

## 26. COMMITMENTS AND CONTINGENCIES

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

	September 30, 2018	December 31, 2017	January 1, 2017
<b>Aircraft sales</b>			
Residual value	\$ 721	\$ 1,060	\$ 1,300
Credit	1,049	1,221	1,233
Mutually exclusive exposure <sup>(1)</sup>	(474)	(540)	(557)
Total credit and residual value exposure	\$ 1,296	\$ 1,741	\$ 1,976
Trade-in commitments	\$ 1,188	\$ 1,437	\$ 1,721
Conditional repurchase obligations	\$ 101	\$ 143	\$ 207
<b>Other</b>			
Credit	\$ 48	\$ 52	\$ 48

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

Provisions for anticipated losses amounting to \$427 million as at September 30, 2018 (\$554 million as at December 31, 2017 and \$562 million as at January 1, 2017) have been established to cover the risks from credit and residual value guarantees. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to \$58 million as at September 30, 2018 (\$122 million as at December 31, 2017 and \$141 million as at January 1, 2017).

The Corporation has committed to fund the cash shortfalls of CSALP, if required, during the second half of 2018, up to a maximum of \$225 million; during 2019, up to a maximum of \$350 million; and up to a maximum aggregate amount of \$350 million over the following two years, the whole in consideration for non-voting units of CSALP with cumulative annual dividends of 2%. As of September 30, 2018, the Corporation invested \$85 million in CSALP in exchange for non-voting units of CSALP. See Note 19 - Disposal of a business for more details.

### Litigation

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

While the Corporation cannot predict the final outcome of all legal proceedings pending as at September 30 2018, based on information currently available, management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

### Transportation

Since the fourth quarter of 2016, the Swedish police authorities are conducting an on-going investigation in relation to allegations concerning a 2013 contract for the supply of signalling equipment to Azerbaijan Railways ADY. The Corporation's subsidiary has launched an internal review into the allegations which is conducted by external advisors under the supervision of counsel. Both the investigation and the internal review are ongoing. On August 18, 2017, charges were laid against a then employee of the subsidiary for aggravated bribery and, alternatively, influence trafficking. The trial on these charges took place from August 29 to September 20, 2017. No charges were laid against the subsidiary of the Corporation. In a decision rendered on October 11, 2017, the then employee was acquitted of all charges. The decision was appealed on October 25, 2017 by the Prosecution Authority. The appeal is to be heard from January 16 to February 4, 2019. The underlying contract that gave rise to this matter is being audited by the World Bank Group pursuant to its contractual audit rights. The audit is still ongoing and no results have been communicated so far regarding the same. The Corporation's policy is to comply with all applicable laws and it is cooperating to the extent possible with the investigation and the audit. The Moscow office of Bombardier Transportation (Signal), a Russian joint venture, were visited by a unit of the Moscow Region Custom on April 2, 2018. Due to the nature of the above proceedings, it is not possible at this time to identify potential outcomes.

### Investigation in Brazil

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

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

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

### Petition before the U.S. Department of Commerce and the U.S. International Trade Commission

On April 27, 2017, The Boeing Company filed a petition before the U.S. Department of Commerce and the U.S. International Trade Commission (“USITC”) seeking the imposition of antidumping and countervailing duties on imports from Canada to the U.S. of large civil aircraft with 100 to 150 seats. The Boeing petition alleged that the Corporation’s *C Series* aircraft program has received government subsidies, that the Corporation is “dumping” the *C Series* aircraft into the U.S. market, and that such sales represent a threat to the domestic aerospace industry in the U.S. On December 18, 2017, the U.S. Department of Commerce issued a final affirmative countervailing duty determination of 212.39% and a final affirmative antidumping duty determination of 79.82%, subject to the final ruling by the USITC. On January 26, 2018, the USITC ruled in favour of the Corporation and issued its final determination on the threat of injury, finding that the U.S. industry is not injured or threatened with material injury by reason of imports of 100- to 150-seat large civil aircraft from Canada. This decision means that the U.S. Commerce Department will not publish and apply antidumping or countervailing duty orders against imports of such aircraft from Canada. The Boeing Company has not appealed the USITC decision within the deadline and accordingly this decision is now final and the Corporation has withdrawn the notices it had filed of its intention to appeal the U.S. Department of Commerce determinations since they are now moot, thereby concluding all proceedings in this matter.

### Transnet

The Corporation has learned through relevant media reports of the appointment of a *Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector, including organs of state* (“Inquiry”) for which the terms of reference were published by presidential proclamation on January 25, 2018. The Judicial Commission started on August 20, 2018. The purpose of the Commission is to investigate allegations of State Capture, Corruption and Fraud in the South African Public Sector, in particular with regard to Transnet and Eskom (the public electricity utility). Before and after the Inquiry, the media made allegations of irregularities with respect to multiple procurements regarding the supply of 1,064 locomotives by South African train operator Transnet Freight Rail. On September 7, 2018, Bombardier Transportation South Africa (Pty.) Ltd. (“BTSA”) was informed that the Special Investigation Unit (“SIU”), a forensic investigation agency under the Department of Justice in South Africa, has opened an investigation with respect to the relocation, in 2014, of the manufacturing site from Pretoria to Durban and the costs claimed in regard to this relocation. BTSA has not

received any other communication or request for information from the authorities conducting the inquiries. The Corporation has launched an internal review into the allegations which is conducted by external advisors under the supervision of counsel. The review is still ongoing but based on information known to the Corporation at this time, there is no reason to believe that the Corporation has been involved in any wrongdoing with respect to the procurement by Transnet of 240 *TRAXX* locomotives from Bombardier Transportation in one of numerous aforementioned procurements.

### Spain

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

On August 28, 2018, BEI was informed that the CNMC was opening formal proceedings against 8 competing companies active on the Spanish signalling equipment market and four directors, including BEI and its parent company, Bombardier Transportation (Global Holding) UK Limited. No Bombardier directors were named. The inclusion of the parent company is typical of European competition authorities at the early stage of the proceedings. The CNMC now has until February 28, 2020 to investigate and adopt a final decision on the case.

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