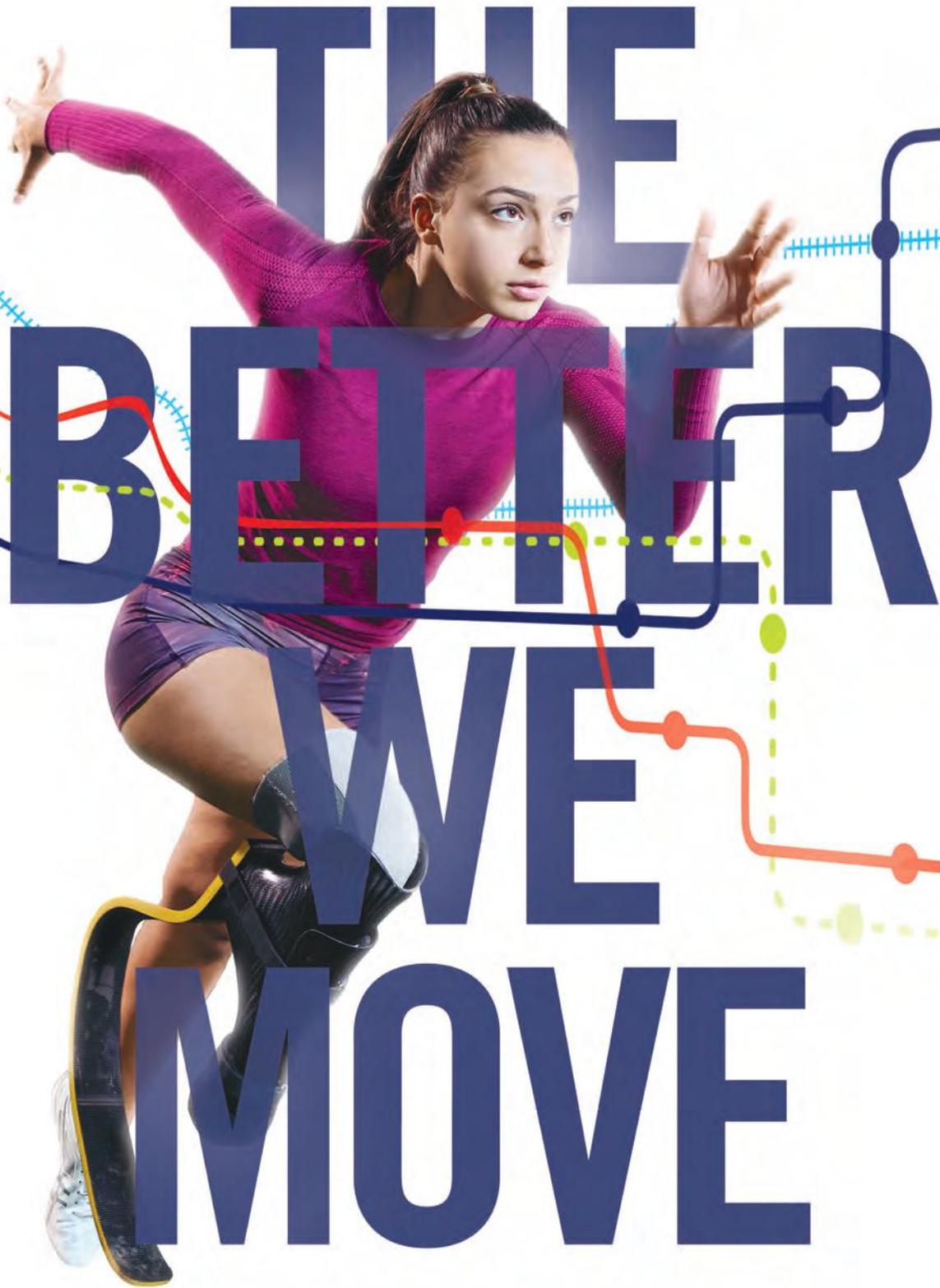


ANNUAL REPORT 2017



THE BETTER WE MOVE



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THE GREATER WE BECOME

The more we work together to move people and goods... meeting the growing demand for efficient, sustainable air travel... connecting global routes with regional transportation networks...

...the better we're able to create new jobs and opportunities... foster innovation, investment and partnerships... and strengthen vital economic links within our communities, across Canada and to every corner of the earth.

The better we move

OUR NEIGHBOURHOOD

As Toronto Pearson becomes one of the world's leading airports, we're more focused than ever on our own backyard. We help our neighbours discover new experiences and opportunities around the globe. And we welcome people from elsewhere – tourists and new Canadians, business leaders and entrepreneurs – as they forge valuable connections in the GTA, Southern Ontario and the rest of Canada. We help create jobs, drive growth and build healthy, prosperous communities. And it all starts with getting everyone moving better.



TRANSFORMING TRANSIT IN THE GTHA

This is a transformational moment for the transportation leaders in our region, writes Phil Verster, President and Chief Executive Officer of Metrolinx. Our communities are counting on us to make mobility better, easier and faster.

Back in 1910, R.C. Harris proposed that Toronto needed to build a lower deck on the Bloor Viaduct for rail transport. The city finally agreed to the project, but the realization of Harris's vision only came to fruition 50 years later, when the Bloor-Danforth line opened. That forward thinking in 1910 put Toronto in a position to connect the city and would contribute millions of dollars to the local economy.

After decades-long calls for a permanent and fast rail link between Toronto Pearson and downtown, the connection of the airport to Union Station achieved something similar. The Union-Pearson Express – or UP Express – now carries more than 300,000 riders each month.

And we need to do more. Building a transportation system that is an engine for economic growth in the Greater Toronto and Hamilton Area (GTHA) is now an urgent priority.

Metrolinx is delivering the single largest transit expansion in GO services and LRTs the GTHA has ever seen. We are building six new GO stations, as well as six new Smart Track stations, and will quadruple our number of train trips every week. We are already serving customers better today by increasing our service levels every few months. This is transforming how people use our entire transit system. It presents our customers with great opportunities to reimagine the way they use transit in this region.

Let's take a moment to imagine what the future may look like. On the Stouffville GO corridor, we plan to build new stations at Lawrence-Kennedy and Finch-Kennedy. Together with existing stations at Eglinton-Kennedy, Milliken and Unionville, we can transform transit access for hundreds of thousands of people in Scarborough and York Region.

We plan to operate four trains per hour on key parts of the GO network – all day, every day – and we are also considering an even more intensive 10-minute service on the Stouffville line, similar to a subway.

But let's not stop there. This high-frequency GO service on the Stouffville and Kitchener corridors – in the familiar “U shape” that mimics the TTC's Line 1 subway – can become a seamless and direct service between Toronto Pearson and Liberty Village, East Harbour, Gerrard and all the stations on the Stouffville line.

With even more collaborative thinking, there are very real options to connect Toronto Pearson with western and eastern Ontario through GO and high-speed rail services while also increasing connections from LRTs and local and regional buses.

Improving transit access to Toronto Pearson is one of the key priorities in our Regional Transportation Plan (RTP). Toronto Pearson is at the centre of the Airport Employment Zone, one of the largest employment hubs in Canada, and the GTAA's proposed regional transit centre is a unique opportunity for creating the most significant multi-modal interchange in the area.



PHIL VERSTER

Phil Verster is President and Chief Executive Officer of Metrolinx, which is undertaking the largest transportation investment in Ontario's history to get you where you need to go better, faster and easier, while also operating GO Transit, UP Express and PRESTO. Learn more about how we're connecting communities, building partnerships and providing you new ways to travel around our region at Metrolinx.com.

While we plan and prepare for substantial future projects, successes today make a difference to our customers. In late 2017, we put the finishing touches on the Mississauga Transitway. That's 18 kilometres of dedicated bus rapid transit and 12 new stations. People across the region now have better access to GO Transit, MiWay and the TTC, with a connection to Toronto Pearson at Renforth Station.

The Eglinton West LRT extension to the airport is one option in the RTP; it extends the Eglinton Crosstown from Mount Dennis to Renforth Station and then on to Toronto Pearson. Similarly, the Hurontario LRT represents a platform for transit in Brampton and Mississauga that will enhance local mobility.

Working as a region, we will use fare integration to remove barriers and encourage ridership, maximizing the economic benefits from transit investments.

In a world where we are contemplating autonomous cars, where we are walking and cycling more, and where we ride share, transit networks offer so much more value and benefits.

Today, approximately 9 per cent of people in the GTHA live within walking distance of a subway station, bus stop or GO station. Our plans will increase that percentage fourfold to 36 per cent by 2041. What an exciting future!

Let's make mobility better, easier and faster. Our communities depend on it.



OUR NEIGHBOURHOOD

THE MORE GROWTH WE SPARK

As a global hub, we don't just respond to local growth – we help to drive it. Toronto Pearson is an engine of the regional and national economies, creating employment, enabling development and contributing significantly to expanding GDP. When people and goods get where they need to go, the whole economy moves better.

GIVING THE ECONOMY A LIFT

Our airport is a major contributor to Ontario's economy. According to a 2016 study commissioned by the GTAA, Toronto Pearson generates about \$42 billion in economic activity annually, or 6.3 per cent of provincial GDP. What's more, as Canada's largest airport, we also have a significant national impact. In part this is because the commercial and financial heartland of Ontario accounts for about two-fifths of overall Canadian GDP. At the same time, businesses across the country depend on the connectivity we provide. Whether it's farmers and fishers exporting their harvests to emerging markets, high-tech companies arranging manufacturing overseas or tourist destinations attracting visitors from abroad, all of Canada depends on our global hub airport to drive revenues and growth.

The importance of air connectivity as both an indicator and a driver of growth is evidenced by the fact that passenger traffic at Toronto Pearson grew at more than double the rate of Canadian GDP between 2006 and 2016. Across the region, and especially in the GTA, average annual household spending on air travel has also been rising, even as the real cost of airfares has declined – a consumer trend that correlates to higher incomes, as well as education levels.

When the economy is robust, people fly more – and vice versa.

Increased air travel coincides with a stronger economy. As Ontario continues its competitive shift toward research, innovation and other specialized services, air travel through Toronto Pearson will also continue to grow.



SERVICES IN FLIGHT

Ontario's service sector – led by business and financial service providers, professional and technical firms, and arts and culture organizations – now accounts for about 80 per cent of the provincial economy. The sector has generated significant new employment over the past decade, even as the proportion of jobs related to goods production has fallen from 25 per cent to 20 per cent.

How does this affect Toronto Pearson? Studies show that the service sector, compared to the goods sector, spends about 23 per cent more on air transportation for each unit of output. So we can expect demand for business-related air travel to keep on growing steadily as the Ontario economy continues its competitive shift into areas such as research and innovation, health care and life sciences, specialized consulting services and higher education.

47.1M PASSENGERS

passed through Toronto Pearson in 2017, an increase of 6.2 per cent over the previous year. Once again, international traffic accounted for much of that gain, rising 8.0 per cent as our airport continues to provide more convenient, frequent and far-reaching connections around the globe.



Typical air freight consists of high-value goods. Two-thirds of air cargo handled at Toronto Pearson travels in the bellies of passenger aircraft – an amount that's expected to grow.

Photo: Air Canada/Brian Losito

FREIGHT ON BOARD

Every day, about \$3 billion worth of goods travel into and out of the Toronto-Waterloo region, Canada's busiest transportation corridor. Much of that volume is imports and exports, primarily shipped by ground to and from the United States. But a significant volume is transported by air. Nationally, about 23 per cent of non-U.S. goods shipments are via airfreight. And nearly half of all international air cargo leaving or entering Canada passes through Toronto Pearson.

Air cargo has grown increasingly important with the rise of global supply chains, particularly for high-value products. Worldwide, only about 3 per cent of goods shipments travel by air, but they represent 35 per cent of trade value. This trend is clear at our airport, where high-ticket imports and exports include cellphones, pharmaceuticals, auto and aircraft parts, and specialized agricultural products.

About two-thirds of our air cargo is carried in the bellies of passenger aircraft; this will increase as we're served by wide-body planes with additional cargo capacity. Some of the freight we ship is trucked from the United States, while many of our inbound shipments carry on south of the border by road and rail. So as with the passenger side of our business, meeting the demand for efficient, reliable cargo services means playing a larger role in an integrated trade network that includes ground transport as well. As Canada boosts export activity to drive economic growth, we have a vital role to play – moving not just people, but products.



OUR NEIGHBOURHOOD

THE MORE JOBS WE CREATE

Our airport creates about 49,000 direct jobs and supports the livelihoods of hundreds of thousands of people across the region – and that total is projected to reach 700,000 over the next two decades. We also help to grow employment nationwide by linking Canadian firms with markets, partners and investors around the globe.

WE'RE IN THE ZONE

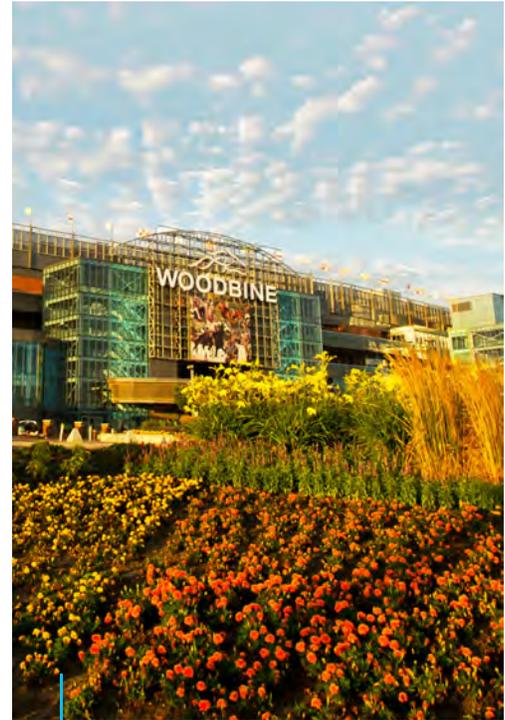
Toronto Pearson sits at the heart of the Airport Employment Zone (AEZ), where more than 300,000 people work for a wide range of commercial and industrial enterprises. The second-largest employment cluster in Canada after downtown Toronto, the AEZ spans an area of about 15,000 hectares where three fast-growing municipalities intersect. Businesses that see the value of being close to our airport – from hotels to freight forwarders to global corporations – already generate significant employment and economic growth. That impact will only grow as municipal and regional planners coordinate their efforts to foster a broader range of employment opportunities in the AEZ, from office-based management and research to logistics, light industry and utilities.

As detailed in our 2017–2037 Master Plan, the GTAA is working with government policymakers to encourage higher-density employment and develop desperately needed transit connections in the AEZ while helping to build a more complete and sustainable community. Over the past year, we joined fellow members of the AEZ Coalition – including most of the area’s key employers and property owners – to advocate for improved transit access through social media, letters of support, and various community outreach and stakeholder events.

In the past, the sheer complexity of the area around Toronto Pearson – sprawling, multi-jurisdictional, with mixed land uses and layers of overlapping infrastructure – made it difficult to define as a distinct area for coordinated planning. That’s changing. The communities of the western GTA are working together to build on the zone’s economic vitality and global connectivity, mapping out a strategy that benefits all jurisdictions. In the year ahead, we’ll continue to actively engage with the provincial and municipal governments, AEZ Coalition members and all interested stakeholders to help advance our shared goals.

95% OF AEZ EMPLOYEES

drive to work, making over a million trips daily. The result: more traffic jams, higher carbon emissions and a lot of unhealthy stress. The proposed regional transit centre at Toronto Pearson will help to alleviate this – while moving passengers more conveniently to and from our airport.



Strategic partnerships are good for the airport and the local economy: a direct transit link to Woodbine Racetrack, for example, will help cement the Toronto venue's reputation as a tourist destination and economic driver.

Photo: Woodbine Entertainment/Michael Burns



Toronto Pearson creates tens of thousands of jobs, with 1,600 GTAA employees in operational, technical, administrative and management roles.

TAPPING INTO LOCAL TALENT

Contributing to the tens of thousands of jobs that Toronto Pearson creates, the GTAA employs approximately 1,600 people in operational, technical, administrative and management roles.

We're fortunate to have a rich and diverse talent pool at our doorstep, and we make deliberate efforts to draw from this pool when hiring. We start by nurturing relationships with local community organizations that can connect us with qualified job candidates from diverse backgrounds.

In 2017, we provided financial support to ACCES Employment through Toronto Pearson's [Propeller Project](#) and participated in one of the initiative's highly attended job fairs, which target skilled professionals and newcomers to Canada. We also participated in the local YMCA's annual job fair, as well as the Mayor's Youth Employment Expo in the City of Mississauga.

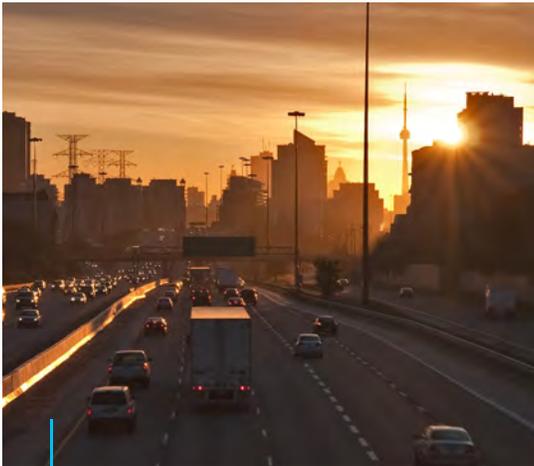
In addition, we developed relationships with Peel Multicultural Council, JVS Toronto, the Centre for Skills Development & Training, Careers in Aviation and numerous post-secondary institutions. We also continued to participate in the Military Employment Transition program.

In 2017, we deepened our commitment to developing "talent pipelines" by launching two new initiatives: we hired 19 university students into GTAA business units as part of a co-op program, and we welcomed five aspiring tradespeople into our new apprenticeship program. These programs are designed to provide young people with the skills and experience they'll need to succeed in their chosen careers – along with a taste of what it's like to work at Toronto Pearson.

Currently, only about 10 per cent of passengers and Toronto Pearson employees use public transit to access our airport. That volume will need to rise dramatically as we keep pace with growing demand for air connectivity. Our goal is to have 30 per cent of all passengers travel to and from Toronto Pearson via transit by 2037 – a target that many top-tier global airports have successfully achieved by incorporating ground transportation centres.

But getting air travellers moving better is just one part of a much bigger story. More than 300,000 people who now work in the Airport Employment Zone (AEZ) have few transit options and make their daily commute on roads that are perpetually clogged. A new transit centre will improve traffic flow throughout the region by better connecting communities around Toronto Pearson, and by facilitating more convenient and sustainable commuting across the heavily travelled **Northern Arc** of the Greater Toronto and Hamilton Area (GTHA). As with our **community investment** efforts, we're focusing in particular on priority neighbourhoods in Etobicoke, Mississauga and Brampton, whose residents are most affected by our operations – and who have much to gain from improved mobility and economic opportunity in the AEZ.

Like the other leaders in this collective effort, we know that superior ground transportation will advance both connectivity and productivity. The regional transit centre will make it easier for people to get to their current jobs or look for better ones. Employers in the growing AEZ will have greater access to the region's rich talent pool. And everyone who needs to connect with the wider world will be able to reach our airport more quickly and reliably.



By better integrating transit networks throughout the region, we can promote public transportation use – and reduce both traffic congestion and our carbon footprint.

DESCRIBING AN ARC

As Toronto Pearson has taken on a more active role in helping to integrate regional transportation networks, we've sharpened our focus on the corridor urban planners call "the Northern Arc," which spans Vaughan, Richmond Hill, Markham and the upper part of North Toronto. Recent commuter studies in the GTHA show that of more than 100,000 daily trips between downtown Toronto and its western suburbs along the shores of Lake Ontario, 57 per cent are via public transit. By contrast, of nearly 200,000 trips along the Northern Arc, transit handles less than 9 per cent – and as little as 3 per cent in communities such as Markham.

The reason for this discrepancy is obvious: where transit is limited, people choose to drive. But it's equally clear that when they have viable options, as is the case in the western GTHA, they're pleased to escape traffic-jammed roads. Our proposed regional transit centre at Toronto Pearson will be ideally situated to offer Northern Arc commuters more efficient and less stressful alternatives to driving across the city – and help reduce our carbon footprint in the bargain.

CATCHING THE BUS

As we've evolved our longer-term ground transportation strategy, we've also addressed a need for enhanced bus services at Toronto Pearson. In recent years, the Toronto Transit Commission (TTC), Mississauga's MiWay network, Brampton Transit and the provincially run GO Express system have all begun operating more frequent local services to and from our airport. And in April 2017, Greyhound resumed operations at Toronto Pearson, providing direct bus service to 10 cities in Southern Ontario and connections to more than 3,800 destinations across North America.

30% TRANSIT RIDERSHIP

is Toronto Pearson's goal for 2037. Today, only 10 per cent of passengers travel to and from our airport by public transit. By comparison, London Heathrow and Paris-Charles de Gaulle, which are about the same distance from their city centres, have riderships of 36 per cent and 40 per cent, respectively – while Hong Kong leads the world with 63 per cent.



The Southern Ontario Airport Network is optimizing the region's current air capacity while working to meet the demand of the future.

STRONGER TOGETHER

Southern Ontario is poised for dramatic growth over the next three decades. As its population and economy grow, demand for air travel will follow.

Recognizing that no single airport will be able to support the forecasted demand alone, Toronto Pearson and 10 of the region's most commercially significant airports launched the [Southern Ontario Airport Network \(SOAN\)](#) in 2017. Our goal is to develop a more integrated air transportation network, optimizing current capacity and coordinating investments to meet growing demand in Ontario's industrial heartland.

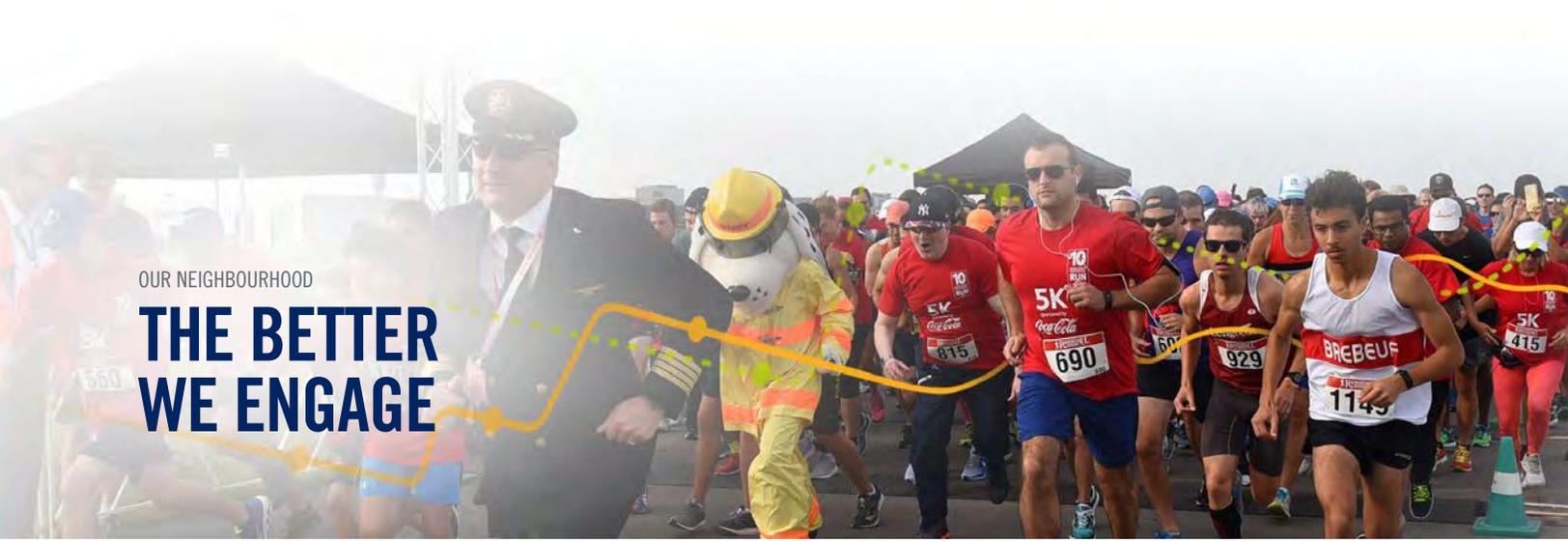
Over time, we anticipate that there will be an evolution and specialization of airport roles consistent with how other multi-airport regions around the world have developed – for example, in Los Angeles, New York and London, England.

While it will take decades to achieve our long-term goal, we've established three priorities for the next five years:

- Raise awareness and profile of the SOAN airports.
- Promote Southern Ontario with the goal of attracting greater tourism, trade and foreign direct investment.
- Develop a common database that will allow all airports to understand the future needs of this growing region and identify air service development opportunities.

Our partners in SOAN are Billy Bishop Toronto City Airport, John C. Munro Hamilton International Airport, Kingston/Norman Rogers Airport, Lake Simcoe Regional Airport, London International Airport, Oshawa Executive Airport, Niagara District Airport, Peterborough Airport, Region of Waterloo International Airport and Windsor International Airport. As a network, we also engage with Transport Canada to understand its plans for a potential future airport in Pickering.

You can learn more about our efforts at the SOAN website: www.soairportnetwork.com.



OUR NEIGHBOURHOOD

THE BETTER WE ENGAGE

As a top-tier airport connecting to the global economy, we're helping to create jobs, attract investment and drive growth. But positive impacts can also raise concerns. So we engage with our communities to hear their views and talk about how we can balance priorities to yield the best possible benefits – for everyone.

MANAGING NOISE

One of the realities of a conveniently located airport is that nearby communities experience a certain amount of aircraft noise. Much can be done to minimize the impact, from improving aircraft technology to carefully managing flight patterns and procedures. Toronto Pearson has been a leader in this area, working with air carriers and our other operations partners to mitigate both the level and frequency of airport-related noise. We also invite residents of nearby communities to ask questions and express concerns at regular public meetings of the [Community Environment and Noise Advisory Committee \(CENAC\)](#).

Toronto Pearson has a comprehensive noise management program to help offset and reduce the impacts from routine operations. We formally review the program every five years and produce a new action plan mapping out how our noise management activities will continue to evolve. In December 2017, following two years of consultations with aviation experts and extensive engagement with our neighbouring communities, we released the latest of these strategy documents, [Growing Responsibly: 2018–2022 Noise Management Action Plan](#).

The plan outlines 10 commitments and the concrete actions we'll take to fulfill them:



1. WE WILL COLLABORATE BETTER AS AN INDUSTRY.

Working closely with NAV Canada, Transport Canada, our airline partners and other stakeholders, we'll look for further ways to reduce noise while ensuring that community residents have a clear understanding of our respective roles, responsibilities and accountabilities.



2. WE WILL WORK SMARTER WITH OUR COMMUNITIES.

We'll identify new ways for our neighbours to provide input, encouraging wider community involvement as we address noise challenges together. This includes reviewing the goals, membership and governance of CENAC to ensure it meets residents' needs and expectations.



3. WE WILL PROTECT OUR NEIGHBOURS.

We're exploring programs to fund noise insulation in some residents' homes, as well as air conditioning systems in area schools. We'll also work with municipalities on stricter zoning requirements, and with realtors to promote better understanding of noise impacts.



4. WE WILL HELP OUR NEIGHBOURS SLEEP BETTER.

We're exploring changes to Toronto Pearson's Night Flight Restriction Program to reflect global best practices. A review of our nighttime Preferential Runway Program will ensure aircraft are flying over as few people as possible. And we're revisiting night landing fees.



5. WE WILL HAVE CANADA'S QUIETEST FLEET.

Our new Quieter Fleet Incentive Program, which encourages airlines to bring their quietest aircraft to Toronto Pearson, will be in place by 2019. We'll also be reporting on individual airlines' noise performance. And we're working with NAV Canada to identify flight paths that will reduce noise over some communities.



6. WE WILL DO MORE TO UNDERSTAND OUR IMPACTS.

Toronto Pearson will be a noise research leader. We'll improve our complaint process to allow deeper analysis of individual concerns and will publish a quarterly trends analysis. We'll also report on data from our 25 Noise Monitoring Terminals, identifying issues and suggesting opportunities to mitigate and manage them.



7. WE WILL LIMIT SURPRISES.

Our airport is a dynamic environment, and sometimes we need to do unexpected work or alter runway operations. We want our neighbours to be fully informed about what we're doing and how it may affect them. Plans include a new noise management website and a multi-channel construction communications protocol.



8. WE WILL CONTINUE TO TAKE CARE OF THE ENVIRONMENT.

Toronto Pearson's environmental team focuses on climate change, resource management and sustaining a healthy planet. Supported by a best-in-class environmental management system, we'll continue working to mitigate our impacts, ensure regulatory compliance and be a responsible neighbour.



9. WE WILL LIFT UP OUR COMMUNITIES.

The GTAA will continue to support regional growth, including working with all levels of government to advance the proposed regional transit centre at Toronto Pearson. And we'll deepen our commitment to boosting economic vitality through our community investment program, the Propeller Project.



10. WE WILL ALWAYS LOOK FOR OPPORTUNITIES TO IMPROVE.

We'll continue to connect regularly with our neighbours so we can better understand their concerns and discuss our operational decisions and constraints. We'll provide an annual update on the Noise Management Action Plan. And at the end of five years, we'll review our progress and identify new initiatives for the next plan.

Infrastructure projects, including complex runway maintenance, help ensure Toronto Pearson continues to operate safely.



RUNWAY CONSTRUCTION AHEAD

We routinely close Toronto Pearson's runways for brief periods – during snow removal and anti-icing, for instance, or to make minor repairs. In late March 2017, we began a larger-scale project: the rehabilitation of Runway 05/23, our airport's busiest. The round-the-clock job entailed extensive renovation and repaving. Crews also reconditioned 1,000 lights and repainted 420 kilometres of markings.

This complex engineering project was completed on time in mid-May, ahead of the busy summer season. We even managed to include an extra construction phase originally slated for fall. However, the project did have a significant impact on flight schedules, in some cases disrupting people's travel plans. Moreover, when flights that normally use the east/west runway were shifted to north/south alternatives, some nearby neighbourhoods experienced unfamiliar levels of air traffic.

We undertook this infrastructure project to ensure Toronto Pearson continues operating safely. However, in hindsight we recognize that we could have done a better job of informing the public about the work and its potential impact. We've therefore developed a new construction communications protocol.

As this annual report is being finalized, we're about to begin resurfacing another busy runway, 06L/24R. The work will be far less disruptive, as it's being conducted at night. Just as importantly, 90 days ahead of the start date, we launched an intensive communications campaign that includes web updates, e-newsletters, social media, press releases, newspaper ads, robocalls, messaging for passenger service staff and briefings for elected officials and the media. We've brought the spirit of continuous improvement that drives all of our operations to rethinking how we can best keep our neighbours engaged and informed.

2,500+ COMMUNITY MEMBERS

completed our 2017 *Survey on Airport Growth and Noise Fairness*, which was sent to 20,000 randomly selected homes across the GTA and was also available online for any resident to complete.



LISTENING TO RESIDENTS

One of the foundational pieces of our 2018–2022 Noise Management Action Plan for Toronto Pearson was the final report of the Residents' Reference Panel on Airport Growth and Noise Fairness.

After gathering input from more than 2,500 GTA residents through our 2017 *Survey on Airport Growth and Noise Fairness*, we undertook a unique effort to hear from a cross-section of residents living throughout the region. A 36-person Residents' Reference Panel was assembled to advise us on the measures, standards and commitments we should adopt to meet community needs and support regional growth. Panellists were randomly selected through a civic lottery, although communities closest to the airport were given the greatest representation.

“It was an eye-opening learning experience. I liked being able to share my opinion and have it appreciated. All opinions were needed, and it was okay to disagree. Most of my position centred around more transit and making better links between Toronto Pearson and the other airports.”

Joanne de Cloe, Residents' Reference Panel member



Over the course of four Saturdays, the Residents' Reference Panel heard from more than 20 experts and guests, including local community groups. They used what they learned, along with the findings of the noise-fairness survey and their own experiences, to develop recommendations for our consideration. The overarching sentiment was that Toronto Pearson needs to raise its game and act as a leader in noise management as we continue to support growing demand for air travel in the region.

Among the panel's recommendations:

- Provide incentives for airlines to retrofit current aircraft or switch to quieter planes.
- Adopt more night flight restrictions, including a new formula for managing such flights.
- Explore other options to mitigate noise, such as a home insulation program for affected households. A noise sharing program should only be pursued if the respite it provides to communities is meaningful and predictable.
- Improve coordination between the GTAA, NAV Canada, Transport Canada and airlines.

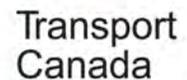
The panel's [final report](#) and the results of the [Survey on Airport Growth and Noise Fairness](#) are posted on our website.

WHO DOES WHAT IN NOISE MANAGEMENT

The GTAA develops and manages the Noise Management Program at Toronto Pearson and explores new opportunities for noise mitigation.



NAV Canada is the air navigation provider responsible for safe and efficient movement of aircraft in Canada and for assigning runways at Toronto Pearson. We're partnering with NAV Canada on various projects, including the [Noise Mitigation Initiatives Engagement Plan](#), which looks at six big ideas for reducing noise impact.



Transport Canada is the regulator for aviation in Canada, with responsibility for enforcing compliance with noise standards and restrictions.

Air carriers are responsible for conducting operations in accordance with Transport Canada regulations and Toronto Pearson's Noise Abatement Procedures and Noise Operating Restrictions.

The Community Environment and Noise Advisory Committee (CENAC) – sponsored by the GTAA and comprising residents and elected representatives from local municipalities – is an ongoing forum for discussing and asking questions about noise and other environmental issues. See [Stakeholder Engagement](#) to learn about CENAC's 2017 discussions.



OUR NEIGHBOURHOOD

THE MORE WE INVEST IN PEOPLE

The GTAA is committed to investing 1 per cent of annual net revenue in support of community organizations across our region. In 2017, that translated into nearly \$800,000 distributed through our funding program, the Propeller Project, which focuses especially on employment support in neighbourhoods around our airport.

\$100,000 CHARITY RUN

Toronto Pearson's 10th anniversary Runway Run attracted more than 2,000 participants in a five-kilometre run and a two-kilometre walk, raising \$100,000 for community programs.

GOOD WILL FUNDING

Toronto Pearson's community investment program, the Propeller Project, supports a wide range of efforts to build stronger communities and advance social good. We've created two main funding channels with distinct but complementary goals:

The Uplift Fund helps unemployed and underemployed people in nearby neighbourhoods – and around the region – gain the skills, connections and opportunities they need to find more meaningful jobs and potential careers. Funding is directed toward three main areas: (1) *research* into issues such as barriers to youth unemployment; (2) *advocacy*, including a digital campaign challenging employers' perceptions of young people; and (3) *programming*, such as an initiative with Scientists in School that creates clubs promoting STEM (science, technology, engineering and math) education among underserved youth.

In 2017, the Uplift Fund invested about \$430,000 in initiatives that had a direct positive impact on 60,000 community members.

The Nest Fund supports programs and organizations that are working successfully to build healthier, more resilient communities – and with our help could create additional benefits. Here, too, we've identified three key areas of focus: (1) *environmental* initiatives, such as the Shoreline Saver campaign that inspires hundreds of local volunteers to join in a cleanup of the Credit River watershed; (2) *employment* catalysts, such as a series of job fairs and employer events to help recent immigrants with underutilized skills gain traction in Canada; and (3) *community vitality* programs like A Common Table, run by MABELLEarts in Etobicoke, which brings together newcomers, refugees and established residents to celebrate the community's public spaces, cultural events and summer arts activities.

Last year, the Nest Fund invested nearly \$370,000 in community initiatives that engaged and benefited more than 7,000 people.

Through the Propeller Project, Toronto Pearson supports efforts to strengthen communities and advance social good.

Photo: Liam Choo



HELP WHERE IT'S NEEDED MOST

The Propeller Project is the GTAA's signature community investment program. We work to ensure it meets the highest-priority needs of local communities while aligning with our own values and priorities.

In 2016 and 2017, we undertook a study to find our *sweet spot* – that is, where Toronto Pearson could have the greatest social impact. The answer: later-stage newcomers to Canada. These are people who have been in the country for three years or more, and for whom support from social service agencies has dropped off. Business leaders told us their companies need the skills and capabilities many newcomers bring, but they're unable to provide the necessary wrap-around support.

That's where the Propeller Project comes in. While we've actively supported youth employment in recent years, in the future we intend to focus more on helping later-stage newcomers gain the skills, connections and opportunities to be meaningfully employed in communities around our airport and beyond. To help build the program and keep us on track, we've established an External Champions Council comprising 20 local business and community leaders.





WHERE WE GAVE

Here are some of the programs Toronto Pearson's Propeller Project supported in 2017:

Scientists in School – In addition to sponsoring a career research study, we're partnering on a three-year program that brings scientists into 25 schools to discover and promote STEM-related career pathways and opportunities for youth.

CivicAction Escalator Program – This was the second year of a program that studies barriers to employment for marginalized youth. Part of the program involves building a toolkit and assessment tool for employers to check their own biases and barriers to youth employment.

Institute for Canadian Citizenship: 6 Degrees – This program aims to drive the global conversation on diversity and inclusion. We support the 6 Degrees–Toronto Pearson Youth Cohort, a group of 15 dynamic leaders, aged 18 to 29, who are committed to building a more inclusive city. The group led an exceptional event at Humber College to discuss the challenges of youth employment in the GTA, beginning with intimate conversations and concluding with an interactive 360-degree session involving invited experts.

ACCES Employment – We supported a series of job fairs and employer events aimed at highly skilled newcomers in Mississauga and Brampton.

The better we move

OUR AIRPORT

People, baggage, cargo, aircraft – our priority at Toronto Pearson is to keep everything moving quickly and smoothly. That means constantly enhancing systems and processes to benefit from smart technologies and human-centred design. Helping all of our partners in airport operations work together efficiently toward common goals. Providing the highest-quality passenger experience, with attractive amenities on offer in a safe, supportive environment. And doing it all as sustainably as possible.



THE CONNECTED CITY

An airport is not just a way to get from A to B, writes Sevaun Palvetzian, CEO of CivicAction. It can help build stronger, connected communities and take social change to new heights.

We think about passing through an airport in the same way we think about booking a flight or checking into a hotel: it's a means to an end, marking the start or finish of what we hope will be a rewarding journey.

But the fact is we expect far more from an airport than a smooth trip through security and a convenient smartphone charger near the gate (so we can make our obligatory social media posts). An airport doesn't just link two points on a map; it connects people to opportunities, and ideas to action. And when it's a global hub like Toronto Pearson, those connections happen on a scale that drives employment and economic growth – not just in our region, but across the country.

Every time an airline launches a new daily international service at Toronto Pearson, it adds an estimated \$50 million to the economy and facilitates about 400 jobs – equivalent to a good-sized manufacturing plant. This means a flight to some distant corner of the globe we may never visit ourselves has a huge impact right here in our own backyard.

So in a globally connected, increasingly complicated world, we need to be paying more attention than ever to what's going on in our own city, and the challenges we face together. And what's become clear, in this new era of city building, is that true leadership means getting as many leaders as possible around the table to solve problems.

The people at Toronto Pearson understand this. The fact that Canada's largest airport sits at the centre of the second-largest employment cluster in the country is not an accident of geography. It's a testament to the power of connectivity. And with it comes a new level of responsibility.

The GTAA has joined other corporate supporters of CivicAction in funding our Escalator program, which helps connect youth who traditionally have not been given a boarding pass to join our labour market.

Over the past two years, we've made significant progress in finding both jobs and mentorship opportunities for young people in communities around the airport. We're also providing employers with resources and self-assessment tools to help them improve their track record on hiring and retaining local youth.

Right now, over 80,000 young people in the Greater Toronto Region are in limbo: out of school, unemployed, with no sense of how they can contribute. They're disconnected from the economy – and it ultimately will cost the province \$1 million for each person who stays that way.

Getting these young people connected is just as important as linking the Greater Toronto Region to 70% of the global economy, which flights in and out of Toronto Pearson are doing every day. In fact, we're really talking about two sides of the same imperative – because the more our economy thrives, creating jobs and boosting social well-being, the more attractive our region becomes to industry leaders and entrepreneurs around the globe looking for the best places to invest and do business.



SEVAUN PALVETZIAN

Sevaun Palvetzian, the CEO of CivicAction, is an expert on civic engagement who focuses on inclusive cities. Through CivicAction and her roles with the Ontario Public Service, she has advocated for new voices at tables of influence. An authority on urban issues, Sevaun frequently speaks to the media and is a member of groups like the Premier's Community Hubs Advisory Group and Waterfront Toronto.

For a variety of reasons, the world has chosen to gather here. More than 50 per cent of our population was born outside Canada, making this one of the most multicultural urban regions on earth. We need to ensure it's also one of the most equitable. Here, too, Toronto Pearson has a contribution to make – alongside other corporate standard-bearers, as well as social enterprises, public agencies, educational institutions and other stakeholders.

And as always, it starts with including everyone in the conversation. For CivicAction, that means bringing together senior executives in the public and private sectors with emerging leaders from diverse constituencies whose voices need to be heard. The challenges we tackle range from mental health to early childhood development to building sustainable infrastructure. And the theme running through everything we do is the need for dynamic, empowered and inclusive leadership.

The city-region we're building together is connected to the wider world. Most of us have come from somewhere else. We fly back to visit family and friends, or invite them to come and see the lives we're creating here. Travelling alongside us are businesspeople looking for new markets or sources of supply. Innovators seeking partners to help develop their technologies. Companies willing to invest and create jobs in our region. Students coming to expand their horizons, or venturing abroad for the same reason. And countless people who are simply curious to know our city better – or to discover a very different one on the other side of the planet.

The point of convergence for all of these journeys, the hub connecting us to the rest of the world, is Toronto Pearson. It's the front door to a great city, a great region and a great country. And it's a key to making them even greater. Our global hub, like our community, is a place where everyone is moving toward some new possibility – and no one is simply passing through.



OUR AIRPORT

THE SMOOTHER THE FLOW

Making sure passengers move effortlessly from curb to gate doesn't depend on a single factor. It's everything – from flexible digital signage to convenient check-in kiosks to intelligent baggage systems. Whether we're making lounges more comfortable or workspaces more accessible, we design with people in mind.

BAGGAGE: IT'S ONLY HUMAN

A critical component of airport flow, alongside passengers and aircraft, is baggage. At Toronto Pearson, efficient bag handling comes down to three factors: people, systems and processes. We've focused on the latter two in recent years, investing in advanced technologies to move bags quickly through our terminals, and facilitating data sharing with carriers to make it easier to process and track luggage from check-in to the aircraft hold – or from the apron to the arrivals-area carousel. We've also built a new transfer facility in Terminal 1 to handle the growing volume of bags that shift from one aircraft to another as millions of travellers connect through our airport. As a result, we've seen significant gains in handling speed and accuracy. But there are still further opportunities to improve performance. So over the past year we've concentrated on the third key ingredient: people.

Baggage processing at Toronto Pearson involves a coordinated effort among many players. Air Canada, our highest-volume carrier, manages its own handlers. Four specialized companies provide contract services to most other airlines. All processing of bags must be coordinated with the Canadian and U.S. agencies responsible for security, customs and border control. And then there are the various support services offered by the GTAA.

A new transfer facility is helping Terminal 1 handle a growing volume of passenger luggage – as millions connect through Toronto Pearson each year.



When we looked at our own role in the baggage process, we saw opportunities to coordinate decision-making among three distinct groups: Aviation Services, Technical Services and Information Technology. We've appointed a single director of baggage services, along with associate directors for each terminal who oversee operational teams with embedded technical and IT staff. Through collaborative problem-solving and decision-making, and by viewing challenges through the lens of human-centred design, these leaders gained insights that have prompted a complete reimagining of how we plan and manage baggage handling at our airport.

We began by taking a fresh look at the entire process through the eyes of the people who actually move bags. They told us how their work environment could be better organized to facilitate flow, making recommendations on everything from more consistent and intuitive signage to improved workstations and lighting. For the first time, managers began sharing details of the performance standards set by the airlines, seeking input from front-line employees on how best to meet them. Through rapid prototyping and testing, teams were able to narrow down what information was most salient and collaborate on designing better solutions.

This new human-centred approach is still gaining momentum. But combined with the improvements we've made to systems and processes, it's already had a transformative impact: the number of baggage-related issues reported in 2017 was down by more than 90 per cent from the previous year. And as we continue to add incremental improvements, the progress we're making in baggage handling provides a model for other collaborative efforts across Toronto Pearson.

650 DIGITAL DISPLAYS

were added to Toronto Pearson's flight information and wayfinding signage systems in 2017 to help passengers navigate our terminals more easily than ever.

295 CHECK-IN KIOSKS

reduce wait times in our terminals, including 25 new units added in 2017. We've also nearly doubled the number of convenient self-service baggage drops to 46, benefiting 80 per cent of our departing passengers.



The Toronto Pearson Safety Team collaborates with peers at other Canadian airports to promote passenger and employee safety around the country.

JOINING FORCES FOR SAFETY

Canada's airports joined forces in October 2017 to strengthen safe and healthy work practices among their employees. By encouraging discussion and involving all airport workers, we ensure that the safety of passengers and employees is always top of mind.

Twenty-nine airports participated in Canadian Airports Safety Week, which is led by the Canadian Airports Council. The Toronto Pearson Safety Team organized themed discussions and activities aimed at raising employee awareness around worker safety, airside safety, security, foreign object debris, and environmental safety and hazard reporting. Airside Safety Week, which took place at the same time, promoted safety in baggage roadways, staged mobile equipment "rodeos" to test driver skills and gave airport employees opportunities to ride along with Airside Safety Officers.

LOCK THEN WALK

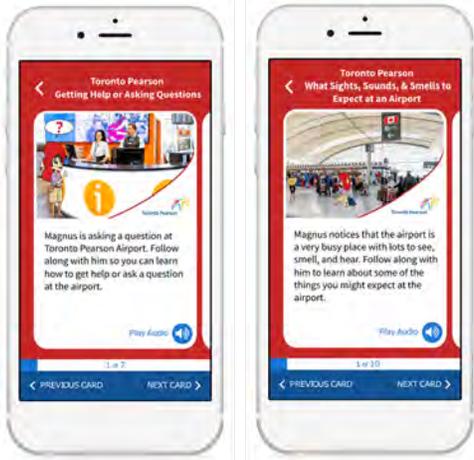
Together with the security agencies at Toronto Pearson, we launched the Lock Then Walk program to further embed security practices in the way we work. It's aimed at preventing unauthorized access to restricted zones, customs-controlled areas, fleet vehicles and gates.

Through posters, stickers and newsletter articles, the program reminds employees to stay aware of their surroundings at all times – to make sure that doors are properly shut and secured behind them, and not to allow anybody else to enter behind them after they've unlocked a door using a Restricted Area Identity Card.

Lock Then Walk also encourages staff to be mindful of passengers who inadvertently make a wrong turn or follow an employee through an open door. This could result in a customs breach, which could then cause the passenger to miss their departure – or require all passengers in the affected sector to be rescreened.



Embedded security practices keep the airport safe, while helping passengers make their connections. Our Lock Then Walk program promotes a security culture through posters, stickers and articles.



INTRODUCING MAGNUSCARDS

Toronto Pearson has improved accessibility for passengers with cognitive special needs by offering MagnusCards – a free app with card decks that provide step-by-step instructions for common airport processes. We're the first airport in the world to participate in the program, demonstrating our strong commitment to ensuring universal access for all passengers.

OUR AIRPORT

THE CLOSER THE TEAMWORK



How do you get 49,000 people employed by 470 organizations to work even better together? By making it easier to collaborate toward common goals. By listening closely to employees, learning what engages them and benefiting from their experience. And by tapping into the deep sense of pride that comes with working at one of the world's great airports.

I AM TORONTO PEARSON

It started out modestly in 2016 as a campaign that tapped into the pride of Toronto Pearson employees who were working each day to give passengers the best possible airport experience. By the end of last year, it had grown into a genuine grassroots movement, with 10,000 people and more than 300 companies actively endorsing the values and aspirations summed up in a simple slogan: *I am Toronto Pearson*.

For everyone working at our airport, in every kind of role – from check-in agents and baggage handlers to security screeners and sous-chefs – there are endless opportunities to make a positive difference in travellers' lives. Whether directing a vacation-bound family to their departure gate or welcoming newly arrived immigrants to Canada, Toronto Pearson employees feel increasingly empowered to reach past their official job descriptions and ask, "How can I help?"

Some 49,000 people are directly employed at our airport in every type of enterprise, public and private, large and small. What the success of *I am Toronto Pearson* shows is that for many, coming to work each day is not just about earning a paycheque. As more and more organizations embrace the campaign, designating in-house ambassadors to spread the word, they typically find that their own people are already ahead of them, talking about ways to get everyone engaged. This is how we're transforming our airport into a top-ranked global hub: through countless small offers of help to the 47 million passengers a year (and counting) who are ultimately the judges of whether we've achieved our vision.

Nearly 50,000 people work at Toronto Pearson, including Canadian Air Transport Security Authority employees helping Terminal 1 passengers get to their gates safely and on time.



A GENUINE PLUS IN SECURITY

In June 2017, the Canadian Air Transport Security Authority (CATSA) unveiled new security lines in the U.S. departures area of Terminal 1 that are designed to help passengers proceed more quickly to their gates while ensuring a safe, secure screening process. Called CATSA Plus, the enhanced system has a number of efficiency-boosting features, including:

- A series of electronic gates and sensors that automate boarding pass validation and guide each passenger into the most efficient line. The technology also collects data on processing times.
- Parallel bin stations allowing four passengers at once to place their belongings in inspection bins. People who load their items quickly can move ahead of those who need more time.
- A continuous flow of bins through the X-ray machines, where images are routed to the next available officer at one of several remote viewing stations. Any bin requiring further screening is automatically redirected to a separate search line. Bins that are cleared proceed without delay, improving overall flow.
- More space at the end of the line, along with tables and benches, where passengers can repack their belongings without feeling rushed.
- Automatic bin return, so officers don't need to keep carrying them back to the start of the line.

CATSA Plus lives up to its name, adding a new level of efficiency to security screening at Toronto Pearson. New lines were opened in Terminal 3 in December, and more will be rolled out in 2018. And we continue to partner with CATSA on adding further conventional lines to process more passengers more quickly while maintaining the highest security standards.



Photo: Laura Arsie

AUTOMATING THE BORDER

98 PER CENT of all U.S. and international passengers arriving in Terminal 3 can now use 104 primary inspection kiosks to clear customs electronically.

82 AUTOMATED PASSPORT CONTROL KIOSKS enable U.S.-bound passengers to clear U.S. Customs in Terminal 1.

A 2018 pilot with the **CANADA BORDER SERVICES AGENCY (CBSA)** will use kiosks to process passengers connecting between two international/U.S. destinations.

50 AUTOMATED BORDER CLEARANCE KIOSKS speed up arrivals for Canadian citizens and U.S. passport holders in Terminal 1.

47 GLOBAL ENTRY KIOSKS allow Nexus and Global Entry program members to pre-clear U.S. Customs in both terminals.

30 NEXUS KIOSKS serve Terminal 1 passengers enrolled in the U.S.-Canada trusted traveller program.

ONE-STEP PRE-CLEARANCE has eliminated declaration cards for most passengers going through U.S. Customs.

RAISING THE LEADERSHIP BAR

We're proud to partner with the Ivey Academy Education at Western University to deliver an executive leadership program for our 80 directors and associate directors. The program equips senior leaders with tools and insights to help them drive strategic clarity, lead people effectively and influence innovation and change in our organization.

As part of the course, participants work in teams to develop solutions to real GTAA business problems. So far, they've tackled issues such as how to improve the passenger experience on an extended layover, how to reduce paper consumption and how to leverage collaboration technology to increase interaction and connectedness among colleagues across the GTAA.

We've also launched the first-ever GTAA Management Trainee Program, aimed at future managers who are currently in front-line roles. Participants in the 18-month program rotate through three consecutive six-month terms in three different operating units. In addition to training, the program gives them valuable operational and leadership experience. With 30 people applying for just a handful of available positions, we needed a rigorous management assessment and interview process to select the first cohort.



In partnership with Ivey Executive Education at Western University, in London, Ontario, we are investing in senior leadership tools and insights to foster innovation and change.



PEOPLE MANAGER FUNDAMENTALS

When GTAA employees told us that having a capable and supportive manager makes a big difference to their success on the job, we pulled together a People Management Action Team to help build the know-how, skills and confidence of our people managers.

From this, the People Manager Fundamentals curriculum was created to promote a consistent understanding of what good management looks like at the GTAA. The program brings participants together with their peers to gain knowledge, practice new approaches and understand the importance of their roles. We started with 12 classroom and e-learning courses in 2017, and we plan to add more courses in 2018. To date, 180 people have been through the curriculum, which includes about 40 hours of coursework.

OUR AIRPORT

THE COOLER THE EXPERIENCE

Toronto Pearson is constantly evolving. Adding new shops and restaurants. Expanding and enhancing services. Providing fun diversions that also bring new revenue. And transforming the passenger experience from simply waiting for the trip to start to feeling that a memorable journey has already begun.

IT PAYS TO INVEST IN PASSENGERS

Creating a relaxing, enjoyable passenger experience attracts more tourist and business travellers to Toronto Pearson, which benefits the entire region. It also pays tangible dividends that we can reinvest in our facilities to keep pace with growing demand. Our fastest-growing source of income continues to be non-aeronautical revenues (NAR) – primarily generated from parking and ground transportation fees, retail and dining concessions, and rent paid by air carriers for check-in counters and kiosks. In 2017, NAR grew to an all-time high of just over \$450 million, up 9.2 per cent from the previous year.



Enhanced shopping and dining options improve the overall passenger experience, while supporting investments in the safety and comfort of Toronto Pearson facilities.

Parking fees currently represent the largest source of NAR at Toronto Pearson, but we expect that to change. For example, as ride-sharing services continue to grow in popularity, we'll no doubt see a shift in driving patterns and parking usage – along with new revenue from these ground transportation providers comparable to the fees we now receive from limo and taxi operators.

Another area of NAR growth is advertising and sponsorships, which currently generate about \$28 million annually – a rate of revenue per passenger that places Toronto Pearson in the top tier of North American airports. We expect that figure to rise as we forge additional brand partnerships and continue to enhance our award-winning digital communications platform.

In 2017, NAR accounted for about 33 per cent of Toronto Pearson's total revenues. Our objective is to continue increasing that proportion over time. As points of comparison, NAR contributes more than half the annual revenues of Amsterdam-Schiphol and over 70 per cent at Hong Kong International. By leveraging our proven strengths in dining and retail (especially duty-free) – and by pursuing innovative strategies in how we develop and promote our airport to a global marketplace – we'll be better positioned than ever to keep carriers' costs down, maximize the value of existing assets and make whatever future investments may be needed to keep pace with demand.

28 NEW DINING AND SHOPPING LOCATIONS

opened at Toronto Pearson in 2017: six retailers and five food-and-beverage providers in Terminal 1, and 11 shops and six restaurants in Terminal 3.

#1

In 2017, *USA Today* readers voted Toronto Pearson the Best Airport Shopping Platform in North America.



International passengers can sample poutine and other Canadian classics from a local food truck – just one of the many culinary experiences now available at Toronto Pearson.

LOCAL FOOD GOES GLOBAL

Many of the dining experiences we create at Toronto Pearson are designed to showcase the best of our region to a global audience and entice visitors into further culinary adventures in our backyard. For example, in 2017 we enhanced our Terminal 3 offering with a food hall featuring three restaurants based on established venues in the Distillery District, one of Toronto's most popular tourist destinations. Passengers get a taste of what's available in the historic neighbourhood of restaurants, bars, galleries and boutiques, and can enjoy more when they head downtown – or on their next visit.

In a similar vein, the Terminal 3 international departures area is now home to a food truck, Smoke's Poutinerie, which serves Canadian classics such as poutine on a licensed patio in the pre-security zone. Meanwhile, work has begun on further enhancements to our extensive amenities in Terminal 1, including new dining concepts and luxury retail shops in the domestic departures area, and a range of food-and-beverage options to better serve U.S.-bound passengers.



OUR AIRPORT

THE HIGHER THE QUALITY

When it comes to airports, better is in the eye of the traveller. Easy connections. Minimal wait times. Friendly service. Speedy baggage delivery. Helpful signage. Free WiFi. Great dining options. Plenty of seating. Toronto Pearson passengers tell us what matters most to them. And they rank us first in North America among comparably sized airports for all-round quality.

#1 FOR QUALITY IN NORTH AMERICA

That's the ranking Toronto Pearson has earned, among airports serving more than 40 million passengers annually, in the 2017 Airport Service Quality (ASQ) passenger satisfaction survey.

PASSENGERS' VERDICT IS IN

Every year, Airports Council International conducts a worldwide passenger satisfaction survey as part of the Airport Service Quality (ASQ) program. The benchmark study measures 10 key quality indicators, from retail and dining amenities to the availability of basic services such as baggage carts. In 2017, Toronto Pearson received its highest score yet – 4.31, up from 4.25 in the previous year. That places us ahead of all other airports in North America serving more than 40 million passengers annually. We're also ranked higher than comparable hubs across the Americas, Europe, Africa and the Middle East, with only a few industry-leading airports in Asia receiving higher overall ratings.

Our record score reflects gains in nine of 10 quality categories, which attests to the continued success of our customer service initiatives across the board. What's more, the ASQ program's approach aligns with our belief that the best judges of service quality are the people who experience its impact firsthand. This annual survey is just one part of an ongoing conversation with Toronto Pearson passengers, who last year communicated their comments, advice and concerns to us through 144,000+ phone calls, 30,000+ emails, 62,000+ Tweets and 300,000+ interactions with customer information kiosks. From suggestions on signage and device charging stations to ideas on how we can improve various airport features or services, we welcome passenger feedback, take it to heart – and act on it.

Retail and dining amenities are among the 10 key quality indicators the Airports Council International considers as part of its Airport Service Quality Survey.



OUR AIRPORT

THE LOWER THE IMPACT

As we respond to all the ways the world is changing, we never lose sight of the environmental changes that are clouding the future. Across Toronto Pearson, we're working together to save energy, use water wisely, better manage waste and fulfill our commitment as an airport that's here to serve not only people, but the planet.

32 PUBLIC EV CHARGING STATIONS

are now available at convenient points around Toronto Pearson for passengers, employees and community members who drive electric vehicles.

PLUG-IN ENERGY SAVINGS

In March 2017, we activated 32 electric vehicle (EV) charging stations at Toronto Pearson, including in the parking garages of both terminals and in a cellphone lot for people waiting to pick up arriving passengers. Supported by \$2.6 million in funding through the provincial Ministry of Transportation, it's one of the largest single installations in a major energy-saving program sponsored by the Government of Ontario. The chargers, which are available for free and include 10 high-speed Level 3 units, have also been placed in the GTAA administration building parking lot to support energy-conscious drivers. The public-facing initiative complements an even more extensive network of about 80 chargers already in use by electric baggage tugs and other service vehicles on the airside of Toronto Pearson operations.

This is just the latest of many collaborations between the GTAA and the Toronto and Region Conservation Authority (TRCA) – our co-founders, in 2008, of [Partners in Project Green](#), a business-led community dedicated to creating the world's largest sustainability-focused industrial and commercial zone around Toronto Pearson. Reinforcing the partnership's commitment to enhancing energy performance, the EV charger initiative has many dimensions of impact, including:

- encouraging more community members to use electric vehicles
- making local roads and neighbourhoods healthier
- helping people save on fuel, operating and maintenance costs
- reducing greenhouse gas emissions
- contributing to Ontario's long-term Climate Change Strategy.



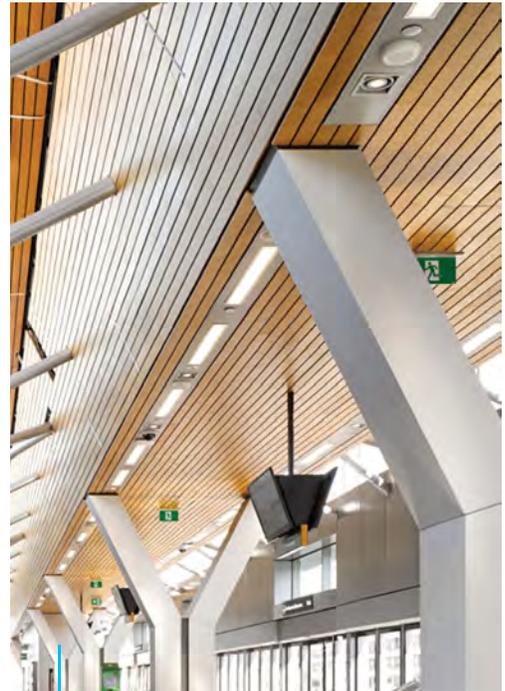
With the support of the Ontario government, we have completed one of the province's largest installations of electric vehicle charging stations to help serve energy-conscious passengers.

DOING OUR PART ON CLIMATE

While our continued growth adds to the challenge of reducing greenhouse gas (GHG) emissions, we're making strong inroads. We've reduced our GHG emissions by 54 per cent from 2006 levels, well ahead of our goal of a 20 per cent reduction by 2020.

Switching to energy-efficient LED (light-emitting diode) lighting has been a big part of our success so far. In 2017, we completed LED lighting conversions in all baggage areas, replacing about 12,000 lights this past year alone. We installed LED lighting, with controls that adjust to the time of day, in the tunnels that connect our airport's infield and terminal spaces. We also installed 10,000 new LED tubes in all non-passenger-facing areas of Terminal 1, a change that increases brightness by 20 per cent while using 30 per cent less energy. In total, our 2017 lighting projects will save about five million kilowatt-hours per year – enough energy to power 500 Ontario homes.

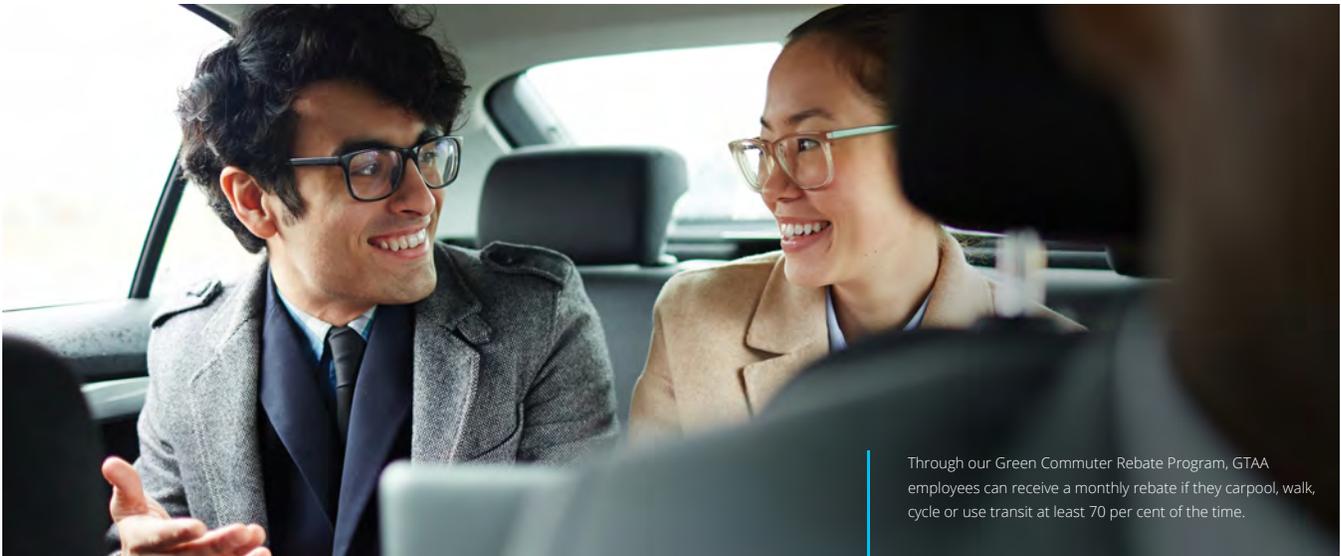
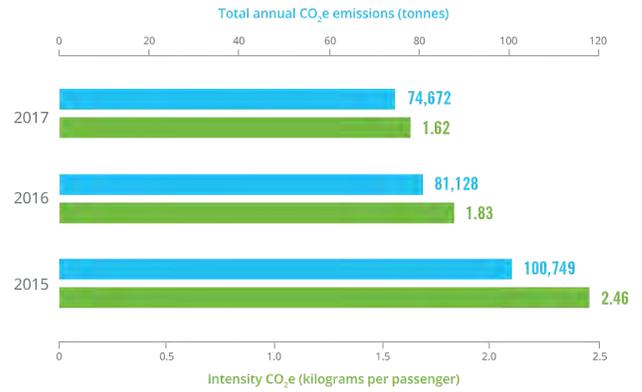
Also in Terminal 1, our energy conservation team completed a heating, ventilation and air conditioning (HVAC) optimization project that puts air quality monitoring sensors closer to passengers and employees to keep them more comfortable. This simple change also helps control the amount of heating and cooling needed and reduces GHG emissions by about 1,100 tonnes per year – that's equivalent to 2,547 barrels of oil consumed.



Toronto Pearson's energy conservation team is working to reduce GHG emissions – through LED light installations, HVAC optimizations and other inroads.

GREENHOUSE GAS EMISSIONS

GHGs represent a significant environmental impact for the airport industry. At the GTAA, we've already exceeded our corporate target of a 20 per cent reduction by 2020 (compared to the 2006 base year), and our aim is to raise the bar further. As part of our commitment to reducing environmental impacts, we've aligned our reporting standards to include ISO 14064, as well as the Province of Ontario's new cap and trade program and the internationally recognized Airport Carbon Accreditation program (in which the GTAA has achieved Level 3 certification). To align all three standards, for this year's annual report we've expanded our reporting boundary beyond Toronto Pearson's core operations to include emissions from the production and sale of electricity.



Through our Green Commuter Rebate Program, GTAA employees can receive a monthly rebate if they carpool, walk, cycle or use transit at least 70 per cent of the time.

SMART COMMUTE'S 2017 EMPLOYER OF THE YEAR

In recognition of our efforts to lower GHG emissions, the GTAA was honoured to be named Smart Commute's 2017 Employer of the Year for Peel Region. We joined Smart Commute when it started in 2007 as a way to ease congestion in the Airport Employment Zone, free up airport parking spots and reduce GHG emissions. To set an example as a responsible organization, we established an ambitious target of having 30 per cent of our employees commuting via transit by 2035.

While progress had been good, we gave it a boost in 2017 by introducing the Green Commuter Rebate Program. The program offers staff a \$50 rebate for each month they carpool, walk, cycle or use transit to and from work at least 70 per cent of the time. The response was fantastic. By year-end, there were 223 participants, resulting in reductions of more than 321,000 kilometres of vehicle travel and 41,000 kilograms of GHG emissions.

LEVEL 3 CARBON RATING

In 2017, Toronto Pearson was re-certified at Level 3 in the Airport Carbon Accreditation program managed by Airports Council International. The step up to Level 4 requires carbon neutrality, which is a goal we hope to eventually achieve. (Dallas Fort Worth International Airport is currently the only carbon-neutral airport in North America.)

71% WASTE DIVERSION

GTAA-wide waste diversion rate was 71 per cent in 2017 – three percentage points lower than in 2016.

1,338 POUNDS OF HONEY

That's how much Toronto Pearson's honeybee apiary harvested from its 18 hives in 2017. Our YYbeeZ program, which operates along a trail near the Etobicoke stormwater facility, helps support food security and sustainable agriculture in areas near our airport.

10,551,484 LITRES

The volume of glycol-based deicing fluid collected for recycling after being sprayed on aircraft in 2017.

OUR DRIVE TO ZERO WASTE

Each year, our drive to zero waste gets us involved in new and different projects. For example, we're now identifying used furniture and windows to give to Habitat for Humanity. Through Partners in Project Green, we participate in an online platform that facilitates the exchange of materials between organizations like ours and service providers as a way of diverting resources from landfill. Instead of disposing of damaged lighting, we're having it refurbished.

We even have a program for recycling old cellphones that's aimed at saving gorillas' natural habitats in Central Africa. The Toronto Zoo's Phone Apes program collects old cellphones for use in the manufacture of new phones, as a way to reduce mining for coltan, a mineral used in cellphones that is sourced from African countries, including the Democratic Republic of Congo. There are Phone Apes recycling bins in four facilities at the GTAA.

Our GTAA-wide waste diversion rate was 71 per cent in 2017 – three percentage points lower than in 2016. We believe the difference was largely the result of poor diversion from public parking areas.

It's important to note that waste from inbound international aircraft is not included in our diversion processes. This type of waste is incinerated, in keeping with federal government regulations aimed at protecting and preventing the spread of disease and other threats to Canadian plants, wildlife and agribusiness.

A DECADE OF GOING GREEN

In 2017, Partners in Project Green entered its 10th year of cooperative efforts in support of the pioneering Pearson Eco-Business Zone. Co-founded by the GTAA and the Toronto and Region Conservation Authority, the initiative brings together like-minded local businesses to talk about sustainability issues, share creative ideas and success stories, and collaborate on green business initiatives that create tangible value. Members devote time and resources to programs they find meaningful in four key areas: energy management, employee engagement, waste management and water stewardship.

Over the past year, partners came together in more than a dozen programs and initiatives that had concrete impact, including diversion of landfill waste, reduction in energy use, tree planting, activating electric vehicle stations, and process water and wastewater offsets.

To celebrate 10 years of achievement, in 2018 Partners in Project Green will be running a campaign showcasing various actions taken by community businesses to build a green economy in the GTA.

You can learn more at partnersinprojectgreen.com.



The better we move

OUR WORLD

Toronto Pearson's runways support non-stop flights to over 180 destinations worldwide and connect to more than two-thirds of the global economy – and our reach is expanding all the time. Every year, millions of travellers count on our support as they explore new markets, build valuable relationships and create the kinds of opportunities abroad that boost prosperity at home. Like them, we succeed by carefully managing our resources while planning for the future – not just the coming days and months, but the next two decades and beyond.



HOW AIRPORTS DRIVE ECONOMIC GROWTH

Toronto Pearson acts as a powerful anchor institution for the region, writes influential urban theorist and best-selling author Richard Florida. It's a vital asset in the drive to sustain development and growth.

In more than three decades of studying urban economic development, I haven't been compelled to think much about airports – until recently. For me, and for many other experts in my field, there were two key things that drove innovation and economic growth in cities: high-tech industries and highly educated knowledge, professional and creative talent.

In 2011, a book called [Aerotropolis](#) argued that airports wield heavy influence on the growth of cities and industries. In fact, its authors predicted that airports and their surrounding communities would “shape business location and urban development in the 21st century as much as highways did in the 20th century, railroads in the 19th and seaports in the 18th.”*

Still, I remained skeptical. Did airports really drive economic growth in the same way as universities or high-tech firms?

With the help of two colleagues, a regional economist and a statistician, I undertook a large-scale research project to find out. We fashioned a sophisticated statistical analysis to gauge the impact of airports – and other key factors like talent and technology – on regional economic development.

The [results](#) of our research, published in a leading academic journal and [summarized](#) online, caused me to change my mind on airports – big time. We found that airports help to propel regional economic prosperity. What's more, we found that airports have a stronger connection to regional growth than high-tech industry, and about the same impact as high-skill talent.

What is it about airports, we wondered, that makes them such critical economic drivers?

As urbanists and economists, we knew that airports moved two things: goods and people. But while both are essential for regional development, we found moving people to be more important. As sources of ideas and talent, people are chief contributors to regional innovation, creativity and economic growth.

* Dr. John D. Kasarda, [aerotropolis.com](#)

This is backed by [research](#) concluding that an airport's ability to move people from one place to another is a key factor in urban economic development. One such [study](#) – which compared U.S. domestic air traffic before and after the deregulation of the airline industry in 1978 – found that air traffic growth has a positive effect on population, income and employment growth in cities, even after statistically controlling for other regional characteristics.

The key lies in the way that global hub airports connect global cities to one another. A [2017 study](#) discovered that non-stop flights and high levels of connectivity generate even more inter-city investment than airport capacity. This is particularly true of airports that offer numerous long-haul flights to global cities between 5,000 and 6,000 miles away.



RICHARD FLORIDA

Richard Florida is University Professor and Director of Cities at the [Martin Prosperity Institute](#) at the University of Toronto's Rotman School of Management and the co-founder and editor-at-large of [The Atlantic's CityLab](#). He is the author of the best-selling book *The Rise of the Creative Class* and most recently of *The New Urban Crisis*.

While there are plenty more studies like these to cite, the picture is sufficiently clear: Having a global hub airport is fundamental to Toronto's economic competitiveness – and that of any other major city.

In recent years, the connectivity provided by Toronto Pearson – along with features like great universities, strong banks and financial institutions, openness to international talent, and burgeoning high-tech clusters – has helped Toronto rapidly ascend the ranks of global cities. The Toronto metropolitan area now ranks 10th on [my own](#) Global City Economic Power Index, and the city ranks [seventh](#) on the Global Financial Centres Index, a measure of global finance and banking. Toronto also generates around a fifth of Canada's total economic output – about the same combined share as New York, L.A. and San Francisco in the United States.

Today, Toronto Pearson yields an economic impact of more than \$40 billion a year, equal to 15 per cent of Greater Toronto's economic output or GDP and more than six per cent of Ontario's. At the same time, it provides access to about 70 per cent of the global economy via daily direct flights, while anchoring a powerful transportation and logistics hub. Investment in a new regional transit centre at the airport will only enhance and reinforce this progress.

But the impact of Toronto Pearson isn't limited to the city alone. The airport is also a key asset to the broader [mega-region](#) spanning Kitchener-Waterloo to the west, Ottawa and Montreal to the east, and Rochester and Buffalo to the south. This economic aggregate is the twelfth-largest mega-region in the world, producing nearly \$600 billion in economic output. When combined, the region is bigger than Sweden and equivalent to one of the world's 25 largest economies.

In this way, Toronto Pearson acts as a powerful [anchor institution](#) for the region, alongside top-notch universities, hospitals and medical centres, as well as leading corporations. Moving forward, Toronto must continue to leverage this asset to ensure sustained economic growth.



OUR WORLD

THE FURTHER WE REACH

The travellers we serve are globally connected and eager to expand their horizons. Meanwhile, our carriers are flying larger aircraft over longer distances, with higher fuel efficiency and at a lower cost. As we help more and more people reach more places more often, the world has never been so close.

TO THE ENDS OF THE EARTH (AND BACK)

Toronto Pearson ranks second among North American airports for direct connections to global destinations, as well as for the total number of international travellers we serve each year. In 2017, international traffic through our airport grew by eight per cent to 29.6 million passengers. This represents nearly 63 per cent of total volume. (By comparison, growth in the number of domestic travellers, while still significant, was just over three per cent.)

Our carrier partners offer direct flights to more than 150 international cities. The top 10 destinations by passenger volume are (in descending order) London, Cancun, Amsterdam, Frankfurt, Hong Kong, Montego Bay, Punta Cana, Paris, Beijing and Shanghai. In 2017, we saw a marked increase in demand on many established routes, notably to Amsterdam, Chicago, Los Angeles and Mexico City. We also added new or expanded services to Lisbon, Guangzhou and San Antonio, Texas.

Outbound international travellers are heading off to explore new places, visit family and friends, and pursue business and professional opportunities. People who arrive from abroad are likewise coming to explore Canada on holiday, renew personal connections, conduct business and invest in new ventures. Coming or going, they're part of the constant flow of people, goods, capital and ideas that drives the global economy – and creates jobs and prosperity in our country.

Toronto Pearson brings the world together, with non-stop flights to more than 180 international cities.



THE VALUE OF CONNECTING

While most of our traffic represents what we call origin-and-destination travellers – that is, people who are flying to or from our region – 30 per cent are connecting passengers. Last year some 14 million travellers, both domestic and international, passed through our terminals en route to their ultimate destinations.

The value of connecting traffic is not always understood: Why should we enhance our airport to accommodate people who are just passing through? First of all, when more people fly in and out of Toronto Pearson, it boosts both aeronautical revenue and the returns generated by passenger services and amenities; this helps to support a vital piece of infrastructure, benefiting our region and all of Canada. But the impact of connecting traffic extends even further: higher passenger volumes enable carriers to deploy larger aircraft, increase the frequency of flights and add new routes – to the advantage of everyone who travels to and from our airport. This is one more dimension of how a global hub creates positive local impact.

And then, of course, there are travellers who book layovers in Toronto, whether for business meetings or brief sightseeing visits. While more than simply passengers in transit, who generally remain within our terminals, many wouldn't arrange a stopover were it not for the convenient connections that Toronto Pearson provides. This brings a further economic stimulus to our region.

30% CONNECTING PASSENGERS

The number of air travellers connecting through Toronto Pearson has doubled in the past decade, from just under seven million in 2007 to 14 million last year. Connecting passengers now account for 30 per cent of all traffic.

185 DIRECT DESTINATIONS

Airlines flying into and out of Toronto Pearson offer regular non-stop service to 34 Canadian cities and 151 destinations around the globe.



More than 40 per cent of all flights within Canada pass through Toronto Pearson.

Photo: Andy Cline

FLYING AROUND OUR BACKYARD

An international airport also enables quick, efficient connections closer to home. Toronto Pearson is the hub for Canada's two major domestic carriers, Air Canada and WestJet, which together provide direct service between Toronto and 34 cities from coast to coast to coast. National air traffic data from mid-2017 shows more than 40 per cent of all flights within Canada passing through our airport. By year-end, we'd helped 17.5 million passengers crisscross the nation.

Going forward, as services expand to match the patterns of economic growth – and as carriers continue to increase aircraft capacity – the domestic side of our operation will only continue to grow.



OUR WORLD

THE MORE LINKS WE FORGE

Daily non-stop flights from Toronto Pearson reach 70 per cent of the global economy, and that will grow to 80 per cent in the next few years. We help businesspeople find new customers, cement partnerships, visit factories and trade events, ship high-value goods and attract investors to our own backyard.

FOREIGN EXCHANGE

Foreign direct investment (FDI) is a vital component of any developed economy, and Canada is no exception. In 2016, our nation's inward FDI stock – the total level of investment from foreign sources at any given time – was \$826 billion. Since the global financial crisis and subsequent recession of 2008–2009, we've led the G7 nations in attracting investment. In 2016, our key success measure – the ratio of FDI to total Canadian GDP – was double the G7 average. This inflow not only provides a stable source of funding for Canadian enterprises; it also brings added benefits such as the transfer of knowledge and technical expertise. What's more, FDI strengthens commercial ties between our country and foreign markets. And all of this naturally increases demand for air travel.

Toronto Pearson, as a global hub, plays a crucial role in connecting foreign investors to Canadian projects and companies, and vice versa. The connectivity we provide is also a key consideration for multinationals looking at competing sites for new divisional headquarters or key branch operations. Our airport's impact as an economic facilitator is particularly evident in a province where foreign investment is considered vital for economic growth. Ontario accounted for 8 per cent of all FDI flowing into North America in 2016, up from 6 per cent in the previous year. In the same period, the province's share of Canadian FDI grew from 47 per cent to 53 per cent of the national total, while the value of investments from foreign sources increased from \$4.1 billion to \$4.5 billion. These data points reflect countless interactions among corporate leaders and investors, as well as legal and finance teams, engineers and designers, and experts in every area of manufacturing and service delivery. And most of those interactions are made possible by our airport's efficient direct connections to more than 70 per cent of the global economy.

As Toronto Pearson increases its reach, regional economic activity will support nearly 700,000 new jobs through direct, indirect and induced impacts.



IT ALL CONNECTS

When we introduce a new service or route at Toronto Pearson, the value added extends far beyond the immediate advantages of direct access to a new destination. Connectivity leads to more connectivity. If it becomes easier to reach Toronto from, say, Madrid, then Toronto soon finds itself welcoming more tourists, students, businesspeople and investors from Spain. Connections among people and organizations making it easier for Canadian companies to export products and services to Spanish markets, which in turn creates still more jobs here at home.

As our airport steadily increases its reach and frequency, we anticipate that the impact on regional economic activity will support a projected 700,000 jobs – direct, indirect and induced – across the region. In addition, the global connectivity we provide helps to attract skilled people from abroad who want easy access to family and friends back home. We help regional businesses and organizations win in the global war for talent, and that benefits everyone.

14% OF ONTARIO EXPORTS

Goods shipped via air cargo through Toronto Pearson in 2016 represented about 14 per cent of Ontario's total exports by value, and 7 per cent of exports nationally.



OUR WORLD

THE FULLER THE CIRCLE

For today's air traveller, the journey begins long before the airport – with a bag by the door, a boarding pass downloading and a ride booked on a mobile app. And whether a trip entails a flight across the country or to the far side of the globe, it ends only with a traveller's return to the point of origin. We call it *home to home*.

FROM HOME TO HOME

Most of us are used to downloading our boarding passes well ahead of a flight time. Soon you'll also be able to print out luggage tags before you've left your home or office – so when you arrive at Toronto Pearson, all you'll have to do is drop your bags at a designated point and carry on through security.

But what if checking in from home could also prompt an automatic booking with a preferred limo, taxi or ride-sharing service – with all the details confirmed and updated on your phone? And maybe the transaction could trigger an order to your favourite coffee place in Terminal 1, so your usual latte or cappuccino will be ready as you walk to the gate. Or how about when you fly back to Toronto? What if the clothes you dropped off at the dry cleaner's in the terminal could be waiting at the gate as you disembark from the plane? Or when you head to your car, wouldn't it be great if there was a box of pre-ordered groceries waiting in the parking area, so you didn't have to go home to an empty fridge?

We are exploring ways to reimagine the passenger experience through smart devices and mobile connectivity.



These are the kinds of scenarios being explored by Toronto Pearson's home-to-home travel team. As people embrace digitally enabled convenience in all areas of their lives, from mobile banking to online shopping to video on demand, there's a huge opportunity to rethink the passenger experience. Where we once thought of air travel as flying from airport to airport, we're increasingly seeing it as an end-to-end journey that only concludes when you return to the starting point.

This thinking doesn't just apply to passengers starting out from Toronto Pearson. We're looking at ways to track and support connecting passengers as well, so we can welcome them personally on arrival and guide them seamlessly through our terminals – with helpful prompts on their smartphones – and on to the next stage in their journeys. We've already begun developing a pilot program with one of our international carriers, working out how to share relevant flight data and passenger profiles – subject, of course, to strict privacy and data security protocols.

Right now, home-to-home for most travellers is an intriguing idea. But soon it will simply be expected. And Toronto Pearson will be in the lead, working to deliver the optimum travel experience – before people even walk out their front doors.

1,500 ELECTRONIC DISPLAYS

update passengers on flight departures and arrivals, baggage delivery and other information as they move through our terminals.

Up-to-the-minute data and analytics support agile decision-making – meaning passengers, baggage and aircraft can flow smoothly.



THE DATA-DRIVEN AIRPORT

Maintaining a consistent and reliable flow of passengers, baggage and aircraft through Toronto Pearson requires agile decision-making informed by up-to-the-minute data. So to ensure we're supporting our operations with the best available reporting and analytics, the GTAA's technology team has been sharpening our capabilities in enterprise data management (EDM).

In the past, like many large organizations, we supplemented our automated management systems with manual processes and some third-party analysis. Integrating data from multiple sources took a big collective effort, but it paid off. By analyzing the performance of baggage systems, for example, we were able to increase capacity by 30 per cent. Similarly, we spotted potential efficiency gains during winter operations that allowed us to increase runway capacity by 40 per cent and raise throughput at the deicing facility by 20 per cent. Improvements like these allowed us to defer major capital expenditures and realize the maximum value from Toronto Pearson's existing infrastructure. But the downside was that they were largely one-time solutions to specific problems. It was difficult to take the results of one project and overlay them on another set of data.

As we evolve to EDM, we're able to look across operational areas and spot opportunities that only become apparent once you can integrate all relevant data in a single view. If we're considering, for instance, whether to relocate an air carrier to a different part of a terminal, we need to know what gates are available, if there are enough check-in counters, if the baggage system has sufficient capacity and so on. Armed with the right data on passenger traffic and flight schedules – not just historically, but monitoring activity in real time – we gain a holistic understanding of immediate challenges. Even more importantly, we can predict future patterns and adjust our decisions and investments accordingly.

The power of predictive modelling is just one dimension of our overall technology strategy at Toronto Pearson. We have many areas of focus: supporting collaborative decision-making among key airport players; tracking vehicles and equipment via the Internet of Things; providing digitally enabled services to enhance the passenger experience; and much more. The underlying systems and architecture are complex, but the goal is simple: to create a data-driven environment in which every minute and every dollar invested delivers optimum value – to passengers, to our airline customers and to our own bottom line.

OUR WORLD

THE SMARTER THE PLAN

Airports can't think in terms of quarterly targets and annual results. We map out detailed plans spanning decades. And for a global hub like Toronto Pearson, our vision of the future, shaped by a 20-year strategy and a comprehensive Master Plan, must be big enough to address the priorities of *all* our stakeholders.

WE HAVE A PLAN

In December 2017, we presented the federal Minister of Transport with our 2017–2037 Master Plan, a comprehensive review of how Toronto Pearson will respond to forecast growth in demand over the short, medium and long term. Significantly updating a document prepared 10 years earlier, the new Master Plan looks at anticipated needs across all of our facilities, including the airfield, passenger terminals, groundside access, air cargo, business aviation and ancillary support services. It also examines the improvements required to ensure we continue to meet growing demand and operate efficiently while working with community stakeholders to address any impacts of our operations.

Planning Principles

Long-range planning for Toronto Pearson is a continuous, adaptive process. Specific changes may not materialize at precisely the scale we expect, or according to our estimated timelines. The proposals in our Master Plan are therefore modular and flexible, so we can better respond to stakeholders' evolving needs. Our planning process is guided by the following principles:

- Maximize economic benefits to communities while minimizing greenhouse gas emissions and other potentially negative impacts.
- Recognize that rapid technological change will demand ongoing adaptation and require us to be innovative.
- Coordinate our planning with that of our neighbours and partners.
- Divide our 20-year horizon into shorter increments of detailed study and action.
- Develop flexible plans so we can respond nimbly to changes in our environment.





Photo: Air Canada/Brian Losito

Stakeholder Consultation

In developing the Master Plan, we consulted extensively with our stakeholder network, including business partners, governments, community groups, labour unions, air travellers and area residents. All play critical roles in helping us maintain and improve Toronto Pearson's connections to local communities while operating our airport safely, delivering superior service, and addressing the concerns and priorities of those who are affected by our operations. For more on our ongoing efforts, please see the report section on [stakeholder engagement](#).

Where We're Heading

Based on our in-depth analysis, we've developed the most likely scenario for Toronto Pearson in 2037: Some 85 million passengers will travel through our airport annually. We'll facilitate more than 630,000 aircraft movements to connect our region and all of Canada with the rest of the world. And some 970,000 tonnes of cargo will move through our facilities each year.

By increasing the productivity of Toronto Pearson's land and facilities, we're confident that we can meet future demand using our existing footprint and runways while minimizing our impact on neighbouring communities. We'll also continue to innovate, keeping pace with rising demand by embracing new business models and adopting new enabling technologies.

To review the complete Master Plan, including our detailed conclusions and recommendations, please visit torontopearson.com/masterplan.

By investing more than \$6 billion over the next few years, we can renew existing facilities and keep up with increased traffic.



85 MILLION PASSENGERS BY 2037

Our 2017–2037 Master Plan estimates that the number of travellers passing through our airport annually will grow by 80 per cent over the next two decades.

TWENTY YEARS AHEAD

All airports have long planning horizons, and a leading global hub like Toronto Pearson must take a longer view than most. Within the 20-year strategic framework approved by the GTAA Board of Directors in 2015, we develop one-year and five-year business plans, as well as annual budgets. The framework sets out six strategic priorities that inform all of our business activities and decision-making:

- **Safety** – Focus on the safety and security of everyone who visits or works at our airport.
- **People** – Develop a talented, high-performing workforce to achieve our vision.
- **Passenger and Customer Service** – Pursue operational efficiency while providing a superior travel experience.
- **Financial Sustainability** – Generate sufficient returns to support our day-to-day operations and invest in infrastructure, customer service and debt reduction.
- **Aviation Growth** – Expand connectivity to benefit the surrounding region, Ontario and all of Canada.
- **Corporate Responsibility** – Work with our stakeholders to preserve the environment and support thriving communities.

Guided by these key priorities – and within the parameters established by our [Master Plan](#) for Toronto Pearson – we expect, over the coming years, to invest more than \$6 billion over the next few years to renew existing facilities and keep up with anticipated growth. Specific areas targeted for investment include enhanced customer service, expanded airport amenities and improved passenger, baggage and aircraft flow.

A MESSAGE FROM THE BOARD CHAIR



BALANCING OUR PRIORITIES

Toronto Pearson, as a vital transportation hub, is in business to meet the evolving needs of the communities it serves. The role of the GTAA's Board of Directors is to identify what those needs are, determine how they can best be addressed and establish a clear set of strategic priorities in collaboration with the senior management team. As with all enterprises – and especially one as complex and multifaceted as Canada's largest airport – reconciling the views and aspirations of diverse stakeholders into an agreed course of action often requires a delicate balancing act. The Board must provide oversight and guidance to management in the pursuit of business goals while collectively representing the interests of the GTAA and all of its stakeholders.

In 2017, traffic volume at Toronto Pearson increased by 6.2 per cent to 47.1 million passengers. This extends the steep growth curve we've experienced since the GTAA began operating the airport in 1996. And it reflects the steady increase in demand for air travel in the Greater Toronto and Hamilton Area, throughout Southern Ontario and across Canada. The GTAA continues to meet that demand by managing our existing facilities and resources as efficiently as possible while maintaining the highest standards of safety and security. We invest the net income generated by Toronto Pearson – which last year exceeded \$112 million – into enhancing passengers' airport experience while providing better support to our air carriers and other partners.

At the same time, though, we recognize that Toronto Pearson's operations have an impact on nearby communities. This is a challenge shared by all airports, and especially by our peers in the top tier of global hubs. We have a responsibility to consult regularly with area residents and other stakeholders, listening to their concerns and sharing information clearly and transparently. And we have to do more than talk: we're committed to working closely with our neighbours to mitigate, as much as possible, the potential impacts of a piece of public infrastructure that most would agree is essential for the region's – and the country's – economic growth and well-being.

ACTIONS WITH IMPACT

Over the past year, the GTAA continued working on several fronts to balance our operational imperative with our sensitivity to community and environmental impacts. Four areas warrant highlighting:

- **Reducing our carbon footprint** – In 2017, Toronto Pearson was re-certified at Level 3 in the Airport Carbon Accreditation program overseen by Airports Council International. We're now working toward Level 4, or carbon neutrality (which only one North American airport has achieved). Meanwhile, greenhouse gas (GHG) emissions at Toronto Pearson continued to decline, measured both by total volume and output per enplaned passenger. Since 2006, we've reduced GHG levels by 54 per cent – well ahead of our targeted 20 per cent reduction by 2020.
- **Easing road traffic congestion** – Only about 10 per cent of passengers and airport employees use public transit to access Toronto Pearson. In the GTAA's 2017–2037 Master Plan, published in December 2017, we've set a goal of 30 per cent transit usage within two decades. Central to this commitment is our proposal for an integrated [regional transit centre](#) that will dramatically improve airport access. More importantly, as CEO Howard Eng notes in his [message](#), the transit hub we envision will help drive economic growth by improving traffic flow throughout the region – and especially for the hundreds of thousands of people who work in the [Airport Employment Zone](#), the second-largest employment cluster in the country after downtown Toronto.
- **Managing noise impacts** – The Community Environment and Noise Advisory Committee (CENAC) once again held five public meetings during the year, providing an open forum for community members to discuss and ask questions about aircraft noise and related environmental issues at Toronto Pearson. High on this year's agenda was the completion of a new five-year plan for enhancing our existing noise management program. In November 2017, after two years of extensive community engagement and consultations with aviation experts, we published *Growing Responsibly: 2018–2022 Noise Management Action Plan*, which sets out 10 commitments to our neighbouring communities, along with the concrete actions we're taking to fulfill them.

Aircraft noise is a sensitive issue for all airports located close to large urban centres. The GTAA will continue seeking ways to minimize and mitigate noise-related impacts, whether by encouraging carriers to adopt improved aircraft technology or conferring with NAV Canada on its management of flight patterns and procedures. But while we've tried to lead the way in noise management efforts, sometimes we get it wrong. A case in point was our [closure of a busy runway](#) for maintenance during mid-2017. This rehabilitation work was essential to maintain safe operations, and it was completed on time. However, communications around the project were not as clear as they could have been. As a result, some community members were caught off-guard by service disruptions and the temporary diversion of aircraft onto less-used flight paths. The management team has learned from this experience and developed a new [construction communications protocol](#) for future projects. The consensus at the GTAA is that we can do better – and we will.
- **Investing in communities** – In 2017, we maintained our commitment to invest 1 per cent of annual net revenue in support of community-based organizations around Toronto Pearson and across the region. Through the Propeller Project, the GTAA's community investment program, we provided about \$800,000 in funding to various proven initiatives, focusing in particular on support for unemployed and underemployed youth, as well as for immigrants adapting their skills and experience to the Canadian workplace.

STRENGTH IN DIVERSITY

As we work to find the right balance between our communities' growing need for connectivity, Toronto Pearson's vital role in driving economic growth and residents' understandable concerns about potential impacts, we benefit from having a Board of Directors that, by design, comprises a diverse range of appointees from all levels of government, as well as key business sectors. In the past year we were pleased to welcome four new members:

Kathleen Keller-Hobson sits on the boards of several companies, including CCL Industries Inc. In 35 years of legal practice, she specialized in public and private M&A, corporate finance and governance.

Hazel McCallion knows Toronto Pearson well from her 36 years as Mayor of the City of Mississauga. She is now Chancellor of Sheridan College and a special advisor to the University of Toronto Mississauga.

Mark Schwab brings a wealth of relevant experience to our Board, having served in a number of senior executive roles in the airline industry, most recently as CEO of Star Alliance.

Johan van 't Hof, CEO of Tonbridge Corporation, a merchant bank and financial advisory firm, has deep experience in infrastructure financing and public private partnerships.

We would also like to recognize the many valuable contributions of **Brian Herner** and **Terry Nord**, who retired from the Board in 2017 after completing their nine-year maximum terms. And we congratulate former Board member **Ian Clarke** on his move from interim to full-time Chief Financial Officer of the GTAA.

Over the past year, Howard Eng once again demonstrated the outstanding leadership ability that has earned him a global reputation in the aviation industry. Since taking on the CEO's role in 2012, Howard has built an exceptional senior management team with an ideal blend of skills and experience – including fresh perspectives from other sectors. As a result, the GTAA today is a more nimble, innovative and forward-looking enterprise.

Lastly, we're indebted as always to our broad and diverse community of stakeholders. With your engagement and support, we'll continue to balance the competing demands, expectations and aspirations that are shaping Toronto Pearson's evolution into one of the world's leading airports.



David Wilson
Chairman



GOVERNANCE & LEADERSHIP

A MESSAGE FROM THE PRESIDENT AND CEO

THE BETTER WE MOVE

An airport is in business to move people – not just in the air, but on the ground as well. And as we help make the connections to get travellers where they need to go, our communities and all Canadians benefit from a more dynamic and resilient economy.

In 2017, three million more travellers passed through Toronto Pearson than in the previous year. This increase reflects the continued growth of our region, as well as rising demand across Canada for fast, convenient access to the rest of the world. Our evolution into a leading global hub is driven by the needs and priorities of the economies we support – and by the tourists, businesspeople, immigrants and other visitors we help attract to our city, our province and points beyond.

But there's more to being a top-tier global airport than facilitating inbound and outbound flights. As we often say at the GTAA, we're in the connectivity business. That means we have a responsibility to help passengers travel onward from our terminals to their ultimate destinations. By the same token, we understand that for people across the region flying out of our airport, the journey begins before they even leave their homes or offices, from the moment they download a boarding pass or arrange ground transportation.

This is why we've taken the lead in proposing the development of a [regional transit centre](#), integrated with Toronto Pearson, that will be a hub for high-speed rail, light rail and bus networks serving the western Greater Toronto and Hamilton Area. Since the announcement of our initial plan in February 2017, we've been consulting with all levels of government, as well as Metrolinx and other ground transportation agencies, about the best way to move forward on a project that all agree is vital to the future prosperity of our region.

And to be clear: the focus of this proposed transit hub is not to get more travellers efficiently to and from Toronto Pearson. That will be a welcome bonus, as we give airport users a choice of more convenient, sustainable transit alternatives. But the real impetus for this initiative is one that residents of our nearby communities understand all too well: the need to free up traffic-clogged roads and get the whole region moving better.

A LARGER VISION

For the 300,000 people who commute to work daily in the [Airport Employment Zone](#) – or for those whose jobs take them into downtown Toronto, or to thriving regional centres like Waterloo – having more accessible transportation options will improve their quality of life and help them be more productive in their current jobs. It will also open doors to new opportunities. And yes, they'll enjoy easier access to and from our airport when they travel. But from our perspective, the connectivity we provide with our airline partners is just one part of a larger vision. And for the communities we're in business to serve, the advantage of a global hub is not simply that we help meet rising demand for air travel – Toronto Pearson is an asset that can be leveraged to benefit the entire regional economy.

We often talk about our airport's impact in terms of GDP, and the numbers are impressive. Urban theorist Richard Florida points out – as one of several guest experts who share their [points of view](#) in this annual report – that Toronto Pearson generates more than \$40 billion annually, which equates to about 15 per cent of the GTA's total economic output. But it's the stories behind the numbers that reveal our true impact: The multinational companies that build their Canadian headquarters in our region, confident of having easy connections to the world. The flow of foreign investment into local enterprises that require similar connectivity. The startups and growing ventures in various innovation centres across Southern Ontario – all dependent on global links to secure financing, arrange manufacturing and explore potential markets. And then there are the tens of thousands of international students attending our post-secondary institutions – and of course the millions of tourists who each year visit our region and the rest of Canada, spending billions on goods and services.

All of these factors contribute significantly to job creation, economic growth and long-term prosperity. And their impact is magnified by the power of a global hub airport.

MEETING THE CHALLENGES

As Toronto Pearson connects our region and Canada's trading economy to the world, we inevitably face some operating challenges. Last year, traffic at our airport rose once again to a record 47.1 million passengers. That represents an increase of 11 million – equivalent to the combined populations of British Columbia, Alberta, Saskatchewan and Manitoba – in just five years. The number of aircraft movements hasn't risen proportionately; airlines are investing in larger and more sophisticated planes, and are also allocating seats more efficiently. Still, it means we must be more focused than ever on maximizing the efficiency of our airport while maintaining the highest safety standards, exceeding passengers' expectations and minimizing our impact on surrounding communities.

The challenge has two main dimensions:

First, we need to optimize the flow of passengers, baggage and aircraft through Toronto Pearson, deriving the maximum value from our existing footprint. The many stories showcased in this annual report point to our success in enhancing services, adding new amenities and collaborating with carriers, government agencies and other partners to keep everything moving as smoothly and safely as possible.

The best measure of progress comes from the toughest audience – our passengers, who this year gave us our highest score yet in the [Airport Service Quality](#) (ASQ) survey conducted by Airports Council International. Toronto Pearson ranks first in North America among airports serving more than 40 million passengers annually. And our passenger satisfaction level is higher than that of comparable hubs across the Americas, Europe, Africa and the Middle East. We're proud to receive this recognition and to share it with Air Canada, WestJet and the other carriers and partners who help us deliver a superior airport experience.

At the same time, we never lose sight of our other key challenge as a leading global hub: managing the impact of airport operations on our neighbours. This report also highlights our various [environmental efforts](#), from recycling programs to the steady reduction of greenhouse gas emissions. We're committed to supporting our communities – and indeed working alongside them – to protect the region's natural environment and the overall health of the planet.

The most sensitive area of impact is the effect of aircraft noise on neighbourhoods beneath our primary flight paths. This is an issue faced by all airports serving urban regions, and over the past few years we've looked for better ways to discuss it with community members and seek solutions together. As David Wilson, Chair of the GTAA's Board of Directors, notes in [his message](#), in 2017 we took a number of important steps in this regard – notably the publication of a [Noise Management Action Plan](#) committing to specific actions we'll take with air carriers and other partners to mitigate both the level and frequency of airport-related noise.

THE GREATER THE OPPORTUNITY

In all of the efforts I've touched on here, we're supported by a strong Board that provides insight and guidance as we work to achieve our strategic goals. And as always, our progress is driven by the 1,600 dedicated employees of the GTAA, and the 49,000 people directly employed at Toronto Pearson, who work together every day to fulfill our vision: *To be the best airport in the world.*

This annual report, which we're producing for the first time in a more accessible digital format, echoes the message we've begun sharing with our neighbours: *The better we move, the greater we become.* This is true not simply for Toronto Pearson, but for communities across our region. The more we work together to put good ideas into motion – to find sustainable transit solutions, create better jobs for more people, foster innovation and economic development, and build diverse and inclusive communities – the more our region, and all of Canada, will prosper and grow.

The better we move, the greater the opportunity.



Howard Eng
President and Chief Executive Officer

BOARD OF DIRECTORS



W. DAVID WILSON
CHAIRMAN

David Wilson is the former Chair and Chief Executive Officer of the Ontario Securities Commission and is now retired following an extensive career in Canada's financial services industry.

Nominated by the City of Toronto



PAUL W. CURRIE

Paul Currie is a seasoned executive with senior officer and director level commercial experience in North America, Europe and Asia. During the course of a career spanning more than three decades Mr. Currie had significant roles in the financial services, real estate and technology sectors. He obtained his Chartered Accountancy designation in 1983, which he held until he resigned in good standing after almost three decades.

Community Member



JEFF P. FEGAN

Jeff Fegan is the former Chief Executive Officer of Dallas/Fort Worth (DFW) International Airport and past Chairman of the Board of Directors of Airports Council International – North America (ACI-NA).

Community Member



STEPHEN J. GRIGGS

Stephen Griggs is Chief Executive Officer of Smoothwater Capital Corporation, a private Canadian investment company. Mr. Griggs is also Chair of the Board of Genesis Land Development Corp. and Equity Financial Holdings Inc., and is a director of Marquee Energy Ltd. and several community organizations.

Nominated by the Region of Peel



BRIAN P. HERNER

Brian Herner is a corporate leader in the Canadian environmental industry. He is a founder and past President and CEO of BIOREM Technologies Inc., a leading global supplier of biofilters for air pollution control; a past President of General Chemical (Canada) Ltd.; and Vice President of Zenon Environmental Inc.

Nominated by the Region of Halton



KATHLEEN L. KELLER-HOBSON

Kathleen Keller-Hobson is a corporate director and is currently Lead Director and Chair of the Nominating and Governance Committee of CCL Industries Inc. (TSX: CCL), the world's largest converter of pressure sensitive and extruded film materials, and a member of the Board of Directors and Corporate Governance Committee of Premium Brands Holdings Corporation (TSX: PBH), which owns a broad range of leading specialty food manufacturing and differentiated food distribution businesses in Canada and the United States. Prior to January 2015, Ms. Keller-Hobson was a business lawyer with 35 years of experience in public and private mergers and acquisitions, corporate finance and corporate governance.

Nominated by the Federal Government



ROGER R. MAHABIR

Roger Mahabir is Chairman and CEO, Tracker Networks Inc. Previously, he was founder and CEO, Assurent Secure Technologies and served in C-level roles at Royal Bank (Capital Markets & Dominion Securities), GE and Suncor. A cyber and risk authority, Mr. Mahabir is recognized as one of the technology industry's top transformative leaders and innovators.

Community Member



HAZEL McCALLION

Hazel McCallion is the Chief Elder Officer of Revera Inc., Chancellor of Sheridan College, and special advisor to the University of Toronto, Mississauga campus. Ms. McCallion was one of the longest serving Mayors in Canada, having served as Mayor of the City of Mississauga for 36 years. She was appointed a member of the Order of Canada in 2005 and was awarded an honorary doctor of Laws degree from the University of Toronto in 2010.

Nominated by the Federal Government



KATHY MILSOM

Kathy Milsom is the President and CEO of Toronto Community Housing Corporation. She also serves as the Chair of the Standards Council of Canada. Ms. Milsom has held other executive leadership roles with both private and public sector organizations, including President and CEO of the Technical Standards and Safety Authority, President and CEO of the Canada Lands Company Limited and President of Vestar Facility Management, and has served on a variety of other boards. She is a professional engineer and a graduate of the Institute of Corporate Directors' Director Education Program.

Community Member



TERRY NORD

Terry Nord is a senior advisor to start-up cargo airlines in Asia (China) and to aircraft leasing companies on aircraft purchase lease contracts. He has held various senior executive positions with DHL Express (Brussels, Belgium), FedEx Express (Memphis, Tennessee), Air Canada, Altius Corporation and Canadian Airlines International.

Community Member



TERRIE M. O'LEARY

Terrie O'Leary is Executive Vice President, Business Strategy and Operations at Toronto Global. Toronto Global is the Toronto Region's foreign direct investment attraction, marketing and sales corporation. A seasoned executive with extensive private and public sector experience, Ms. O'Leary served two terms on The World Bank Board of Directors in Washington, DC, as the representative of Canada, Ireland and the Caribbean. Prior to Washington, she was the senior adviser to Finance Minister Paul Martin.

Appointed by the Province of Ontario



MICHELLE SAMSON-DOEL

Michelle Samson-Doel is the President of Samson-Doel Group Limited and former Executive Chair of Multi-Marques, the largest bakery in Quebec. Ms. Samson-Doel has served on the boards of the Ontario Lottery and Gaming Corporation (OLG) and Women's College Hospital Foundation. She is currently Lead Director of Boralex Inc. (BLX), and is a member of the Women's Leadership Council of the United Way of York Region.

Nominated by the Region of York



MARK F. SCHWAB

Mark Schwab is a highly experienced airline industry executive, having recently served as Chief Executive Officer of Star Alliance, a global alliance of 28 airline members. He has a deep background in the airline industry, having served in international leadership roles with major carriers such as United Airlines, US Airways, American Airlines and Pan Am.

Community Member



JOHAN VAN 'T HOF

Johan van 't Hof is president and CEO of Tonbridge Corporation, a Toronto-based merchant bank and financial advisory firm, and a lecturer at the University of Toronto, the University of Waterloo, and the School of Accountancy for the Institute of Chartered Accountants of Ontario. Mr. van 't Hof has several years of experience in project finance, infrastructure financing and public-private partnership transactions, and has been a director of ten entities – inter-listed public companies, several private, as well as multi-million dollar not-for-profit organizations and charities. Mr. van 't Hof received his MBA from the Rotman School of Business at the University of Toronto and is a chartered accountant and a CPA in Ontario.

Nominated by the Region of Durham



DANIELLE M. WATERS

Danielle Waters is the principal of Water's Edge Consulting, a strategic consulting firm specializing in revenue enhancement, sales effectiveness and business transformation. She was previously the managing director of BCD Travel, a leading global travel management company with over 13,000 employees and offices in 90 countries. Ms. Waters has senior operational and management experience in the travel industry.

Community Member

Photos: Lorella Zanetti

EXECUTIVE TEAM



MARTIN BOYER
Vice President and Chief Information Officer



CRAIG BRADBROOK
Vice President, Aviation Services



IAN L.T. CLARKE
Chief Financial Officer



SCOTT COLLIER
Vice President, Customer and Terminal Services



VALERIE DUFFEY
Vice President, Human Resources and Corporate Services



HOWARD ENG
President and Chief Executive Officer



SELMA M. LUSSENBURG*
Vice President, Governance, Corporate Safety and Security, General Counsel and Corporate Secretary



HILLARY MARSHALL
Vice President, Stakeholder Relations and Communications



PATRICK NEVILLE

Vice President, Airport Development
and Technical Services



KIM STANGEBY

Vice President and Chief Strategy
Officer

* Selma M. Lussenburg resigned from the GTAA as of March 31, 2018.

Photos: Lorella Zanetti

CORPORATE GOVERNANCE

The Board of Directors (the “Board”) is representative of the diversity of the Greater Toronto Area and the major economic sectors in the region that Toronto Pearson serves.

The GTAA was incorporated in 1993 as a non-share capital corporation and recognized as a Canadian Airport Authority by the Government of Canada in 1994. The GTAA assumed operation of Toronto Pearson International Airport on December 2, 1996. In 2014, the GTAA was continued under the Canada Not-for-profit Corporations Act. Although the GTAA is a non-share capital corporation, the GTAA complies with Canadian securities legislation as a reporting issuer. As a corporation without share capital, the GTAA has Members rather than shareholders or other equity holders.

The GTAA is governed by a Board consisting of 15 Directors elected by the GTAA's Members. Memberships in the GTAA are issued by the Board. Directors serve terms of up to three years and are eligible to be re-elected by the Members subject to a maximum total term of nine years. Board members collectively have a fiduciary responsibility to represent the interests of the corporation and all of its stakeholders.

Five Directors are elected by the Members from candidates nominated by municipalities (specifically, the regional municipalities of York, Halton, Peel and Durham, and the City of Toronto). Prior to the end of the term of a member nominated by a municipality, the relevant municipality is entitled to provide the names of up to three candidates. Following a rigorous assessment process, the Board issues a membership to one of the candidates who is then elected by the Members as a Director.

In addition, seven Directors are elected by the Members on a cyclical basis from a pool of eligible candidates who are identified and assessed through a search process, which includes engaging the Law Society of Upper Canada, Professional Engineers Ontario, the Institute of Chartered Accountants of Ontario, the Toronto Region Board of Trade, the Board of Trade of the City of Mississauga and the Board of Trade of the City of Brampton.

Finally, the Government of Canada nominates two individuals and the Province of Ontario nominates one individual, all of whom are elected as Directors by the Members.

All Directors on the GTAA's Board are independent, as that term is defined in the applicable securities legislation. The GTAA's Board is a “skills based” Board; namely, the Directors are elected on the basis of their abilities, experience and skills needed to oversee the GTAA's complex and industry- leading activities of operating and managing Toronto Pearson, a vital transportation facility for the region's economic and social benefit.

The GTAA's Board meets on a regular basis; its principal responsibility is to oversee the conduct of the GTAA's business and to set the strategic direction of the GTAA.

The Board oversees the development of long-term goals and strategies and implementation in support of Toronto Pearson's mandate to support and foster growth in the Greater Toronto Area.

The Board also oversees the processes and systems to manage the risks associated with the GTAA's business, and monitors and measures management's performance in carrying out the GTAA's strategic plan, vision and mission.

The terms of reference of the Board are included in the GTAA's Annual Information Form, which may be accessed at www.sedar.com.

In 2017, there were five standing committees of the Board: the Audit Committee; the Governance and Stakeholder Relations Committee; the Risk Oversight Committee; the Human Resources and Compensation Committee; and the Planning and Commercial Development Committee. In addition to the standing Board committees, the Ad Hoc Airport Ownership Review Committee provided guidance to the Board in connection with the Government of Canada's review of ownership models of airport authorities in Canada. The mandates of the Committees of the Board are summarized below:

AUDIT COMMITTEE

The Audit Committee's mandate is to fulfill the legal obligations that apply to audit committees of reporting issuers and to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting, accounting, auditing and internal controls. In so doing, the Committee oversees all aspects of the GTAA's financial and accounting management procedures and the integrity of the GTAA's financial statements and financial reporting process. It also oversees the work of the GTAA's external auditor engaged for the purpose of preparing and issuing an auditor's report, overseeing the qualifications and independence of the external auditor, and providing an open avenue of communication between the senior management of the GTAA, the external auditor, the internal auditor, and the members of the Board and Committees of the Board.

The Committee also oversees the GTAA's insurance programs which minimize risk and exposure and provide for compliance with the insurance requirements under the Ground Lease and the Master Trust Indenture. Finally, the Committee monitors and oversees the defined benefit and defined contribution pension plans for the GTAA's employees. The Charter of the Audit Committee is included in the GTAA's Annual Information Form, which may be accessed at www.sedar.com.

GOVERNANCE AND STAKEHOLDER RELATIONS COMMITTEE

The Governance and Stakeholder Relations Committee is charged with the implementation and assessment of effective corporate governance principles and with oversight of the GTAA's relationships and strategic communications program with governments, the community, community investment programs and the GTAA's stakeholders. The Committee also is responsible for developing and reviewing the roles and responsibilities of the Board, the Chair of the Board, the Chairs of the Board Committees, and the President and Chief Executive Officer; overseeing the Member nomination process; recommending the issuance of memberships to candidates as Members; Board succession planning; the orientation program for new Directors; overseeing Director educational and professional development; reviewing the terms of reference of Board Committees; assessing the effectiveness of the Board and the Committees of the Board; and overseeing adherence to corporate governance requirements.

RISK OVERSIGHT COMMITTEE

The Risk Oversight Committee oversees the identification, management and mitigation of the GTAA's principal risks. The Committee's mandate includes proposing to the Board risk tolerances and appetites for identified risks driven by and aligned with the GTAA's strategic goals and priorities, overseeing the effectiveness of the GTAA's risk management program including resilience and adaptability to deal with emerging risks, risk mitigation, stress testing and scenario planning. The Committee's responsibilities include overseeing risks relating to environmental, safety, security and airport operations.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resources and Compensation Committee's mandate is to oversee matters related to the GTAA's human resources strategy, including occupational health and safety, hiring, employee training and talent development, performance oversight and succession planning for key management positions, the GTAA's compensation and benefit policies, recruitment and compensation matters relating to the President and Chief Executive Officer and officers, and matters relating to regulatory disclosure of compensation.

PLANNING AND COMMERCIAL DEVELOPMENT COMMITTEE

The Planning and Commercial Development Committee's mandate includes oversight of the GTAA's commercial development of the airport, business and marketing strategy, planning, development and utilization of infrastructure and facilities to meet the needs of the GTAA's customers and stakeholders, including air carriers, passengers and cargo shippers. The Committee also is responsible for providing oversight with respect to the GTAA's airport master plan including a land use plan.

AD HOC AIRPORT OWNERSHIP REVIEW COMMITTEE

Established in 2016 and disbanded in May 2017, this Committee provided guidance to the Board regarding the Government of Canada's review of ownership models of airport authorities in Canada.

SUSTAINABILITY OVERVIEW

OUR APPROACH



At Toronto Pearson, we embrace our obligation to manage growth sustainably as we move closer to our goal of being one of the leading global airport hubs in the world. We respect the needs and values of all our stakeholders while balancing the vital dimensions of social, economic and environmental responsibility. That's what being a leader is all about – and it's critical to maintaining our social licence to grow and operate.

Sustainability is at the heart of Toronto Pearson's corporate strategy and growth plans. We manage it as an integral part of our business, in pursuit of six strategic goals related to safety, engaged people, passenger and customer service, financial sustainability, aviation growth and corporate responsibility.

We publish our performance in this report and in a downloadable [Sustainability Management Approach and GRI Index](#). Also included in the Sustainability Management Approach and GRI Index are our material topics (i.e., specific priorities falling within our strategic goals), which were last reviewed in 2015 and align with specific GRI topics. To ensure that we're focused on topics that are top of mind to our most important stakeholders, and that we consider our current and expected impacts, we plan to conduct a comprehensive materiality assessment by 2020.

For 2017 reporting purposes, we considered ongoing feedback from our stakeholders, gathered through surveys and other methods outlined in the [Stakeholder Engagement](#) section.

The following sections describe in more detail what we're doing in key areas of sustainability.



Safety and security of everyone who visits or works at Toronto Pearson is a top priority.

Photo: Air Canada/Brian Losito

SAFETY

The safety and security of everyone who visits or works at our airport is a top priority. We have a saying at Toronto Pearson: “Be Safe. You mean the world to someone.” This reminds us of why we need to be vigilant about safety. Zero injuries is the ultimate goal, and every employee plays a role in helping achieve it.

Our [Safety Policy](#) sets out guiding principles. The Toronto Pearson Safety Program comprises seven safety systems that include policies, programs and training relevant to the various aspects of airport operations: aviation safety; security; terminal and groundside safety; environment; technical and construction; occupational health and safety; and emergency management. As of January 1, 2017, all contractors are required to be COR certified, as confirmation that their health and safety program meets provincial standards and has been evaluated by a certified auditor.

Safety performance is tracked through the Toronto Pearson Safety Index, which measures employee lost-time injuries per million passengers. We strive to achieve at least a five per cent reduction in injuries each year. We also ask employees to complete an annual safety climate survey, which assesses the overall culture and attitudes toward safety at our airport and identifies opportunities for improvement.





Roughly 49,000 people are directly employed at Toronto Pearson, and more than 1,600 work for the GTAA directly.

ENGAGED PEOPLE

Of roughly 49,000 people directly employed at Toronto Pearson, approximately 1,600 worked at the GTAA as of December 31, 2017. Most of our employees work in management, technical, administrative and other operational roles, while some are seasonal employees hired for deicing and airfield maintenance. The majority are unionized, represented by either Unifor Local 2002 or the Pearson Airport Professional Fire Fighters Association.

To achieve our mission and vision, Toronto Pearson needs to attract, engage and reward a high-performing workforce, developing talent internally and casting a wide net in recruiting new talent. Our people strategy focuses on five areas, each of which has specific action plans, as well as one-year and five-year goals:

- Plan and attract the right talent for now and for the future.
- Develop and build individual potential and sustainable talent pipelines.
- Lead and engage to inspire individual and collective success.
- Align and reward to leverage talent and deliver business results.
- Equip and support GTAA colleagues with the right tools and expertise.

Employee feedback survey results are a strong indicator of how we're doing and what we need to change. Since 2015, our engagement score has risen from 58 per cent to 69 per cent. We attribute much of the increase to having acted on employee feedback. This included improving business processes that help us work more efficiently, as well as building the capabilities of our people managers, onboarding new hires more effectively and learning new ways to solve everyday problems.

Toronto Pearson's stakeholder groups include passengers and other airport users, as well as anyone who influences or is affected by our operations.



SOCIAL RESPONSIBILITY

Toronto Pearson plays a vital role in Canada and in the life of our surrounding communities. Being a good neighbour is central to our mandate and critical for maintaining our social licence to operate and grow. Our key areas of focus can be summarized as follows:

Stakeholder engagement – Our stakeholders keep us abreast of the latest changes, challenges and opportunities affecting Toronto Pearson, our industry, surrounding neighbourhoods and the regional economy. We gather feedback and collaborate with our diverse stakeholders through industry committees, passenger surveys, employee forums, social media outreach, public meetings and tours, and more. Taken together, these efforts help ensure we're in the best possible position to plan strategically and act responsibly.

Noise management – Noise management is a top concern for our communities, and we continue to evolve our approach to addressing the issue. Following a two-year process that included extensive study and community engagement, we released our [2018–2022 Noise Management Action Plan](#) in 2017. We're also making progress on initiatives such as a three-phase [Noise Mitigation Initiatives Engagement Plan](#) with NAV Canada.

Economic impact – The GTAA employs about 1,600 people, while tens of thousands more are directly employed at Toronto Pearson. As a key player in the local, regional and national economies, we're working to grow [employment opportunities](#) in tandem with the growth of our airport – and to develop new ways of increasing connectivity to the world's economies.

Community investment – The GTAA invests in social good and community-building initiatives through the Propeller Project, Toronto Pearson's community investment program. In particular, we try to help local unemployed and underemployed people gain the skills, connections and opportunities they need to find more meaningful jobs and potential careers.



We focus on ways we can minimize our environmental impact and preserve natural resources.

ENVIRONMENTAL MANAGEMENT

We're the first to acknowledge that an airport affects local ecosystems and contributes to climate change. However, there are many things we can do at Toronto Pearson to [minimize our environmental impact](#) and preserve natural resources – and we take strong action on them.

Our [Environmental Policy](#) sets out the key elements of our approach. In addition to complying with all applicable standards and regulations, we maintain an ISO 14001:2015 certified environmental management system (EMS), which helps us set performance targets and pursue continuous improvement. Our EMS focuses on three areas:

Climate change – Reducing greenhouse gas (GHG) emissions and taking measures to ensure our facilities are ready for the expected future effects of climate change. We're working toward reducing our GHG emissions from 2006 levels by 20 per cent by 2020, and by 80 per cent by 2050.

Healthy environment – Mitigating the environmental impacts of airport operations by managing issues such as stormwater runoff and the prevention of wildlife strikes by aircraft.

Resources – Tracking the resources we use and the waste we generate, as part of a broader evolution toward a circular economy that minimizes waste and gets maximum value out of the materials we consume before disposing of them.

The GTAA works with air carriers, concession holders and other commercial businesses that operate at Toronto Pearson to advance sustainability initiatives. We work with our airline partners to promote processes and technologies that lower aircraft fuel burn, which is a large contributor to GHG emissions. At the same time, reducing fuel consumption clearly represents a substantial cost-savings opportunity for our partners.



SUSTAINABILITY OVERVIEW

STAKEHOLDER ENGAGEMENT

Toronto Pearson is part of a global aviation sector that is constantly evolving its policies, practices and technologies. What's more, we operate in a prosperous region that is steadily growing in terms of both economic prosperity and cultural diversity. Our stakeholders represent a complex network of groups and organizations. All play critical roles in helping us maintain and improve our connections to local communities, deliver best-in-class customer service, operate safely and address stakeholders' priorities.

We're not only accountable to our stakeholders – we believe their input makes our policies, plans and practices better. That's why we constantly evaluate and modify how we engage with specific groups on the issues that matter most to them.

WHO ARE OUR STAKEHOLDERS

We identify our stakeholders as passengers and other airport users, as well as anyone who influences or is affected by Toronto Pearson's operations. This includes our surrounding communities, our business partners, the people who work here and anyone with economic ties to our airport – including service providers, businesses and organizations with a need for connectivity, as well as institutional investors.

The diagram below shows the stakeholder groups we engage with most regularly:



PASSENGERS

Our airport served 47.1 million passengers in 2017, a 6.2 per cent increase over 2016, with international traffic accounting for much of the gain. Toronto Pearson is now the second-largest international airport in North America, as measured by the total number of passengers who pass through our airport each year on international flights.

HOW WE ENGAGE

- Passenger surveys
- Airport Service Quality (ASQ) passenger satisfaction survey
- Customer and passenger feedback kiosks
- Web portal for passengers, visitors and the community (torontopearson.com)
- Social media channels (e.g., Twitter, Facebook, LinkedIn, Instagram)

2017 HIGHLIGHTS AND KEY TOPICS

- Achieved a 4.31 ASQ score, making Toronto Pearson the number one airport in North America and Europe. Results are strictly based on passenger feedback and rate a range of amenities and services, including dining options, wait times and internet access.
- Learn more at [The Higher the Quality](#)

GTAA EMPLOYEES

The GTAA employed approximately 1,600 people as of December 31, 2017. Our employees work in management, technical, administrative and other operational roles; some are seasonal employees hired for deicing and airfield maintenance.

HOW WE ENGAGE

- *I am Toronto Pearson* workshops
- Annual employee feedback survey
- Annual safety climate survey
- *Coffee with Howard* sessions for employees to engage with our CEO
- All-employee town hall meetings
- People Leaders Forum
- Anonymous complaints and whistle-blowing
- Updates on corporate intranet
- Evening of Excellence employee recognition event
- Airport employee tours (e.g., airside terminal, YYBeeZ hives, stormwater management)

2017 HIGHLIGHTS AND KEY TOPICS

- Achieved a 69 per cent employee engagement score, up from 66 per cent in 2016.
- Action plans implemented in response to employee feedback included improving business processes to help everyone work more efficiently, refining our onboarding process for new hires and creating a people manager curriculum.
- 186 employees participated in *Coffee with Howard* discussion sessions. Topics, which varied by department, included Toronto Pearson's mega-hub strategy, the proposed regional transit centre, leadership and coaching for employees, and technology processes and improvement.
- Reached a tentative settlement, in December 2017, on a three-year-renewal collective bargaining agreement with the Pearson Airport Professional Fire Fighters Association (PAPFFA) that was subsequently ratified by members.

AIRPORT EMPLOYEES

Approximately 49,000 people are directly employed at Toronto Pearson. The GTAA and other airport employers share a commitment to provide high-quality customer service and to operate in ways that make safety a top priority while considering the needs of passengers and peers.

HOW WE ENGAGE

- *I am Toronto Pearson* campaign and workshops
- Annual safety climate survey
- Employee updates on the Toronto Pearson website
- Electronic and printed newsletters
- Cross-functional airport working groups
- Airport employee tours (airside and terminal)

2017 HIGHLIGHTS AND KEY TOPICS

- Some 10,000 Toronto Pearson employees engaged in the *I am Toronto Pearson* campaign.
- *People of Pearson* showcased employees on social media.
- The Toronto Pearson Safety Index was extended to include non-GTAA employees.

AIRPORT SERVICE PROVIDERS

Toronto Pearson's service providers include ground transportation services, airlines, aviation services and tenant enterprises. We work together to manage customer needs and issues, as well as day-to-day operational requirements.

HOW WE ENGAGE

- Airline Consultative Committee
- Technical Subcommittee
- Commercial Affairs Subcommittee
- Passenger Operations Subcommittee
- Airside Operations Subcommittee
- Irregular Operations Subcommittee
- One-on-one meetings (Safety Summits Labour Council)

2017 HIGHLIGHTS AND KEY TOPICS

- In collaboration with Toronto Airport Workers Council, we undertook benchmark research on practices related to work arrangements and identified opportunities for improvement in contract renewals and procurement. Future collaborative work will focus on completing a comprehensive demographic profile of the airport workforce.

REGIONAL COMMUNITIES

Toronto Pearson is bordered by three of Canada's largest municipalities: Brampton, Mississauga and Toronto. Each is made up of many distinct neighbourhoods.

HOW WE ENGAGE

- General community engagement phone line and email
- Noise complaints phone line at WebTrack
- Community section of the Toronto Pearson website
- Community Environment and Noise Advisory Committee (CENAC)
- *Checking In* monthly email newsletter
- Toronto Pearson Volunteer Program
- Events, town halls and meetings (in the community and at Toronto Pearson)
- Large-scale community events
- Community tours
- Corporate giving – via the Propeller Project
- Social media channels

2017 HIGHLIGHTS AND KEY TOPICS

- More than 10,000 residents provided feedback related to the 2017–2037 [Toronto Pearson Master Plan](#) through forums such as public workshops, the *Survey on Airport Growth and Noise Fairness*, open houses at Toronto Pearson and CENAC meetings.
- Extensive engagement related to the [2018–2022 Noise Management Action Plan](#), including workshops, a community survey and a panel of 36 randomly selected residents that met on four occasions.
- More than 2,500 community members completed our 2017 *Survey on Airport Growth and Noise Fairness*, which was sent to 20,000 randomly selected homes across the GTA and was available online for any resident to complete.
- Town hall meetings related to runway construction – as well as new flight paths that created noise issues in recently developed areas around the airport – led to the creation of a construction communication and engagement protocol.
- CENAC held five public meetings. Major topics of discussion were the [2018–2022 Noise Management Action Plan](#) and noise issues in the areas affected by construction-related flight path changes.
- Formed an external champions council, with representation from local communities and businesses, to provide input on future priorities and goals of the Propeller Project community investment program.
- Grew the Toronto Pearson Volunteer Program to more than 1,300 volunteer hours per week. Under the Program, community members greet passengers, answer questions and provide wayfinding assistance in both the pre- and post-security areas of Terminals 1 and 3.
- Attended nearly 100 community events across the GTA.
- Committed nearly \$800,000 in support of 24 community projects – including Scientists in School, CivicAction, ACCES Employment and others – which benefited more than 67,000 residents.
- Social media followers at the end of 2017:
 - Twitter: 49,479
 - Facebook: 171,837
 - LinkedIn: 14,571
 - Instagram: 18,844

FACILITATION AGENCIES

The GTAA works closely with the Canadian Air Transport Security Authority (CATSA), Canada Border Services Agency (CBSA) and U.S. Customs and Border Protection (USCBP) to share information, address security and facilitation issues, and coordinate long-term operations and facility planning.

HOW WE ENGAGE

- Meetings with local leadership of each of CATSA, CBSA and USCBP

2017 HIGHLIGHTS AND KEY TOPICS

- Continued our focus on enhancing the pre-boarding experience by speeding up passenger processing. For example, security screening wait times at Terminal 3 are now three times faster thanks to our work with CATSA over the past three years, which has included investments in new technology.

GOVERNMENTS AND REGULATORS

We actively engage with municipal, provincial and federal governments, and with federal and international regulators (e.g., NAV Canada, the International Air Transport Association), on a range of environmental, social and economic issues that affect the GTAA and the broader air transportation industry.

HOW WE ENGAGE

- One-on-one and community meetings

2017 HIGHLIGHTS AND KEY TOPICS

- Engaged with all levels of government on major topics like the 2017–2037 [Toronto Pearson Master Plan](#) and the [2018–2022 Noise Management Action Plan](#).
- Worked closely with NAV Canada on a variety of initiatives related to airport growth and noise management, including the [2018–2022 Noise Management Action Plan](#) and a three-phase [Noise Mitigation Initiatives Engagement Plan](#). We also considered recommendations put forward in the GTAA-sponsored Noise Management Program Best Practices Report, as well as the NAV Canada Independent Toronto Airspace Noise Review.
- Partnered with Metrolinx in planning for the proposed regional transit centre at Toronto Pearson.
- Conducted our biannual survey of 80 municipal, provincial and federal government officials and staff to assess their perceptions of the GTAA. A significant majority, particularly those at the federal level, expressed largely positive views of Pearson and the GTAA. However, there were more neutral or negative scores than in the past from local municipal and regional leaders, some of whose constituents were affected by runway renovation (and the resulting alteration of flight paths) in the spring of 2017.
- Continued negotiations with the City of Mississauga over its stormwater levy.
- Attended or hosted a total of 1,063 government briefings and meetings.

MEDIA

The media plays an important role in providing public updates on Toronto Pearson operations – including delays and cancellations – and in communicating broader airport initiatives.

HOW WE ENGAGE

- Interviews
- Social media
- News releases
- Media statements

2017 HIGHLIGHTS AND KEY TOPICS

- Severe weather affecting flight schedules.
- Airfield construction project in spring 2017.
- Swissport labour action in summer 2017.

AVIATION INDUSTRY

We are actively involved with regional airports, industry organizations and professional associations such as the Canadian Airports Council (CAC), Airports Council International (ACI), the International Air Transport Association (IATA) and the International Civil Aviation Organization (ICAO).

HOW WE ENGAGE

- Industry association meetings, conferences and working groups

2017 HIGHLIGHTS AND KEY TOPICS

- Formally launched the Southern Ontario Airport Network – in collaboration with local airports serving Hamilton, Niagara, Windsor, downtown Toronto (Billy Bishop), London, Kitchener-Waterloo, Lake Simcoe, Oshawa, Peterborough and Kingston – to develop a more integrated regional air transportation network.
- Reaffirmed our Level 3 certification in ACI's Airport Carbon Accreditation Program.

SUSTAINABILITY OVERVIEW

PRIORITIES AND PERFORMANCE

The GTAA tracks and measures key sustainability indicators to help manage performance and drive continuous improvement.

We have developed a downloadable [Sustainability Management Approach and GRI Index](#), which includes the management approach, metrics and performance data included in our online annual report, as well as GRI data and additional content in accordance with the GRI Standards: Comprehensive option (self-declared). Our GRI reporting includes the Airport Operators Sector Disclosure, which the GTAA helped to develop in 2011.

We continue to use an internal verification program to review Toronto Pearson's performance data – including, but not limited to, assessing how data was captured, collected, reviewed and reported. We evaluated a sample of information related to the performance indicators to confirm that a documented process and adequate controls are in place; this ensures our ability to present consistent and accurate data. The GTAA does not currently have a policy or mandate with respect to externally assuring our non-financial reporting.

We review priority topics every two or three years – but we listen to and engage with stakeholders on an ongoing basis.



OUR PRIORITIES

Due to the evolving nature of the global aviation industry, the GTAA has committed to reviewing our priority (material) topics every five years. However, we address specific stakeholder priorities and concerns on an ongoing basis. We will next review our priority topics by 2020.

In our 2015 Annual Report, we undertook a thorough review of priority topics by reassessing those identified in the previous year's report. To determine priority reporting topics, we considered stakeholder feedback gathered through surveys and other methods, as outlined in the Stakeholder Engagement section of this report.

We also looked at our priorities from an internal perspective – for example, how they aligned with the goals outlined in our strategic framework, and with leadership insights shared during annual in-person interviews conducted with members of the GTAA's executive team.

OUR PRIORITY TOPICS

The diagram below provides a present-day view of our corporate responsibility priorities. They are tied to our 20-year strategic goals, which were developed to reflect what is most important to the GTAA and its stakeholders, along with areas where our impact is considered to be most significant.



SAFETY

- Lost-time injuries (LTI) reduction
- Promoting a culture of safety and security
- Safety and security management systems
- Toronto Pearson Safety Index Program



PASSENGER AND CUSTOMER SERVICE

- Airport Service Quality (ASQ)
- Efficient passenger flow per ICAO standards
- Service Level Agreements and performance standards with major airline partners
- Ground transportation



CORPORATE RESPONSIBILITY – SOCIAL

- Economic impact and opportunities
- Community engagement
- Noise management



CORPORATE RESPONSIBILITY – ENVIRONMENTAL

- Energy
- Climate-change adaptation
- Greenhouse gas emissions
- Waste and stormwater management
- Deicing and anti-icing fluid



AVIATION GROWTH

- Airport capacity
- Long-term partnerships
- Public policy and compliance



FINANCIAL SUSTAINABILITY

- Net income
- Return on assets
- Free cash flow generation
- Business continuity



ENGAGED PEOPLE

- Employee engagement
- Talent acquisition
- Talent development
- Rewards and recognition

PERFORMANCE SCORECARD

GOALS AND PERFORMANCE METRICS	2016	2017	PROJECTED
AVIATION GROWTH			
Passenger traffic (millions)	44	47	51 (2018)
Aircraft movements (thousands)	456	465	510 (year 2020)
Cargo volume (tonnes)	472,300	534,500	590,000 (year 2020)
New international cities (net increase)	10	11	Continue to increase in new international destinations
PASSENGER AND CUSTOMER SERVICE			
Airport Service Quality (ASQ)	4.25 Second in North America and 13th in the world (>40MM passengers)	4.31 First among North American and European airports (>40MM passengers)	Top 10 of World Airports (in the same size category) for ASQ
Customer complaints per million passengers*	52.7	74	Continue to improve the passenger and customer experience
Customer compliments per million passengers*	9.4	11	Continue to improve the passenger and customer experience
ENGAGED PEOPLE			
Employee engagement (Aon Hewitt)	66%	69%	Top quartile among Canadian employers by 2019
Direct jobs	49,000	51,000	By 2030, it's estimated that Toronto Pearson could generate and facilitate 542,000 jobs in Ontario.
Diversity	<i>Diversity (% employees)</i> Women: 27.2% Aboriginal peoples: 0.8% Persons with disabilities: 0.7% Visible minorities: 19.7%	<i>Diversity (% employees)</i> Women: 28.4% Aboriginal peoples: 0.9% Persons with disabilities: 0.7% Visible minorities: 20.7%	The GTAA views diversity as one of our most competitive advantages; it ensures our ability to meet the demands of a challenging marketplace. At the GTAA, we strive to create a workplace that reflects the diversity of the community we serve. To us, it is critical to ensure fair employment practices and treatment of our employees across our organization.
Average salary	<i>Women</i> Managers: \$113,000 Non-Managers: \$69,000 <i>Men</i> Managers: \$120,000 Non-managers: \$78,000	<i>Women</i> Managers: \$114,932 Non-Managers: \$74,798 <i>Men</i> Managers: \$130,522 Non-Managers: \$83,456	The GTAA embraces its obligations under federal employment equity and human rights legislation; hiring practices are determined based on the individual, irrespective of the gender and background of employees.
SAFETY			
Toronto Pearson Safety Index (lost-time injuries per million enplaned and deplaned passengers)	7.78% reduction from 2015	6.5% reduction from 2016	Vision of zero lost-time injuries

CORPORATE RESPONSIBILITY – ENVIRONMENTAL

	2016	2017	PROJECTED
Stormwater	Refer to 2016 GRI Index	Refer to GRI Index	
Ambient air quality	The results from the modelling indicated that the air quality in the study area is dominated by the regional emissions, in particular those associated with transportation in the study area		Develop and implement an action plan associated with the Air Quality and Human Health Risk Assessment
Solid waste	74% diversion	71% diversion	Develop a roadmap for GTAA to achieve zero waste
GHG emissions and climate change	Airport Carbon Accreditation Program – Level 3	In 2017, the GTAA increased its use of electric vehicles and installed charging stations for electric fleet vehicles and for employees in the parking lots.	80 per cent reduction by 2050
Energy conservation (MWh)	4,100 MWh	5,000 MWh	\$10M in expected savings by 2026 from the GTAA's LED projects
Natural gas (GJ) Gasoline (litres) Diesel (litres)	Natural gas: 412,886 GJ Gasoline: 447,415 litres Diesel: 1,449,330 litres	Refer to GRI Index	Continue to implement the energy conservation and efficiency initiatives identified in the 2015–2019 Energy Master Plan to reduce consumption
Sustainable transportation	Introduced Green Commuter Rebate Program: \$50/month rebate for GTAA employees taking a green mode of transportation to/from work	Over 200 employees registered for the Green Commuter Rebate Program	Continue to increase participation in the Green Commuter Rebate Program

CORPORATE RESPONSIBILITY – SOCIAL

	2016	2017	PROJECTED
Noise	53,135 complaints from 880 callers	168,676 complaints from 2,399 callers	2018–2022 Noise Management Action Plan
Community Investment Impact (Propeller Project participants)	29,499 participants	Committed nearly \$800,000 in support of 24 community projects – including Scientists in School, CivicAction, ACCES Employment and others – which benefited more than 67,000 residents	Continue to support community investment opportunities

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

Dated March 21, 2018

FORWARD-LOOKING INFORMATION

This Management's Discussion and Analysis ("MD&A") contains certain forward-looking information. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. Please refer to the section titled "Caution Regarding Forward-Looking Information" contained at the end of this MD&A for a discussion of such risks and uncertainties and the material factors and assumptions related to the forward-looking information.

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA") for the year ended December 31, 2017, and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the years ended December 31, 2017 and 2016, and the Annual Information Form for the year ended December 31, 2017. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA is a Canadian Airport Authority and a corporation without share capital under the *Canada Not-for-profit Corporations Act*. The GTAA is authorized to manage and operate airports within the south-central Ontario region, including the Greater Toronto Area (the “GTA”), on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA currently manages and operates Toronto Pearson International Airport (the “Airport” or “Toronto Pearson”) under a ground lease with the federal government, which was executed in December 1996 (the “Ground Lease”). The Ground Lease has a term of 60 years, with one renewal term of 20 years. The Ground Lease is available on SEDAR at www.sedar.com and on the GTAA’s website at www.torontopearson.com.

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

(\$ millions)	2017	2016	Change ⁽¹⁾ 2017–2016		2015
Total Revenues	1,370.2	1,285.6	84.6	6.6%	1,200.6
Total Operating Expenses	931.0	859.2	71.8	8.4%	776.9
Less: Amortization of property and equipment, investment property and intangible assets	264.6	248.8	15.8	6.3%	235.0
EBITDA ^{(2), (3)}	703.8	675.2	28.6	4.2%	658.7
EBITDA margin ^{(2), (3)}	51.4%	52.5%		(1.1)pp	54.9%
EBIT ⁽⁴⁾	439.2	426.4	12.8	3.0%	423.7
Net Income	112.1	85.5	26.6	31.2%	65.9
Free Cash Flow ⁽⁵⁾ (\$ millions)	(167.6)	127.3	(294.9)	(231.7)%	66.7
Key Credit Metric ⁽⁶⁾					
EBITDA/Interest (net) (x) ⁽¹⁾	2.12	1.95	0.17	8.7%	1.81
Rate Covenant ⁽⁷⁾					
Operating Covenant (minimum requirement of 100%)	137.6%	134.9%		2.7pp	132.6%
Debt Service Covenant (minimum requirement of 125%)	144.9%	136.3%		8.6pp	128.9%
Passenger Activity (millions)					
Domestic	17.5	16.9	0.6	3.3%	15.8
International	29.6	27.4	2.2	8.0%	25.2
Total	47.1	44.3	2.8	6.2%	41.0
Flight Activity					
Aircraft movements (thousands)	465.2	456.4	8.8	1.9%	444.0
MTOW (million tonnes)	36.3	34.4	1.9	5.3%	32.0
Seats (millions)	57.0	54.2	2.8	5.2%	50.0
Load factor (%)	82.6%	81.8%		0.8pp	82.0%

At December 31	2017	2016	Change ⁽¹⁾ 2017–2016		2015
Total Debt – GAAP (\$ millions)	6,311.8	6,222.6	89.2	1.4%	6,294.2
Net Debt ⁽⁸⁾	5,844.6	5,665.9	178.7	3.2%	5,783.1
Key Credit Metrics (\$)					
Total Debt/EPAX ⁽⁹⁾	268	281	(13)	(4.6)%	307
Net Debt ⁽⁸⁾ /EPAX ⁽⁹⁾	248	256	(8)	(3.0)%	282

(1) “% Change” is based on detailed actual numbers (not rounded as presented); pp = percentage points; x = times.

(2) EBITDA (earnings before interest and financing costs and amortization) is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures”.

(3) See “Results of Operations – Net Operating Results” section for EBITDA and EBITDA margin narrative details.

(4) EBIT is earnings before interest and financing costs, net (refer to “Results of Operations – Net Operating Results” section for narrative details).

(5) Free cash flow, a non-GAAP financial measure, is defined as cash generated from operations, less cash interest and financing costs less capital expenditures. Refer to section “Non-GAAP Financial Measures”.

(6) This key credit metric is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures”.

(7) The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant).

(8) Net Debt, a non-GAAP financial measure, is gross debt, less cash and cash equivalents, restricted funds and restricted cash. Refer to section “Non-GAAP Financial Measures”.

(9) EPAX (enplaned passengers) is defined as equal to half of total passengers and is based on prior 12 months activity.

BUSINESS STRATEGY

“The Best Airport in the World: Making a Difference, and Connecting the World” is the GTAA’s vision. “Passengers Are Our Passion” is its mission. With passengers at the centre of its business focus, the GTAA has developed a set of strategic goals that focus its efforts and drive the GTAA toward its vision.

Air travel activity at Toronto Pearson has risen significantly over the last several years as Canada’s major air carriers continue to expand and use Toronto Pearson as a strategic hub in their networks. The strong passenger growth experienced over the past few years has resulted in the need to further invest in the Airport’s physical infrastructure. The GTAA has commenced design development for a new concourse and processor expansion at Terminal 1 in consultation with the air carriers and other stakeholders. In addition, the GTAA has also commenced preliminary design on a passenger terminal processor and integrated regional transit centre.

The GTAA will continue to make additional investments in existing and new facilities at the Airport relating to operational and passenger processing improvements, repairs and maintenance, and initiatives that generate additional non-aeronautical (or commercial) revenues, as well as investments to meet regulatory requirements.

During 2017, the GTAA released a report, “Toronto Pearson International Airport: Master Plan: 2017–2037”. The report presents a rigorous assessment of the expected Airport traffic demand over the next 20 years and describes the land areas, operations and facilities to support the continued growth of the Airport underpinning the dynamism of the region, province and country. The report contemplates that under the ‘most likely’ scenario Toronto Pearson could be serving an estimated 85 million passengers and 950,000 tonnes of cargo in 2037.

OUTLOOK

Toronto Pearson’s growth reflects the region’s economic growth and the success of the GTAA’s overall growth strategy. During 2017, passenger traffic grew by 6.2 per cent compared to the same period in 2016 with the international sector leading the passenger growth at 8.0 per cent. Toronto Pearson is the second-largest international passenger airport in North America as measured by the total number of annual international passengers. There continues, however, to be some risks for air travel industry growth due to, among other risks, the uneven global economic outlook, volatile oil prices, currency fluctuations and geopolitical implications. The GTAA remains focused on optimizing the utilization of its facilities, growing non-aeronautical (or commercial) revenues by offering products and services, which passengers value, and working with air carriers to expand capacity on existing routes, attract new air service and routes, and plan for expected growth in passenger volume.

The GTAA’s sustained positive financial results have allowed the Corporation to balance its approach to achieving its strategic goals. The Corporation has increased its operational initiatives which support passenger and customer service, safety, engaged people, and corporate responsibility. At the same time, the GTAA has enhanced its financial sustainability through increasing net income, reducing debt per enplaned passenger and continuing to lower the air carriers’ cost per enplaned passenger. The GTAA has not raised aeronautical fees charged to airlines since 2007. Aeronautical fees have been held constant or lowered for 10 consecutive years, resulting in a reduction in average air carriers’ cost per enplaned passenger of approximately 40 per cent over this period.

In 2017, Toronto Pearson was recognized by Airports Council International as the number one airport in North America for airports that service greater than 40 million passengers annually, based on achieving an Airport Service Quality (“ASQ”) score of 4.31. The ASQ awards recognize the airports which have achieved the highest passenger satisfaction ratings in the ASQ survey, the world’s benchmark measure of airport excellence. The investments that the GTAA has made over the past years in enhancing the passenger experience have supported generating this distinguished award and support the GTAA’s vision to be the best airport in the world.

While the GTAA continues to utilize operating cash flows to fund capital investments, the GTAA accesses the capital markets to refinance maturing debt and fund the redevelopment of existing assets as well as new major capital programs and acquisitions. The GTAA’s approach of matching Airport capacity to demand has allowed the GTAA to continue to meet the developing air travel needs of the south-central Ontario region in a sustainable manner.

OPERATING ACTIVITY

The GTAA's key activity drivers, which have a direct impact on its financial results, are passenger levels and flight activity, including aircraft movements, size and seats.

Passenger Activity

Passenger traffic at the Airport increased in 2017 by 6.2 per cent, from 44.3 million passengers in 2016 to 47.1 million passengers in 2017, representing an annual growth of 2.8 million passengers. This represents the fourth consecutive year of total annual passenger growth over 6.0 per cent.

Total passenger traffic at the Airport is categorized into one of two sectors: domestic (passengers travelling within Canada) and international (passengers travelling to destinations outside Canada). During 2017, the strongest growth was in the international sector, where there was an increase in passenger traffic of 8.0 per cent, or 2.2 million passengers from 27.4 million passengers in 2016 to 29.6 million passengers in 2017. The domestic sector experienced an increase of 3.3 per cent, or 600,000 passengers from 16.9 million passengers to 17.5 million passengers, over the same comparable period.

The following table summarizes passenger activity by sector for 2017, 2016 and 2015:

PASSENGER ACTIVITY

(in millions)	2017	2016	Change ⁽¹⁾ 2017–2016		2015
Domestic	17.5	16.9	0.6	3.3%	15.8
International	29.6	27.4	2.2	8.0%	25.2
Total	47.1	44.3	2.8	6.2%	41.0

⁽¹⁾ “% Change” is based on detailed actual numbers (not rounded as presented).

Strong economic conditions and Toronto Pearson's global hub strategy propelled substantial growth in 2017. Additional frequencies on existing routes, upgauging of average aircraft size on existing frequencies, and the addition of new routes by existing air carriers have driven passenger growth in 2017. Upgauging includes increasing the seat capacity per aircraft by either upgrading to larger aircraft or reconfiguring and increasing seats in existing aircraft. Air Canada's and WestJet's strategy to move more traffic through Toronto Pearson as their hub and the strong origin and destination traffic from these key air carriers have contributed to Toronto Pearson's increased passenger activity.

There are two principal types of passengers: origin and destination passengers, and connecting passengers. An origin and destination passenger is a passenger initiating or terminating a trip at a specific airport, while a connecting passenger changes aircraft at that same airport en route to a final destination. Approximately 70 per cent of Toronto Pearson's total passengers in 2017 were origin and destination passengers, while the remaining 30 per cent were connecting passengers, compared to 68.3 per cent of origin and destination passengers and 31.7 per cent of connecting passengers in 2016. Origin and destination traffic increased in 2017 due to the strong economic conditions in the Greater Toronto Area, a secular shift to a service sector oriented economy with its higher propensity for air travel and the declining real cost of air travel, all of which stimulated air traffic demand. The percentage of connecting passengers declined due to the introduction of additional non-stop international services provided out of the Vancouver and Montreal airports. In 2017, total origin and destination traffic increased by 2.8 million passengers, while the total number of connecting passengers have remained unchanged from 2016.

Flight Activity

As a global hub airport, Toronto Pearson has 63 air carriers providing flights to 184 international and 37 Canadian cities (non-stop flights to 151 International and 34 Canadian cities). The GTAA estimates that countries comprising approximately 70 per cent of the global economy are accessible from Toronto Pearson by daily, non-stop, scheduled service.

Flight activity is measured by aircraft movements, where one movement is defined as a landing, or takeoff, of an aircraft. Each aircraft has a maximum take-off weight (“MTOW”), as specified by the aircraft manufacturers, and total number of seats. MTOW and seats are used to calculate the majority of posted air carrier charges for each aircraft landing. The load factor, the ratio of passengers to seats, is a measure of aircraft capacity utilization and is computed as a percentage of seats filled by passengers.

The following table summarizes aircraft movements, MTOW, seats, seats per passenger aircraft movement and load factor for 2017, 2016 and 2015.

FLIGHT ACTIVITY⁽²⁾

(in thousands)	2017	2016	Change ⁽¹⁾ 2017–2016		2015
Aircraft movements ⁽³⁾	465.2	456.4	8.8	1.9%	444.0
Passenger aircraft movements	427.8	419.2	8.6	2.0%	419.2
(in millions)					
MTOW (tonnes)	36.3	34.4	1.9	5.3%	32.0
Seats	57.0	54.2	2.8	5.2%	50.0
Seats per passenger aircraft movement	133.3	129.2	4.1	3.1%	122.8
Load factor	82.6%	81.8%		0.8pp	82.0%

(1) “% Change” is based on detailed actual numbers (not rounded as presented).

(2) Flight activity measures above reflect both arriving and departing.

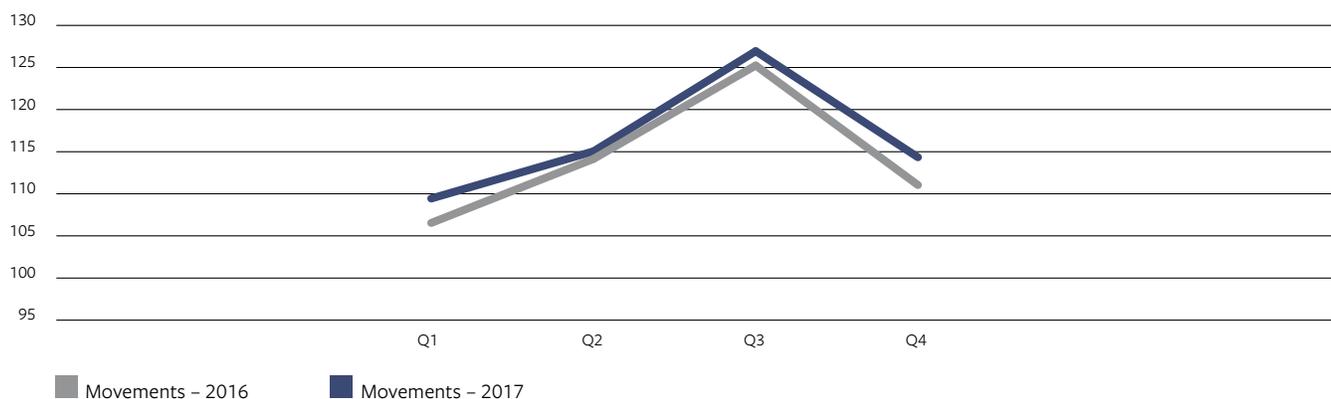
(3) Aircraft movements include both passenger and non-passenger aircraft movements.

There was significant growth in MTOW during 2017 with 36.3 million tonnes, an increase of 5.3 per cent as compared to 2016. This growth reflects an increase in the number of flights and airlines shifting their fleet to larger aircraft. Seats also increased significantly during 2017 by 5.2 per cent to 57.0 million as compared to 2016. As noted above, airlines have been upgauging their aircraft by increasing the seat capacity on existing aircraft and utilizing larger planes. For these reasons, the number of seats per passenger aircraft movement during 2017 was 133.3, an increase of 4.1 seats or 3.1 per cent when compared to 2016, which reflects growth in passenger demand at the Airport. This trend, in effect, increases the passenger capacity of Toronto Pearson’s runways and is consistent with the experience of other global hub airports, namely, a trend towards larger aircraft with an increased number of seats and higher load factors.

The following chart illustrates the seasonality and rise in aircraft movements for the past two years by quarter:

MOVEMENTS

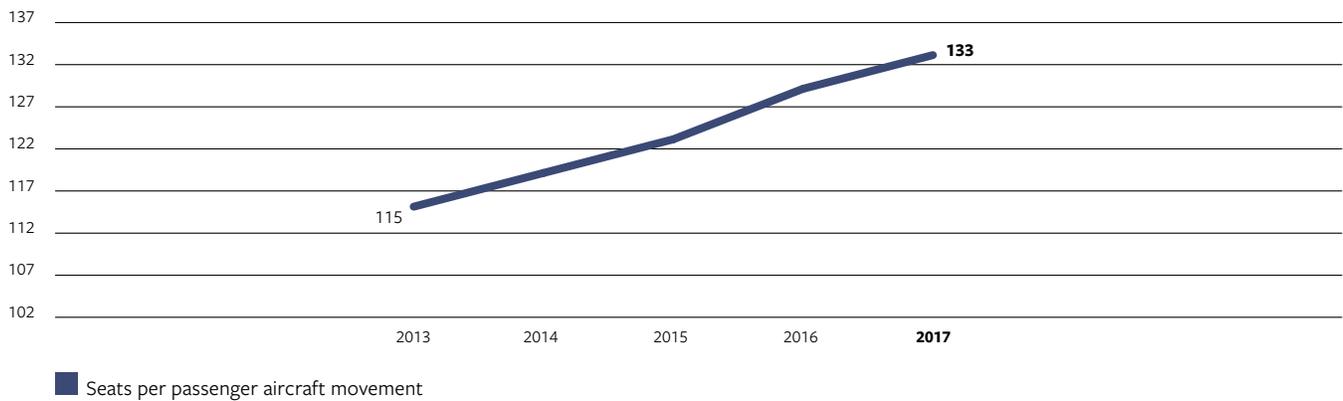
(in thousands)



As the chart below illustrates, the number of seats per movement has been increasing rapidly over the last five years.

SEATS PER MOVEMENT

(seats)



A net increase of 15 international routes was achieved in 2017; 19 new routes were added and four existing routes were discontinued.

A new route includes the following:

- a new non-stop destination;
- a new one-stop destination;
- additional frequencies on a route (which may also include significant capacity upgauging);
- the conversion of a seasonal service to a year-round service; and
- the addition of a second carrier on a route.

The new routes added include new or increased service to significant economic centres including Mumbai (India), Berlin (Germany), Lisbon (Portugal), Mexico City (Mexico), Tokyo (Japan), Amsterdam (Netherlands), Beijing (China) and Manila (Philippines). The discontinued routes included services to Rio Hato (Panama), Istanbul (Turkey), Prague (Czech Republic) and Budapest (Hungary). TAP Air Portugal and Interjet are new air carriers which commenced operations at Toronto Pearson in 2017.

One new domestic route was added in 2017 by WestJet to Sudbury.

For the most current operating activity statistics, please consult the GTAA's website at www.torontopearson.com.

RESULTS OF OPERATIONS

The following section discusses the GTAA's approach to setting its aeronautical rates and charges, together with its financial results. Under the GTAA's financial model, funds generated at the Airport are used for Airport operations, ancillary aviation-related activities, construction, acquisitions, repairs and maintenance, and debt service (interest and repayment of principal).

Rate-Setting and Rate Agreements

In 2017, the GTAA advised that it would not change its aeronautical rates and charges to air carriers operating at the Airport in 2018. The GTAA retains the right, however, to set aeronautical rates and charges as required and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its rates and charges.

The GTAA and Air Canada have a long-term commercial agreement which further supports Toronto Pearson's global hub strategy. The non-exclusive agreement covers an initial five-year term which commenced in 2014, with an extension for a further five years subject to certain conditions having been met, and includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted. If Air Canada exceeds passenger growth thresholds in a given year, it will be eligible for a rebate. The reader is directed to the GTAA's Annual Information Form for the year ended December 31, 2017 for additional information relating to the Air Canada agreement.

In January 2016, the GTAA entered into a long-term commercial agreement with WestJet having similar terms and conditions to the Air Canada commercial agreement. The WestJet agreement has an effective date of January 1, 2016 and provides for an initial four-year term, which is renewable for a further four-year term.

Under the Airport Improvement Fee (“AIF”) agreements with each of the air carriers, the GTAA has committed to using AIF revenues for capital programs, including associated debt service. AIF are paid by passengers and have been held constant or lowered for the prior eight years.

Revenues

Revenues are derived from aeronautical rates and charges (which include landing fees, general terminal charges and apron fees), AIF and non-aeronautical revenues (or commercial revenues), which include car parking, ground transportation, concessions, rentals (for both the GTAA and its wholly-owned subsidiary, Airway Centre Inc.), counter fees, check-in fees, deicing facility fees and other sources. Refer to section “Capital Projects and Acquisitions – Property Acquisitions” for more details on Airway Centre Inc. The primary driver of aeronautical revenues is aircraft movements. Landing fees are based on the MTOW of arriving aircraft; general terminal charges are based on the number of seats of an arriving aircraft; and, apron fees are based on the usage of apron and aircraft gates and bridges. The AIF is charged on a per-passenger basis. A significant portion of non-aeronautical revenues are correlated with passenger activity.

The following table summarizes the GTAA’s consolidated revenues for the years ended December 31, 2017, 2016 and 2015.

REVENUES

(\$ millions)	2017	2016	Change ⁽¹⁾ 2017–2016		2015
Landing fees	312.2	305.5	6.7	2.2%	281.9
General terminal charges	188.8	183.8	5.0	2.7%	193.8
Aeronautical revenues	501.0	489.3	11.7	2.4%	475.7
Concessions & rentals	241.4	214.7	26.7	12.4%	200.7
Car parking & ground transportation	177.7	169.1	8.6	5.1%	157.1
Other	31.4	28.7	2.7	9.6%	13.4
Non-aeronautical revenues	450.5	412.5	38.0	9.2%	371.2
Airport improvement fees	418.7	383.8	34.9	9.1%	353.7
Total	1,370.2	1,285.6	84.6	6.6%	1,200.6

(1) “% Change” is based on detailed actual numbers (not rounded as presented).

Aeronautical revenues increased by \$11.7 million to \$501.0 million during 2017, when compared to 2016. This increase reflects increased passenger growth and flight activities during 2017 when compared to 2016, offset by rebates related to the airline incentive programs and air carrier agreements.

The GTAA also generates commercial revenues from concessions and rental properties, car parking and ground transportation and other sources. The GTAA has a long-term objective to increase the proportion of total revenues that are generated through commercial revenue streams at the Airport to over 40 per cent. In recent years, commercial revenues have been the fastest growing component of the GTAA’s revenues. When combined with aeronautical rate reductions, the result has been an increase in commercial revenues’ proportion of total revenues from approximately 25 per cent to 30 per cent from 2008 to 2017, respectively.

Consolidated concession and rental revenues increased by 12.4 per cent to \$241.4 million during 2017 when compared to 2016. This increase was mainly due to the continued expansion of the GTAA’s retail and food and beverage programs designed to enhance the passenger experience, and to the revenues generated by the Airway Centre Inc.’s commercial buildings. In 2017, the GTAA’s revenues from its retail tenants at the Airport, which revenues are included in concession and rental revenues, increased to \$100.4 million from \$91.7 million in 2016, a 9.4 per cent increase. There was significant growth due to the redevelopment and opening of 28 new retail stores during 2017 and the introduction of new and enhanced products and services. Rental revenues increased 18.2 per cent to \$112.8 million in 2017 from \$95.4 million in 2016. This is primarily due to the acquisition by Airway Centre Inc. of commercial buildings; and to increased rental rates and higher activity at the Airport. The Airway Centre Inc. acquired a number of commercial buildings in May 2017 which generated rental revenues.

During 2017, retail store sales per enplaned passenger at Toronto Pearson were \$20.95 versus \$19.90 in 2016, a 5.3 per cent increase. Retail store sales are the gross sales generated by the GTAA’s retail tenants. These tenants, under their leasehold agreements with the GTAA, pay a percentage of gross sales to the GTAA as rent. Retail stores include retail, restaurant and beverage establishments.

Car parking and ground transportation revenues increased 5.1 per cent to \$177.7 million during 2017 when compared to 2016. This increase reflects a combination of rate increases, enhanced marketing and business development initiatives in parking and ground transportation. Parking volumes have increased slightly during 2017 over 2016 and there is a trend towards a greater proportion of passengers using lower yielding ground transportation options, which is in line with the GTAA's strategy of providing passengers and employees more choice and supporting increased public transit at the Airport.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 9.6 per cent to \$31.4 million during 2017, when compared to 2016. Deicing revenues have increased 8.4 per cent or \$2.1 million during 2017 to \$27.2 million, compared to 2016, due to the growth in flight activities. The deicing revenues are based on a cost-recovery model.

AIF revenue, net of the administration fee collected by the air carriers for the administration of the AIF, increased 9.1 per cent to \$418.7 million during 2017, compared to 2016. This increase was due to higher origin and destination passenger activity during 2017 as compared to 2016.

Expenses

Expenses include the costs to operate and maintain the Airport, interest and financing costs, and amortization of property and equipment, investment property and intangible assets.

The following table summarizes the GTAA's consolidated expenses for the years ended December 31, 2017, 2016 and 2015.

EXPENSES

(\$ millions)	2017	2016	Change ⁽¹⁾ 2017-2016		2015
Ground rent	156.9	148.1	8.8	6.0%	128.0
PILT ⁽²⁾	36.4	34.6	1.8	4.9%	31.9
Total Ground rent and PILT ⁽²⁾	193.3	182.7	10.6	5.8%	159.9
Goods and services	297.4	269.3	28.1	10.5%	240.4
Salaries, wages and benefits	175.7	158.4	17.3	11.0%	141.6
Amortization of property and equipment, investment property and intangible assets	264.6	248.8	15.8	6.3%	235.0
Total operating expenses	931.0	859.2	71.8	8.4%	776.9
Interest expense on debt instruments and other financing costs, net	327.1	340.9	(13.8)	(4.0)%	357.8
Total expenses	1,258.1	1,200.1	58.0	4.8%	1,134.7

(1) "% Change" is based on detailed actual numbers (not rounded as presented).

(2) Payments-in-lieu of real property taxes.

Ground rent payments to the federal government are calculated as a percentage of Airport net revenues, as that term is defined in the Ground Lease, at a rate of 12 per cent of Airport revenues in excess of \$250 million. Ground rent expense increased by 6.0 per cent to \$156.9 million during 2017, when compared to 2016. This increase in ground rent expense was primarily due to an increase in net revenues in 2017.

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year and is subject to a maximum annual increase under the *Assessment Act (Ontario)*. The PILT expenditure increased 4.9 per cent to \$36.4 million during 2017, when compared to 2016. Airway Centre Inc. pays municipal real property taxes, as the real properties acquired by Airway Centre Inc. have not been conveyed to the federal government.

Ground rent and PILT together comprised approximately 21 per cent of the GTAA's operating expenses or 15 per cent of total expenses in 2017.

Expenditures for goods and services increased 10.5 per cent to \$297.4 million during 2017, when compared to 2016. The GTAA incurred higher expenditures due to the inclusion of the Airway Centre Inc.'s costs and the continued investments in corporate-wide initiatives in support of the GTAA's vision to be the best airport in the world. These initiatives included investment in improved passenger and baggage flow, information technology, security, elevator and escalator services. These expenditures were offset by lower snow removal costs.

The Corporation has been rapidly increasing investments to support improved passenger and baggage flow in recent years, with an increase of approximately \$13.2 million in 2017 as compared to 2016. The largest year-on-year increase was the direct investment in the Canadian Air Transport Security Authority (“CATSA”) screening services. In 2017, CATSA screened 19.8 million departing passengers at Toronto Pearson, an increase of 1.2 million or 6.5 per cent over 2016. Of these screened passengers, 91.2 per cent waited less than 15 minutes to be screened compared to 85.4 per cent in 2016, an improvement of 5.8 percentage points. This improvement was a direct result of the GTAA’s investment of \$10.7 million in CATSA resources to reduce wait times for passengers. This investment in incremental CATSA services represents an increase in funding provided by the GTAA, on behalf of airlines and passengers, of 91 per cent over the \$5.6 million invested in 2016.

Investments in support of the GTAA’s vision have had a positive impact on the passenger experience, as reflected in the 2017 ranking as North America’s number one airport for airports that service greater than 40 million passengers annually for passenger satisfaction as measured by the ASQ survey. Refer to “Outlook” section for further information.

Salaries, wages and benefits increased 11.0 per cent to \$175.7 million during 2017, when compared to 2016. The increase was due to 72 new hires to support the GTAA’s vision to be the best airport in the world, supporting passenger and baggage flow (approximately a \$3.6 million increase over 2016); salary and wage increases, severance payouts, enhancements to Management incentive plans and employee benefit provisions. Consistent with the GTAA’s people strategy, the GTAA continued to invest in its employees by providing enhanced education and training initiatives to achieve its short- and long-term strategic goals.

Amortization of property and equipment, investment property and intangible assets during 2017 increased 6.3 per cent to \$264.6 million, when compared to 2016. This increase was due to additions to the depreciable asset base and the inclusion of the amortization of Airway Centre Inc.’s investment properties in 2017.

Net interest and financing costs decreased by 4.0 per cent to \$327.1 million during 2017, when compared to 2016. This decrease was attributable to the refinancing of a portion of the GTAA’s debt at lower interest rates and higher returns generated on the reserve funds. The GTAA reduced its interest cost when it funded the maturity of the \$415.9 million Series 2007-1 Medium Term Notes (“MTNs”) on June 1, 2017 with the issuance of commercial paper (see the “Liquidity and Capital Resources” section for details).

Net Operating Results

The following table summarizes the GTAA’s consolidated net operating results for the years ended December 31, 2017, 2016 and 2015.

NET OPERATING RESULTS

(\$ millions)	2017	2016	Change ⁽¹⁾ 2017–2016		2015
Net Income	112.1	85.5	26.6	31.2%	65.9
Add: Interest and financing costs, net	327.1	340.9	(13.8)	(4.0)%	357.8
EBIT	439.2	426.4	12.8	3.0%	423.7
Add: Amortization ⁽²⁾	264.6	248.8	15.8	6.3%	235.0
EBITDA (non-GAAP financial measure)	703.8	675.2	28.6	4.2%	658.7
EBITDA margin	51.4%	52.5%		(1.1)pp	54.9%

⁽¹⁾ “% Change” is based on detailed actual numbers (not rounded as presented).

⁽²⁾ Amortization means amortization of property and equipment, investment property and intangible assets.

During 2017, the GTAA’s net income increased 31.2 per cent to \$112.1 million, when compared to 2016. This increase in net income was due to the reduction in interest costs as discussed in the “Expenses” section above and the earnings generated from the year’s strong operational performance.

Earnings before interest and financing costs (“EBIT”) during 2017 increased 3.0 per cent to \$439.2 million, when compared to 2016. This increase was due to strong operational results in 2017, partially offset by a higher than usual employee benefits provisions and investments in corporate-wide initiatives in support of the GTAA’s vision to be the best airport in the world.

Earnings before interest and financing costs and amortization (“EBITDA”) during 2017 increased 4.2 per cent to \$703.8 million, when compared to 2016, due to strong operational results in 2017. The EBITDA margin decreased by 1.1 percentage points to 51.4 per cent during 2017, when compared to 2016. The decrease in EBITDA margin was due to higher increases in expenses over revenue increases as a result of expenditures related to continued customer service, connection and flow initiatives. EBITDA is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited consolidated quarterly financial information for the quarters ended March 31, 2016 through December 31, 2017 is set out in the following table.

	Quarter Ended							
	2017				2016			
(\$ millions) ⁽¹⁾	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Revenues	340	369	341	320	317	351	315	303
Operating expenses (excluding amortization) ⁽²⁾	178	165	158	165	163	150	146	152
Amortization ⁽²⁾	68	67	65	65	65	62	61	61
Earnings before interest and financing costs, net	94	137	118	90	89	139	108	90
Interest and financing costs, net	80	81	83	83	85	85	85	86
Net income	14	56	35	7	4	54	23	4

⁽¹⁾ Rounding may result in the figures differing from the results reported in the condensed consolidated interim financial statements.

⁽²⁾ Amortization means amortization of property and equipment, investment property and intangible assets.

The GTAA's quarterly results are influenced by passenger activity and aircraft movements, which vary with travel demand associated with holiday periods and other seasonal factors. In addition, factors such as weather and economic conditions may affect operating activity, revenues and expenses. Changes in operating facilities at the Airport may affect operating costs, which may result in quarterly results not being directly comparable. Due to these factors, the historical quarterly results cannot be relied upon to determine future trends.

CAPITAL PROJECTS AND ACQUISITIONS

The GTAA continues to meet the growing demand for air travel by optimizing the use of the existing facilities at Toronto Pearson. The GTAA focuses on capital programs and projects which improve passenger, baggage, and aircraft processing and flow, comply with regulatory requirements, and projects which enhance the customer experience. Expenditures related to these capital projects are funded primarily through cash flows generated from operations. The strong passenger growth experienced over the past few years has resulted in the need to further invest in the Airport's physical infrastructure.

The GTAA's most significant current and projected capital projects and acquisitions are as follows:

Terminal 3 Improvement Projects – The following Terminal 3 improvement projects are in progress and expected to be completed in 2018: Node B, a revitalization of the Gates H24 to H26 area and the International Arrivals Hall; upgrades to systems and digital technology for an enhanced passenger experience; and upgrades to the Domestic and International East check-in for increased passenger flow. From the inception of these Terminal 3 improvement projects to December 31, 2017, the GTAA has expended \$78.9 million compared to an overall budget of approximately \$90 million. During 2017, the GTAA expended \$43.7 million.

Terminal 1 Pier 193 Expansion – The GTAA is upgrading and expanding its capacity at the Pier 193 commuter facility in Terminal 1 to accommodate narrow body aircraft operations in response to increased passenger traffic at the Airport. Phase one of the building expansion was opened in June 2017 and phase two, consisting of the remaining 40,000 square foot expansion, was opened in October 2017. From the inception of the Pier 193 building expansion to December 31, 2017, the GTAA has expended \$30.9 million compared to an overall budget of approximately \$38 million. During 2017, the GTAA expended \$30.7 million. The planning and designs of a new apron and the associated boarding bridges commenced in the third quarter of 2017 and the work associated therewith is expected to be completed in 2018.

Airside Pavement Restoration 2017 – During May 2017, the GTAA completed the restoration of the airside pavement on runway 05/23 (north) and the associated taxiway as part of the 2015–2019 Airside Pavement Restoration program. From the inception of the Airside Pavement Restoration program into December 31, 2017, the GTAA has expended \$50.7 million compared to an overall budget of approximately \$86 million. During 2017, the GTAA expended \$31.7 million with respect thereto.

Property Acquisitions – During 2017, the GTAA's wholly-owned subsidiary, Airway Centre Inc., acquired four properties near the Airport primarily consisting of industrial and commercial office space and buildings which are unrelated to the day-to-day operation or management of Toronto Pearson. The properties were acquired by Airway Centre Inc. for a total of \$288.9 million. The properties acquired by Airway Centre Inc. are occupied by a mix of commercial and industrial tenants. In accordance with the GTAA's Ground Lease, the approval of the Minister of Transport ("Transport Canada") was obtained in connection with the properties acquired by Airway Centre Inc. The properties acquired by Airway Centre Inc. do not form part of the premises leased to the GTAA by the federal government under the Ground Lease.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at December 31, 2017, 2016 and 2015 are set out in the following table.

(\$ millions)	2017	2016	Change 2017–2016	2015
Total assets	6,186.2	5,967.0	219.2	5,934.3
Total liabilities	6,651.5	6,553.2	98.3	6,601.5
Deficit & Accumulated other comprehensive loss	(465.3)	(586.2)	120.9	(667.2)

At December 31, 2017, when compared to December 31, 2016, the GTAA's total assets increased by \$219.2 million mainly due to the property acquisitions by Airway Centre Inc. of approximately \$288.9 million. These acquisitions were funded by cash on hand and borrowings, contributing to the reduction in total cash and cash equivalents of \$61.6 million. The GTAA's total liabilities increased by \$98.3 million mainly due to the borrowings related to the property acquisitions by Airway Centre Inc. and an increase in accounts payable and accrued liabilities. Accounts payable and accrued liabilities increased by \$16.0 million due to the reporting periods' seasonality in the accruals of airline incentives and capital expenditures.

RESTRICTED FUNDS

(\$ millions)	2017	2016	2015
Debt Service	72.7	73.3	78.8
Debt Service Reserve	382.3	403.7	421.6
Total Trust Indenture directed funds	455.0	477.0	500.4

As shown in the table above, total restricted funds decreased from \$477.0 million in 2016 to \$455.0 million in 2017 due to the GTAA's use of some of the reserve funds to repay the principal maturity of the Series 2007-1 MTNs. The restricted funds which are cash-funded have been invested in short-duration investment-grade instruments.

The various Debt Service Funds represent funds for regular payments of interest and principal and amounts set aside with the Trustee under the GTAA's Master Trust Indenture (the "Trust Indenture") as security for specific debt issues. As the GTAA has sufficient revenues and reserve funds to meet the 125 per cent debt service covenant under the Trust Indenture, no funds are currently required to be deposited into the Debt Service Coverage Fund to meet the debt service covenant. The Operating and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund are funded with letters of credit.

The GTAA also maintains for its own account funds for future principal payments and other commitments, which include the Notional Principal Fund and the AIF Reserve Fund, each of which is described below.

The amounts deposited to the Notional Principal Fund are computed on the basis of an estimated principal amortization for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. The Notional Principal Fund may be applied to repay any debt on maturity in whole or in part or to purchase portions of any outstanding debt prior to their maturity. During 2017, \$156.1 million was deposited to this fund and \$156.1 million of accumulated Notional Principal Fund was used towards debt repayments.

The AIF Reserve Fund accumulates AIF revenue as it is collected. This fund is used by the GTAA for capital programs or debt service payments. The AIF Reserve Fund was \$nil as at December 31, 2017 (December 31, 2016 – \$nil).

Accounts payable and accrued liabilities increased \$16.0 million and total debt increased \$89.2 million at December 31, 2017 as compared to December 31, 2016. The accounts payable and accrued liabilities increased due to higher capital expenditures and operating expenses that were accrued as at December 31, 2017 compared to December 31, 2016. The increase in total debt is primarily attributable to the property acquisitions by Airway Centre Inc. which were funded by the GTAA by way of inter-company loans.

The deficit and accumulated other comprehensive loss of \$465.3 million at December 31, 2017, as reported on the consolidated statements of financial position, has arisen primarily due to the historical aeronautical rate-setting methodology. The notional amortization of debt used in setting the historical aeronautical rates was less than the amortization of property and equipment, investment property and intangible assets and contributed to the GTAA's cumulative net deficit. The transition from the historical aeronautical rate-setting single-till model to one that targets full cost recovery and optimal cash flow is expected to continue to contribute to an improvement in the net deficit position over time.

LIQUIDITY AND CAPITAL RESOURCES

The following table provides the calculation of consolidated free cash flow, net debt and key credit metrics for the GTAA for the years indicated:

(\$ millions)	2017	2016	Change 2017–2016	2015
Free Cash Flow (“FCF”)⁽¹⁾				
Cash flows from Operating Activities – GAAP	729.8	700.5	29.3	659.8
Capital Expenditures ⁽²⁾ – Projects	(279.4)	(227.2)	(52.2)	(228.4)
FCF before property acquisitions	450.4	473.3	(22.9)	431.4
Capital Expenditures ⁽²⁾ – Property Acquisitions	(286.5)	–	(286.5)	–
FCF before interest and financing costs	163.9	473.3	(309.4)	431.4
Interest and financing costs, net ⁽³⁾	(331.5)	(346.0)	14.5	(364.7)
Free Cash Flow⁽¹⁾	(167.6)	127.3	(294.9)	66.7
EBITDA ⁽⁴⁾ /Interest (net) ⁽³⁾ (x)	2.12	1.95	0.17	1.81
Rate Covenant⁽⁵⁾				
Operating Covenant (minimum requirement of 100%)	137.6%	134.9%	2.7pp	132.6%
Debt Service Covenant (minimum requirement of 125%)	144.9%	136.3%	8.6pp	128.9%

(\$ millions)	2017	2016	Change 2017–2016	2015
Debt				
Total Debt – GAAP	6,311.8	6,222.6	89.2	6,294.2
Cash	12.2	73.8	(61.6)	3.5
Restricted funds and restricted cash	455.0	482.9	(27.9)	507.6
Net Debt⁽⁶⁾	5,844.6	5,665.9	178.7	5,783.1
Key Credit Metrics (\$)				
Total Debt/EPAX ⁽⁷⁾	268	281	(4.6)%	307
Net Debt ⁽⁶⁾ /EPAX ⁽⁷⁾	248	256	(3.0)%	282

(1) Free cash flow, a non-GAAP financial measure, is defined as cash flow from operating activities per the Consolidated Statement of Cash Flows, less interest and financing costs, net (cash) less capital expenditures. Refer to section “Non-GAAP Financial Measures”.

(2) Capital expenditures – Projects are acquisition and construction of property and equipment and intangible assets; and Capital expenditures – Property Acquisitions are acquisitions of investment property; are both per the Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at December 31, 2017.

(3) Interest and financing costs excludes non-cash items and reflects the operational payment activities of the Corporation, and therefore, is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures”.

(4) EBITDA (earnings before interest and financing costs and amortization) is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures”.

(5) The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant).

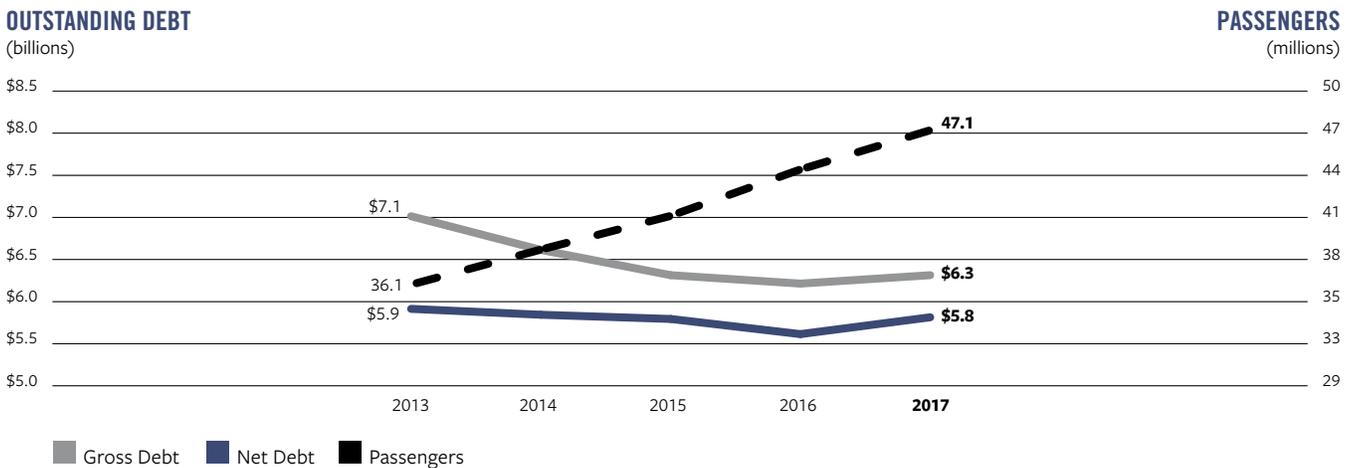
(6) Net Debt, a non-GAAP financial measure, is gross debt, less cash and cash equivalents, restricted funds and restricted cash. Refer to section “Non-GAAP Financial Measures”.

(7) EPAX (enplaned passengers) is defined as equal to half of total passengers and is based on the prior 12 months activity.

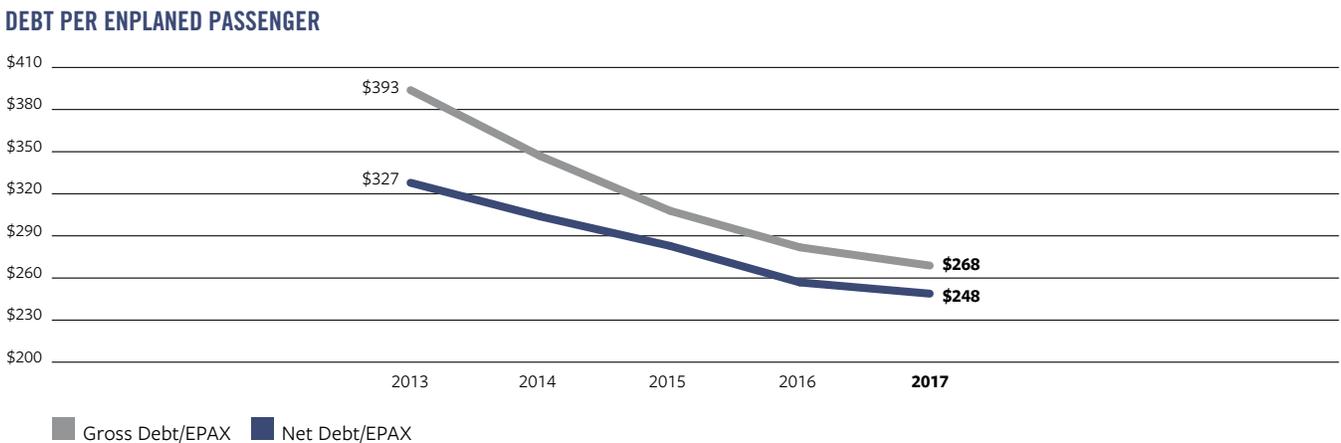
Cash flows from operations increased during 2017 by \$29.3 million to \$729.8 million, when compared to 2016. This increase was mainly due to higher earnings offset by the changes in working capital. Free cash flow decreased during 2017 by \$294.9 million, when compared to 2016, due to the investment property acquisitions by Airway Centre Inc. These acquisitions were funded by cash generated from the GTAA’s operations and through borrowings. Free cash flow is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

EBITDA over interest costs improved during 2017 when compared to 2016 by 0.17 times to 2.12 times. EBITDA over interest costs is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

The following chart illustrates the GTAA's reduction of gross debt over the last five years from \$7.1 billion in 2013 to \$6.3 billion in 2017 and the reduction of net debt from \$5.9 billion in 2013 to \$5.8 billion in 2017, notwithstanding the rise in passenger volumes over the same periods. Net debt is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.



The GTAA's total debt per enplaned passenger, one of the airport industry's key financial metrics, has declined from \$393 in 2013 to \$268 in 2017, and net debt per enplaned passenger has declined from \$327 in 2013 to \$248 in 2017. The GTAA's debt per enplaned passenger has been on a downward trajectory over the last several years as illustrated in the following chart. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.



The GTAA's long-term debt obligations have been assigned credit ratings by Standard & Poor's Rating Service ("S&P") and Moody's Investors Service, Inc. ("Moody's") of "A+" and "Aa3", respectively. The GTAA's commercial paper obligations have been assigned a credit rating of "R-1 (low)" and an issuer rating of "A (high)" by DBRS. Ratings are intended to provide investors with an independent view of credit quality. These ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. The GTAA's Annual Information Form for the year ended December 31, 2017 contains more detailed information about the GTAA's credit ratings.

The GTAA launched a \$500 million commercial paper program (the "CP Program") in May 2017. Proceeds from the initial issue of commercial paper were used to fund the maturity of the \$415.9 million Series 2007-1 MTNs on June 1, 2017 and a portion of the acquisition cost of commercial office buildings by Airway Centre Inc. The proceeds from the issuance of commercial paper from time to time will be used for general corporate purposes, including the partial or full refinancing of maturing indebtedness, capital expenditures and acquisitions. In connection with the launch of the CP Program, the GTAA increased the aggregate availability under its revolving operating credit facility from \$600 million to \$900 million to support borrowings under the CP Program. The GTAA intends to increase its CP Program by \$500 million to \$1 billion in late March 2018. In connection with the increase of the CP Program, the GTAA intends to increase the aggregate availability under its revolving operating credit facility from \$900 million to \$1.4 billion to support borrowings under the CP Program. The GTAA also intends to increase its letter of credit facility from \$100 million to \$150 million in late March 2018.

LIQUIDITY & CREDIT FACILITIES

(\$ millions)				As at December 31, 2017		
Source	Currency	Expiry	Size	Drawn	LoCs	Available
Credit Facilities:						
Revolving Operating facility ⁽¹⁾	CAD	May 22, 2020	900.0	25.0	–	875.0
Letter of Credit facility	CAD	May 22, 2018	100.0	–	81.8	18.2
Hedge facility	CAD	Per contract	150.0	–	–	150.0
			1,150.0	25.0	81.8	1,043.2
Cash & Cash Equivalents						12.2

⁽¹⁾ At December 31, 2017, \$499.4 million of the revolving operating facility fully backstopped the Commercial Paper program.

As at December 31, 2017, the GTAA maintained the credit facilities set out in the above table. These facilities rank *pari passu* with all other debt. The revolving operating credit facility and the letter of credit facility can be extended annually for one additional year with lenders' consent. The \$900 million revolving operating credit facility is used to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. As part of the GTAA's CP Program, any commercial paper outstanding at any given time is fully backstopped by the revolving operating credit facility. As at December 31, 2017, \$499.4 million of commercial paper was outstanding, \$25 million by way of a banker's acceptance loan was drawn under the \$900 million revolving operating facility, \$81.8 million of the \$100 million letter of credit facility was utilized and no amounts were secured on the \$150 million hedge facility.

At December 31, 2017, the GTAA had a working capital deficiency of \$1.2 billion, as computed by subtracting current liabilities from current assets. This consisted of mainly the outstanding commercial paper and the \$461 million Series 2008-1 MTNs due April 17, 2018. Working capital is a financial metric that measures the short-term liquidity for those assets that can readily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. At December 31, 2017, the GTAA had \$875 million available under its revolving operating credit facility, including the portion of the facility backstopping outstanding commercial paper. The available credit under the revolving operating credit facility, its cash flows from operations, and the GTAA's ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities.

The GTAA's approach to rate-setting and the generation of commercial revenues, together with the GTAA's liquidity and interest rate risk management practices, enable it to manage its debt levels and debt service costs. In the past, the GTAA has redeemed certain of its debt prior to its scheduled maturity, and may do so in the future. In addition, the GTAA may from time to time seek to retire or purchase any outstanding debt through cash purchases in the open market, privately negotiated transactions or otherwise. Such redemptions and purchases, if any, will depend on excess cash and reserve balances, prevailing market conditions, and other factors. These activities are intended to reduce the gross amount of the GTAA's outstanding debt gradually and thereby reduce the GTAA's annual net interest expense.

An overall Capital Markets Platform has been established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and MTNs. The platform has been used to fund certain capital programs, and the GTAA will continue to access the capital markets to fund capital programs and to refinance maturing debt as and when needed.

The following table analyzes the GTAA's financial liabilities by relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. It does not include pension and post-retirement benefit obligations as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. It includes both principal and interest cash flows.

(\$ millions)	Less than	1 Year to	Thereafter
	1 Year	5 Years	
Accounts payable and accrued liabilities	236.0	–	–
Commercial Paper and short-term loan	524.4	–	–
Long-term debt	478.0	1,313.9	3,952.7
Interest payable on long-term debt	313.5	1,340.7	2,562.4
	1,551.9	2,654.6	6,515.1

Accounts payable and accrued liabilities are expected to be funded through operations, while the short-term and long-term debt obligations and related interest payable are expected to be funded primarily through a combination of borrowings from accessing the capital markets and cash flows generated from operations.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2017 of approximately \$196.3 million, as compared to \$332.4 million at December 31, 2016. The GTAA expects to fund these commitments primarily through its cash flow from operations.

The objective of the GTAA's investment and cash management strategy is to ensure that the cash requirements for operations, capital programs and other demands are met, and to access capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given the availability of its credit facilities, its restricted fund balances, the ability to access the capital markets, and its projected operating cash flows, the GTAA does not anticipate any funding shortfalls in 2018. There may, however, be events outside of the control of the GTAA that could have a negative impact on its liquidity. Refer to the "RISKS" section for further details.

A measure of the GTAA's ability to service its indebtedness is its ability to comply with certain covenants in the Trust Indenture. The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant) such that:

- i) Revenues in each Fiscal Year are sufficient to make all required debt service payments and deposits in funds and reserve funds, and all other payments required to be made by the GTAA in the ordinary course of its consolidated business; and
- ii) Net Revenues, together with any Transfer from the General Fund in each Fiscal Year, equal at least 125 per cent of the Annual Debt Service for each Fiscal Year; (as such capitalized terms are defined in the Trust Indenture).

The GTAA sets its rates and charges, fees, and rentals so that these two covenants under the Trust Indenture are met. Both covenant tests exclude amortization of property and equipment, investment property and intangible assets from expenses. The debt service covenant does, however, include a notional amortization, over a 30-year period of outstanding debt. Inclusion of the notional debt amortization further determines whether net revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-term use assets. The GTAA's operating covenant ratio was 137.6 per cent in 2017, which is above the minimum requirement of 100 per cent under the Trust Indenture. The GTAA's debt service covenant ratio was 144.9 per cent in 2017, which is above the minimum requirement of 125 per cent under the Trust Indenture.

SUBSEQUENT EVENTS

To mitigate the impact of rising interest rates, the GTAA entered into derivative agreements in January and February of 2018 to lock in the interest rate on a notional debt amount of \$500 million using the Government of Canada 19-year bond maturing in 2037 as its reference bond.

On February 7, 2018, the GTAA exercised its right to redeem all \$522 million of the outstanding Series 2009-1 MTNs on March 29, 2018. The Series 2009-1 MTNs had an original maturity date of November 20, 2019. The redemption price, determined in accordance with the provisions of the Trust Indenture and Pricing Supplement Nos. 3 and 4 dated May 14, 2009 and October 5, 2009, respectively, will be calculated on March 26, 2018. The redemption price, together with accrued interest, will be paid on the redemption date.

NON-GAAP FINANCIAL MEASURES

Throughout this MD&A, there are references to the following performance measures which in Management's view are valuable in assessing the economic performance of the GTAA. While these financial measures are not defined by International Financial Reporting Standards ("IFRS"), and they are referred to as Non-GAAP measures and may not have any standardized meaning, they are common benchmarks in the industry, and are used by the GTAA in assessing its operating results, including operating profitability, cash flow and investment program.

EBITDA and EBITDA Margin

EBITDA is earnings before interest and financing costs and amortization, and EBITDA margin is EBITDA divided by revenues. EBITDA is a commonly used measure of a company's operating performance. This is used to evaluate the GTAA's performance without having to factor in financing and accounting decisions.

EBITDA over Interest Costs

EBITDA over interest costs is defined as EBITDA divided by interest and financing costs, net (excluding non-cash items), for the year ended December 31, 2017. EBITDA over interest costs is used to assess the cash flow risk and is a commonly used ratio to measure the ability to meet interest expenses.

Free Cash Flow

Free cash flow ("FCF") is cash flow from operating activities per the consolidated statements of cash flows less capital expenditures and interest and financing costs, net (excluding non-cash items). FCF is used to assess funds available for debt reduction or future investments within Pearson.

Net Debt

Net Debt is defined as gross debt, less cash and cash equivalents, restricted funds and restricted cash.

Net Debt per Enplaned Passenger

Net debt per enplaned passenger is defined as net debt over total enplaned passengers (“EPAX”). EPAX is defined as equal to half of total passengers and is based on the prior 12 months’ activity. EPAX is widely used in the aviation industry and represents a passenger boarding a plane at a particular airport. Net debt per EPAX is commonly used by airports and other users to assess an appropriate debt burden for an airport.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 3 and 4, respectively, of the Consolidated Financial Statements as at December 31, 2017 and 2016. These consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, Malton Gateway Inc. and Airway Centre Inc. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

Certain rebates to airlines have been reclassified from landing fees to general terminal charges to conform to the current year’s presentation.

The GTAA has adopted the following new and revised standards effective January 1, 2017. These changes were made in accordance with the applicable transitional provisions.

a) Amendment to International Accounting Standard (“IAS 7”), *Statement of Cash Flows*:

This standard was amended to provide additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The change was made in accordance with the applicable transitional provisions. The adoption of the amendment has resulted in additional disclosure on the consolidated statements of cash flows.

b) Amendment to IFRS 12, *Disclosure of Interests in Other Entities*:

This standard was amended to clarify that the disclosure requirements of IFRS 12 are applicable on interests in entities classified as held for sale. The adoption of the amendment did not have an impact on the consolidated financial statements.

Accounting Standards Issued But Not Yet Applied

a) Amendment to IAS 40, *Investment Property*:

This standard was amended to clarify that to transfer to, or from, investment properties there must be a change in use of assets supported by evidence. This amendment is effective for annual periods beginning on or after January 1, 2018. The adoption of the amendment will not have an impact on the consolidated financial statements.

b) IFRS 15, *Revenue from Contracts with Customers*:

This standard is a new standard on revenue recognition, superseding IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The standard is effective for years beginning on or after January 1, 2018. The GTAA has evaluated the impact of the standard on the consolidated financial statements. As a result of this assessment, the GTAA has concluded that the presentation of certain revenue contracts on the financial statements will change. The GTAA has also assessed and concluded that the impact of IFRS 15 on AIF, based on current terms and conditions, will result in the reallocation of the administration fee. Based on 2017 operations, this would result in a \$17.4 million increase to AIF revenue and to goods and services expenses. This reallocation will have no impact on net income.

c) IFRS 9, *Financial Instruments*:

This standard will replace the current IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). The standard introduces new requirements for classifying and measuring financial assets and liabilities and introduces a new model for general hedge accounting. The standard is effective for years beginning on or after January 1, 2018. The GTAA continues to evaluate the impact of the standard on the consolidated financial statements, however, based on the preliminary assessment, the GTAA has initially concluded that there will not be a significant impact to the consolidated financial statements.

d) Amendments to IFRS 7, *Financial Instruments: Disclosure*:

This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9. The GTAA continues to evaluate the impact of the standard on the consolidated financial statements, however, based on the preliminary assessment, the GTAA has initially concluded that there will not be a significant impact on the consolidated financial statements.

e) IFRS 16, *Leases*:

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, *Leases*. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has assessed the impact of the new standard on the Ground Lease. The GTAA expects no impact on the consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore the expense will continue to be recognized in the consolidated statements of operations and comprehensive income on an accrual basis. The GTAA is currently evaluating the impact of the standard on other leases on the consolidated financial statements.

RELATED PARTY TRANSACTIONS

At December 31, 2017, the GTAA had transactions with key management personnel in the ordinary course of their employment with the GTAA. Key management includes the CEO, the CFO and the Vice Presidents of the GTAA. The GTAA also had transactions with members of the Board of Directors with respect to compensation paid to Board members in connection with their role as a director.

INTERNAL CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Chief Financial Officer that, among other things, report on management's design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the last quarter and for the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the GTAA's internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISKS

The GTAA's Board is accountable for the oversight of the principal enterprise risks of the GTAA's business and is responsible for determining that Management has effective policies and procedures to identify, assess and manage such risks.

The GTAA has established an Enterprise Risk Management ("ERM") program to instill risk awareness among employees and provide a disciplined approach to identify, assess, treat and manage risks. An enterprise-wide approach enables financial, customer, people, business and external risks to be managed and aligned with the GTAA's strategic goals. The GTAA has integrated the ERM program into its strategic and financial planning processes which helps the GTAA to better understand uncertainty and its potential impact on strategic goals, and the ERM program is a key input into the GTAA's decision-making process. The GTAA continues to review and improve its ERM program by building stronger linkages between strategy, threat and opportunity, and by incorporating emerging risks based on current events that affect the GTAA's business.

The GTAA, its operations and its financial results are subject to certain risks. At present, these risks include, without limitation, the risks set out below. While the various mitigations described in this document are intended to lessen some of the risks discussed below, there can be no assurance or guarantee that the GTAA's strategies for mitigating the risks will be effective. Other risks are detailed from time to time in the GTAA's publicly filed disclosure documents.

If any risks materialize, there could be a reduction in the GTAA's revenues or an increase in its costs. The following is a list of the principal risks that may affect the financial position of the GTAA.

Operational Flow

The effective flow of passengers, baggage and aircraft operations requires coordinated and aligned processes between the GTAA and government agencies, air carriers and other stakeholders to deliver superior passenger service. The forecasted growth and pace of change requires that increased focus be placed on the continual improvement of the execution of day-to-day flow of Airport operations. The GTAA is responsible for the overall coordinated flow of Airport processes. Strong relationships and proactive coordination is needed between the

GTAA, government agencies, air carriers and other stakeholders to anticipate and adjust operational flow in response to changing demand that could result from internal and external conditions, including evolving passenger preferences and behaviours across the passengers' "home-to-home" journey.

Cyber Security

Information security is integral to the GTAA's business activities and reputation. Given the Airport's extensive use of information technologies, the GTAA faces potential information security risks, including the threat of hacking and denial of service targeted at causing system failure and service disruption. The GTAA proactively maintains appropriate safeguards and procedures to prevent, detect, respond to and manage cyber-security threats. Initiatives include detection and vulnerability enhancements, continual social engineering to align with industry levels and monitoring of global cyber-security attacks and how they could impact confidentiality, integrity and availability of the Corporation's information technology ("IT") systems.

People Risk

A failure by the GTAA to attract, develop and retain the right talent throughout the GTAA, while fostering a high-performance culture, may have an impact on the GTAA's ability to realize its strategic goals. The GTAA continues to invest in employee programs, initiatives and development plans that enable the GTAA to mitigate this risk. People risk foci include leadership assessment and development; succession planning and management; workforce-building and talent pipeline management to address an aging workforce.

On December 22, 2017, the GTAA employees who are members of the Pearson Airport Professional Fire Fighters Association ("PAPFFA") agreed to a three-year renewal of the collective bargaining agreement between the GTAA and PAFFA, with a term of January 1, 2018 to December 31, 2020.

Major Event

Any airport, including Toronto Pearson, is subject to the risk of a loss of confidence by air travellers as a result of a major event, such as an aircraft accident or terrorist attack at the Airport or elsewhere. This could lead to a temporary reduction in passenger demand, processing capacity and the GTAA's revenues. Comprehensive existing controls in place include emergency response, operational and business continuity programs that are actively monitored as are global major events that affect transportation and airports. Continued focus is on enhancing the resilience of the Corporation to sustain the impact of business disruptions.

Safety Risk

The ability to protect the safety and security of employees, passengers, air carriers, government agencies and other Airport service providers is essential to the GTAA. While the GTAA maintains overall coordinated safety and security responsibility for the Airport, federal government agencies are responsible for passenger, baggage and cargo screening at the Airport and for security and customs processes. The GTAA is responsible for other aspects of security, including maintaining secure access to restricted areas of the Airport and policing. A major event anywhere in the world or changes in legislation or bi-lateral agreements could result in more stringent processes, with which the GTAA would need to comply and which could increase security and border screening processes and wait times or impose additional costs to the GTAA, airlines and passengers. The GTAA discharges its safety and security requirements in compliance with the legislations set out by the federal government with a focus on identification and understanding of changes to legislation, regulation and policy that could apply to the Airport. Strong control programs are maintained for compliance to key legislation, including without limitation, the Canadian Aviation Regulations ("CARs"), Canadian Aviation Security Regulations ("CASRs") and the terms of the Ground Lease. The corporate safety vision of zero Airport employee lost time injuries continues to drive the Toronto Pearson Safety Program and the related safety management system, processes and controls.

Industry Risk

The health of the air transportation industry and future airline traffic at the Airport give rise to a broad array of business and aviation risks that have the ability to slow or temporarily cease operations at the Airport and/or negatively affect passenger demand and therefore the GTAA's revenues. Risks include: population growth; unemployment rates; economic conditions; regulatory actions and legislative changes; international air transportation agreements; air carrier instability; the ability and willingness of airlines to provide air service; the increase in the cost of air fares, including taxes and surcharges; currency fluctuations; labour disputes; the availability and cost of aviation fuel; carbon emission charges, taxes and restrictions; insurance costs; environmental regulation; the operation of the air traffic control system; the use of telecommunications and ground transportation as alternatives to air travel; volcanic eruptions; health epidemics and related travel advisories; geopolitical risk; war; and terrorist attacks, the perceived threat of terrorist attacks and additional security measures put in place to guard against such attacks.

Strategy Development Risk

The Board- approved GTAA 20-year strategic framework identifies the strategic priorities which support Toronto Pearson's ability to meet the growing demand for air travel in the Greater Toronto Area, Ontario and Canada, including driving the GTAA towards its vision: "The Best Airport in the World: Making a Difference, and Connecting the World". Since forward-looking plans are not able to anticipate all possible factors, there is a risk of developing strategies that may not enable the GTAA to achieve its corporate goals. Accordingly, the GTAA periodically conducts a comprehensive review of its strategic plans to incorporate any emerging factors that may influence business objectives and has enhanced the planning process to connect the long and medium term strategic goals with the Corporation's risk profile for increased strategy integration into business plans and culture.

Commercial Relationships

The GTAA works with a number of parties at the Airport to deliver services to passengers, air carriers and other stakeholders. These parties include government agencies, air carriers and third-party vendors. Should any of these parties fail to deliver services as required or in coordination with other partners including the GTAA, the GTAA's ability to generate revenue or deliver desired service levels and value to its customers and stakeholders will be impacted. To decrease the risk of an air carrier reducing or ceasing operations at the Airport, which may result in a temporary decline in the GTAA's aviation activity and revenues, the GTAA has entered into long-term commercial agreements with two air carriers, Air Canada and WestJet, further supporting Toronto Pearson's global hub strategy.

Infrastructure Management

The provision of services at the Airport is dependent on the availability of physical assets such as runways and taxiways, terminal buildings, parking structures, and information technology. This includes availability of existing assets and of the additional physical capacity needed to maintain growing aviation demand.

Determining the appropriate timing for adding physical infrastructure capacity is impacted by the strong passenger growth as experienced over the past few years. An impact of this growth is in increased usage of facilities. This has been reflected in the baggage system life cycle resulting in the multi-year upgrade program being advanced. The velocity of technological change and the ever-increasing dependence of airport operations on automation for process efficiencies drive the multi-year IT transformation program. Longer-term initiatives focus on early planning for expansion such as the addition of a new concourse and construction of new terminal facilities including a regional transit centre. Enhancements include clearer delineation and resourcing of airport development, infrastructure redevelopment and capital restoration processes with added focus on project management and an enhanced risk assessment process.

Community and Stakeholder Relations

Any action or inaction by the GTAA, or any businesses or government agencies operating at the Airport, may impair Toronto Pearson's image in the community or the public's confidence in the Airport which could lead to a loss of revenue or result in additional expense to the GTAA should passenger traffic shift to another airport. The inability to build and nurture trust and social licence with stakeholders and communities could restrict opportunities to grow. The GTAA continues to focus on understanding the perceptions held by key stakeholder groups through consultation and engagement to allow the Corporation to review insights for continual improvement opportunities.

Financial Sustainability Risks

As of December 31, 2017, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$6.3 billion. There are always risks when raising funds, including risks related to fluctuating interest rates and the availability of funds at any point in time. There have been Bank of Canada interest rate increases in 2017 and in 2018 with additional increases expected in 2018. Taking into consideration the availability of its credit facilities, its restricted fund balances, the ability to access the capital markets, and its projected operating cash flows, the GTAA does not anticipate any funding shortfalls in 2018.

External factors, such as economic conditions, government policies, catastrophic events and the state of the financial markets, can have an impact on the GTAA's funding risk.

Business Model – The GTAA has the right to increase its aeronautical rates and charges to generate sufficient revenues to cover its financial obligations. The GTAA sets its rates to meet the operating and debt service covenants under the Trust Indenture. Airport Improvement Fees ("AIF"), paid by passengers and used by the GTAA for capital programs and associated debt service payments, have been held constant or lowered for the prior eight consecutive years. Aeronautical fees have been held constant or lowered for the prior 10 consecutive years. The GTAA's approach to rate-setting, together with the GTAA's prudent liquidity and interest rate risk management practices, enable it to proactively manage its debt levels and debt service costs.

Financial Management – The strong passenger growth experienced over the past few years has resulted in a need to further invest in the Airport’s physical infrastructure. Correspondingly, the GTAA’s financial management approach must be able to support investment in infrastructure development to accommodate growth while supporting passenger and customer initiatives and debt reduction to fulfill its strategic objectives. The GTAA’s sustained positive financial results have enabled it to balance its approach to achieve its strategic goals while continuing to enhance its financial sustainability through debt reduction, increased net income and continuing to lower air carriers’ cost per enplaned passenger.

Funding – The GTAA’s investment and cash management strategy is set to meet the cash requirements for operations, capital programs and other demands, and to access the commercial paper and capital markets as may be required to refinance maturing debt, finance future capital projects and fund reserve funds. The GTAA’s short-term and long-term debt obligations have been assigned favourable independent views of credit quality through credit rating agencies. In the event of a credit rating agency’s downgrade of Canadian banks’ credit ratings as occurred in 2017, the GTAA would adjust its investment and cash management strategy, as required, to continue to meet its obligations consistent with the requirements of the Trust Indenture. The Capital Markets Platform, established by the GTAA with the Trust Indenture, has been used to fund capital programs.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information about the GTAA. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections, which constitute forward-looking information, will not prove to be accurate, that the assumptions may not be correct and that actual results may vary from the forward-looking information. The GTAA cautions readers of this MD&A not to place undue reliance on the forward-looking information as a number of factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking information.

Words such as “believe”, “expect”, “plan”, “intend”, “estimate”, “anticipate” and similar expressions, as well as future or conditional verbs such as “will”, “should”, “would” and “could” often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding the following: the GTAA’s infrastructure capacity and its ability to meet projected air travel demand; additional investment in the Airport; the GTAA’s strategic framework; growth in domestic and international passenger traffic; the GTAA meeting growing demand for air travel through making optimum use of its existing facilities; future growth in Airport activity; the GTAA’s capital borrowing requirements and program and its ability to access the capital markets; airline load factors and fleet mix; the GTAA’s rate-setting methodology and its relationship to financial and corporate sustainability and debt levels and service costs; cash flows, working capital and liquidity, the GTAA’s ability to mitigate any working capital deficiency and no funding shortfalls in 2018; reductions in average air carrier’s cost per enplaned passenger; the long-term aeronautical fee agreements entered into with Air Canada and WestJet; budgets and expenditures relating to capital programs and the funding of such programs; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; the commencement of operations of facilities currently under construction at the Airport; the redemption or purchase of outstanding debt and associated savings in net interest and financing costs; the use of certain restricted reserve funds; and the funding of outstanding capital commitments.

The forward-looking information is based on a variety of material factors and assumptions including, but not limited to, the following: long-term growth in population, employment and personal income will provide the basis for increased aviation demand in the GTA; the Canadian, U.S. and global economies will recover and grow at expected levels; air carrier capacity will meet the demand for air travel in the GTA; the growth and sustainability of air carriers will contribute to aviation demand in the GTA; the GTA will continue to attract domestic and international travellers; the commercial aviation industry will not be significantly affected by terrorism or the threat of terrorism; the cost of enhancing aviation security will not overly burden air carriers, passengers, shippers or the GTAA; no significant event will occur that has an impact on the ordinary course of business such as a natural disaster or other calamity; the GTAA will be able to access the capital markets at competitive terms and rates; and there are no significant cost over-runs or delays relating to capital programs. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, among other things, continuing volatility in the economic recovery and future economic activity; high rates of unemployment and household debt; levels of aviation activity; air carrier instability; the availability of aviation liability and other insurance; the timing of recovery of receipt of insurance proceeds; construction risk; geopolitical unrest; terrorist attacks and the threat of terrorist attacks; war; health epidemics; labour disputes; capital market conditions; currency fluctuations; changes in laws; adverse amendments to the Ground Lease; the use of telecommunications and ground transportation as alternatives to air travel; the availability and cost of jet fuel; carbon emission costs and restrictions; adverse regulatory developments or proceedings; environmental issues; lawsuits; and other risks detailed from time to time in the GTAA’s publicly filed disclosure documents.

The forward-looking information contained in this MD&A represents expectations as of the date of this report and is subject to change. Except as required by applicable law, the GTAA disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information or future events or for any other reason.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Greater Toronto Airports Authority have been prepared by management and approved by the Board of Directors and the Members of the Greater Toronto Airports Authority. Management is responsible for the preparation and presentation of the information contained in these financial statements and other sections of this Annual Report. The Greater Toronto Airports Authority maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Greater Toronto Airports Authority's independent auditor, PricewaterhouseCoopers LLP, have been appointed by the Members of the Corporation to express their professional opinion on the fairness of these financial statements.

The Board of Directors ensures that management fulfills their responsibilities for financial reporting and internal controls through an Audit Committee, which is composed of five directors. This Committee reviews the financial statements and reports to the Board of Directors. The auditor has full and direct access to the Audit Committee.



Howard Eng
President and Chief Executive Officer



Ian Clarke
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Greater Toronto Airports Authority

We have audited the accompanying consolidated financial statements of Greater Toronto Airports Authority and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of operations and comprehensive income, changes in deficit and accumulated other comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

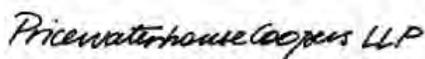
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

The logo for PricewaterhouseCoopers LLP, featuring the company name in a stylized, cursive script.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 21, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (in thousands of Canadian dollars)	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	12,187	73,781
Restricted funds (Note 6)	99,121	95,249
Restricted cash	–	5,911
Accounts receivable (Note 7)	69,350	68,296
Prepays	5,769	3,190
Inventory	9,297	9,295
	195,724	255,722
Non-current Assets		
Restricted funds (Note 6)	355,852	381,739
Intangibles and other assets (Note 8)	78,209	86,426
Property and equipment (Note 9)	5,187,763	5,168,223
Investment property (Note 10)	304,549	19,757
Post-employment benefit asset (Note 13)	64,135	55,149
	6,186,232	5,967,016
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 17)	235,960	220,103
Security deposits and deferred revenue	79,612	84,587
Current portion of long-term debt and other borrowings (Note 11)	1,066,208	497,695
	1,381,780	802,385
Non-current Liabilities		
Deferred credit (Note 8)	17,800	20,003
Post-employment benefit liabilities (Note 13)	6,352	5,851
Long-term debt (Note 11)	5,245,606	5,724,932
	6,651,538	6,553,171
Deficit and Accumulated other comprehensive loss (Note 1)	(465,306)	(586,155)
	6,186,232	5,967,016

Commitments and contingent liabilities (Note 15)

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

Signed on Behalf of the Board



W. David Wilson
Director

Signed on Behalf of the Board



Roger Mahabir
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years Ended December 31 (in thousands of Canadian dollars)	2017	2016
Revenues		
Landing fees	312,216	305,490
General terminal charges	188,775	183,785
Airport improvement fees	418,671	383,801
Car parking and ground transportation	177,729	169,050
Concessions	129,086	119,767
Rentals	112,309	94,925
Other	31,455	28,712
	1,370,241	1,285,530
Operating Expenses		
Ground rent (Note 1 and 12)	156,938	148,101
Goods and services (Note 18)	297,437	269,266
Salaries, wages and benefits	175,706	158,368
Payments-in-lieu of real property taxes	36,344	34,656
Amortization of property and equipment (Note 9)	259,861	246,775
Amortization of intangibles and other assets (Note 8)	640	1,306
Amortization of investment property (Note 10)	4,091	716
	931,017	859,188
Earnings before interest and financing costs, net	439,224	426,342
Interest income	8,106	5,868
Interest expense on debt instruments and other financing costs	(335,177)	(346,729)
Interest and financing costs, net (Note 11)	(327,071)	(340,861)
Net Income	112,153	85,481
Items that may be reclassified subsequently to Net Income:		
Amortization of terminated hedges and interest rate swap	1,985	1,782
Loss on cash flow hedge	–	(4,309)
Items that may not be reclassified subsequently to Net Income:		
Pension remeasurements (Note 13)	6,711	(1,909)
Other Comprehensive Income (Loss)	8,696	(4,436)
Total Comprehensive Income	120,849	81,045

Related party transactions and balances (Note 14)

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

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Year Ended December 31, 2017 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2017	(569,443)	(16,712)	(586,155)
Net Income	112,153	–	112,153
Amortization of terminated hedges and interest rate swap	–	1,985	1,985
Pension remeasurements	6,711	–	6,711
Total Comprehensive Income for the year	118,864	1,985	120,849
Balance, December 31, 2017	(450,579)	(14,727)	(465,306)

Year Ended December 31, 2016 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2016	(653,015)	(14,185)	(667,200)
Net Income	85,481	–	85,481
Amortization of terminated hedges and interest rate swap	–	1,782	1,782
Loss on cash flow hedge	–	(4,309)	(4,309)
Pension remeasurements	(1,909)	–	(1,909)
Total Comprehensive Income (Loss) for the year	83,572	(2,527)	81,045
Balance, December 31, 2016	(569,443)	(16,712)	(586,155)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (in thousands of Canadian dollars)	2017	2016
Cash Flows from (used in) Operating Activities		
Net Income	112,153	85,481
Adjustments for:		
Amortization of property and equipment	259,861	246,775
Amortization of investment property	4,091	716
Amortization of intangibles and other assets	5,862	6,777
Net loss on disposal of property and equipment and intangible assets	129	632
Post-employment benefit plans	(1,774)	(3,872)
Interest expense on debt instruments, net of capitalized interest	330,398	342,098
Amortization of terminated hedges and interest rate swap	1,985	1,782
Amortization of deferred credit	(2,203)	(2,202)
Severance entitlement plan settlement	–	(12,528)
Changes in working capital:		
Restricted cash	5,911	1,250
Accounts receivable	(1,054)	6,976
Prepays	(2,579)	1,525
Inventory	(2)	(2,230)
Accounts payable and accrued liabilities	21,981	15,989
Security deposits and deferred revenue	(4,975)	11,323
	729,784	700,492
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	(279,356)	(227,165)
Acquisition of investment property	(286,528)	–
Proceeds on disposal of property and equipment	77	132
Decrease in restricted funds	22,015	23,401
	(543,792)	(203,632)
Cash Flows from (used in) Financing Activities		
Issuance of medium term notes and long-term debt	–	298,265
Repayment of medium term notes and long-term debt	(431,983)	(365,136)
Proceeds from drawing on credit facility	25,000	–
Issuance of other current borrowings	498,981	–
Interest paid	(339,584)	(353,673)
Payment on termination of cash flow hedge	–	(6,082)
	(247,586)	(426,626)
Net Cash (Outflow) Inflow	(61,594)	70,234
Cash and cash equivalents, beginning of year	73,781	3,547
Cash and cash equivalents, end of year	12,187	73,781

See Note 11, Credit Facility and Long-Term Debt for supplemental cash flow information.

As at December 31, 2017, cash and cash equivalents consisted of short-term investments of \$nil (December 31, 2016 – \$58.3 million) and cash of \$13.8 million (December 31, 2016 – \$18.5 million) less outstanding cheques of \$1.6 million (December 31, 2016 – \$3.0 million).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

1. GENERAL INFORMATION

The Greater Toronto Airports Authority (“the GTAA”) is a Canadian Airport Authority and a corporation without share capital under the *Canada Not-for-profit Corporations Act*.

The GTAA is authorized to manage and operate airports within the south-central Ontario region, including the Greater Toronto Area, on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA currently manages and operates Toronto Pearson International Airport (the “Airport”) under a ground lease with the federal government, which was executed in December 1996 (the “Ground Lease”).

As a corporation without share capital, the GTAA has Members rather than shareholders. The Members of the GTAA are also its directors. The GTAA is governed by a 15-member Board of Directors. Five Members are municipal nominees. Each of the regional municipalities of York, Halton, Peel, Durham and the City of Toronto are entitled to provide the names of up to three nominees, and the Board issues a membership to one of the nominees for each of the five available positions as a municipally nominated Member. In addition, the Government of Canada and the Province of Ontario are entitled to nominate two Members and one Member, respectively.

The GTAA’s registered office and principal place of business is located at 3111 Convair Drive, Mississauga, Ontario, Canada.

Airport Subject to Ground Lease

The Ground Lease is the principal document governing the relationship between the GTAA and Transport Canada at the Airport. It determines the rent to be paid and generally allocates risk and responsibilities between the GTAA and the federal government for all matters related to the operation of the Airport. Under the Ground Lease, all revenue and expenditure contracts in effect on December 1, 1996 were assigned to the GTAA. The GTAA did not assume any liability with respect to claims against the federal government incurred prior to December 2, 1996.

By virtue of its status as the tenant under the Ground Lease, the GTAA has the authority to set and collect airline rates and charges; negotiate and issue leases, licences and permits; and construct and develop the infrastructure of the Airport. The Ground Lease permits the GTAA to pledge its leasehold interest in the Airport as security.

The Ground Lease sets out that if the GTAA were to purchase or enter into an agreement to purchase any land adjacent to or in the vicinity of the Airport for the purposes of managing, operating or maintaining the Airport, that the GTAA shall transfer title of such land to the Landlord and that such land shall become part of the Ground Lease.

Ground rent is calculated as a percentage of Airport Revenue, as defined by the Ground Lease and related documents, using escalating percentages with the following ranges: 0 per cent for Airport Revenue below \$5.0 million, 1 per cent for Airport Revenue between \$5.0 million and \$10.0 million, 5 per cent for Airport Revenue between \$10.0 million and \$25.0 million, 8 per cent for Airport Revenue between \$25.0 million and \$100.0 million, 10 per cent for Airport Revenue between \$100.0 million and \$250.0 million, and 12 per cent for Airport Revenue in excess of \$250.0 million. The calculation of Airport Revenue is subject to audit by Transport Canada.

The Ground Lease has a term of 60 years, with one renewal term of 20 years.

Properties owned by the GTAA’s wholly-owned subsidiaries are not used for the purposes of managing, operating or maintaining the Airport and therefore do not form part of the Ground Lease.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada. These consolidated financial statements were approved by the Board of Directors on March 21, 2018.

In applying the GTAA’s accounting policies, as described in Note 3, Significant Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual

results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5, Critical Accounting Judgements and Key Source of Estimation Uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of Measurement

The consolidated financial statements have been prepared on a going-concern basis under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities measured at fair value, including available-for-sale investments.

Principles of Consolidation

These consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, Malton Gateway Inc. and Airway Centre Inc. Malton Gateway Inc. was incorporated in April 2017 and holds the shares of Airway Centre Inc. Airway Centre Inc. was also incorporated in April 2017 to acquire commercial properties that are unrelated to the direct management, operation or maintenance of the Airport.

All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

Segment Reporting

The GTAA consists of two operating segments however the second segment does not meet the reporting thresholds as defined by IFRS 8, *Operating Segments*.

Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is the GTAA's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the GTAA's functional currency are recognized in the consolidated statements of operations and comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term, liquid investments with remaining terms to maturity of three months or less.

Inventory

Inventory consists of natural gas and parts and supplies held for use at the Airport. Inventory is stated at the lower of cost and net realizable value. Cost of natural gas is determined using the first-in, first-out method. Cost of parts and supplies is determined using the weighted-average cost method. Net realizable value is determined as being the estimated replacement cost.

Financial Instruments

Financial assets and liabilities are recognized when the GTAA becomes a party to the contractual provisions of the instrument on the trade date. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the GTAA has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the GTAA classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

- (i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations and comprehensive income when incurred. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations and comprehensive income within goods and services expense in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated statements of financial position date, which is classified as non-current.

- (ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The GTAA's available-for-sale assets comprise investments in eligible short-term financial assets within restricted funds (see Note 6, Restricted Funds).

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income (loss).

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statements of operations and comprehensive income as part of interest income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the consolidated statements of operations and comprehensive income and included in interest and financing costs.

- (iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The GTAA's loans and receivables are composed of cash equivalents, restricted cash and accounts receivable, and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value.

- (iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, security deposits, and long-term debt. These items are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, these items are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and discount/premiums, and subsequently recorded at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payments are due within 12 months. Otherwise, they are presented as non-current liabilities in the consolidated statements of financial position.

- (v) Derivative financial instruments: Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the items being hedged.

Derivative financial instruments may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates.

Derivative financial instruments that are not designed by the GTAA to be in an effective hedging relationship are carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in interest and financing costs in the consolidated statements of operations and comprehensive income.

As at December 31, 2017, the GTAA had no derivative instruments outstanding that have been designated as a hedge. However, certain gains and losses relating to terminated hedging instruments are being amortized to the consolidated statements of operations and comprehensive income over the term to maturity of the previously hedged item (see Note 16, Financial Instruments).

Impairment of Financial Assets

At each reporting date, the GTAA assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the GTAA recognizes an impairment loss.

Property and equipment, intangibles and other assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The GTAA evaluates impairment by examining long-lived assets for impairment indicators and examines any prior-period impairment losses for potential reversals when events or circumstances warrant such consideration.

Leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Ground Lease is accounted for as an operating lease (see Note 12, Leases).

Intangibles and Other Assets

As required under the terms of the Ground Lease, in certain instances, the title of land acquired is transferred to the federal government, while the GTAA retains use of the land. The purchase price for acquired land is recorded as land acquisition costs in the consolidated statements of financial position and amortized on a straight-line basis over the remaining term of the Ground Lease in ground rent expense in the consolidated statements of operations and comprehensive income.

Computer software costs are capitalized and amortized on a straight-line basis in amortization of intangible assets in the consolidated statements of operations and comprehensive income over the period of their expected useful lives, which range from three to 20 years.

Deferred leasehold inducements are capitalized and amortized on a straight-line basis over the term of the respective lease. Amortization is netted against concessions revenue in the consolidated statements of operations and comprehensive income.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs.

These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease. No amounts are amortized longer than the lease term plus one renewal option.

Property and equipment are amortized at the following annual rates:

Buildings and structures (“Terminal and Airside assets”)	Straight-line over four to 60 years
Bridges and approach systems (“Terminal and Airside assets”)	Straight-line over 10 to 25 years
Baggage handling systems	Straight-line over 18 to 25 years
Improvements to leased land	Straight-line over the remaining term of the Ground Lease
Runways and taxiways (“Terminal and Airside assets”)	Straight-line over 10 to 40 years
Airport operating assets	Straight-line over three to 40 years

The GTAA allocates the amount initially recognized with respect to an item of property and equipment to its significant parts and amortizes separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of goods and services expense in the consolidated statements of operations and comprehensive income.

Assets under construction are transferred to property and equipment when the asset is available for use, and amortization commences at that time.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in interest and financing costs in the consolidated statements of operations and comprehensive income in the period in which they are incurred.

Investment Property

Investment property is property held for capital appreciation and/or to earn rental income. Property is stated at historical cost less accumulated amortization and any recognized impairment loss, with the exception of land, which is recorded at cost less any accumulated impairment loss.

Amortization on investment property assets is calculated using the straight-line method to allocate an asset's cost over its estimated useful life. Amortization rates for each significant component range from three to 50 years.

Investment property is derecognized either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statements of operations and comprehensive income in the period of derecognition. Transfers are made to or from the investment property category only when there is a change in use.

Payments-in-lieu of Real Property Taxes

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year and is subject to a maximum annual increase under the *Assessment Act (Ontario)*. The properties held by Airway Centre Inc. are not subject to PILT. Airway Centre Inc. and its tenants pay municipal real property taxes.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the GTAA and delivery or service has occurred, when the sales price is fixed or determinable, stated net of discounts and value added taxes, and when collectability is reasonably assured.

Landing fees, general terminal charges and car parking revenues are recognized as Airport facilities are utilized. Airport Improvement Fees ("AIF") are recognized upon the enplanement of the passenger. AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with air carriers. Concessions revenue and car rental revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits, and utilization fees. Rentals revenue is recognized straight-line over the duration of the respective agreements. Other revenue is mainly composed of deicing revenue which is recognized upon arrival of aircrafts.

Post-employment Benefit Obligations

The GTAA maintains defined benefit pension plans, defined contribution pension plans and other post-employment benefit plans for its employees. The cost of defined contribution pension plans is charged to expense as they are earned by employees. The cost of defined benefit plans and other post-employment benefit plans is determined using the projected unit credit method. The related pension asset/liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation as at the consolidated statements of financial position date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial valuations for defined benefit plans and other post-employment benefit plans are carried out at each statement of financial position date.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income (loss) without recycling to the consolidated statements of operations and comprehensive income in subsequent periods.

Past service costs are recognized in net income when incurred.

For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is based primarily on the extent to which the GTAA can unilaterally reduce future contributions to the plan.

Provisions

Provisions are recognized when the GTAA has a present obligation (legal or constructive) as a result of a past event, when it is more likely than not that the GTAA will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are included in accounts payable and accrued liabilities.

Deferred Financing Costs

Deferred financing costs (except for line of credit fees) and debt issuance premiums or discounts are included in debt balances and recognized as an adjustment to interest expense over the life of the debt. The GTAA uses the effective interest method to recognize bond interest expense.

Comparative Figures

Certain rebates to airlines have been reclassified from landing fees to general terminal charges to conform to the current year's presentation.

4. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The GTAA has adopted the following new and revised standards effective January 1, 2017. These changes were made in accordance with the applicable transitional provisions.

a) Amendment to International Accounting Standard (“IAS”) 7, *Statement of Cash Flows*:

This standard was amended to provide additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The change was made in accordance with the applicable transitional provisions. The adoption of the amendment has resulted in additional disclosure on the consolidated statements of cash flows (see Note 11, Credit Facility and Long-Term Debt).

b) Amendment to IFRS 12, *Disclosure of Interests in Other Entities*:

This standard was amended to clarify that the disclosure requirements of IFRS 12 are applicable on interests in entities classified as held for sale. The adoption of the amendment did not have an impact on the consolidated financial statements.

Accounting Standards Issued But Not Yet Applied

a) Amendment to IAS 40, *Investment Property*:

This standard was amended to clarify that to transfer to, or from, investment properties there must be a change in use of assets supported by evidence. This amendment is effective for annual periods beginning on or after January 1, 2018. The adoption of the amendment will not have an impact on the consolidated financial statements.

b) IFRS 15, *Revenue from Contracts with Customers*:

This standard is a new standard on revenue recognition, superseding IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The standard is effective for years beginning on or after January 1, 2018. The GTAA has evaluated the impact of the standard on the consolidated financial statements. As a result of this assessment, the GTAA has concluded that the presentation of certain revenue contracts on the consolidated financial statements will change. The GTAA has also assessed and concluded that the impact of IFRS 15 on AIF, based on current terms and conditions, will result in the reallocation of the administration fee. Based on current year operations, this will result in a \$17.4 million increase to AIF revenue and to goods and services expenses. This reallocation will have no impact on net income.

c) IFRS 9, *Financial Instruments*:

This standard will replace the current IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). The standard introduces new requirements for classifying and measuring financial assets and liabilities and introduces a new model for general hedge accounting. The standard is effective for years beginning on or after January 1, 2018. The GTAA continues to evaluate the impact of the standard on the consolidated financial statements, however, based on the preliminary assessment, the GTAA has initially concluded that there will not be a significant impact on the consolidated financial statements.

d) Amendments to IFRS 7, *Financial Instruments: Disclosure*:

This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9. The GTAA continues to evaluate the impact of the standard on the consolidated financial statements, however, based on the preliminary assessment, the GTAA has initially concluded that there will not be a significant impact on the consolidated financial statements.

e) IFRS 16, Leases:

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, *Leases*. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has assessed the impact of the new standard on the Ground Lease. The GTAA expects no impact on the consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore the expense will continue to be recognized in the consolidated statements of operations and comprehensive income on an accrual basis. The GTAA is currently evaluating the impact of this standard with respect to other leases on the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In applying the GTAA's accounting policies, which are described in Note 3, Significant Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other independent sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgements in Applying Accounting Policies

The following are the critical judgements that management has made in the process of applying the GTAA's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Property and Equipment, Intangibles, Other Assets and Investment Property

Critical judgements are utilized in determining when an item of property and equipment, intangibles, other assets and investment property are available for use as intended by management as well as in determining amortization rates and useful lives of these assets and whether impairments are necessary. Critical judgement is also exercised in determining whether an acquisition of investment property or group of investment properties should be accounted for as an asset acquisition or a business combination.

IFRIC 12, Service Concession Arrangements

Management has concluded that it does not fall within the scope of IFRIC 12, *Service Concession Arrangements*, given the current structure of the GTAA's arrangements with Transport Canada, whereby the GTAA is not controlled by a single government.

Key Source of Estimation Uncertainty

The following is a key assumption concerning the future, and key source of estimation uncertainty at the end of the reporting period, which has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

Post-employment Benefit Obligations

The GTAA accounts for pension and other post-retirement benefits through the use of actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. These factors include key actuarial assumptions, including discount rates, expected salary increases and mortality rates. Actual results may differ from results that are estimated based on assumptions. Additional information is disclosed in Note 13, Post-employment Benefit Obligations.

6. RESTRICTED FUNDS

Restricted funds consist of certain funds, the use of which is directed by the Master Trust Indenture (“Trust Indenture”) or Medium-Term Note (“MTN”) offering documents, and which consist of the Debt Service Fund and Debt Service Reserve Fund (the “Trust Funds”) and Operations, Capital and Financing Funds. These funds are invested in cash or eligible short-term financial assets with less than one year to maturity as follows:

As at December 31	2017	2016
	\$	\$
Debt Service Fund		
Principal	14,141	12,486
Interest	58,552	60,825
	72,693	73,311
Debt Service Reserve Funds		
Revenue Bonds		
Series 1997-3 due December 3, 2027	36,953	37,004
Series 1999-1 due July 30, 2029	40,211	40,233
Medium-Term Notes		
Series 2000-1 due June 12, 2030	38,631	38,631
Series 2001-1 due June 4, 2031	35,146	35,107
Series 2002-3 due October 15, 2032	38,345	38,297
Series 2004-1 due February 2, 2034	39,171	38,913
Series 2007-1 due June 1, 2017	–	21,938
Series 2008-1 due April 17, 2018	26,428	26,385
Series 2009-1 due November 20, 2019	35,985	35,834
Series 2010-1 due June 7, 2040	22,613	22,624
Series 2011-1 due February 25, 2041	32,188	32,067
Series 2011-2 due December 2, 2041	18,257	18,281
Series 2012-1 due September 21, 2022	12,208	12,221
Series 2016-1 due February 16, 2021	2,285	2,281
Security for Bank Indebtedness		
Series 1997-B Pledge Bond	3,859	3,861
	382,280	403,677
	454,973	476,988
Less: Current portion	(99,121)	(95,249)
	355,852	381,739

As at December 31, restricted funds consisted of the following:

	2017	2016
	\$	\$
Cash	345,638	129,581
Guaranteed Investment Certificates	109,335	347,407
	454,973	476,988

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the Trust Indenture (see Note 11, Credit Facility and Long-Term Debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

(i) Debt Service Fund (Principal and Interest)

Amounts in the Debt Service Fund are allocated to either a Principal Account or an Interest Account. Amounts in the Debt Service Fund are disbursed by the Trustee to pay interest and principal as they become due. On a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. During 2017, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of December 31, 2017 was \$14.1 million (December 31, 2016 – \$12.5 million).

During 2017, principal of \$26.0 million (December 31, 2016 – \$23.6 million) was paid from the Principal Account of the Debt Service Fund, and \$27.6 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999-1 and MTNs (December 31, 2016 – \$22.7 million).

Also, on a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and MTNs. The fund balance as of December 31, 2017 was \$58.6 million (December 31, 2016 – \$60.8 million).

(ii) Debt Service Reserve Funds

To the extent provided in any supplemental indenture, the GTAA is required to set aside funds in the Debt Service Reserve Fund for each series of bond or MTNs. The required amount is established at the time of issue of each series of bond or MTNs and is funded from the proceeds of each issue. Amounts held in the Debt Service Reserve Fund are held in trust for the benefit of the bondholders or noteholders for use and application in accordance with the terms of the Trust Indenture.

At the maturity of each series of bond or MTNs, funds not applied by the Trustee will be returned to the GTAA.

Included among these Trust Funds is a Debt Service Reserve Fund related to the \$1.35 billion pledge bond (Series 1997-B) securing the credit facility.

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at December 31, 2017, this fund was secured by a letter of credit of \$76.0 million (December 31, 2016 – \$71.0 million). This amount is to be used only for operating and maintenance expenses or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund is also secured by a letter of credit of \$3.0 million (December 31, 2016 – \$3.0 million). This amount is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

7. ACCOUNTS RECEIVABLE

As at December 31	2017	2016
	\$	\$
Trade accounts receivable	56,435	57,570
Less: Allowance for doubtful accounts	(422)	(95)
Trade accounts receivable, net	56,013	57,475
Other receivables	13,337	10,821
Total accounts receivable	69,350	68,296

Included in trade accounts receivable and other receivables is \$11.8 million due from Canadian Air Transportation Security Authority (December 31, 2016 – \$14.4 million) which is a related party. No provision has been made against these receivables.

8. INTANGIBLES AND OTHER ASSETS

	December 31, 2017		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	(6,107)	–
Land acquisition costs	50,763	(9,203)	41,560
Computer software	10,633	(6,552)	4,081
Clean Energy Supply contract (“CES Contract”)	44,655	(12,087)	32,568
	112,158	(33,949)	78,209

	December 31, 2016		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	(5,981)	126
Land acquisition costs	53,118	(8,136)	44,982
Computer software	10,633	(5,912)	4,721
Clean Energy Supply contract (“CES Contract”)	44,655	(8,058)	36,597
	114,513	(28,087)	86,426

The aggregate amortization expense with respect to deferred leasehold inducements for 2017 was \$0.1 million (2016 – \$0.4 million) and is netted against concessions revenue in the consolidated statements of operations and comprehensive income.

The aggregate amortization expense with respect to land acquisition costs for 2017 was \$1.1 million (2016 – \$1.1 million) and is included in ground rent expense in the consolidated statements of operations and comprehensive income.

A reconciliation of the carrying amount of intangible asset costs is as follows:

	Land Acquisition Costs	Computer Software	Total
	\$	\$	\$
Balance, January 1, 2017	44,982	4,721	49,703
Additions	–	–	–
Adjustments	(2,355)	–	(2,355)
Amortization expense	(1,067)	(640)	(1,707)
Balance, December 31, 2017	41,560	4,081	45,641
Balance, January 1, 2016	43,694	6,027	49,721
Additions	2,355	–	2,355
Amortization expense	(1,067)	(1,306)	(2,373)
Balance, December 31, 2016	44,982	4,721	49,703

On February 1, 2006, the GTAA entered into the CES Contract with Independent Electricity System Operator (“IESO”) (formerly, the Ontario Power Authority), pursuant to which the GTAA is obligated to have 90 MW of electrical energy available to the Ontario power grid. The term of the CES Contract is for 20 years, subject to early termination rights available to the GTAA. The contract allows for payments by either party, depending on whether net electricity market revenues that the GTAA is deemed to have earned are greater or less than a predetermined threshold, as defined in the CES Contract.

The carrying value of the CES Contract, which was evaluated at \$44.6 million, is being amortized on a straight-line basis over the remaining term of the contract. The amortization expense with respect to the CES Contract value for 2017 was \$4.0 million (2016 – \$4.0 million) and is included in the goods and services expense in the consolidated statements of operations and comprehensive income.

The GTAA also recorded a deferred credit of \$44.0 million, which is being amortized on a straight-line basis, over the term of 20 years. The unamortized balance at December 31, 2017 was \$17.8 million (December 31, 2016 – \$20.0 million). During 2017, the reduction of the unamortized liability of \$2.2 million (December 31, 2016 – \$2.2 million) was recorded as a reduction to goods and services expense in the consolidated statements of operations and comprehensive income.

9. PROPERTY AND EQUIPMENT

Property and equipment are composed of:

	December 31, 2017						
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets under Construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	6,332,706	346,661	9,480	488,751	648,214	186,262	8,012,074
Additions	153	–	–	–	–	279,452	279,605
Disposals	(19,563)	–	–	(111)	(15,863)	–	(35,537)
Transfers	152,673	28,498	–	30,473	70,706	(282,350)	–
Balance, end of year	6,465,969	375,159	9,480	519,113	703,057	183,364	8,256,142
Accumulated amortization							
Balance, beginning of year	2,164,903	172,606	3,168	175,325	327,849	–	2,843,851
Amortization expense	168,515	13,068	158	18,512	59,608	–	259,861
Disposals	(19,404)	–	–	(111)	(15,818)	–	(35,333)
Transfers	(15)	–	–	–	15	–	–
Balance, end of year	2,313,999	185,674	3,326	193,726	371,654	–	3,068,379
Net book value, end of year	4,151,970	189,485	6,154	325,387	331,403	183,364	5,187,763

	December 31, 2016						
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets under Construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	6,166,945	299,491	9,480	474,786	619,748	222,037	7,792,487
Additions	925	–	–	–	–	241,706	242,631
Disposals	(348)	–	–	–	(22,696)	–	(23,044)
Transfers	165,184	47,170	–	13,965	51,162	(277,481)	–
Balance, end of year	6,332,706	346,661	9,480	488,751	648,214	186,262	8,012,074
Accumulated amortization							
Balance, beginning of year	2,002,498	160,740	3,010	158,156	294,952	–	2,619,356
Amortization expense	162,468	11,866	158	17,169	55,114	–	246,775
Disposals	(57)	–	–	–	(22,223)	–	(22,280)
Transfers	(6)	–	–	–	6	–	–
Balance, end of year	2,164,903	172,606	3,168	175,325	327,849	–	2,843,851
Net book value, end of year	4,167,803	174,055	6,312	313,426	320,365	186,262	5,168,223

As at December 31, 2017, \$183.4 million (December 31, 2016 – \$186.3 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$3.2 million (December 31, 2016 – \$3.4 million) of capitalized interest. During the year, borrowing costs were capitalized at the rate of 5.6 per cent, which represents the weighted-average rate of the GTAA's general borrowings (2016 – 5.6 per cent).

10. INVESTMENT PROPERTY

As at December 31, 2017	2017	2016
	\$	\$
Cost		
Balance, beginning of year	26,085	26,085
Additions	288,883	–
Balance, end of year	314,968	26,085
Accumulated amortization		
Balance, beginning of year	6,328	5,612
Amortization expense	4,091	716
Balance, end of year	10,419	6,328
Net book value, end of year	304,549	19,757

Investment property consists of a flight simulator facility and commercial properties (land and buildings) owned by the GTAA and its controlled subsidiaries. These properties are leased to third parties.

Commercial properties were acquired by Airway Centre Inc. during the year for a cost of \$288.9 million. They were accounted for as asset acquisitions in accordance with IFRS and are included in investment property on the consolidated statements of financial position. These commercial properties are subject to municipal real property taxes.

The carrying amount of the flight simulator facility approximates its fair value as at December 31, 2017. The fair value is within category Level 3 of the fair value hierarchy.

The cost of the commercial properties acquired during the year approximate their fair value as at December 31, 2017. The fair values are within category Level 2 of the fair value hierarchy.

The fair value of all investment property is estimated annually.

For the year ended December 31, 2017, the commercial properties generated \$11.0 million in rental revenue, and incurred \$9.5 million in direct operating expenses.

11. CREDIT FACILITY AND LONG-TERM DEBT

As at December 31, 2017, long-term debt, including accrued interest, net of unamortized discounts and premiums, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	2017	2016
Revenue Bonds			\$	\$	\$
1997-3	6.45%	December 3, 2027	321,500	320,025	319,825
1999-1	6.45%	July 30, 2029	297,072	303,426	319,771
Medium-Term Notes					
2000-1	7.05%	June 12, 2030	526,550	527,151	527,109
2001-1	7.10%	June 4, 2031	492,150	491,040	490,902
2002-3	6.98%	October 15, 2032	468,960	475,477	475,487
2004-1	6.47%	February 2, 2034	567,428	577,344	577,195
2007-1	4.85%	June 1, 2017	415,870	–	417,345
2008-1	5.26%	April 17, 2018	460,900	465,790	465,504
2009-1	5.96%	November 20, 2019	522,000	531,678	534,758
2010-1	5.63%	June 7, 2040	400,000	398,799	398,756
2011-1	5.30%	February 25, 2041	600,000	607,417	607,362
2011-2	4.53%	December 2, 2041	400,000	398,539	398,486
2012-1	3.04%	September 21, 2022	388,000	390,097	389,881
2016-1	1.51%	February 16, 2021	300,000	300,581	300,246
				5,787,364	6,222,627
Credit Facility				25,000	–
Other current borrowings (Commercial Paper)			500,000	499,450	–
				6,311,814	6,222,627
Less: Current portion (including accrued interest)				(1,066,208)	(497,695)
				5,245,606	5,724,932

On June 1, 2017, the 2007-1 MTNs matured with a face value of \$415.9 million. This maturity was financed by the issuance of short-term commercial paper. A \$500.0 million commercial paper program (“CP Program”) was launched in May 2017 to fund general purpose corporate expenditures and debt repayments. In support of this launch, the revolving operating credit facility was increased from \$600.0 million to \$900.0 million. Any commercial paper amounts outstanding at any given time are fully back-stopped by the revolving operating credit facility. See Note 20, Subsequent Events.

As at December 31, interest and financing costs, net, consisted of the following:

	2017	2016
	\$	\$
Interest income	8,106	5,868
Interest expense on debt instruments	(336,773)	(348,967)
Capitalized interest	6,375	6,869
Other financing fees	(4,779)	(4,631)
	(335,177)	(346,729)
Interest and financing costs, net	(327,071)	(340,861)

With the exception of Series 1999-1 revenue bonds, principal on each series of revenue bond and MTNs is payable on the maturity date. Series 1999-1 are amortizing revenue bonds repayable in scheduled annual instalments of principal, payable on July 30 of each year. These payments commenced July 30, 2004, and continue until maturity in 2029.

Set out below is a comparison of the amounts that would be reported if long-term debt amounts were reported at fair values. Fair values were based on quoted market rates for GTAA bonds as at the date of the consolidated statements of financial position. The fair values are within category Level 2 of the fair value hierarchy.

	2017		2016	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	5,787,364	7,338,144	6,222,627	7,631,449

All notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price that is the greater of (i) the face value amount plus accrued and unpaid interest and (ii) the price based on yields over Government of Canada bonds with similar terms to maturity.

This section sets out an analysis of debt and the movement in debt for the period presented.

	January 1, 2017	Cash Flows	Non-cash Change	December 31, 2017
	\$	\$	\$	\$
Long-term debt	6,222,627	(768,635)	333,372	5,787,364
Credit facility	–	25,000	–	25,000
Other borrowings	–	496,049	3,401	499,450
Total Liabilities from Financing Activities	6,222,627	(247,586)	336,773	6,311,814

Credit Facility

As part of its liquidity management program, the GTAA maintains the following credit facilities: a revolving operating facility in an amount of \$900.0 million, a letter of credit facility in the amount of \$100.0 million and an interest rate and foreign exchange hedging facility in the amount of \$150.0 million. These credit facilities are secured by a \$1.35 billion pledge bond (Series 1997-B) issued pursuant to the Trust Indenture. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the Trust Indenture. The \$900.0 million revolving operating facility matures on May 22, 2020 and the \$100.0 million letter of credit facility matures on May 22, 2018. Each of the credit facilities can be extended annually for one additional year with the lender's consent.

As at December 31, 2017, \$25.0 million was utilized on the \$900.0 million revolving operating facility by way of a banker's acceptance loan with a maturity date of January 29, 2018 (December 31, 2016 – \$nil). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates during the year ranged from 1.49 per cent to 3.20 per cent (2016 – 1.49 per cent to 2.70 per cent).

As at December 31, 2017, \$81.8 million was utilized on the \$100.0 million letter of credit facility (December 31, 2016 – \$76.3 million).

As at December 31, 2017, \$nil was outstanding under the \$150.0 million interest rate and foreign exchange hedging facility (December 31, 2016 – \$nil).

12. LEASES

Ground Lease

The GTAA's commitment with respect to annual ground lease Airport rent is based on a set percentage of the GTAA's revenues (see "Airport Subject to Ground Lease" in Note 1, General Information). Ground rent expense in 2017 was \$155.9 million (2016 – \$147.0 million) excluding amortization of land acquisition costs (see Note 8, Intangibles and Other Assets). Revenues are subject to change depending on economic conditions.

Other Leases

The GTAA leases, under operating leases, land and certain assets that are included in property and equipment and investment property to various third parties. Many leases include renewal options, in which case they are subject to market price revision. The lessees do not have the ability to acquire the leased assets at the end of the lease.

Contingent rents form part of certain lease agreements. Total contingent rent recognized in the consolidated statements of operations and comprehensive income for 2017 was \$48.0 million (2016 – \$39.9 million).

Future minimum lease receipts (excluding contingent rent payments) from non-cancellable leases are as follows:

	Within 1 Year	1 to 5 Years	After 5 Years	Total
	\$	\$	\$	\$
December 31, 2017	170,918	461,912	239,570	872,400
December 31, 2016	148,244	442,653	248,994	839,891

13. POST-EMPLOYMENT BENEFIT OBLIGATIONS

Defined Benefit Pension Plans

The GTAA maintains two pension plans with defined benefit provisions. One of these plans is a registered pension plan for former Transport Canada employees who were eligible to elect to transfer their pension credits to the GTAA plan. The other defined benefit pension plan is a registered pension plan for certain retired senior executives of the GTAA. Both plans do not accept new members.

The GTAA measures its accrued benefit obligations and the fair value of plan assets for both of its defined benefit pension plans for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2017, and the next required valuation will be as of January 1, 2018.

a) Characteristics of the Plans

Benefit obligations are estimated using the projected unit credit method. Under this method, each participant's benefits under the plans are attributed to years of service, taking into consideration future salary increases (as applicable) and the plan's benefit allocation formula. The GTAA's net obligation is calculated separately for each plan and is determined as the benefit obligation less the fair value of plan assets.

When the above calculations result in a benefit to the GTAA, the recognized asset is limited to the net total of the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plans.

The plans are final average earnings pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the registered plan and for one supplemental plan member, pensions paid are indexed with inflation.

The weighted average duration of the defined benefit plans is 14.4 years.

b) Risks Associated with the Plans

The nature of these benefit promises exposes the GTAA to a number of risks, the most significant of which are as follows:

(i) Asset Volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform the discount rate, this will create a deficit under the plan. The pension plans currently invest approximately 59.4 per cent in equities, which may outperform corporate bonds in the long term, but may contribute to volatility in valuation and risk in the short term.

(ii) Changes in Bond Yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pension plan's assets invested in fixed income.

(iii) Inflation Risk

The majority of the defined benefit plans' obligations are linked to inflation, with higher inflation leading to higher liabilities. The majority of the plan's assets may have some correlation with inflation and, as such, an increase in inflation may reduce the surplus and/or increase the deficit.

(iv) Life Expectancy

The majority of the plans' obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the plans' liabilities, with the exception of life insurance liabilities.

c) Amounts Recognized in the Financial Statements

The amounts recognized in the consolidated statements of financial position as at December 31 are determined as follows:

	2017	2016
	\$	\$
Present value of funded obligation	(186,682)	(177,418)
Fair value of plan assets	250,817	232,567
Funded status – surplus	64,135	55,149
Net Defined benefit asset	64,135	55,149

The combined movement in the two defined benefit pension plans as at December 31 is as follows:

	2017	2016
	\$	\$
Accrued Benefit Obligation		
Balance, beginning of year	177,418	169,173
Current service cost	2,522	2,605
Interest cost	6,750	6,766
Benefits paid	(6,866)	(6,489)
Employee contributions	503	546
Remeasurements:		
Loss from changes in financial assumptions	7,471	4,893
Experience gain	(1,116)	(76)
Balance, end of year	186,682	177,418
Plan Assets		
Fair value, beginning of year	232,567	220,902
Interest income	8,963	9,027
Return on plan assets, excluding amounts included in interest income	12,958	3,466
Employer contributions	3,107	5,592
Employee contributions	503	546
Benefits paid	(6,866)	(6,489)
Administrative expenses paid from plan assets	(415)	(477)
Fair value, end of year	250,817	232,567
Funded status – surplus	64,135	55,149

As at December 31, 2017, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of \$62.4 million (2016 – \$52.9 million), with an accrued obligation of \$169.6 million (2016 – \$160.3 million) and a fair value of plan assets of \$232.0 million (2016 – \$213.2 million). The other plan was in a surplus position of \$1.7 million (2016 – \$2.2 million), with an accrued obligation of \$17.1 million (2016 – \$17.1 million) and a fair value of plan assets of \$18.8 million (2016 – \$19.3 million).

The GTAA's net defined benefit pension plan expense for the year ended December 31 is as follows:

	2017	2016
	\$	\$
Current service cost	2,522	2,605
Interest cost	6,750	6,766
Interest income	(8,963)	(9,027)
Administrative expenses	341	340
Defined benefit pension plan expense recognized in Net Income	650	684
Amounts recognized in Other comprehensive income (loss):		
Loss from changes in financial assumptions	7,471	4,893
Experience gain	(1,116)	(76)
Return on plan assets	(12,884)	(3,329)
Total Remeasurements recognized in Accumulated other comprehensive (income) loss	(6,529)	1,488

A reconciliation of the net defined benefit asset as at December 31 is as follows:

	2017	2016
	\$	\$
Net Defined benefit asset, beginning of year	55,149	51,729
Defined benefit cost included in Net Income	(650)	(684)
Total remeasurements included in Other comprehensive income (loss)	6,529	(1,488)
Employer contributions	3,107	5,592
Net Defined benefit asset, end of year	64,135	55,149

The accrued benefit obligation by participant status as at December 31 is as follows:

	2017	2016
	\$	\$
Active members	68,544	67,182
Vested deferreds	6,323	5,294
Retirees	111,815	104,942
Accrued benefit obligation	186,682	177,418

The GTAA's plan assets consist of the following as at December 31:

Asset Category	Fair Value of Plan Assets	
	2017	2016
	%	%
Equity securities	59	61
Fixed income	41	39

The fair values of equity and fixed income plan assets are based on quoted market prices in active markets.

d) Significant Actuarial Assumptions

The significant actuarial assumptions used in measuring the GTAA's accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31):

	2017	2016
	%	%
Discount rate	3.58	3.88
Rate of compensation increase	3.00	3.00
Rate of price inflation	2.00	2.00
Rate of pension increases	2.00	2.00

Mortality rates have been established in accordance with the Canadian Pensioners' Mortality Table Private Sector published by the Canadian Institute of Actuaries.

e) Future Cash Flows

The sensitivity of the post-employment benefit obligation to changes in the weighted-average significant actuarial assumptions as at December 31, 2017 would be as follows:

	Change in Assumption	Increase in Assumption	Decrease in Assumption
		\$	\$
Discount rate	1.00%	(23,202)	28,797
Rate of price inflation	1.00%	26,306	(22,262)
Mortality	1 year	6,429	(6,543)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the obligation to significant actuarial assumptions, the same method (present value of the obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period.

As at January 1, 2017, the registered defined benefit plan had a funding valuation solvency deficit of \$0.1 million and, in accordance with applicable legislation, the GTAA is making special payment contributions to fund the deficit. The supplementary defined benefit plan also had a solvency deficit of \$0.1 million as at January 1, 2017. In accordance with the terms of this plan, a contribution in the amount of the shortfall was remitted.

Expected contributions, benefit payments and administrative expenses for both defined benefit pension plans for the year ended December 31, 2018 are \$3.3 million, \$6.1 million and \$0.3 million, respectively.

Defined Contribution Pension Plan Expense

The GTAA maintains four pension plans with defined contribution provisions providing pension benefits to employees who commenced working for the GTAA after December 1996 as well as those former Transport Canada employees who elected to transfer their pension credits to the GTAA plan. The net expense for the defined contribution pension plans in 2017 was \$6.4 million (2016 – \$4.1 million).

The GTAA's contribution to the registered defined contribution pension plans is a maximum of 6.5 per cent of the employee's gross earnings. For designated employees of one unfunded supplemental plan, the GTAA's notional contribution equals 16 per cent of the employee's gross earnings less amounts already contributed to the plan by the employee and the GTAA. Recorded in post-employment benefit liabilities on the consolidated statements of financial position is the estimated obligation for this plan at December 31, 2017 of \$1.8 million (December 31, 2016 – \$1.5 million).

Severance Entitlement Plan

The GTAA has a severance entitlement plan for certain employees under the terms of their collective bargaining agreement. The plan provides a payment upon retirement, resignation, termination or death to eligible employees or their beneficiaries based on years of service and vesting restrictions. The GTAA records the cost of this obligation based on an independent actuarial valuation updated annually.

Since the GTAA's accrued severance entitlement plan is unfunded, the net obligation is equal to the sum of the benefit obligations for all the members under this plan. As at December 31, 2017, the balance of the accrued benefit obligation was \$2.2 million (2016 – \$2.2 million), the post-employment benefit expense recognized in net income for the year ended December 31, 2017 was \$0.2 million (2016 – \$1.0 million) and the pension remeasurements gain recognized in other comprehensive (loss) income was \$0.2 million (2016 – loss of \$0.4 million).

Other Employee Future Benefits

Certain employees are provided with paid-up life insurance at the time of retirement. At December 31, 2017, the estimated obligation for this payment is \$2.4 million (December 31, 2016 – \$2.1 million) and is included in post-employment benefit liabilities in the consolidated statements of financial position.

14. RELATED PARTY TRANSACTIONS AND BALANCES

Compensation of Key Management

Key management includes the CEO, the CFO and the Vice Presidents who have the authorities and responsibilities for planning, directing and controlling the activities of the GTAA. The GTAA's Board of Directors collectively oversee the management and operation of the Airport. The Board members are, for the purposes hereof, also considered key management. The following table includes compensation to key management personnel and members of the Board of Directors for the year ended December 31 included in the consolidated statements of operations and comprehensive income.

	2017	2016
	\$	\$
Salaries, fees and short-term benefits	7,319	6,033
Post-employment benefits	654	489
Other long-term benefits	15	13
Total (included in salaries, wages and benefits)	7,988	6,535

15. COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2017 and subsequent to the year-end of approximately \$196.3 million, as compared to \$332.4 million at December 31, 2016.

Letters of Credit

A number of letters of credit for \$81.3 million in total were outstanding as at December 31, 2017 (see Note 11, Credit Facility and Long-Term Debt).

Insurance

The GTAA obtains aviation war risk liability coverage through the commercial insurance market with a limit of US\$1.5 billion and terrorism property insurance in the amount of \$500.0 million, which was increased from \$300.0 million in December 2017.

These policies provide coverage for exclusions under the primary liability and property insurance policies following the events of September 11, 2001.

Cogeneration Plant

The GTAA has entered into certain contracts in order to secure the supply and delivery of natural gas necessary for anticipated future operations of the Cogeneration Plant. Under these contracts, the GTAA will be required to make payments relating to both the delivery of natural gas based on standard rate agreements and the cost of natural gas as determined by market rates. The GTAA has also entered into a delivery contract that establishes a maximum volume of natural gas inventory that the GTAA is permitted to maintain, as of November 30 of each year. The GTAA has the option to dispose of natural gas in excess of this maximum volume either through consumption or through the sale of natural gas to third parties.

Contingent Liabilities

The GTAA is subject to legal proceedings and claims from time to time that arise in the normal course of business. Where appropriate, the GTAA has recorded provisions while it actively pursues its position. Where it is the opinion of management that the ultimate outcome of these matters will not result in a probable outflow of cash, no provisions have been recorded.

16. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

Fair value measurements recognized in the consolidated statements of financial position must be categorized in accordance with the following levels:

- a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- b) Level 2 – Observable inputs other than quoted prices included in Level 1 such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; or
- c) Level 3 – Significant unobservable inputs that are supported by little or no market activity.

Financial instruments that are not measured at fair value in the consolidated statements of financial position are represented by cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and other borrowings. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 11, Credit Facility and Long-Term Debt.

Restricted funds are categorized as Level 2 as the GTAA uses observable inputs such as yield curves applicable to identical assets to fair value this group.

There were no transfers of financial instruments between the levels during the year.

Risk Management

In the normal course of business, the GTAA is exposed to a number of financial risks that can affect its operating performance. The GTAA's overall financial risk management program seeks to minimize potential adverse effects on the GTAA's financial performance.

The GTAA's treasury function is responsible for the procurement of the GTAA's capital resources and for the management of financial risk. All treasury operations are conducted within policies and guidelines approved by the Board of Directors and are within the requirements set out in the Trust Indenture dated December 2, 1997, as supplemented or amended from time to time. Compliance with these policies is monitored by the regular reporting of treasury activities to the Audit Committee of the Board. The GTAA's operating activities result in financial risks that may arise from changes in market risk, credit risk and liquidity risk.

Market Risk

a) Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its MTNs and short-term borrowing as described in Note 11, Credit Facility and Long-Term Debt. As at December 31, 2017, all of the GTAA's MTNs are fixed-rate carried assets and, therefore, changes in interest rates do not have an impact on interest payments but may have an impact on the fair value of this debt. The borrowings under the CP Program and credit facility will fluctuate in accordance with changes in interest rate (see Note 11, Credit Facility and Long-Term Debt).

The GTAA also has exposure to interest rate risk through its short-term investments in restricted funds (see Note 6, Restricted Funds) and other borrowings (see Note 11, Credit Facility and Long-Term Debt). As at December 31, 2017, \$109.3 million of the GTAA's short-term investment holdings carried a fixed rate during their term and therefore changes in the interest rate would not have a significant impact on the fair value of restricted funds due to the short-term nature of the investments. The remaining funds were invested in savings accounts which are highly liquid, and therefore the principal balances were protected regardless of changes in interest rates.

The minimum balance of the Debt Service Reserve Fund securing bank indebtedness is adjusted annually on December 2, based on the prevailing bankers' acceptance rate.

b) Foreign Currency Rate Risk

The GTAA undertakes certain transactions denominated in foreign currencies, primarily the U.S. dollar. However, the GTAA's exposure to any foreign currency risk is not significant.

Credit Risk

The GTAA is subject to credit risk through its financial assets. The GTAA performs ongoing credit valuations of these balances and maintains valuation allowances for potential credit loss.

Before accepting a new air carrier, the GTAA uses an external credit scoring system to assess the potential customer's credit quality, as well as an internal credit rating system. All customers are subject to credit checks and require prepayment or a deposit in the form of cash, a letter of credit or a letter of guarantee. Operational and credit-related reviews for aeronautical customers are seasonally reviewed for adequacy. Should the requirements for security deposits change, new payment terms or deposit requirements will be established. A security deposit is required for most non-aeronautical customers as well. Credit checks for these latter customers are performed at the time of the agreement negotiations, renewal and amendments.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about the customer or institution holding the funds.

As at December 31	2017	2016
	\$	\$
Cash and cash equivalents		
AA	12,187	73,781
Restricted funds		
AA	439,445	315,677
AA low	15,528	161,311
	454,973	476,988

None of the financial assets that are fully performing have been renegotiated during the year.

The GTAA invests its restricted funds in highly rated investment instruments with low risk profiles according to the guidelines specified in the Trust Indenture. Due to a credit rating downgrade of several Canadian banks in 2017, the GTAA's investment options in its restricted funds were reduced to only two qualifying banks. The GTAA also has the ability to invest in highly rated government investment instruments.

There is a concentration of service with two air carriers which represent approximately 49.6 per cent (2016 – 50.9 per cent) of total revenue, and 26.6 per cent (2016 – 22.2 per cent) of the accounts receivable balance, excluding prepayments and/or deposits on hand, at December 31, 2017.

Liquidity Risk

The GTAA manages liquidity risk by maintaining adequate cash, restricted funds and available credit facilities. Quarterly cash flow projections are prepared by management and reviewed by the Audit Committee to ensure a sufficient continuity of funding. To maintain a flexible program, debt maturities are spread over a range of dates, thereby ensuring that the GTAA is not exposed to excessive refinancing risk in any one year or any period within one year.

The GTAA maintains lines of credit and executes a Capital Markets Platform to meet cash needs as debt maturities occur (see Note 11, Credit Facility and Long-Term Debt, and Note 19, Capital Risk Management).

The table below analyzes the GTAA's financial liabilities by relevant maturity groupings based on the remaining period at the date of the consolidated statements of financial position to the contractual maturity date. It does not include pension and post-retirement benefit obligations, as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. It includes both principal and interest cash flows.

	December 31, 2017			
	Less Than 1 Month	1 Month to 12 Months	1 Year to 5 Years	Thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	61,524	174,436	-	-
Commercial paper	299,890	199,560	-	-
Credit facility	25,000	-	-	-
Long-term debt	9,581	781,878	2,654,619	6,515,098
	395,995	1,155,874	2,654,619	6,515,098

	December 31, 2016			
	Less Than 1 Month	1 Month to 12 Months	1 Year to 5 Years	Thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	104,659	115,444	-	-
Long-term debt	10,100	758,535	3,175,077	6,786,099
	114,759	873,979	3,175,077	6,786,099

Additional disclosure about the GTAA's credit facility and long-term debt can be found in Note 11, Credit Facility and Long-Term Debt, and Note 8, Intangibles and Other Assets.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where the GTAA currently has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the GTAA enters into various arrangements that do not meet the criteria for offsetting in the consolidated statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of the contracts.

The following table presents the financial instruments which may be subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2017 and 2016, and shows in the “Net Amount” column what the net impact would be on the GTAA’s consolidated statements of financial position if all set-off rights were exercised in circumstances described above. As at December 31, 2017, no recognized financial instruments are offset in the consolidated statements of financial position.

	December 31, 2017		
	Gross Amount Presented in the Consolidated Statement of Financial Position	Related Accounts Not Set Off in the Consolidated Statement of Financial Position	Net Amount
	\$	\$	\$
Financial assets			
Accounts receivable	69,350	(33,192)	36,158
Restricted funds	454,973	(451,114)	3,859
	524,323	(484,306)	40,017
Financial liabilities			
Security deposits	(33,192)	33,192	–
Long-term debt	(5,787,364)	451,114	(5,336,250)
	(5,820,556)	484,306	(5,336,250)
			December 31, 2016
	Gross Amount Presented in the Statement of Financial Position	Related Accounts Not Set Off in the Statement of Financial Position	Net Amount
	\$	\$	\$
Financial assets			
Accounts receivable	68,296	(34,351)	33,945
Restricted funds	476,988	(473,127)	3,861
	545,284	(507,478)	37,806
Financial liabilities			
Security deposits	(34,351)	34,351	–
Long-term debt	(6,222,627)	473,127	(5,749,500)
	(6,256,978)	507,478	(5,749,500)

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
	\$	\$
Trade payables	45,605	38,215
Accrued expenses	170,261	170,289
Commodity sales tax payable	7,576	5,720
Provisions	7,985	4,555
Other liabilities	4,533	1,324
	235,960	220,103

18. GOODS AND SERVICES EXPENSE BY NATURE

	2017	2016
	\$	\$
Property and equipment maintenance and repairs	96,996	96,561
Outsourcing and professional services	110,839	95,881
Utilities	16,738	16,906
Policing and security	36,005	32,768
Other	36,859	27,150
	297,437	269,266

19. CAPITAL RISK MANAGEMENT

The GTAA defines its capital as long-term debt, including its current portion; borrowings under the commercial paper program and, if any, under the GTAA's credit facility (see Note 11, Credit Facility and Long-Term Debt); cash and cash equivalents; and restricted funds.

The GTAA's objectives when managing capital are to:

- Maintain a capital structure and an appropriate credit rating that provide financing options to the GTAA when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing indebtedness;
- Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments; and
- Satisfy covenants set out in the Trust Indenture.

The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenue, restricted funds, the debt capital and commercial paper markets and its bank credit facilities. The GTAA uses a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment but also, in most years, to fund certain other capital investments. Consistent with this mandate, any excess funds generated by the GTAA are reinvested in the Airport.

Capital Markets Platform

As a corporation without share capital, the GTAA's ongoing capital requirements, as noted above, are financed through the issuances of debt. The GTAA developed a financing program referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under the Trust Indenture dated December 2, 1997, as supplemented or amended from time to time, which establishes common security and a set of common covenants by the GTAA for the benefit of its lenders. The security comprises an assignment of the revenues of the GTAA; a specific charge on certain funds; restricted funds and accounts; an unregistered first leasehold mortgage of the GTAA's leasehold interest in the Airport; and a guarantee and related collateral security of subsidiaries, as designated from time to time.

The Debt Service Reserve Funds are funded from the net proceeds of each bond or MTN issuance (see Note 6, Restricted Funds). The covenants that the GTAA must meet include two specific coverage tests for operating expenses and debt payments. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs and excluding amortization. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. At December 31, 2017 and throughout the year, the GTAA was in compliance with the above covenants and was not in default under the Trust Indenture as defined therein.

20. SUBSEQUENT EVENTS

To mitigate the impact of rising interest rates, the GTAA entered into derivative agreements in January and February of 2018 to lock in the interest rate on a notional debt amount of \$500.0 million using the Government of Canada 19-year bond maturing in 2037 as its reference bond.

On February 7, 2018, the GTAA exercised its right to redeem all \$522.0 million of the outstanding Series 2009-1 MTNs on March 29, 2018. The Series 2009-1 MTNs had an original maturity date of November 20, 2019. The redemption price, determined in accordance with the provisions of the Trust Indenture and Pricing Supplement Nos. 3 and 4 dated May 14, 2009 and October 5, 2009, respectively, will be calculated on March 26, 2018. The redemption price, together with accrued interest, will be paid on the redemption date.

DISCLOSURE REQUIREMENTS OF THE GROUND LEASE

Subsection 9.01.07, Paragraphs (a) to (g) of the Ground Lease requires the GTAA to publish in its Annual Report the following:

a) Audited Financial Statements

The auditors' report and the audited financial statements are found on pages F22 to F50 and the summary of affairs (Management's Discussion and Analysis or "MD&A") is found on pages F1 to F21 of the Annual Report.

b) Report on the Business Plan and Objectives for 2017

The projected cash flows in any year constitute the business plan for that year. The business plan for 2017 is the 2017 summary of projected cash flows which is found below in Paragraph c) (the "2017 Business Plan"). A report on the GTAA's performance relating to the 2017 Business Plan is discussed in Paragraph c) below and in the MD&A.

Further, in the Annual Reports for the previous five years, comparisons to the respective business plans and the overall corporate performance are discussed in the MD&A and Ground Lease disclosure, respectively.

c) Variances and Corrective Measures with Respect to the Report on the 2017 Business Plan

The following table provides a comparison between the 2017 actual results and the 2017 Business Plan.

(in millions, unaudited)	2017		
	Actual	Business Plan	Favourable/ (Unfavourable)
	\$	\$	\$
Revenues	1,370	1,342	28
Expenses	667	645	(22)
Earnings before interest and amortization, net	704	697	7
Interest expense and other financing costs, net	327	328	1
Interest and financing costs, net	327	328	1
Earnings before interest and financing costs, net	377	369	8
Consolidated Net Income/(Loss)	112	112	0
Add: Amortization	265	257	8
Operating cash flows	377	369	8
Less: Capital expenditures	277	290	13
Acquisition of Properties	289		(289)
Other Non-Cash Adjustments	(22)		22
Available for debt repayment and future investment	(168)	79	(247)

For a more complete discussion of the 2017 financial results and capital projects, see the MD&A and the Annual Information Form for the year ended December 31, 2017, copies of which are available on SEDAR at www.sedar.com. The GTAA's MD&A is also available on its website at www.torontopearson.com.

Total revenues were favourable to the 2017 Business Plan by \$28 million, driven by robust aviation activity and passenger growth, as well as rental income from property acquisitions during the year. Rental income from property acquisitions were not included in the 2017 Business Plan.

Total expenses, including amortization of property and equipment, investment property and intangible assets ("Amortization"), were \$22 million unfavourable to plan, primarily driven by acceleration of new infrastructure to accommodate high passenger growth and investments in processing flow, such as security and border control.

The Corporation has been rapidly increasing investments to support passenger and baggage flow, spending approximately \$8.7 million in 2017 as compared to the business plan, in support of these continued investments. Unplanned expenditures include \$4.1 million on behalf of passengers and airlines to directly support the provision of incremental Canadian Air Transport Security Authority screening services and \$0.9 million to support new technology installed on behalf of the Canada Border Services Agency.

Pursuant to the Master Trust Indenture (“MTI”), the deposit to the Notional Principal Fund and the letter of credit adjustment regarding the Operations and Maintenance Reserve Fund were as projected. No deposits were made to the Debt Service Coverage Reserve Fund since the financial ratio covenants in Section 7.4 of the MTI were met.

None of the variances to the 2017 Business Plan discussed above were of a nature that caused the Corporation to take specific corrective actions.

d) Summary of the Five-Year Business Plan

The five-year Business Plan (2018 to 2022) is driven by the 20-year strategic framework, which is in turn based upon three fundamental strategic principles: financial sustainability, customer experience and operational excellence. This means that the Corporation will meet the growing demand for air travel by making optimum use of existing facilities before investing in new capital infrastructure. This will be achieved by improved passenger, baggage and aircraft processing and flow through the Airport, while delivering exemplary customer service, atmosphere and amenities to all passengers.

Over the five-year forecast horizon, the primary driver for the Corporation’s Business Plan is the long-term growth in Airport activity. Specific revenue, customer service or cost containment initiatives carried out over this period may also have an impact on revenues and expenses. The compounded annual growth rates from 2018 to 2022 for passengers, seats, and Maximum Takeoff Weight are all projected to exceed 5 per cent.

2018 will mark the eleventh consecutive year of lowering or freezing posted aeronautical rates and charges to air carriers.

During the Business Plan’s five-year horizon, the Corporation plans to continue to pursue its non-aeronautical revenue growth strategy. This will include the introduction of new retail, food and beverage offerings and advertising/sponsorship initiatives, as well as enhanced marketing and business development initiatives to increase parking and ground transportation revenues. Over the term of the Business Plan, growth rates for non-aeronautical revenues are expected to exceed passenger growth rates.

The Corporation typically undertakes capital projects to meet one of the following key objectives: (i) to comply with regulatory requirements (e.g., safety, security or environmental); (ii) to expand the capacity or improve the productivity of existing assets; (iii) to restore or replace existing assets; (iv) to modify existing infrastructure to improve revenue or reduce costs; or (v) add new capacity or businesses to the Airport beyond the existing infrastructure.

As part of the 20-year strategic framework adopted by the Corporation in 2015, the Corporation will continue to meet the growing demand for air travel through making optimum use of existing facilities prior to investing in new capital infrastructure.

In the near term, the Corporation will continue to focus on capital programs that will optimize the capacity and use of its existing infrastructure assets to improve passenger, baggage and aircraft processing and flow, comply with regulatory requirements, and enhance customer experience, primarily through its Terminal 1 and Terminal 3 improvement projects.

Due to the consistent high passenger growth the Airport has experienced over the past five years and the high growth forecasted over the next five years, it is anticipated that there will be a need to expand the existing infrastructure via a new passenger processing facility within the next five to 10 years. The GTAA recently published a draft Master Plan, which discusses in more detail its long-term projections regarding expected traffic demand over the next 20 years and the operations and facilities anticipated to be necessary to support the continued growth of the Airport, including the potential for a regional transit centre.

Expenditures related to capital programs are expected to be funded through cash flows generated from operations and are expected to average over \$300 million per year over the next five years. This is approximately the Corporation’s average annual capital spend over the past 15 years.

The key corporate revenue generation assumptions used to develop the 2018 Business Plan are as follows:

- 50.4 million total passengers;
- Landed Maximum Takeoff Weight (> 19 tonnes) of 19.3 million tonnes; and
- Landed seats of 30.7 million.

The reader is cautioned that some assumptions used to derive forecast information may not materialize and unanticipated events and circumstances may occur subsequent to the date when this summary was prepared. Therefore, the actual results achieved during the period may vary, and the variations may be material. For a more complete discussion of the risks and uncertainties and caution regarding forward-looking statements, see the MD&A and the Annual Information Form, copies of which are available on SEDAR at www.sedar.com. The GTAA's MD&A is also available on its website at www.torontoperson.com.

e) Remuneration to Board and Salary of Senior Officers

For 2017, the Chair of the Board of Directors received remuneration in the amount of \$170,000, while the other Directors earned remuneration ranging from \$19,188 to \$99,818. For 2017, salaries for the Corporation's senior officers ranged from \$199,994 to \$719,771. Senior officers are also eligible for a performance-based bonus.

A Director's annual remuneration varies by the number of Board and Board Committee meetings attended and the manner of attendance, whether the Director serves as a Chair of a committee, and whether the Director has served for a full or part year. A senior officer's salary varies by the responsibilities and experience of the senior officer and whether the senior officer served for a full or part year.

Additional information regarding the remuneration paid to the Directors and the senior officers is available in the Annual Information Form, copies of which are available on SEDAR at www.sedar.com.

f) Ethical Business Conduct

The Corporation has a "Code of Business Conduct and Ethics" (the "Code"), which has been approved by the Corporation's Board of Directors (the "Board"). The Code complies with the requirements of the Canadian Securities Administrators' National Policy 58-201 and represents a comprehensive approach to addressing, among other matters, conflicts of interest and promoting fair, honest and ethical behaviour by all of the Corporation's Directors, officers, employees and contractors. A copy of the Code may be accessed on SEDAR at www.sedar.com.

The Board monitors compliance with the Code, and the Corporation requires that each Director and officer sign an Annual Declaration advising that the Director or officer has read the Code and either declares that the Director or officer is in compliance or not in compliance with the Code and declares the reasons for the non-compliance. In addition, the Board has implemented Confidential Anonymous Reporting for Employees ("C.A.R.E."), which permits the anonymous reporting of an employee, officer or Director's unethical behaviour. C.A.R.E. also extends to business partners contracted by the Corporation.

All Directors and officers indicated that they are in compliance with the Code.

g) Report on Contracts over \$100,000 Not Tendered

The Ground Lease stipulates that any contracts in excess of \$100,000 (adjusted periodically by CPI from an original threshold of \$75,000) that are not awarded through a public tendering process must be described in the Corporation's Annual Report. Such description must identify: the parties to the contracts; the amount, nature and circumstances of the contract; and the reasons for not awarding such contract on the basis of a public competitive tendering process. The table below summarizes the applicable contracts awarded in 2017. Definitions for the "reason for award without public tender" can be found at the end of the table.

Contract Value	Contractor	Description of Contract	Reason for Award Without Public Tender
\$100,000 to \$500,000	Impact XM Inc.	Supply, Delivery and Install One Booth to Serve T3 Curbside Valet Function on the Departures Level	A
	BluSky Services Zerkowitz G.C.V.	Deliver Functional Requirement Documents (DFR) for the Toronto Pearson Airport Collaborative Decision-Making System (CDM)	B
	Akoustik Engineering Limited	Provide Engineering Services to Assist in Community Noise Management Program	B
	P.V. Services	Preventative and Corrective Maintenance Services for GTAA Pre-Clearance Security Systems	A
	Kingmont Consulting, Professional Corp.	Real Property Assessment and Taxation Consulting Services	A

Contract Value	Contractor	Description of Contract	Reason for Award Without Public Tender
\$100,000 to \$500,000	Trisect Construction Corporation	Installation of a CTX 5800 Baggage Explosion System for Inbound Baggage at T1	A
	Flexsim Canada Ltd.	T1 and T3 Simulation Software Tool Specific to Baggage Handling System (BHS)	B
	Lea + Elliott Inc.	Study of Automatic People Mover Condition Assessment and Upgrade Option Evaluation	B
	Solufy Information Technologies Inc.	Akwire Application Integration Work with Maximo-RMAX	A
	Vaisala Inc.	Support and Maintenance for Lightning Warning and Runway Weather Information System	C
	Auto Dealer Direct Inc.	Service Contract for Corrective Work Required for High Speed Electric Vehicle Chargers	B
	Jervis B. Webb Company of Canada Ltd. World Headquarters	Migrate BHS to GTAA Corporate Message Broker	B
	Yokogawa Canada Inc.	Upgrade Obsolete Cogeneration Control System for the Balance of the Plant	B
	Sprint Mechanical Inc.	Relocation of 4 Air Heating Units for the T1 Gate 193 Improvements Project	B
	Jervis B. Webb Company of Canada Ltd. World Headquarters	Supply 51 Various Portec Power Turn Conversion Kits Specific for T1 BHS	B
	Xylem Water Solutions	Sewage Pump Predictive, Preventive and Repair Maintenance	B
	Solutia SDO Ltd.	Correct Discrepancies Between ARINC and GTAA for Airline Common Use Passenger Processing (CUPPs) data	A
	Airbiz Aviation Strategies Ltd.	Toronto Pearson Airport Master Plan and Land Use Plan	A
	Electronic Data Inc.	Facilitate Workshops with Various Business Units to Refine the Inventory Data in Maximo-RMAX	A/B
	Liberty Airport Systems	Maintenance on the Airfield Lighting Control System	A
	Softchoice LP	Microsoft Windows, System Centre Configuration Manager (SCCM) Clients and Endpoint Protection Licensing for Kiosks	A
	Healthy & Happy Life Inc.	Consolidate Aeronautical Database Used for Reporting with Financial Statements, External Public Reporting and Aeronautical Statistical Data	A
	ExperiencePoint Inc.	Training on the Human Centric Design Thinking Concept to Our Senior Leaders	A
	Vanderlande Industries Canada Inc.	Support for BHS Controls	A
	Hi-Lite Canada, ULC	Placement of 16 Preformed Thermoplastic Airfield Mandatory Instruction Markings on All Taxiways Accessing Runway 06R/24L	B
	Albion Auto Parts Inc.	Automotive Parts and Supplies for Centralized Deicing Facility	A
	Runnalls Industries Inc.	Hydraulic Parts and Supplies for Centralized Deicing Facility	A
	Deloitte LLP	Forecasting and Analysis Reporting	A
	Integrated Display Systems Inc.	Lift-net Hardware to Connect T3 Escalators, Walkways and Elevators	C
	Team Eagle Ltd.	Purchase of Pavement Deicing Spray Truck	A

Contract Value	Contractor	Description of Contract	Reason for Award Without Public Tender
\$100,000 to \$500,000	Event Scape Inc.	Customized Re-pack Tables for Self-Serve Bag Drop Project	C
	Odgers Berndtson Canada Inc.	Talent Search (Directors and Associate Directors)	B
	International Surface Preparation (Canada) Ltd.	Runway Surface Abrasion Services	B
	Patlon Aircraft & Industries Limited	Supply 4 Hobart 2400c/w Power Coils	C
	Healthy & Happy Life Inc.	Oracle Business Intelligence Production Components Support	A
	Tadiem Inc.	Campaign and Creative Design Consultancy – Mega Hub	A
\$500,000 to \$1,000,000	Airside Security Access Inc.	Security Escort Services for PCL Construction on the Satellite Primary Inspection Lines (SPIL) Project	A
	Jervis B. Webb Company of Canada Ltd. World Headquarters	Upgrading of Baggage Transfer Induction Line (TX7) for the Induction of International/Transborder to Domestic (ITD) Bags	A
	GE Multilin Inc.	Upgrade Obsolete High Voltage Relays	B
	Canadian Firefighting Services Ltd.	Sales Consultant to Further Advance FESTI Revenues	A
	Inland Technologies Canada Inc.	Lease 17 Frac Tanks and Fluid Management for the Centralized Deicing Facility	A
\$1,000,000 to \$2,000,000	Vanderlande Industries Canada Inc.	Addition of a Baggage Induction Liner in Node C of T3 to Handle Baggage Between International and Domestic	A
	Glidepath Systems Ltd.	Addition of a Baggage Transfer Room in Pier F of T1 to Handle Connecting Baggage Arriving from International	A
	PCL Constructors Canada Inc.	Construction Management Services for Gate 193 Improvements	A
	Vestergaard Company Inc.	Parts and Services for GTAA's Fleet of Vestergaard Deicing Trucks	B
	Embross North America Ltd.	Additional T-Series Common Use Self-Service Kiosks in T1 and T3	A
	Jervis B. Webb Company of Canada Ltd. World Headquarters	T1 New Transfer Input Line	A
	Black & McDonald Limited	Communications Cabling – Supply and Installation Services	A
	Ideo LP	Consulting Services for Baggage Improvements Utilizing Design Thinking	B

- A. Where the GTAA determines that in connection with an existing contract for the supply of goods and services that is expiring, it is most efficient and practicable to extend or award a new contract to the existing contractor or services supplier where such contractor or services supplier has developed a specific skill set or knowledge base in respect of that contract not found on the market.
- B. Where there is just one contractor, or services supplier, which can provide the required goods or services.
- C. Where warranty, patent or copyright requirements or technical compatibility factors dictate a specific supplier.
- D. In any other circumstances where the President and Chief Executive Officer determines it is necessary to do so having regard to the safe, efficient and practicable operation of Toronto Pearson.

SECTION 9.01.07, PARAGRAPHS (a) TO (g) OF THE GROUND LEASE

The Tenant shall, prior to each public meeting to be held pursuant to Subsection 9.01.05, publish an annual report in respect of the Lease Year (in this Subsection 9.01.07 called “that Lease Year”) immediately preceding the Lease Year in which the public meeting is held which shall, as a minimum:

- a) include the audited annual financial statements of the Tenant for that Lease Year, the Tenant’s Auditor’s report on such Tenant’s audited annual financial statements, and a summary of the Tenant’s affairs for that Lease Year;
- b) contain a report on the Tenant’s performance relating to the Tenant’s business plan and objectives established for that Lease Year, and as applicable for the previous five Lease Years;
- c) include an explanation by the Tenant of all variances and corrective actions taken with respect to the Tenant’s performance described in Paragraph 9.01.07(b);
- d) present a summary of the Tenant’s business plan for the then current Lease Year and the Tenant’s business plan containing a forecast for the next five Lease Years, including specific objectives (measurable where feasible), for such summary and forecast and relating to the approved objectives of the Tenant;
- e) contain a report on the remuneration provided to each Board member and on the salary of each of the Senior Officers of the Tenant;
- f) contain a report on compliance or non-compliance with the Tenant’s Code of Conduct; and
- g) report on all contracts in excess of an amount obtained by multiplying seventy-five thousand (\$75,000) dollars by the CPI Adjustment Factor for that Lease Year which are entered into during that Lease Year and which contracts were not awarded on the basis of a public competitive tendering process and such report shall identify the parties to the contract, the amount of the contract, the nature of the contract, the circumstances of the contract and the reasons for not awarding such contract on the basis of a public competitive tendering process.

2017 CORPORATE INFORMATION

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Executive Team

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Vice President and Chief Information Officer

CRAIG BRADBROOK

Vice President, Aviation Services

IAN L.T. CLARKE

Chief Financial Officer

SCOTT COLLIER

Vice President, Customer and Terminal Services

VALERIE DUFFEY

Vice President, Human Resources and Corporate Services

HOWARD ENG

President and Chief Executive Officer

SELMA M. LUSSENBURG*

Vice President, Governance, Corporate Safety and Security,
General Counsel and Corporate Secretary

HILLARY MARSHALL

Vice President, Stakeholder Relations and Communications

PATRICK NEVILLE

Vice President, Airport Development and Technical Services

KIM STANGEBY

Vice President and Chief Strategy Officer

Annual Public Meeting

The GTAA's Annual Public Meeting will be held on
Wednesday, May 9, 2018, at 1:30 p.m. at the
Toronto Congress Centre.

Public Information

Requests for general information should be directed to:
Customer Service
T: 416-776-9892
Email: Customer_Service@GTAA.com

Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario

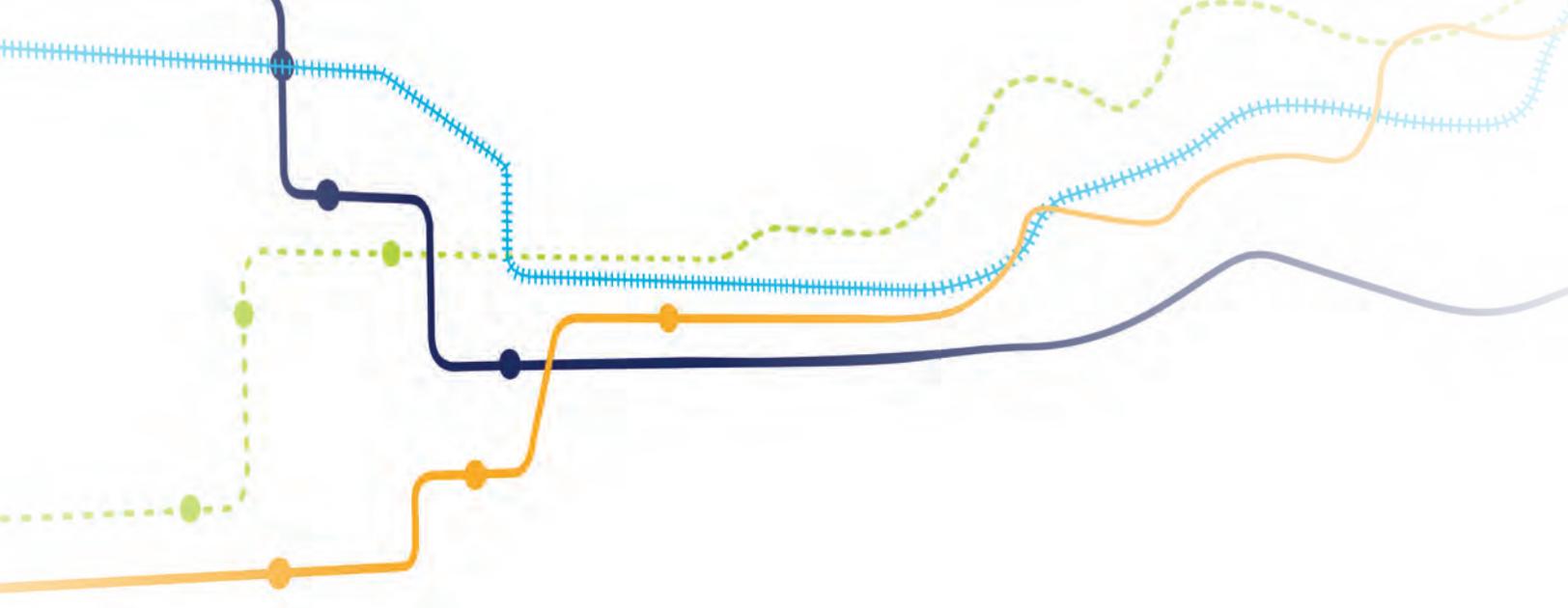
Lead Bank

Canadian Imperial Bank of Commerce
Toronto, Ontario

Principal Legal Counsel

Osler, Hoskin & Harcourt LLP
Toronto, Ontario

* Selma M. Lussenburg resigned from the GTAA as of March 31, 2018.



WE WELCOME YOUR FEEDBACK

If you have any questions or comments regarding this report, or suggestions for topics you'd like to see covered in future reports, please write to us at:

Greater Toronto Airports Authority

Toronto Pearson International Airport
P.O. Box 6031
3111 Convair Drive
Toronto AMF, Ontario, Canada L5P 1B2

or send an email to Publication@GTAA.com.

Thank you for your interest.

The Greater Toronto Airports Authority (GTAA) was incorporated in 1993 and manages Toronto Pearson International Airport under terms set out in our December 1996 lease with the Canadian federal government.

Download the full GRI Standards Index at torontopearson.com/ar2017/downloads/Sustainability_Management_Approach_and_GRI_Index.pdf

Writing

Doug Dolan and Lorraine Gilbert

Design and Sustainability Consulting

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Bensimon Byrne/photographer Finn O'Hara

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