Services unit for a total consideration of \$90.0 million US (\$126.7 million). Final closing is subject to the approval of all appropriate regulatory authorities and to other consents, including from government bodies in Canada and the U.S.
- The reduction in the wind-down portfolios under management is proceeding as planned at Bombardier Capital (BC). These portfolios were reduced by \$688.1 million or 16.7% in the second quarter of the current fiscal year. Following the end of the quarter, the Corporation

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entered into an agreement to sell, at carrying value, a significant portion of BC's business aircraft portfolio for \$339.0 million US (\$475.0 million).

- The Corporation renewed the 364-day portion of its European credit facility on July 9, 2003 and, following the end of the quarter, received a commitment to renew the 364-day portion of its North American credit facility, effective September 9, 2003.
- Moody's Investor Services, Standard and Poor's and Fitch Ratings Inc. have all affirmed the credit rating of the Corporation.
- Subsequent to the end of the quarter, BC received purchase commitments for \$400.0 million US of public asset-backed securitizations in connection with the inventory finance receivable portfolios. The expected issuance date is August 27, 2003.

## EFFECT OF EXCHANGE RATE FLUCTUATIONS

The Corporation is exposed to exchange rate fluctuations, mainly arising from the U.S. dollar and the euro. During the first six months of fiscal year 2004, the Canadian dollar strengthened compared to the U.S. dollar and the euro. The main impact of these fluctuations on the interim consolidated financial statements was to reduce the balance sheet items as at July 31, 2003, denominated in U.S. dollars, mainly in the aerospace and BC segments, and in euros, mainly in the transportation segment. The reductions arise mainly from the translation to the Canadian dollar of the balance sheet items of self-sustaining foreign operations whose functional currency is the U.S. dollar or the euro and have no impact on the results of operations.

In addition, the current year's three- and six-month periods' average exchange rate of the euro versus the Canadian dollar increased compared to the corresponding periods last year, whereas the average exchange rate of the U.S. dollar decreased for the same period. Accordingly, the results of operations of the self-sustaining foreign operations in Europe, translated in Canadian dollars, mainly in the transportation segment, were positively impacted, while the results of the U.S. self-sustaining operations, mainly in the aerospace and BC segments, were negatively impacted. Foreign exchange fluctuations on transactions in foreign currencies have no significant short-term effect on the results of operations, due to the Corporation's hedging activities.

The exchange rates used to translate items denominated in U.S. dollars and in euros were as follows:

	<b>Balance sheets</b>	
	<b>As at July 31, 2003</b>	<b>As at January 31, 2003</b>
U.S. dollars	1.4073	1.5290
Euros	1.5808	1.6421

	<b>Income statements</b>			
	<b>Three months ended July 31, 2003</b>	<b>Three months ended July 31, 2002</b>	<b>Six months ended July 31, 2003</b>	<b>Six months ended July 31, 2002</b>
U.S. dollars	1.3723	1.5424	1.4274	1.5654
Euros	1.5833	1.4735	1.5931	1.4337

## CONSOLIDATED RESULTS

On August 26, 2003, the Corporation reached an agreement in principle for the sale of the recreational products segment. The results of operations, cash flows and financial position of Bombardier Recreational Products are reported as discontinued operations. The results of operations of the recreational products segment are presented as a single line item on a retroactive basis in the Corporation's interim consolidated statements of income.

Consolidated revenues amounted to \$5.3 billion for each of the second quarters ended July 31, 2003 and 2002. For the six-month period ended July 31, 2003, consolidated revenues decreased by 1.2% to \$10.2 billion, compared to \$10.3 billion for the same period last year. This decrease is mainly due to lower revenues in the aerospace segment.

EBIT reached \$185.1 million for the three-month period ended July 31, 2003, compared to \$103.4 million for the same period last year. The increase in EBIT is due to higher EBIT in the aerospace segment. EBIT for the six-month period ended July 31, 2003 was \$355.7 million, compared to \$404.0 million for the same period last year. The decrease in EBIT is mainly due to lower EBIT in the aerospace segment, partially offset by higher EBIT in the transportation segment.

Net interest expense of the aerospace and transportation segments decreased to \$37.8 million for the quarter ended July 31, 2003 from \$38.4 million for the quarter ended July 31, 2002. The decrease in net interest expense results mainly from lower average net assets and the issuance of 370 million Class B Shares (Subordinate Voting) in April 2003 for net proceeds of \$1.2 billion. Year-to-date net interest expense totalled \$82.6 million, compared to \$69.8 million for the same period last year. The increase in net interest expense results from higher average net assets in the first quarter of the current fiscal year.

As a result, EBT for the three-month period ended July 31, 2003 was \$147.3 million or 2.8% of revenues, compared to \$65.0 million, or 1.2% of revenues, for the same period last year. EBT for the six-month period ended July 31, 2003 was \$273.1 million, or 2.7% of revenues, compared to \$334.2 million, or 3.2% of revenues, for the same period last year.

The Corporation's income taxes for continuing operations totalled \$51.3 million for the second quarter of the current fiscal year, compared to \$21.7 million for the same period last year. Year-to-date income taxes for continuing operations amounted to \$95.0 million, compared to \$111.6 million for the corresponding period last year. The effective consolidated income tax rate for continuing operations for the six months ended July 31, 2003 was 34.8%, compared to 33.4% for the same period the previous year. This increase is mainly due to a higher proportion of pre-tax income generated in Europe in the six-month period ended July 31, 2003, compared to the same period last year.

Income from continuing operations was \$96.0 million, or \$0.05 per share, for the second quarter of the current fiscal year, compared to \$43.3 million, or \$0.02 per share, for the second quarter last year. For the six-month period ended July 31, 2003, income from continuing operations was \$178.1 million, or \$0.10 per share, compared to \$222.6 million, or \$0.15 per share, for the same period last year.

Loss from discontinued operations totalled \$2.8 million for the second quarter of the current fiscal year, compared to income of \$24.7 million for the same period last year. Loss from discontinued operations totalled \$4.2 million for the six months ended July 31, 2003, compared to income of \$42.6 million for the six months ended July 31, 2002. These decreases in income from discontinued operations are mainly due to a higher level of sales incentives for snowmobiles in the first quarter of the current fiscal year, the change in the timing of recognition of sales concessions under a newly adopted accounting principle and from a different product mix. Discontinued operations generated revenues of \$492.1 million for the three-month period ended July 31, 2003, compared to \$500.4 million for the same period last year and revenues of \$999.5 million for the six-month period ended July 31, 2003, compared to \$945.5 million for the same period last year. This increase in revenues is mainly due to higher all-terrain vehicle and outboard engine sales, offset in part by lower parts and accessories sales.

Net income was \$93.2 million, or \$0.05 per share, for the second quarter of the current fiscal year, compared to \$68.0 million, or \$0.04 per share for the second quarter last year. On a year-to-date basis, net income totalled \$173.9 million, or \$0.10 per share, compared to \$265.2 million, or \$0.18 per share, for the same period last year.

As at July 31, 2003, the order backlog was \$48.1 billion, compared to \$44.4 billion as at January 31, 2003. The increase in backlog for the six-month period ended July 31, 2003, is mainly due to the Metronet consortia orders received during the first quarter of the current fiscal year, partially offset by a decrease in the backlog in the aerospace segment and the impact of the strengthening of the Canadian dollar compared to the U.S. dollar and the euro.

## **BOMBARDIER AEROSPACE**

During the year ended January 31, 2003, the Corporation changed its method of accounting for the cost of sales of aircraft from the program accounting method to the average cost accounting method. In addition, non-recurring costs, including prototype design and development, which were previously deferred as inventory costs, are now accounted for as program tooling in property, plant and equipment. These changes in accounting

policies were adopted retroactively with restatement of prior period financial statements, including the interim consolidated financial statements for the three- and six-month periods ended July 31, 2002.

Bombardier Aerospace's segmented revenues amounted to \$2.8 billion for the three-month period ended July 31, 2003, compared to \$2.7 billion for the same period the previous year. This increase is mainly due to higher deliveries of regional jets, partially offset by a lower effective exchange rate for the U.S. dollar, which had an impact of approximately \$170.0 million. Segmented revenues amounted to \$5.2 billion for the six-month period ended July 31, 2003, compared to \$5.4 billion for the same period last year. This decrease is mainly due to a decline in business aircraft deliveries and a lower effective exchange rate for the U.S. dollar, which had an impact of approximately \$230.0 million, partially offset by higher deliveries of regional jets and used aircraft.

EBIT for the second quarter ended July 31, 2003 was \$73.6 million, compared to a negative EBIT of \$7.7 million for the same period the previous year. EBIT for the second quarter ended July 31, 2003 reflected higher deliveries of regional jets, offset by the continuing weakness of the business jet market, which resulted in a lower volume of aircraft deliveries and lower sales of spare parts and fractional shares of aircraft. In addition, EBIT for the second quarter ended July 31, 2003 was also impacted by special items of \$39.0 million, mainly for severance and other involuntary termination costs. EBIT for the second quarter ended July 31, 2002 included special items of \$170.4 million recorded in connection with the write-down in the value of used aircraft, as well as for additional provisions resulting from lower-than-anticipated sub-lease revenues on used turboprop aircraft, and special items of \$41.0 million recorded in connection with the final settlement of a lawsuit and a contractual dispute with a customer. EBIT for the six-month period ended July 31, 2003 was \$127.4 million, or 2.4% of revenues, compared to \$204.0 million, or 3.8% of revenues, for the same period the previous year. EBIT for the six-month period ended July 31, 2003 was negatively impacted by an unfavourable mix of aircraft deliveries, arising mainly from lower deliveries of business aircraft, partially offset by higher deliveries of regional jets. EBIT for the six-month period ended July 31, 2003 was also impacted by special items of \$52.4 million, mainly for severance and other involuntary termination costs and EBIT for the corresponding period last year was impacted by special items of \$211.4 million.

Net interest expense amounted to \$49.3 million for the quarter ended July 31, 2003, compared to \$67.0 million for the quarter ended July 31, 2002. For the six months ended July 31, 2003, net interest expense totalled \$110.1 million, compared to \$120.7 million for the same period last year. These decreases in net interest expense are mainly attributable to lower average net assets.

As a result, EBT amounted to \$24.3 million for the second quarter ended July 31, 2003, compared to a negative EBT of \$74.7 million for the same period last year. EBT for the six months ended July 31, 2003 was \$17.3 million, or 0.3% of revenues, compared to \$83.3 million, or 1.5% of revenues, for the six months ended July 31, 2002.

The aerospace firm order backlog totalled \$16.0 billion as at July 31, 2003, compared to \$18.7 billion as at January 31, 2003 (including \$1.6 billion and \$1.7 billion respectively for Defence Services). The reduction in the backlog, when compared to January 31, 2003, reflects higher deliveries versus orders received, as well as a negative foreign exchange adjustment of approximately \$1.0 billion, relating to a lower exchange rate of the U.S. dollar compared to the Canadian dollar.

### Business Aircraft

The deliveries detailed in the following table include the aircraft sold to customers of the North American Bombardier\* Flexjet\* program, which enables individuals or companies to purchase a share in a Bombardier business jet.

	Three months ended July 31,		Six months ended July 31,	
	2003	2002	2003	2002
Bombardier* Learjet* 31A	1	2	1	3
Bombardier Learjet 45	5	6	12	15
Bombardier Learjet 60	5	4	7	9
Bombardier* Challenger* 604	6	6	10	12
Bombardier* Global Express*	2	3	5	10
<b>TOTAL</b>	<b>19</b>	<b>21</b>	<b>35</b>	<b>49</b>

During the three- and six-month periods ended July 31, 2003, business aircraft deliveries decreased as a result of the weakness of the U.S. economy.

The Bombardier Challenger 300 supermidsize business jet was awarded certification by the United States Federal Aviation Administration (FAA) on June 4, 2003, five days after earning similar approval from Transport Canada. On July 31, 2003, this aircraft was also awarded certification by the European Joint Aviation Authorities. The first Bombardier Challenger 300 aircraft was delivered in August 2003 to the completion centre, following the receipt of its Certificate of Airworthiness on August 2, 2003.

The Bombardier Learjet 40 aircraft, a derivative of the Bombardier Learjet 45 business jet, was awarded certification by the FAA on July 11, 2003. Deliveries are scheduled for the beginning of calendar year 2004.

### Bombardier Flexjet Program

As at July 31, 2003, the number of customers with a flight time entitlement decreased to 690, from 714 as at January 31, 2003, consistent with the weakness in the fractional aircraft ownership market. The Bombardier Flexjet program included 105 aircraft in service in North America as at July 31, 2003, compared to 110 aircraft as at January 31, 2003. This reduction reflects a lower customer base.

### Regional Aircraft Deliveries

	Three months ended July 31,		Six months ended July 31,	
	2003	2002	2003	2002
Bombardier CRJ200	39	33	73	57
Bombardier CRJ700	16	10	27	17
Bombardier* CRJ900*	3	-	4	-
Bombardier* Q100/200*	-	-	-	-
Bombardier* Q300*	4	2	5	4
Bombardier* Q400*	4	8	4	12
<b>TOTAL</b>	<b>66</b>	<b>53</b>	<b>113</b>	<b>90</b>

The increase in regional aircraft deliveries for the quarter and the six-month period ended July 31, 2003 reflects the regional carriers' need to increase their fleet of regional aircraft as a result of the important role they continue to play, particularly in the restructuring of the U.S. carrier network.

### Regional Aircraft Orders

	Three months ended July 31, 2003		Three months ended July 31, 2002	
	Orders	Cancellations <sup>(1)</sup>	Net orders	Net orders
Bombardier CRJ200	60	(16)	44	25
Bombardier CRJ700	25	(20)	5	1
Bombardier CRJ900	-	-	-	-
Bombardier Q100/200	-	-	-	-
Bombardier Q300	-	-	-	-
Bombardier Q400	-	-	-	-
<b>TOTAL</b>	<b>85</b>	<b>(36)</b>	<b>49</b>	<b>26</b>

			Six months ended July 31, 2003	Six months ended July 31, 2002
	Orders	Cancellations <sup>(1)</sup>	Net orders	Net orders
Bombardier CRJ200	60	(16)	44	30
Bombardier CRJ700	26	(21)	5	1
Bombardier CRJ900	-	-	-	-
Bombardier Q100/200	1	-	1	-
Bombardier Q300	-	-	-	-
Bombardier Q400	17	-	17	-
<b>TOTAL</b>	<b>104</b>	<b>(37)</b>	<b>67</b>	<b>31</b>

<sup>(1)</sup>During the six months ended July 31, 2003, Bombardier Aerospace received an order from US Airways for the delivery of 60 Bombardier CRJ200 and 25 Bombardier CRJ700 aircraft. The 85 firm orders include the transfer of 36 Bombardier CRJ firm orders held by GE Capital Aviation Services, for a net backlog increase of 49 aircraft. Deliveries are scheduled to begin in the fourth quarter of the current fiscal year. In addition, Bombardier Aerospace also signed an agreement during the first quarter of the current fiscal year with FlyBe, a U.K. carrier, for the delivery of 17 Bombardier Q400 turboprops. Deliveries began in the second quarter of the current fiscal year.

As at July 31, 2003, Bombardier Aerospace's firm order backlog, options and conditional orders for regional aircraft consisted of the following:

	Aircraft on firm order	Options and conditional orders or letters of agreement	Total
Bombardier CRJ200	220	945	1,165
Bombardier CRJ700	85	332	417
Bombardier CRJ900	20	62	82
Bombardier Q100/200	1	2	3
Bombardier Q300	3	26	29
Bombardier Q400	20	67	87
<b>TOTAL</b>	<b>349</b>	<b>1,434</b>	<b>1,783</b>

### Amphibious Aircraft

There were no Bombardier\* 415\* turboprop amphibious aircraft delivered during the six-month periods ended July 31, 2003 and 2002.

### BOMBARDIER TRANSPORTATION

Bombardier Transportation's segmented revenues amounted to \$2.3 billion during the second quarter ended July 31, 2003, compared to \$2.4 billion for the second quarter of the previous year. This decrease is mainly due to a lower level of activities as a result of the timing of the completion and start-up of contracts, partially offset by the strengthening of the average exchange rate of the euro compared to the Canadian dollar, which had a positive impact of approximately \$150.0 million. Segmented revenues amounted to \$4.7 billion for each of the six-month periods ended July 31, 2003 and 2002. The effect of the strengthening of the average exchange rate of the euro compared to the Canadian dollar, amounting to approximately \$400.0 million, was offset by a lower level of activities on certain major contracts.

EBIT amounted to \$93.0 million, or 4.0% of revenues, for the second quarter ended July 31, 2003, compared to \$79.9 million, or 3.3% of revenues, for the same period last year. EBIT for the six months ended July 31, 2003 amounted to \$185.2 million, or 3.9% of revenues, compared to \$148.2 million, or 3.1% of revenues, for the six-month period ended July 31, 2002. These increases in EBIT are mainly due to the strengthening of the average exchange rate of the euro compared to the Canadian dollar.

Net interest income decreased to \$11.5 million for the quarter ended July 31, 2003 from \$28.6 million for the quarter ended July 31, 2002. Year-to-date net interest income amounted to \$27.5 million, compared to \$50.9 million for the same period last year. These decreases in net interest income are mainly attributable to higher average net assets.

As a result, EBT amounted to \$104.5 million, or 4.5% of revenues, for the second quarter ended July 31, 2003, compared to \$108.5 million, or 4.5% of revenues, for the same period last year. EBT for the six months ended July 31, 2003 amounted to \$212.7 million, or 4.5% of revenues, compared to \$199.1 million, or 4.2% of revenues, for the six months ended July 31, 2002.

Bombardier Transportation's order backlog was as follows:

(in billions of dollars)	July 31, 2003	January 31, 2003
Manufacturing operations	\$ 25.5	\$ 19.8
Service businesses	6.6	5.9
<b>TOTAL</b>	<b>\$ 32.1</b>	<b>\$ 25.7</b>

Order intake during the three-month period ended July 31, 2003 totalled \$3.4 billion. The increase in the value of the backlog as at July 31, 2003 compared to January 31, 2003 reflects order intake of \$12.6 billion, partly offset by a negative adjustment of approximately \$1.5 billion, relating to the weakening of the euro versus the Canadian dollar as at July 31, 2003, compared to January 31, 2003.

During the first six months of fiscal year 2004, Bombardier Transportation received the following major orders:

Client	Product	Number of cars	Value (in millions of dollars)
Metronet for the London Underground (U.K.)	Supply of rolling stock, signalling, maintenance, refurbishing and project management	1,738	\$ 7,930.0 <sup>(1)</sup>
Kung Sing Engineering Corporation (Taiwan)	Electrical and mechanical works for a 15-km rapid transit system including vehicles	202	\$ 729.0
Deutsche Bahn AG (Germany)	Double-deck passenger cars	233	\$ 495.0
Deutsche Bahn AG (Germany)	60 four-car regional trains BR 423	240	\$ 227.0
Local Transport Authority of Lower Saxony (Germany)	Locomotives and double-deck passenger cars	8 locos, 40 cars	\$ 212.0
Luxembourg Railways	Double-deck passenger cars	85	\$ 195.0
Southern California Regional Rail Authority (U.S.)	Maintenance for Metrolink commuter rail fleet	-	\$ 130.0
Swiss Federal Railways (SBB)	Multi-system locomotives	18	\$ 103.0

<sup>(1)</sup>Including \$1.5 billion for maintenance.

## BOMBARDIER CAPITAL

The following table presents total assets under management before allowance for credit losses:

(millions of dollars)	As at July 31, 2003			As at January 31, 2003		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
<b>Continued portfolios</b>						
Inventory finance	\$ 2,201.1	\$ -	\$ 2,201.1	\$ 2,953.6	\$ -	\$ 2,953.6
Commercial aircraft						
Interim financing	676.8	-	676.8	848.8	-	848.8
Long-term leasing	438.2	-	438.2	451.0	-	451.0
	1,115.0	-	1,115.0	1,299.8	-	1,299.8
Industrial equipment	90.0	-	90.0	115.2	-	115.2
<b>Total continued portfolios</b>	<b>3,406.1</b>	<b>-</b>	<b>3,406.1</b>	<b>4,368.6</b>	<b>-</b>	<b>4,368.6</b>
<b>Wind-down portfolios</b>						
Business aircraft						
Loans and finance leases	927.1	-	927.1	1,221.3	-	1,221.3
Used aircraft	472.1	-	472.1	815.0	-	815.0
	1,399.2	-	1,399.2	2,036.3	-	2,036.3
Receivable factoring	149.0	-	149.0	1,039.4	-	1,039.4
Railcar leasing	55.3	936.6	991.9	61.1	1,017.8	1,078.9
Manufactured housing	366.1	-	366.1	434.1	-	434.1
Consumer finance	251.2	97.9	349.1	342.3	138.0	480.3
Other	151.9	22.9	174.8	233.8	40.5	274.3
<b>Total wind-down portfolios</b>	<b>2,372.7</b>	<b>1,057.4</b>	<b>3,430.1</b>	<b>4,147.0</b>	<b>1,196.3</b>	<b>5,343.3</b>
<b>TOTAL</b>	<b>\$ 5,778.8</b>	<b>\$ 1,057.4</b>	<b>\$ 6,836.2</b>	<b>\$ 8,515.6</b>	<b>\$ 1,196.3</b>	<b>\$ 9,711.9</b>

Following the end of the quarter, the Corporation announced an agreement to sell a significant portion of BC's business aircraft loans and finance leases portfolio for \$339.0 million US (\$475.0 million). The expected net proceeds represent the carrying value of the assets sold.

Assets under management before allowance for credit losses amounted to \$6.8 billion as at July 31, 2003, compared to \$9.7 billion as at January 31, 2003. This 29.6% decrease was primarily due to the continued reduction of the wind-down portfolios, particularly the receivable factoring and business aircraft portfolios, as well as a decline in the inventory finance portfolios, consistent with a lower cyclical level of activities for the underlying businesses. In addition, the strengthening of the Canadian dollar compared to the U.S. dollar also contributed approximately \$600.0 million to the decrease in assets under management.

Average assets under management amounted to \$7.5 billion for the quarter ended July 31, 2003, compared to \$11.7 billion for the quarter ended July 31, 2002. For the six-month period ended July 31, 2003, average assets under management amounted to \$8.3 billion, compared to \$11.9 billion for the same period last year. These decreases are mainly due to the reduction in the wind-down portfolios, particularly the receivable factoring and business aircraft portfolios, and the strengthening of the Canadian dollar compared to the U.S. dollar.

For the second quarter ended July 31, 2003, BC's segmented revenues amounted to \$172.9 million, or 2.3% (9.2% on an annualized percentage basis) of average assets under management, compared to \$222.3 million, or 1.9% (7.5% on an annualized percentage basis) for the second quarter ended July 31, 2002. On a year-to-date basis, segmented revenues were \$389.9 million, or 4.7% (9.4% on an annualized percentage basis) of average assets under management, compared to \$414.3 million, or 3.5% (7.0% on an annualized percentage basis) of average assets under management. The decreases in revenues are mainly due to the reduction in the wind-down portfolios and a stronger Canadian dollar relative to the U.S. dollar. These decreases were partially offset by additional revenues from the securitized floorplan inventory finance receivable portfolios, which were accounted for off-balance sheet for the first four months of the last fiscal year, and from a higher spread.

BC's EBT amounted to \$18.5 million, or 10.7% of revenues, for the quarter ended July 31, 2003, compared to an EBT of \$31.2 million, or 14.0% of revenues, for the same period last year. EBT for the six months ended July 31, 2003 was \$43.1 million, or 11.1% of revenues, compared to \$51.8 million, or 12.5% for the six months



ended July 31, 2002. These decreases in EBT are mainly due to the decrease in revenues from the wind-down portfolios, partially offset by a decrease in non-interest expenses. The decrease in the net yield for the three- and six-month periods ended July 31, 2003 results mainly from the inventory finance receivable portfolio, which was accounted for off-balance sheet for the first four months of the last fiscal year.

The loan-to-value ratio of the third-party business aircraft loans and finance leases portfolio was 95.1% as at July 31, 2003, compared to 92.3% as at January 31, 2003. This results from a general decline in the underlying aircraft values, consistent with the overall decline in the business aircraft market.

BC services manufactured housing portfolios in public securitization vehicles amounting to \$1.8 billion as at July 31, 2003 (\$2.1 billion as at January 31, 2003).

## **FINANCIAL POSITION**

### ***Bombardier***

Consolidated assets for the manufacturing segments amounted to \$20.5 billion as at July 31, 2003, compared to \$20.8 billion as at January 31, 2003.

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

Total inventories as at July 31, 2003 were \$5.8 billion, compared to \$5.3 billion as at January 31, 2003, for an increase of \$565.7 million. Advances and progress billings in excess of related costs, shown as liabilities, amounted to \$3.3 billion as at July 31, 2003, compared to \$3.8 billion as at January 31, 2003. Total advances and progress billings amounted to \$7.5 billion as at July 31, 2003, compared to \$8.4 billion as at January 31, 2003. These variations are mainly related to the transportation segment and are due to the timing of work performed versus advances received on new contracts, partially offset by the strengthening of the Canadian dollar compared to the euro and the U.S. dollar, which had a net impact of \$175.0 million.

Property, plant and equipment amounted to \$4.9 billion as at July 31, 2003, compared to \$5.2 billion as at January 31, 2003, for a decrease of \$347.0 million. The decrease results mainly from a weakening of the U.S. dollar and the euro for approximately \$150.0 million, and disposals of property, plant and equipment for \$124.0 million.

Accounts payable and accrued liabilities amounted to \$7.3 billion as at July 31, 2003, compared to \$8.5 billion as at January 31, 2003. This decrease of \$1.2 billion is mainly due to a lower level of activities, as well as the weakening of the euro and the U.S. dollar compared to the Canadian dollar, for approximately \$320.0 million.

Long-term debt decreased by \$336.1 million as at July 31, 2003, compared to January 31, 2003, mainly due to repayments of \$162.3 million and the weakening of the U.S. dollar, the sterling pound and the euro compared to the Canadian dollar, for approximately \$180.0 million.

In April 2003, the Corporation issued 370 million Class B Shares (Subordinate Voting) at a price of \$3.25 for total net proceeds of \$1.2 billion.

Deferred translation adjustment included in shareholders' equity was a debit amount of \$47.9 million as at July 31, 2003, compared to a credit amount of \$157.1 million as at January 31, 2003. This change results mainly from the strengthening of the Canadian dollar compared to the U.S. dollar and the euro.

### ***BC***

On-balance sheet finance receivables and assets under operating leases before allowance for credit losses amounted to \$5.8 billion as at July 31, 2003, compared to \$8.5 billion as at January 31, 2003. This decrease is mainly due to the continued reduction in the wind-down portfolios and a decrease in the commercial aircraft interim financing and inventory finance portfolios. It also arose from a stronger Canadian dollar relative to the U.S. dollar, which had an impact of approximately \$500.0 million.

Long-term debt decreased by \$622.5 million as at July 31, 2003, compared to January 31, 2003, mainly due to the repayment of long-term debt for \$398.3 million and the weakening of the U.S. dollar.

BC's financial leverage, determined as the ratio of on- and off-balance sheet debt to shareholders' equity and subordinated debt from Bombardier was 4.4 to 1 as at July 31, 2003 and 6.5 to 1 as at January 31, 2003.

## **CASH FLOW INFORMATION**

### ***Bombardier***

Cash flows used in operating activities amounted to \$153.4 million for the second quarter ended July 31, 2003, compared to \$108.3 million for the second quarter ended July 31, 2002, for a year-over-year change of \$45.1 million. For the six-month period ended July 31, 2003, cash flows used in operating activities amounted to \$1.8 billion, compared to \$677.0 million for the same period last year. The change is mainly due to the impact of lower factoring of receivables and higher used business aircraft inventory for an amount of approximately \$1.0 billion, following the discontinuance of certain financing activities with BC, a reduction in accounts payable and a decrease in total advances received in the transportation segment.

Net investment in property, plant and equipment was \$37.1 million for the second quarter ended July 31, 2003, compared to \$144.9 million for the second quarter ended July 31, 2002. On a year-to-date basis, net investment in property, plant and equipment was \$102.3 million, compared to \$274.3 million for the same period last year. These reductions were due to higher proceeds on the sale of property, plant and equipment, as well as lower capital expenditures, mainly in the aerospace segment.

As a result, Bombardier's free cash flows, defined as cash flows from operating activities less additions to property, plant and equipment net of disposals, amounted to a use of \$190.5 million for the second quarter of the current fiscal year, compared to a use of \$253.2 million for the second quarter of last year. For the six-month period ended July 31, 2003, Bombardier's free cash flows used amounted to \$1.9 billion, compared to a use of \$951.3 million for the same period last year.

Investing activities in the second quarter of the current fiscal year include net proceeds of \$77.7 million relating to the sale of Belfast City Airport.

BC's payments to Bombardier in connection with advances amounted to \$469.9 million in the second quarter ended July 31, 2003, compared to payments of \$71.1 million by Bombardier for the corresponding period last year. On a year-to-date basis, BC's payments amounted to \$259.4 million, compared to \$143.3 million paid by Bombardier for the same period last year.

Cash flows used in financing activities amounted to \$291.1 million for the second quarter ended July 31, 2003, compared to cash flows provided by financing activities of \$480.7 million for the second quarter ended July 31, 2002. The change is mainly due to higher repayment of long-term debt and a decrease of \$58.6 million in short-term borrowings during the second quarter of the current fiscal year, compared to an increase in short-term borrowings of \$603.9 million for the corresponding period last year. For the six-month period ended July 31, 2003, cash flows from financing activities amounted to \$1.5 billion, compared to \$1.6 billion for the same period last year. Cash flows from financing activities in the current fiscal year reflect the net proceeds of \$1.2 billion from the issuance of 370 million Class B Shares (Subordinate Voting), the repayment of long-term debt and lower dividend payments. Cash flows from financing activities for the first six months of the previous year reflect the issuance of \$886.9 million of long-term debt and \$227.6 million from the issuance of 9.4 million Series 4 Cumulative Redeemable Preferred Shares.

As a result of the above items, Bombardier's short-term borrowings less cash and cash equivalents amounted to \$516.0 million as at July 31, 2003, compared to cash and cash equivalents less short-term borrowings of \$361.0 million as at January 31, 2003.

### ***BC***

Cash flows from operating activities amounted to \$71.4 million for the second quarter ended July 31, 2003, compared to \$74.3 million for the second quarter of the previous year. For the six-month period ended

July 31, 2003, cash flows from operating activities amounted to \$83.4 million, compared to \$150.1 million for the same period last year. Lower cash flows from operating activities for the six-month period of the current fiscal year result mainly from a decrease in accounts payable.

Cash flows from investing activities amounted to \$198.7 million for the second quarter ended July 31, 2003, compared to \$583.4 million for the second quarter of the previous year. For the six-month period ended July 31, 2003, cash flows from investing activities amounted to \$1.4 billion, compared to \$629.1 million for the same period last year. Cash flows from investing activities in the current six-month period reflect a net decrease in finance receivables of \$1.8 billion, mainly due to the continued reduction in the wind-down portfolios.

Cash flows used in financing activities amounted to \$637.1 million for the second quarter ended July 31, 2003, compared to \$716.2 million for the second quarter ended July 31, 2002. For the six-month period ended July 31, 2003, cash flows used in financing activities amounted to \$1.4 billion, compared to \$661.2 million for the same period last year. Cash flows used in financing activities for the six-month period ended July 31, 2003 reflect the repayment of long-term debt and short-term borrowings of \$398.3 million and \$999.8 million, respectively.

As a result of the above items, BC's cash and cash equivalents amounted to \$356.2 million as at July 31, 2003, compared to \$301.2 million as at January 31, 2003.

## **CAPITAL RESOURCES**

Total committed credit facilities were \$7.6 billion for Bombardier and \$3.2 billion for BC, of which \$2.1 billion and \$2.2 billion respectively, were available as at July 31, 2003. Of these credit facilities, 63% have maturities of two years or more. Taking into consideration \$732.8 million of cash and cash equivalents, the Corporation had a total of \$5.0 billion of short-term capital resources as at July 31, 2003. On July 9, 2003, Bombardier renewed the 364-day portion of its European credit facility. This facility, totalling €560.0 million, replaces the €600.0 million-facility which matured in July 2003. In addition, following the end of the quarter, the Corporation received a commitment to renew the 364-day portion of its North American credit facility, effective September 9, 2003.

Total availability under Bombardier's lines of credit decreased by \$232.3 million during the quarter ended July 31, 2003, and cash and cash equivalents decreased by \$50.3 million, for a net decrease in short-term capital resources of \$282.6 million. This decrease is mainly due to free cash flows used during the quarter, repayment of long-term debt, an increase in the amount of letters of credit issued under Bombardier credit facilities and the weakening of the euro compared to the Canadian dollar, partially offset by the payment of advances by BC. On a year-to-date basis, Bombardier's availability under lines of credit decreased by \$1.2 billion, and cash and cash equivalents decreased by \$365.2 million, for a net decrease in short-term capital resources of \$1.6 billion. This net decrease results mainly from factors discussed above, partially offset by the net proceeds of \$1.2 billion from the issuance of 370 million Class B Shares (Subordinate Voting) during the first quarter of the current fiscal year.

BC's availability under lines of credit increased by \$502.1 million during the second quarter ended July 31, 2003, and cash and cash equivalents decreased by \$486.4 million, for a net increase in short-term capital resources of \$15.7 million. On a year-to-date basis, BC's availability under lines of credit increased by \$819.5 million and cash and cash equivalents increased by \$55.0 million, for a net increase in short-term capital resources of \$874.5 million. This net increase results mainly from the continued reduction in the wind-down portfolios and a decrease in the inventory finance portfolio, partially offset by the repayment of long-term debt as well as advances to Bombardier and the weakening of the U.S. dollar compared to the Canadian dollar.

In March 2003, the Corporation entered into amendment agreements with its lenders under Bombardier's two main syndicated credit facilities, providing that the ratio of Bombardier's total debt, defined essentially as short-term borrowings and long-term debt less subordinated debt and cash and cash equivalents, to Bombardier's total capitalization (total debt as defined, plus shareholders' equity and subordinated debt) must not exceed 60% as at July 31 and October 31, 2003, and 50% as at January 31, 2004 and thereafter at each quarter end. As at July 31, 2003, the Corporation was in compliance with this financial covenant.

The Corporation considers that its current credit facilities and expected capital resources will enable the implementation of its planned investment programs, development of new products, support of the growth of its activities, payment of dividends and all other expected financial requirements.

## CREDIT EVENTS

Certain of the Corporation's financial commitments include provisions that could become effective in the event of the Corporation undergoing rating downgrades. As a result of certain downgrades in the credit rating of the Corporation's unsecured indebtedness in March 2003, the Corporation may be required to provide certain of its customers with letters of credit, surety bonds or other forms of security to secure the performance of its manufacturing obligations under aircraft or transportation equipment purchase agreements. Accordingly, the Corporation's availability under its credit facilities may be reduced. In order to limit the impact of these events on the Corporation's capital resources, the Corporation is currently in discussions with these customers regarding the amount of security required. The maximum value of the security instruments the Corporation may be required to provide is \$713.5 million under existing agreements.

A rating downgrade below investment grade could result in the reimbursement of advances amounting to \$281.5 million in the aerospace segment. In addition, the Corporation may be required to repurchase at fair value (\$22.7 million as at July 31, 2003) the call option related to \$422.2 million (\$300.0 million US) Putable/Callable notes due in 2013, should the call holder elect early termination. The Putable/Callable notes would become repayable at the next coupon reset date (May 31, 2004), immediately following such a downgrade.

Certain securitization agreements include provisions that could require the wind-down of securitization conduits from normal course collection in the event of a rating downgrade, which may require the Corporation to replace these sources of financing. A rating downgrade could result in the wind-down of \$200.0 million of BC securitization conduits (\$130.0 million outstanding as at July 31, 2003). Also, a rating downgrade below investment grade could result in the wind-down of \$281.5 million (\$200.0 million US) of Bombardier securitization conduits (\$56.7 million outstanding as at July 31, 2003).

Moody's Investor Services, Standard and Poor's and Fitch Ratings Inc. have all affirmed their credit ratings of the Corporation as of August 2003.

## PENSION

During the second quarter of the current fiscal year, the Corporation revised its expected cash contributions to certain pension plans for the current fiscal year by adding an amount of approximately \$95.0 million, including voluntary accelerated contributions. The defined benefit pension plan contributions for fiscal year 2004 are now expected to approximate \$355.0 million.

### FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" that are subject to risks and uncertainties. For information identifying legislative or regulatory, economic, climatic, currency, technological, competitive and other important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, see Bombardier's annual report for the year ended January 31, 2003 under the heading Risks and Uncertainties in the Management's Discussion and Analysis section.

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

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**BOMBARDIER INC.**  
**Consolidated Balance Sheets**

(millions of Canadian dollars)

		<i>Bombardier Inc.</i>			<i>Bombardier</i>		<i>BC</i>
		<i>consolidated</i>					
	Notes	July 31, 2003	January 31, 2003	July 31, 2003	January 31, 2003	July 31, 2003	January 31, 2003
		(Unaudited)		(Unaudited)		(Unaudited)	
<b>Assets</b>							
Cash and cash equivalents		\$ 700.8	\$ 1,014.3	\$ 344.6	\$ 713.1	\$ 356.2	\$ 301.2
Receivables		2,306.5	2,259.6	2,135.6	2,094.0	170.9	165.6
Finance receivables	4	4,748.7	7,013.3	-	-	4,748.7	7,013.3
Assets under operating leases	5	921.3	1,350.9	-	-	921.3	1,350.9
Inventories	6	5,829.3	5,263.6	5,829.3	5,263.6	-	-
Property, plant and equipment		5,012.8	5,385.9	4,891.5	5,238.5	121.3	147.4
Goodwill		3,129.9	3,244.9	3,129.9	3,244.9	-	-
Investment in BC and advances to Bombardier		-	-	1,251.2	1,286.7	356.2	69.1
Other assets		2,711.2	2,216.8	1,684.7	1,661.6	1,026.5	555.2
Assets held for sale	3	1,187.4	1,260.1	1,187.4	1,260.1	-	-
		\$ 26,547.9	\$ 29,009.4	\$ 20,454.2	\$ 20,762.5	\$ 7,701.1	\$ 9,602.7
<b>Liabilities</b>							
Short-term borrowings	7	\$ 1,926.4	\$ 2,563.6	\$ 892.6	\$ 380.8	\$ 1,033.8	\$ 2,182.8
Advances from BC		-	-	356.2	69.1	-	-
Accounts payable and accrued liabilities		7,628.7	8,898.5	7,327.4	8,490.7	301.3	407.8
Advances and progress billings							
in excess of related costs	6	3,312.2	3,816.0	3,312.2	3,816.0	-	-
Long-term debt	8	7,853.0	8,811.6	2,762.9	3,099.0	5,090.1	5,712.6
Other liabilities		1,414.6	1,346.1	1,389.9	1,333.3	24.7	12.8
Liabilities related to assets held for sale	3	628.6	832.6	628.6	832.6	-	-
		22,763.5	26,268.4	16,669.8	18,021.5	6,449.9	8,316.0
<b>Shareholders' equity (Investment from Bombardier)</b>							
Preferred shares							
Issued and outstanding:							
Series 2: 2,597,907		65.0	65.0	65.0	65.0	-	-
Series 3: 9,402,093		235.0	235.0	235.0	235.0	-	-
Series 4: 9,400,000		235.0	235.0	235.0	235.0	-	-
Common shares							
Issued and outstanding:							
Class A: 342,019,138							
(342,020,138 as at January 31, 2003)		47.3	47.3	47.3	47.3	-	-
Class B: 1,406,215,780							
(1,035,666,780 as at January 31, 2003)	9	2,072.6	869.1	2,072.6	869.1	-	-
Retained earnings		1,177.4	1,132.5	1,177.4	1,132.5	-	-
Deferred translation adjustment		(47.9)	157.1	(47.9)	157.1	-	-
Investment from Bombardier		-	-	-	-	1,251.2	1,286.7
		3,784.4	2,741.0	3,784.4	2,741.0	1,251.2	1,286.7
		\$ 26,547.9	\$ 29,009.4	\$ 20,454.2	\$ 20,762.5	\$ 7,701.1	\$ 9,602.7

Commitments and contingencies 13

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

**BOMBARDIER INC.****Consolidated Statements of Income***(Unaudited)**For the three months ended July 31**(millions of Canadian dollars, except per share amounts)*

	<b>Bombardier Inc.</b>						
	<b>Notes</b>	<b>consolidated</b>		<b>Bombardier</b>		<b>BC</b>	
		<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		(restated - note 1)	(restated - note 1)				
<b>Revenues</b>		<b>\$ 5,266.5</b>	<b>\$ 5,267.1</b>	<b>\$ 5,153.9</b>	<b>\$ 5,141.2</b>	<b>\$ 172.9</b>	<b>\$ 222.3</b>
Cost of sales and operating expenses		<b>4,884.5</b>	<b>4,774.9</b>	<b>4,815.5</b>	<b>4,694.5</b>	<b>129.3</b>	<b>176.8</b>
Depreciation and amortization		<b>169.5</b>	<b>201.3</b>	<b>132.8</b>	<b>163.1</b>	<b>36.7</b>	<b>38.2</b>
Interest expense		<b>45.6</b>	<b>45.9</b>	<b>45.6</b>	<b>45.9</b>	<b>-</b>	<b>-</b>
Other income		<b>(19.4)</b>	<b>(31.4)</b>	<b>(7.8)</b>	<b>(7.5)</b>	<b>(11.6)</b>	<b>(23.9)</b>
Special items	10	<b>39.0</b>	<b>211.4</b>	<b>39.0</b>	<b>211.4</b>	<b>-</b>	<b>-</b>
Income from BC		<b>-</b>	<b>-</b>	<b>(11.5)</b>	<b>(18.9)</b>	<b>-</b>	<b>-</b>
		<b>5,119.2</b>	<b>5,202.1</b>	<b>5,013.6</b>	<b>5,088.5</b>	<b>154.4</b>	<b>191.1</b>
Income from continuing operations							
before income taxes		<b>147.3</b>	<b>65.0</b>	<b>140.3</b>	<b>52.7</b>	<b>18.5</b>	<b>31.2</b>
Income taxes		<b>51.3</b>	<b>21.7</b>	<b>44.3</b>	<b>9.4</b>	<b>7.0</b>	<b>12.3</b>
Income from continuing operations		<b>96.0</b>	<b>43.3</b>	<b>96.0</b>	<b>43.3</b>	<b>11.5</b>	<b>18.9</b>
Income (loss) from discontinued operations - net of tax	3	<b>(2.8)</b>	<b>24.7</b>	<b>(2.8)</b>	<b>24.7</b>	<b>-</b>	<b>-</b>
<b>Net income</b>	11	<b>\$ 93.2</b>	<b>\$ 68.0</b>	<b>\$ 93.2</b>	<b>\$ 68.0</b>	<b>\$ 11.5</b>	<b>\$ 18.9</b>

**Earnings per share:**

11, 12

Basic and diluted

From continuing operations	<b>\$ 0.05</b>	<b>\$ 0.02</b>
From discontinued operations	<b>-</b>	<b>0.02</b>
	<b>\$ 0.05</b>	<b>\$ 0.04</b>

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

**BOMBARDIER INC.****Consolidated Statements of Income***(Unaudited)**For the six months ended July 31**(millions of Canadian dollars, except per share amounts)*

	<b>Bombardier Inc.</b>						
	Notes	<b>consolidated</b>		<b>Bombardier</b>		<b>BC</b>	
		2003	2002	2003	2002	2003	2002
		(restated - note 1)		(restated - note 1)			
<b>Revenues</b>		\$ 10,205.7	\$ 10,330.1	\$ 9,962.0	\$ 10,105.4	\$ 389.9	\$ 414.3
Cost of sales and operating expenses		9,411.3	9,368.3	9,277.3	9,203.0	280.2	354.9
Depreciation and amortization		409.4	414.4	319.7	338.8	89.7	75.6
Interest expense		93.9	79.5	93.9	79.5	-	-
Other income		(34.4)	(77.7)	(11.3)	(9.7)	(23.1)	(68.0)
Special items	10	52.4	211.4	52.4	211.4	-	-
Income from BC		-	-	(26.9)	(31.4)	-	-
		<b>9,932.6</b>	<b>9,995.9</b>	<b>9,705.1</b>	<b>9,791.6</b>	<b>346.8</b>	<b>362.5</b>
Income from continuing operations							
before income taxes		273.1	334.2	256.9	313.8	43.1	51.8
Income taxes		95.0	111.6	78.8	91.2	16.2	20.4
Income from continuing operations		178.1	222.6	178.1	222.6	26.9	31.4
Income (loss) from discontinued operations - net of tax	3	(4.2)	42.6	(4.2)	42.6	-	-
<b>Net income</b>	11	\$ 173.9	\$ 265.2	\$ 173.9	\$ 265.2	\$ 26.9	\$ 31.4
<b>Earnings per share:</b>	11, 12						
Basic and diluted							
From continuing operations		\$ 0.10	\$ 0.15				
From discontinued operations		-	0.03				
		<u>\$ 0.10</u>	<u>\$ 0.18</u>				

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

**BOMBARDIER INC.****Consolidated Statements of Retained Earnings***(Unaudited)**For the six months ended July 31**(millions of Canadian dollars)*

	Notes	Bombardier Inc. consolidated	
		2003	2002
Balance at beginning of period - previously reported		\$ 1,132.5	\$ 2,785.3
Effect of changes in accounting policies for aerospace programs	1	-	(753.9)
<b>Balance at beginning of period - restated</b>		<b>1,132.5</b>	<b>2,031.4</b>
Net income		173.9	265.2
Dividends:			
Preferred shares		(15.3)	(14.1)
Common shares		(80.9)	(125.0)
Share issue costs, net of tax	9	(32.8)	(5.5)
Other		-	(1.6)
<b>Balance at end of period</b>		<b>\$ 1,177.4</b>	<b>\$ 2,150.4</b>

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.



**BOMBARDIER INC.**
**Consolidated Statements of Cash Flows**

(Unaudited)

For the three months ended July 31

(millions of Canadian dollars)

	Notes	Bombardier Inc.				BC
		consolidated		Bombardier		
		2003	2002	2003	2002	
		(restated - note 1)		(restated - note 1)		
<b>Operating activities</b>						
Income from continuing operations		\$ 96.0	\$ 43.3	\$ 96.0	\$ 43.3	\$ 11.5
Non-cash items:						
Depreciation and amortization		169.5	201.3	132.8	163.1	36.7
Income from BC		-	-	(11.5)	(18.9)	-
Provision for credit losses	4	22.3	28.1	-	-	22.3
Deferred income taxes		26.7	10.5	22.7	10.3	4.0
Gain on disposals of property, plant and equipment		(3.5)	-	(3.5)	-	-
Special items	10	39.0	211.4	39.0	211.4	-
Net changes in non-cash balances related to operations		(432.0)	(528.6)	(428.9)	(517.5)	(3.1)
Cash flows from operating activities		(82.0)	(34.0)	(153.4)	(108.3)	71.4
<b>Investing activities</b>						
Additions to property, plant and equipment		(58.6)	(162.3)	(58.1)	(158.6)	(0.5)
Disposals of property, plant and equipment		21.0	21.3	21.0	13.7	-
Disposal of assets held for sale	3	77.7	-	77.7	-	-
Net investment in finance receivables		664.7	712.2	-	-	664.7
Additions to assets under operating leases		(99.9)	(427.8)	-	-	(99.9)
Disposals of assets under operating leases		279.4	351.5	-	-	279.4
Investment in BC and advances from BC / to Bombardier		-	-	469.9	(71.1)	(469.9)
Other		(215.8)	(149.0)	(40.7)	(21.5)	(175.1)
Cash flows from investing activities		668.5	345.9	469.8	(237.5)	198.7
<b>Financing activities</b>						
Net variation in short-term borrowings		(571.6)	(648.6)	(58.6)	603.9	(513.0)
Proceeds from issuance of long-term debt	8	11.4	1,394.8	5.1	14.7	6.3
Repayment of long-term debt	8	(281.2)	(855.6)	(150.8)	(11.8)	(130.4)
Issuance of shares, net of related costs		0.6	6.0	0.6	6.0	-
Dividends paid		(87.4)	(132.1)	(87.4)	(132.1)	-
Cash flows from financing activities		(928.2)	(235.5)	(291.1)	480.7	(637.1)
Effect of exchange rate changes on cash and cash equivalents		(160.6)	(128.8)	(41.2)	(155.8)	(119.4)
Cash flows from continuing operations		(502.3)	(52.4)	(15.9)	(20.9)	(486.4)
Cash flows from discontinued operations	3	(34.4)	(97.5)	(34.4)	(97.5)	-
<b>Net decrease in cash and cash equivalents</b>		<b>(536.7)</b>	<b>(149.9)</b>	<b>(50.3)</b>	<b>(118.4)</b>	<b>(486.4)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>1,269.5</b>	<b>698.4</b>	<b>426.9</b>	<b>510.5</b>	<b>842.6</b>
<b>Cash and cash equivalents at end of period <sup>(1)</sup></b>		<b>\$ 732.8</b>	<b>\$ 548.5</b>	<b>\$ 376.6</b>	<b>\$ 392.1</b>	<b>\$ 356.2</b>

(1) Includes the following:

Cash and cash equivalents related to:

Continuing operations		\$ 700.8	\$ 517.0	\$ 344.6	\$ 360.6	\$ 356.2
Discontinued operations	3	32.0	31.5	32.0	31.5	-
		\$ 732.8	\$ 548.5	\$ 376.6	\$ 392.1	\$ 356.2

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

**BOMBARDIER INC.**
**Consolidated Statements of Cash Flows**

(Unaudited)

For the six months ended July 31

(millions of Canadian dollars)

	<b>Bombardier Inc.</b>											
	Notes	<b>consolidated</b>		<b>Bombardier</b>		<b>BC</b>						
		2003	2002	2003	2002	2003	2002					
		(restated - note 1)		(restated - note 1)								
<b>Operating activities</b>												
Income from continuing operations	\$	178.1	\$	222.6	\$	178.1	\$	222.6	\$	26.9	\$	31.4
Non-cash items:												
Depreciation and amortization		409.4		414.4		319.7		338.8		89.7		75.6
Income from BC		-		-		(26.9)		(31.4)		-		-
Provision for credit losses	4	51.0		54.2		-		-		51.0		54.2
Deferred income taxes		57.0		57.8		46.5		56.5		10.5		1.3
Gain on disposals of property, plant and equipment		(13.6)		-		(13.6)		-		-		-
Special items	10	52.4		211.4		52.4		211.4		-		-
Net changes in non-cash balances related to operations		(2,486.6)		(1,487.3)		(2,391.9)		(1,474.9)		(94.7)		(12.4)
<b>Cash flows from operating activities</b>		<b>(1,752.3)</b>		<b>(526.9)</b>		<b>(1,835.7)</b>		<b>(677.0)</b>		<b>83.4</b>		<b>150.1</b>
<b>Investing activities</b>												
Additions to property, plant and equipment		(241.8)		(296.7)		(239.9)		(290.0)		(1.9)		(6.7)
Disposals of property, plant and equipment		159.9		23.4		137.6		15.7		22.3		7.7
Disposal of assets held for sale	3	77.7		-		77.7		-		-		-
Net investment in finance receivables		1,758.6		872.7		-		-		1,758.6		872.7
Additions to assets under operating leases		(130.7)		(1,193.1)		-		-		(130.7)		(1,193.1)
Disposals of assets under operating leases		384.5		837.7		-		-		384.5		837.7
Investment in BC and advances from BC / to Bombardier		-		-		259.4		(143.3)		(259.4)		143.3
Other		(414.4)		(64.9)		(56.4)		(32.4)		(358.0)		(32.5)
<b>Cash flows from investing activities</b>		<b>1,593.8</b>		<b>179.1</b>		<b>178.4</b>		<b>(450.0)</b>		<b>1,415.4</b>		<b>629.1</b>
<b>Financing activities</b>												
Net variation in short-term borrowings		(434.3)		(523.2)		565.5		665.1		(999.8)		(1,188.3)
Proceeds from issuance of long-term debt	8	11.4		2,267.0		5.1		886.9		6.3		1,380.1
Repayment of long-term debt	8	(560.6)		(875.9)		(162.3)		(22.9)		(398.3)		(853.0)
Issuance of shares, net of related costs	9	1,170.7		241.4		1,170.7		241.4		-		-
Dividends paid		(95.1)		(138.4)		(95.1)		(138.4)		-		-
<b>Cash flows from financing activities</b>		<b>92.1</b>		<b>970.9</b>		<b>1,483.9</b>		<b>1,632.1</b>		<b>(1,391.8)</b>		<b>(661.2)</b>
Effect of exchange rate changes on cash and cash equivalents		(47.2)		(287.0)		4.8		(325.4)		(52.0)		38.4
<b>Cash flows from continuing operations</b>		<b>(113.6)</b>		<b>336.1</b>		<b>(168.6)</b>		<b>179.7</b>		<b>55.0</b>		<b>156.4</b>
<b>Cash flows from discontinued operations</b>	<b>3</b>	<b>(196.6)</b>		<b>(250.4)</b>		<b>(196.6)</b>		<b>(250.4)</b>		<b>-</b>		<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(310.2)</b>		<b>85.7</b>		<b>(365.2)</b>		<b>(70.7)</b>		<b>55.0</b>		<b>156.4</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>1,043.0</b>		<b>462.8</b>		<b>741.8</b>		<b>462.8</b>		<b>301.2</b>		<b>-</b>
<b>Cash and cash equivalents at end of period <sup>(1)</sup></b>		<b>\$ 732.8</b>		<b>\$ 548.5</b>		<b>\$ 376.6</b>		<b>\$ 392.1</b>		<b>\$ 356.2</b>		<b>\$ 156.4</b>

<sup>(1)</sup> Includes the following:

Cash and cash equivalents related to:

Continuing operations		\$ 700.8		\$ 517.0		\$ 344.6		\$ 360.6		\$ 356.2		\$ 156.4
Discontinued operations	3	32.0		31.5		32.0		31.5		-		-
		\$ 732.8		\$ 548.5		\$ 376.6		\$ 392.1		\$ 356.2		\$ 156.4

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three- and six-month periods ended July 31, 2003

(All figures for the periods ended July 31, 2003 and 2002 and as at July 31, 2003 are unaudited)

(Tabular figures in millions of Canadian dollars except share capital and per share amounts)

### INTERIM CONSOLIDATED FINANCIAL STATEMENT PRESENTATION

Bombardier Inc. is incorporated under the laws of Canada. The consolidated balance sheets are unclassified because Bombardier Inc. and its subsidiaries (the "Corporation") carry out their continuing operations in three distinct segments (aerospace, transportation and financial services/real estate), each one characterized by a specific operating cycle. The operations of the recreational products segment are presented as discontinued operations. Financial services and real estate activities, being distinct from Bombardier's other activities, are shown in a separate column, Bombardier Capital (BC), in the interim consolidated financial statements.

The following describes the columns shown in these financial statements.

#### ***Bombardier Inc. consolidated***

This column represents all of the activities of the Corporation on a consolidated basis, after elimination of balances and transactions between Bombardier and BC.

#### ***Bombardier***

This column represents the activities of the Corporation's two continuing manufacturing segments (aerospace and transportation) and the activities of the recreational products segment, which are presented on a discontinued basis. These segments and activities are grouped and referred to as "Bombardier." Intercompany transactions and balances within this column have been eliminated, whereas intercompany transactions and balances between Bombardier and BC have not been eliminated. Bombardier's investment in BC is accounted for in this column under the equity method and comprises BC's equity and the subordinated debt of Bombardier in BC.

#### ***BC***

The BC column represents the financial services and real estate activities of the Corporation. Intercompany transactions and balances within BC have been eliminated, whereas intercompany transactions and balances between BC and Bombardier have not been eliminated.

### 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements include the accounts of Bombardier Inc. and its subsidiaries, substantially all of which are wholly owned. They also include the Corporation's proportionate share of its joint ventures. Most legal entities of the transportation segment use a December-31 fiscal year end. As a result, the Corporation consolidates these operations with a one-month lag with the remainder of its operations.

The interim consolidated financial statements have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles (GAAP) applicable to interim consolidated financial statements, and follow the same accounting policies and methods in their application as the most recent annual Consolidated Financial Statements, except for the changes in accounting policies for impairment of long-lived assets and the disposal of long-lived assets, and discontinued operations described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim consolidated financial statements. Such adjustments are of a normal and recurring nature. The interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Corporation's annual report for fiscal year 2003.

The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The Corporation generally invests in non-cash balances related to operations during the first three quarters of a fiscal year, mainly in the aerospace segment. This investment in non-cash balances related to operations is typically reduced in the fourth quarter, as a result of higher sales in this quarter.

During the year ended January 31, 2003, the Corporation changed its method of accounting for the cost of sales of aircraft from the program accounting method to the average cost accounting method. In addition, non-recurring costs, including prototype design and development, which were previously deferred as inventory costs, are now accounted for as program tooling in property, plant and equipment. These changes in accounting policies were adopted retroactively with restatement of prior-year financial statements, including the interim consolidated financial statements for the three- and six-month periods ended July 31, 2002, and are described in detail in the Corporation's annual report for fiscal year 2003.

In addition to the reclassification described in note 3, certain reclassifications have been made to prior periods to conform to current reporting. The most significant change relates to the reclassification of certain sales concessions to customers of Bombardier products between revenues and cost of sales and operating expenses.

## **2. CHANGES IN ACCOUNTING POLICIES**

### **IMPAIRMENT OF LONG-LIVED ASSETS**

In December 2002, the Accounting Standards Board (AcSB) issued new accounting recommendations related to the determination of long-lived asset impairment as well as recognition, measurement and disclosure of the impairment. The Corporation early adopted these new recommendations, effective February 1, 2003. The adoption of the new recommendations had no material impact on the Corporation's interim consolidated financial statements for the three- and six-month periods ended July 31, 2003 and July 31, 2002 and is not expected to have a material impact on the Corporation's Consolidated Financial Statements for the year ending January 31, 2004.

### **DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS**

Also in December 2002, the AcSB issued new accounting recommendations providing accounting guidance for long-lived assets to be disposed of other than by sale, long-lived assets to be disposed of by sale, and presentation and disclosure for discontinued operations. The Corporation early adopted these new recommendations, effective February 1, 2003. The adoption of these new recommendations had no material impact on the Corporation's interim consolidated financial statements for the three- and six-month periods ended July 31, 2003 and July 31, 2002 and is not expected to have a material impact on the Corporation's Consolidated Financial Statements for the year ending January 31, 2004.

### 3. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

On August 26, 2003, the Corporation reached an agreement in principle for the sale of the recreational products segment. The results of operations, cash flows and financial position of the recreational products segment have been segregated in the accompanying interim consolidated financial statements, and are reported as discontinued operations as a single line item on these interim consolidated financial statements. The Corporation expects to complete the sale of the recreational products segment in the current fiscal year.

The results of discontinued operations presented in the accompanying interim consolidated statements of income, were as follows:

	Three months ended July 31,		Six months ended July 31,	
	2003 (unaudited)	2002 (unaudited)	2003 (unaudited)	2002 (unaudited)
Revenues	\$ 492.1	\$ 500.4	\$ 999.5	\$ 945.5
Cost of sales and operating expenses	471.1	441.3	959.4	839.6
Depreciation and amortization	16.2	14.1	28.1	27.0
Interest expense and other income	9.1	9.0	18.4	16.2
	496.4	464.4	1,005.9	882.8
Income (loss) before income taxes	(4.3)	36.0	(6.4)	62.7
Income tax expense (recovery)	(1.5)	11.3	(2.2)	20.1
Income (loss) from discontinued operations	\$ (2.8)	\$ 24.7	\$ (4.2)	\$ 42.6

The cash flows from discontinued operations presented in the accompanying interim consolidated statements of cash flows, were as follows:

	Three months ended July 31,		Six months ended July 31,	
	2003 (unaudited)	2002 (unaudited)	2003 (unaudited)	2002 (unaudited)
Operating activities	\$ (39.3)	\$ (90.4)	\$ (187.7)	\$ (243.8)
Investing activities	6.4	(12.3)	(0.7)	(16.3)
Financing activities	(0.8)	(0.7)	(0.8)	(0.7)
Effect of exchange rate changes on cash and cash equivalents	(0.7)	5.9	(7.4)	10.4
Cash flows from discontinued operations	\$ (34.4)	\$ (97.5)	\$ (196.6)	\$ (250.4)

On May 23, 2003, the Corporation sold the Belfast City Airport unit of its aerospace segment for net proceeds of \$77.7 million, which resulted in a pre-tax gain of \$3.4 million. The Corporation also expects to complete the sale of its Military Aviation Services unit in the current fiscal year. The assets and liabilities of these units, as well as those of the recreational products segment and the Military Aviation Training unit have been segregated in the accompanying interim consolidated balance sheets and are reported as "Assets held for sale" and "Liabilities related to assets held for sale."

The assets held for sale and the related liabilities were as follows:

	July 31, 2003 (unaudited)				
	Recreational Products		Defence Services		Total
<b>Assets</b>					
Cash and cash equivalents	\$	32.0	\$	-	\$ 32.0
Receivables		71.7		14.5	86.2
Inventories		617.1		14.4	631.5
Property, plant and equipment		331.2		27.9	359.1
Other assets		76.6		2.0	78.6
	\$	1,128.6	\$	58.8	\$ 1,187.4
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$	455.6	\$	46.4	\$ 502.0
Long-term debt		2.6		-	2.6
Other liabilities		102.9		21.1	124.0
	\$	561.1	\$	67.5	\$ 628.6

	January 31, 2003				
	Recreational Products		Defence Services and Belfast City Airport		Total
<b>Assets</b>					
Cash and cash equivalents	\$	28.7	\$	-	\$ 28.7
Receivables		70.3		19.3	89.6
Inventories		554.3		3.7	558.0
Property, plant and equipment		373.1		112.0	485.1
Other assets		97.9		0.8	98.7
	\$	1,124.3	\$	135.8	\$ 1,260.1
<b>Liabilities</b>					
Accounts payable and accrued liabilities		610.5		66.0	676.5
Long-term debt		3.5		-	3.5
Other liabilities		105.6		47.0	152.6
	\$	719.6	\$	113.0	\$ 832.6

#### 4. FINANCE RECEIVABLES

BC's finance receivables were as follows:

	July 31, 2003	January 31, 2003
	(unaudited)	
<b>Continued portfolios</b>		
Inventory finance	\$ 2,201.1	\$ 2,953.6
Commercial aircraft		
Interim financing	676.8	785.9
Long-term leasing	119.6	135.7
	796.4	921.6
Industrial equipment	43.8	58.9
	3,041.3	3,934.1
Allowance for credit losses	(40.2)	(45.1)
<b>Total continued portfolios</b>	<b>3,001.1</b>	<b>3,889.0</b>
<b>Wind-down portfolios</b>		
Business aircraft	927.1	1,221.3
Receivable factoring	149.0	1,039.4
Manufactured housing <sup>(1)</sup>	366.1	434.1
Consumer finance	251.2	342.3
Other	122.8	193.5
	1,816.2	3,230.6
Allowance for credit losses	(68.6)	(106.3)
<b>Total wind-down portfolios</b>	<b>1,747.6</b>	<b>3,124.3</b>
	<b>\$ 4,748.7</b>	<b>\$ 7,013.3</b>

<sup>(1)</sup> In addition, manufactured housing portfolios in public securitization vehicles amounting to \$1,780.1 million as at July 31, 2003 (\$2,096.1 million as at January 31, 2003) were serviced by BC.

#### ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses were as follows:

	Three months ended July 31,		Six months ended July 31,	
	2003	2002	2003	2002
	(unaudited)		(unaudited)	
Balance at beginning of period	\$ 134.3	\$ 250.9	\$ 151.4	\$ 273.3
Provision for credit losses	22.3	28.1	51.0	54.2
Amounts charged off – net of recoveries	(47.8)	(36.0)	(93.6)	(84.5)
Balance at end of period	\$ 108.8	\$ 243.0	\$ 108.8	\$ 243.0

Impaired finance receivables amounted to \$14.6 million and \$170.6 million as at July 31, 2003 for the continued and wind-down portfolios respectively (\$39.8 million and \$217.5 million as at January 31, 2003). Repossessed assets held for sale amounted to \$39.8 million as at July 31, 2003 (\$30.5 million as at January 31, 2003).

## 5. ASSETS UNDER OPERATING LEASES

BC's assets under operating leases were as follows:

	July 31, 2003		January 31, 2003	
	Cost (unaudited)	Net book value (unaudited)	Cost	Net book value
<b>Continued portfolios</b>				
Commercial aircraft	\$ 471.8	\$ 318.6	\$ 453.4	\$ 378.2
Industrial equipment	66.8	46.2	73.0	56.3
	538.6	364.8	526.4	434.5
<b>Wind-down portfolios</b>				
Business aircraft	650.0	472.1	907.1	815.0
Freight cars	73.7	55.3	79.5	61.1
Other	50.8	29.1	71.4	40.3
	774.5	556.5	1,058.0	916.4
	\$ 1,313.1	\$ 921.3	\$ 1,584.4	\$ 1,350.9

## 6. INVENTORIES

	July 31, 2003	January 31, 2003
	(unaudited)	
Raw materials and work in process	\$ 217.4	\$ 247.4
Aerospace programs	2,331.3	2,184.1
Long-term contracts	2,105.4	1,707.5
Finished products	1,175.2	1,124.6
	\$ 5,829.3	\$ 5,263.6

Costs incurred and accrued margins related to long-term contracts and costs incurred related to ongoing aerospace programs amounted to \$5,395.8 million and \$3,218.5 million respectively, as at July 31, 2003 (\$5,210.4 million and \$3,274.6 million as at January 31, 2003). Advances received and progress billings on long-term contracts and ongoing aerospace programs amounted to \$5,785.8 million and \$1,704.0 million as at July 31, 2003 (\$6,543.6 million and \$1,865.8 million as at January 31, 2003), of which \$2,495.4 million and \$816.8 million respectively represent a liability disclosed as advances and progress billings in excess of related costs as at July 31, 2003 (\$3,040.7 million and \$775.3 million as at January 31, 2003).

## 7. SHORT-TERM BORROWINGS

	July 31, 2003	January 31, 2003
	(unaudited)	
Bombardier	\$ 892.6	\$ 380.8
BC	1,033.8	2,182.8
	\$ 1,926.4	\$ 2,563.6

Under banking syndicate agreements, Bombardier Inc. and some of its subsidiaries must maintain certain financial ratios on a quarterly basis, a condition which had been met as at July 31, 2003 and January 31, 2003.



## Bombardier

Bombardier's credit facilities and borrowings, as well as their rates and maturities, were as follows:

July 31, 2003  
(unaudited)

Credit facilities	Committed	Amounts drawn <sup>(1)</sup>	Letters of credit drawn	Available	Period-end rate	Average rate <sup>(2)</sup>	Maturity (fiscal year)
European	\$ 5,864.8	\$ 197.6	\$ 3,774.8	\$ 1,892.4	3.1%	2.6%	2005-2008
North American	1,750.0	695.0	803.7	251.3	4.2%	3.7%	2004-2006
	\$ 7,614.8	\$ 892.6	\$ 4,578.5	\$ 2,143.7			

<sup>(1)</sup>The foreign currency components of the amounts drawn were €125.0 million for the European facility.

<sup>(2)</sup>Average rate is for the six-month period ended July 31, 2003.

January 31, 2003

Credit facilities	Committed	Amounts drawn <sup>(1)</sup>	Letters of credit drawn	Available	Year-end rate	Average rate for the year	Maturity (fiscal year)
European	\$ 6,158.7	\$ 380.8	\$ 3,574.0	\$ 2,203.9	3.1%	3.1%	2004-2008
North American	1,750.0	-	616.3	1,133.7	-	2.9%	2004-2006
	\$ 7,908.7	\$ 380.8	\$ 4,190.3	\$ 3,337.6			

<sup>(1)</sup>The foreign currency component of the amounts drawn were €195.0 million for the European facility.

On July 9, 2003, the Corporation renewed the 364-day portion of its European credit facility. This facility, totalling €560.0 million, replaces the €600.0 million facility which matured in July 2003. Remaining bilateral facilities resulting from the Adtranz acquisition amounted to \$404.3 million as at July 31, 2003, compared to \$505.1 million as at January 31, 2003. Bombardier also had \$558.2 million of outstanding letters of credit as at July 31, 2003 (\$900.2 million as at January 31, 2003). These letters of credit are in addition to the outstanding letters of credit shown in the above tables.

The amounts drawn under the credit facilities included no commercial paper borrowings, as at July 31, 2003 (\$380.0 million as at January 31, 2003).

## BC

BC's credit facilities as well as their rates and maturities, were as follows:

July 31, 2003  
(unaudited)

Credit facilities	Committed	Amounts drawn <sup>(1)</sup>	Available	Period-end rate	Average rate <sup>(2)</sup>	Maturity (fiscal year)
Revolving lines	\$ 1,877.3	\$ 21.1	\$ 1,856.2	1.8%	1.9%	2004-2006
Bank loans	42.2	18.2	24.0	3.4%	4.3%	2004
Other	43.1	-	43.1	-	4.6%	2004
	1,962.6	39.3	1,923.3			
Securitized floorplan	1,233.6	994.5	239.1	1.4%	1.7%	2004
	\$ 3,196.2	\$ 1,033.8	\$ 2,162.4			

<sup>(1)</sup>The foreign currency components of the amounts drawn were \$15.0 million US for the revolving lines, various western European currencies for an equivalent Canadian dollar amount of \$18.2 million for the bank loans, and \$615.1 million US for the securitized floorplan.

<sup>(2)</sup>Average rate is for the six-month period ended July 31, 2003.

January 31, 2003

Credit facilities	Committed	Amounts drawn <sup>(1)</sup>	Available	Year-end rate	Average rate for the year	Maturity (fiscal year)
Revolving lines	\$ 1,999.0	\$ 726.7	\$ 1,272.3	2.0%	2.1%	2004-2006
Bank loans	152.9	139.1	13.8	2.9%	3.0%	2004
Other	45.6	-	45.6	-	4.8%	2004
	2,197.5	865.8	1,331.7			
Securitized floorplan	1,328.2	1,317.0	11.2	1.5%	1.9%	2004
	\$ 3,525.7	\$ 2,182.8	\$ 1,342.9			

<sup>(1)</sup>The foreign currency components of the amounts drawn were \$473.2 million US for the revolving lines, \$50.0 million US and various western European currencies for an equivalent Canadian dollar amount of \$62.7 million for the bank loans, and \$777.1 million US for the securitized floorplan.

The amounts drawn under the credit facilities included \$21.1 million of commercial paper borrowings as at July 31, 2003 (\$726.7 million as at January 31, 2003).

## 8. LONG-TERM DEBT

On July 28, 2003, Bombardier and BC repaid, at maturity, debentures and notes amounting to \$150.0 million and \$100.0 million, respectively. In addition, on February 20, 2003, BC repaid, at maturity, debentures amounting to \$250.0 million. Furthermore, during the quarter ended July 31, 2003, BC repaid \$30.0 million of borrowings related to securitized floorplan receivables.

On May 14, 2002, BC, through an indirectly wholly-owned subsidiary of the Corporation, issued on the European market, notes amounting to €500.0 million (\$703.1 million) and £300.0 million (\$677.0 million), maturing in May 2007 and May 2009, respectively.

## 9. SHARE CAPITAL

On April 17, 2003, the Corporation issued 370 million Class B Shares (Subordinate Voting) at a price of \$3.25 per share. The net proceeds from this issue amounted to \$1,169.7 million.

On March 8, 2002, the Corporation issued 9,400,000 Series 4 Cumulative Redeemable Preferred Shares carrying a fixed cumulative preferential cash dividend of 6.25% per year, payable quarterly. The net proceeds of the issuance amounted to \$227.6 million.

## 10. SPECIAL ITEMS

During the three-month period ended July 31, 2003, the Corporation recorded special items in the aerospace segment of \$39.0 million, comprising charges totalling \$42.4 million for severance and other involuntary termination costs and a gain of \$3.4 million as a result of the sale of the Belfast City Airport. For the six months ended July 31, 2003, special items in the aerospace segment totalled \$52.4 million, comprising charges totalling \$55.8 million related to severance and other involuntary termination costs and a gain of \$3.4 million related to the sale of the Belfast City Airport.

During the three-month ended July 31, 2002, the Corporation recorded special items totalling \$211.4 million, of which \$170.4 million was recorded in connection with the write-down in the value of used aircraft, as well as for additional provisions resulting from lower-than-anticipated sub-lease revenues on used turboprop aircraft, and \$41.0 million was recorded in connection with the final settlement of a lawsuit and a contractual dispute with a customer.

## 11. SHARE-BASED PLANS

Effective May 27, 2003, the Corporation amended, prospectively, the share option plan for key employees. The options granted under the amended plan vest at 25% per year during a period commencing one year following the grant date. The exercise price is equal to the average of the closing prices on the stock exchange during the five trading days preceding the date on which the option was granted. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. The options terminate no later than seven years after the grant date. Options granted prior to May 27, 2003 have not been affected by this amendment.

The share option plan for directors has not been modified.

Options granted to purchase Class B Shares (Subordinate Voting) and the related weighted average grant date fair value are as follows:

	Three months ended July 31,		Six months ended July 31,	
	2003	2002	2003	2002
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Number of stock options granted	6,862,000	10,000	6,862,000	4,855,000
Weighted average grant date fair value	\$ 1.48	\$ 4.82	\$ 1.48	\$ 5.13

There were 46,345,486 and 41,347,086 options issued and outstanding as at July 31, 2003 and January 31, 2003 respectively.

The fair value of each option granted was determined using option pricing models and the following weighted average assumptions:

	Three months ended July 31,		Six months ended July 31,	
	2003	2002	2003	2002
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Risk-free interest rate	3.55%	4.84%	3.55%	5.43%
Expected life	5 years	6 years	5 years	6 years
Expected volatility in the market price of the shares	50.9%	28.5%	50.9%	28.3%
Expected dividend yield	1.20%	0.90%	1.20%	0.90%

The Corporation has elected to account for its share option plans as capital transactions. If the share option plans had been accounted for based on the fair value method, net income would have been as follows:

	Three months ended July 31,		Six months ended July 31,	
	2003	2002	2003	2002
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
		(restated – note 1)		(restated – note 1)
As reported	\$ 93.2	\$ 68.0	\$ 173.9	\$ 265.2
Pro forma	\$ 91.1	\$ 65.7	\$ 169.8	\$ 262.4

Pro forma basic and diluted earnings per share for the three- and six-month periods ended July 31, 2003 and 2002 are the same as reported basic and diluted earnings per share.

The pro forma figures do not give effect to stock options granted prior to February 1, 2002.

## 12. EARNINGS PER SHARE

Basic and diluted earnings per share were as follows (the number of shares are expressed in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2003 (unaudited)	2002 (unaudited) (restated - note 1)	2003 (unaudited)	2002 (unaudited) (restated - note 1)
Income from continuing operations	\$ 96.0	\$ 43.3	\$ 178.1	\$ 222.6
Preferred share dividends, net of tax	(7.6)	(8.7)	(15.3)	(15.7)
Income from continuing operations available to common shareholders	88.4	34.6	162.8	206.9
Income (loss) from discontinued operations	(2.8)	24.7	(4.2)	42.6
Net income available to common shareholders	\$ 85.6	\$ 59.3	\$ 158.6	\$ 249.5
Weighted average number of common shares outstanding	1,748,099	1,372,512	1,592,046	1,371,569
Net effect of stock options	845	15,391	782	16,071
Weighted average diluted number of common shares outstanding	1,748,944	1,387,903	1,592,828	1,387,640
Basic and diluted earnings per share:				
From continuing operations	\$ 0.05	\$ 0.02	\$ 0.10	\$ 0.15
From discontinued operations	\$ -	\$ 0.02	\$ -	\$ 0.03
	\$ 0.05	\$ 0.04	\$ 0.10	\$ 0.18

For the three-month periods ended July 31, 2003 and 2002, a total of 44,181,020 and 14,702,958 stock options respectively, and for the six-month periods ended July 31, 2003 and 2002, a total of 44,265,020 and 14,702,958 stock options respectively, were excluded from the calculation of diluted earnings per share, since the average market value of the underlying shares were less than the exercise price or the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinated Voting) for the respective periods.

## 13. COMMITMENTS AND CONTINGENCIES

### Aircraft Sales

#### a) Credit and residual value guarantees

In connection with the sale of aircraft, Bombardier provides credit guarantees in the form of guarantees of lease payments, as well as services related to the remarketing of aircraft. These guarantees are issued for the benefit of certain customers or providers of financing to customers. The maximum credit risk as at July 31, 2003 from these guarantees, maturing in different periods up to 2022, was \$1,099.3 million (\$1,049.4 million as at January 31, 2003).

In addition, Bombardier provides guarantees for the residual value of aircraft at the expiry date of certain financing and lease agreements. The following table summarizes the outstanding residual value guarantees and the period in which they can be exercised:

	July 31, 2003	January 31, 2003
	(unaudited)	
Less than 1 year	\$ 6.2	\$ 4.9
1 – 5 years	144.5	107.4
6 – 10 years	662.9	618.1
11 – 15 years	899.1	969.7
Thereafter	1,319.4	1,171.0
	<b>\$ 3,032.1</b>	<b>\$ 2,871.1</b>

The following table summarizes the Corporation's exposure related to financing support provided in connection with existing aircraft deliveries:

	July 31, 2003	January 31, 2003
	(unaudited)	
Maximum credit guarantee	\$ 1,099.3	\$ 1,049.4
Maximum residual value guarantee	3,032.1	2,871.1
Mutually exclusive exposure <sup>(1)</sup>	(855.5)	(818.2)
Maximum combined exposure	3,275.9	3,102.3
Provisions and liabilities	(956.4)	(918.7)
Maximum off-balance sheet exposure <sup>(2)</sup>	<b>\$ 2,319.5</b>	<b>\$ 2,183.6</b>

<sup>(1)</sup> Certain of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, must not be added together to calculate the combined maximum exposure.

<sup>(2)</sup> The Corporation's maximum exposure in connection with credit and residual value guarantees represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other collateral available to mitigate the Corporation's exposure under these guarantees. The provisions for anticipated losses have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third-party evaluations, and the anticipated proceeds from other collateral covering such exposure. The anticipated proceeds from the collaterals are expected to cover the Corporation's maximum off-balance sheet exposure.

b) Credit and residual value guarantees – future sales

Bombardier is also committed to provide credit and residual value guarantees for future sales of aircraft on firm order. As at July 31, 2003, the amount of the committed credit guarantees was \$700.9 million (\$655.2 million as at January 31, 2003). The residual value guarantees and the periods in which they can be exercised are as follows:

	July 31, 2003	January 31, 2003
	(unaudited)	
6 – 10 years	\$ 3.7	\$ 4.0
11 – 15 years	77.5	90.3
Thereafter	901.2	1,253.3
	<b>\$ 982.4</b>	<b>\$ 1,347.6</b>

The amount to be deducted in computing the future total maximum combined exposure from credit and residual value guarantees is \$661.7 million as at July 31, 2003 (\$635.3 million as at January 31, 2003).

Any provision in relation to the credit and residual value guarantees for future sales will be recorded at the time of the corresponding sale of aircraft.

c) Trade-in options

In connection with the sale of new aircraft, the Corporation provides, from time to time, trade-in options to customers. These options allow customers to trade in their used aircraft at a predetermined amount and during a predetermined period, conditional upon purchase of a new aircraft.

The Corporation's earliest commitment dates and amounts to purchase used aircraft were as follows:

	July 31, 2003	January 31, 2003
	(unaudited)	
Less than 1 year	\$ 1,989.9	\$ 2,125.9
1 – 3 years	764.0	1,016.3
4 – 5 years	220.6	149.2
Thereafter	225.9	294.8
	\$ 3,200.4	\$ 3,586.2

The Corporation reviews its trade-in aircraft purchase commitments relative to the aircraft's anticipated fair value and records anticipated losses as a charge to earnings. Fair value is determined using both internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. As at July 31, 2003 and January 31, 2003, the Corporation recorded \$39.1 million and \$29.5 million respectively of provisions related to anticipated losses on trade-in options, based on the likelihood that these options will be exercised. In addition, the Corporation had a provision of \$50.8 million as at July 31, 2003 (\$91.3 million as at January 31, 2003) related to trade-in commitments in connection with firm orders for new aircraft.

d) Fractional ownership put options

Under the North American Bombardier\* Flexjet\* fractional ownership program, customers purchase fractional shares of an aircraft. The Corporation provides customers with an option to sell back their portion of the aircraft at estimated fair value within a period of five years from the date of purchase. As at July 31, 2003, the Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled \$783.8 million (\$985.3 million as at January 31, 2003).

In addition, certain customers can trade in their fractional shares of aircraft for a fractional share of a larger model at predetermined amounts. The total commitment to repurchase fractional shares of aircraft, in exchange for a fractional share of a larger model, was \$142.2 million as at July 31, 2003 (\$151.6 million as at January 31, 2003). The Corporation recorded \$35.8 million of provisions as at July 31, 2003 (\$32.1 million as at January 31, 2003), attributable to anticipated losses on purchase commitments at predetermined amounts.

e) Financing commitment

The Corporation has committed to provide financing in relation to orders on hand, which, net of third-party financing already arranged, amounted to \$4.9 billion as at July 31, 2003 (\$5.2 billion as at January 31, 2003). These commitments are provided under certain terms and conditions, and are related to aircraft on firm order, scheduled for delivery through fiscal year 2007. These commitments have scheduled expiration dates.

### Sale and Leaseback

BC and Bombardier concluded third-party sale and leaseback transactions mostly related to freight cars, used aircraft and transportation equipment, which, in most instances, were simultaneously leased to operators. The total residual value guarantees related to these transactions amounted to \$262.4 million as at July 31, 2003 (\$299.4 million as at January 31, 2003).

### Operating Leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations on the sale of new aircraft. The related residual value guarantees totalled \$124.1 million as at July 31, 2003 (\$117.4 million as at January 31, 2003).

## Other Guarantees

In connection with the sale of certain transportation and recreational products, Bombardier provides credit guarantees of lease payments. The credit risk from these guarantees, maturing in different periods up to 2020, totalled \$62.9 million as at July 31, 2003 (\$74.5 million as at January 31, 2003). In addition, at the expiry date of certain financing and lease agreements, the Corporation provided residual value guarantees totalling \$166.3 million as at July 31, 2003 (\$180.4 million as at January 31, 2003), mainly related to the transportation segment. These residual value guarantees are mostly exercisable in 2014.

The Corporation has provided certain financing providers and customers, mainly in the transportation segment, the right, under certain conditions, to sell back equipment to the Corporation at predetermined prices. As at July 31, 2003, the Corporation's commitment to repurchase equipment amounted to \$231.9 million (\$261.7 million as at January 31, 2003). Of this amount, \$210.2 million (\$233.4 million as at January 31, 2003) relates to one agreement whereby the Corporation may be required, beginning in 2008, upon customer default on payments to the financing provider, to repurchase the equipment. In addition, on three separate dates, beginning in 2008, the Corporation may also be required to repurchase the equipment. In connection with this commitment, funds have been deposited in a cash collateral account by the customer, which, together with accumulated interest, are expected to entirely cover the Corporation's exposure.

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.

## Litigations

The Corporation is a defendant in certain legal cases 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. Management believes the Corporation has set up adequate provisions to cover potential losses and amounts not recoverable under insurance coverage, if any, in relation to these legal actions.

## 14. SEGMENT DISCLOSURE

The Corporation operates in the three reportable segments described below. Prior to the Corporation's decision to sell the recreational products segment and classify its activities as discontinued operations, the Corporation operated in four reportable segments. Each reportable segment offers different products and services, requires different technology and marketing strategies and is headed by a president and chief operating officer.

The aerospace segment is engaged in the design, development, manufacture and sale of business and regional aircraft for individuals, corporations and commercial airline customers. It is also engaged in the manufacture of major airframe components for aircraft designed and built by other American and European aircraft manufacturers. In addition, it provides commercial and military aviation services, including maintenance and spare parts services and customer training. Furthermore, it offers the Bombardier Flexjet fractional ownership program.

The transportation segment is the world leader in the rail equipment manufacturing and servicing industry. It designs, develops, manufactures and sells passenger railcars and complete rail transportation systems. It also manufactures locomotives, freight cars, airport people movers, propulsion and controls systems and provides rail control solutions.

The capital segment (BC) includes financial services and real estate activities. Financial services offered include secured financing and leasing solutions to manufacturers, retailers and other commercial businesses, primarily in North American markets. BC also services the wind-down portfolios described in note 4. The real estate activities of this segment consist of selling land to real estate developers and renting office buildings to Bombardier.

The accounting policies of the segments are the same as those described in the Corporation's annual report for the year ended January 31, 2003, except for the changes in accounting policies described in note 2. Management evaluates the performance of each segment based on its income or loss before income taxes.

Net corporate interest costs are allocated to the manufacturing segments and discontinued operations based on their average net assets, and are computed as follows: one half of the Canadian prime rate is charged on gross utilized assets reduced by interest on customer advances calculated at the Canadian prime rate. The balance of unallocated actual interest costs, if any, is allocated to each manufacturing segment and discontinued operations based on their net assets. The Corporation does not allocate corporate interest charges to the BC segment. Net assets exclude cash and cash equivalents, investment in BC and advances to Bombardier and deferred income taxes, and are net of accounts payable and accrued liabilities, advances and progress billings in excess of related costs and accrued benefit liability and other. Most corporate office charges are allocated to each segment as well as discontinued operations based on revenues.

The tables containing detailed segmented data are shown hereafter.

## **15. SUBSEQUENT EVENTS**

On August 8, 2003, the Corporation announced an agreement to sell a significant portion of BC's business aircraft portfolio for \$339.0 million US (\$475.0 million). The expected net proceeds represent the carrying value of the assets sold.

On August 26, 2003, the Corporation reached an agreement in principle for the sale of the recreational products segment. The estimated aggregate purchase price of \$1,225.0 million is subject to closing adjustments, including assumptions of liabilities by the purchaser, currently estimated to be a reduction of approximately \$150.0 million. The net proceeds will be paid in cash and by \$25.0 million of the purchaser's preferred shares. The transaction is expected to close during the current fiscal year and is subject to the execution of definitive acquisition and financing documents and to the approval of all required governmental authorities and to other consents and other usual conditions.

\* Trademark(s) of Bombardier Inc. or its subsidiaries.





**SEGMENT DISCLOSURE**

(unaudited, except for January 31, 2003 figures)  
For the six months ended July 31  
(millions of Canadian dollars)

Industry segments	Bombardier Inc. consolidated						BC	
	2003	2002	2003	2002	2002	2003	2002	2002
		(restated- note 1)		(restated- note 1)				
<b>External revenues</b>	\$ 10,205.7	\$ 10,330.1	\$ 5,223.9	\$ 5,403.1	\$ 4,738.1	\$ 4,702.3	\$ 243.7	\$ 224.7
Intersegment revenues	-	-	-	-	10.7	10.8	146.2	189.6
<b>Segmented revenues</b>	<b>10,205.7</b>	<b>10,330.1</b>	<b>5,223.9</b>	<b>5,403.1</b>	<b>4,748.8</b>	<b>4,713.1</b>	<b>389.9</b>	<b>414.3</b>
Cost of sales and operating expenses	9,411.3	9,368.3	4,844.1	4,750.3	4,443.9	4,463.5	280.2	354.9
Depreciation and amortization	409.4	414.4	200.0	237.4	119.7	101.4	89.7	75.6
Interest expense (income) and other income	59.5	1.8	110.1	120.7	(27.5)	(50.9)	(23.1)	(68.0)
Special items	52.4	211.4	52.4	211.4	-	-	-	-
	<b>9,932.6</b>	<b>9,995.9</b>	<b>5,206.6</b>	<b>5,319.8</b>	<b>4,536.1</b>	<b>4,514.0</b>	<b>346.8</b>	<b>362.5</b>
<b>Income from continuing operations</b>	<b>\$ 273.1</b>	<b>\$ 334.2</b>	<b>\$ 17.3</b>	<b>\$ 83.3</b>	<b>\$ 212.7</b>	<b>\$ 199.1</b>	<b>\$ 43.1</b>	<b>\$ 51.8</b>
<b>before income taxes</b>								
<b>Additions to property, plant and equipment</b>	<b>\$ 241.8</b>	<b>\$ 296.7</b>	<b>\$ 125.3</b>	<b>\$ 232.6</b>	<b>\$ 114.6</b>	<b>\$ 57.4</b>	<b>\$ 1.9</b>	<b>\$ 6.7</b>
<b>As at</b>	<b>July 31, 2003</b>	<b>January 31, 2003</b>	<b>July 31, 2003</b>	<b>January 31, 2003</b>	<b>July 31, 2003</b>	<b>January 31, 2003</b>	<b>July 31, 2003</b>	<b>January 31, 2003</b>
<b>Net segmented assets</b>	<b>\$ 6,524.1</b>	<b>\$ 4,670.5</b>	<b>\$ 3,942.4</b>	<b>\$ 3,250.8</b>	<b>\$ 1,330.5</b>	<b>\$ 133.0</b>	<b>\$ 1,251.2</b>	<b>\$ 1,286.7</b>
Accounts payable and accrued liabilities	7,327.4	8,490.7						
Advances and progress billings in excess of related costs	3,312.2	3,816.0						
Accrued benefit liability and other	1,171.0	1,185.6						
Deferred income taxes	587.5	626.5						
Cash and cash equivalents	344.6	713.1						
Assets held for sale	1,187.4	1,260.1						
<b>Total assets – Bombardier</b>	<b>20,454.2</b>	<b>20,762.5</b>						
Investment in BC	(1,251.2)	(1,286.7)						
Advances from BC	(356.2)	(69.1)						
Total assets – BC	7,701.1	9,602.7						
<b>Total assets – Bombardier Inc. consolidated</b>	<b>\$ 26,547.9</b>	<b>\$ 29,009.4</b>						