
Greater Toronto Airports Authority Five-Year Performance Review

Confidential

September 2016



Contents

Operating Context and Key Accomplishments.....	1
Overall Results	3
Summary of Findings.....	6

September 29, 2016

This report constitutes a performance analysis of the Greater Toronto Airports Authority's (the "GTAA" or the "Authority") management of the Toronto Pearson International Airport (the "Airport" or "Toronto Pearson"), in accordance with Section 9.02 of the Ground Lease with Transport Canada (the "Ground Lease")

This performance analysis covers the period from July 1, 2011 to June 30, 2016.

Independence

PricewaterhouseCoopers LLP ("PwC") is independent and at arm's length from the GTAA and the Government of Canada within the context of any relationship with the GTAA.

Approach and Methodology

In agreement with the GTAA, we have addressed the objectives of the analysis by relying upon interviews with various directors, executives, employees and selected stakeholders (i.e. airlines and concessionaires) to corroborate findings and conclusions. The scope of work was not designed to conduct a detailed operations review of the GTAA nor does it include the initiation of any exhaustive, new independent research. Our work was limited to conducting procedures defined in the Appendix E.

Some of the documents utilized were audited and/or produced by third parties. Our work on this engagement does not constitute an audit that is conducted in accordance with generally accepted auditing standards, nor does it examine internal controls, attest, or review services in accordance with the standards established by the Canadian Institute of Chartered Accountants. We therefore cannot express an opinion based on the procedures performed.

In our analysis, we made numerous direct enquiries to management concerning financial, operating, contractual and other issues. GTAA management fully cooperated in providing materials and information in response to our requests. We considered management responses, which took the form of detailed explanations, schedules, and other relevant documentation. We discussed the information received with appropriate officials and representatives at the GTAA.

We conducted interviews with external parties, in addition to the GTAA executive and management representatives. We were not restricted or limited by the GTAA in conducting these interviews.

Use of the report

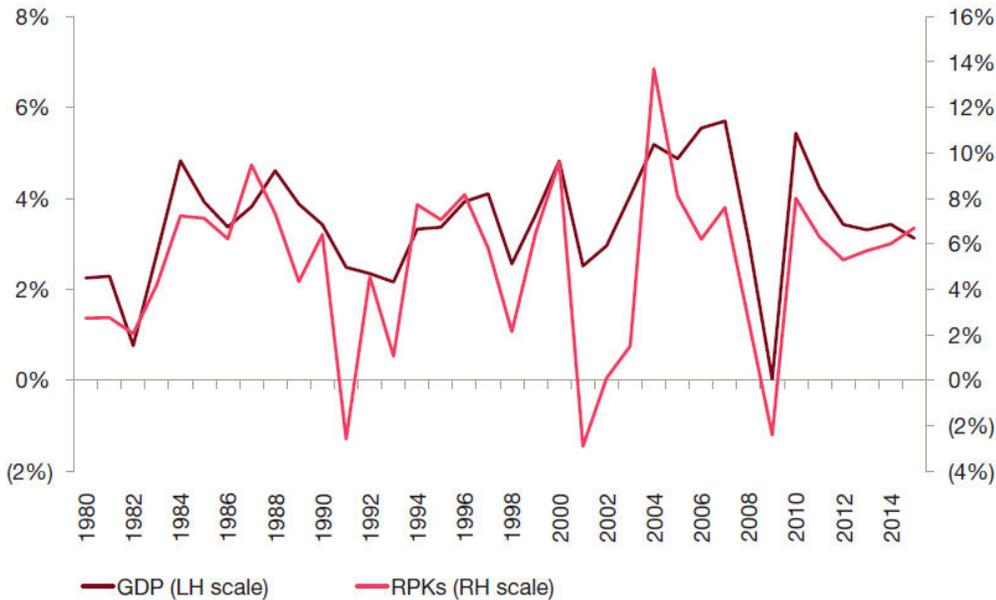
This report is intended solely for use by the Board of Directors of the GTAA and the Minister of Transport of Canada.

Operating Context and Key Accomplishments

Operating Context

The Greater Toronto Airports Authority (“GTAA”) operates Canada’s largest and busiest airport. As such, the GTAA is faced with many different challenges and opportunities, including how to achieve strong financial performance and service levels combined with consistent growth rates. As shown on the graph below, the aviation market has obtained positive results following the economic growth in the past 5 years, with demand intensifying and air traffic rates increasing.

Air traffic (RPKs) and World GDP – % per annum change



Source: IMF and ICAO/IATA

Following the positive demand growth for the aviation industry, Pearson Airport has seen an increase from 33.4 million passengers in 2011 to 41 million in 2015, which represents a 23% increase. This increased activity puts pressure on the Airport to sustain high growth rates with appropriate levels of financial performance, operational effectiveness, safety, security and customer satisfaction.

Key Accomplishments

Strategic Direction

The GTAA implemented its *Strategic Framework 2014-2033* in March 2015. The document outlines the Authority’s strategic goals that were established to help achieve the vision of becoming the best airport in the world. The framework is being utilized to drive long and short-term planning, goal setting and compensation. This has helped the organization to achieve better alignment from top to bottom with a more consistent message and clear direction provided to employees.

Introduction of Toronto Pearson Safety Program

The Toronto Pearson Safety Program was introduced by the GTAA in 2012. The program integrates the various management programs responsible for safety and security at the Airport in one place enabling management to better coordinate, and enhance communication and consistency among the management programs.

Debt Reduction

The GTAA has reduced outstanding debt from \$7.7B in 2011 to \$6.2B in 2015. Management is paying down the debt, which has resulted in a credit rating improvement with Moody's from A1 to Aa3 and Standard & Poor's from A to A+ with reduction in interest and financing costs.

Non-Aeronautical Revenues

The GTAA has been working to increase non-aeronautical revenues in order to obtain different sources of revenues and reduce reliance on aeronautical rates and charges. The Airport has improved the number of retail offerings with various new establishments introduced during the review period. This strategy has resulted in growth of concessions and rentals revenue by 45% between 2011 and 2015, while increasing passengers access to retail options.

Community Engagement

The commitment to engaging with the community has been shown in a number of initiatives the GTAA has continued or improved over the review period. Greater emphasis has been placed on engaging with various community organizations, including the Community Environment and Noise Advisory Committee (CENAC) and NAV Canada. In addition, projects such as the Project Green, Runway Run and YYbeeZ are furthering the GTAA's connection with the community.

Overall Results

The summary of the results with respect to the procedures applied to review GTAA's management, operational and financial performance between July 1, 2011 and June 30, 2016 is provided below. These results are based on the methodology, approach and scope of work defined in our Terms of Reference dated March 14, 2016 (refer to Appendix E – Review Procedures), which is based on a review of documentation provided by GTAA and interviews with GTAA management and selected stakeholders.

1. Safe and Efficient Service to the Public

Safety - Management has continued to put emphasis on safety as seen in the Strategic Framework and corporate goals that have been set. The introduction of the Toronto Pearson Safety Program is one of the key initiatives to help achieve the corporate vision of zero injuries at the Airport. The plan encompasses not only the GTAA's 1,200+ employees, but also includes the approximately 40,000 employees at the Airport. The program gives the GTAA, and its stakeholders, confidence that the Airport is compliant with all of the required Regulations and Laws while managing risk at a reasonable level and continuously challenging itself to improve.

The GTAA maintained the Airport's certification under the requirements of the Aeronautics Act through compliance with Canadian Aviation Regulations (CARs) over the duration of the review period. No significant compliance breaches were disclosed by management during the review period.

Security - The GTAA's relationships with the Airport's security partners and the local community were both enhanced over the review period. Management made a concerted effort to improve communication with security partners by engaging in more informal and consistent dialogue with the groups. A number of other projects were successfully completed to enhance security. Completion of the Level 3 Hold Bag Screening and Security In Advance projects over the review period improves the service capabilities of the Airport and provides a more secure environment for both passengers and staff. Management indicated that no major security breaches were reported during the review period.

Service to public – GTAA has implemented various programs to enhance the service provided to the public, including the new Guest Services Program, improved wayfinding, customer satisfaction survey kiosks and enhanced food and retail offerings. As an indicator of the customer satisfaction, the Airport Service Quality (ASQ) has improved from a score of 4.02 out of 5 in 2011 to 4.16 in 2015.

Some of the challenges faced by GTAA to continuously enhance the customer experience are related to the development of the Ground Transportation Strategy and improvements on passenger processing time. Both areas were noted as priorities by management.

2. Effective planning and implementation of approved business plans and objectives and Management control practices

Management Oversight - The GTAA underwent extensive management turnover during the review period with the introduction of a new CEO and new vice-presidents in seven of eight executive roles, which has supported the implementation of a new vision and strategy for the Airport. The GTAA Strategic Framework 2014-2033 was launched in 2015 and it is linked to six strategic goals which are being followed and tracked by Management and the Board.

GTAA has been overseen by a Board of Directors (Board) that has continuously evolved to achieve effective governance and oversight roles. Improvements have been made to the Director selection and training processes

which has grown the group's collective skill set, as well a reorganization of Board committees to better address key priority areas for the organization.

Implementation of Business Plans - The GTAA established a vision and Strategic Framework that has been reinforced by management since its inception. The Strategic Framework was revised to ensure that the strategic goals were being set to achieve the vision and to ensure appropriate metrics were being used to measure whether the goals were being attained. The strategic goals have impact throughout the organization, also driving annual goals and performance incentives. Management has reported that the GTAA has continuously followed the directives of the Strategic Framework and its goals, which have been positively achieved over the last years as demonstrated by GTAA's results.

3. Safeguarding and controlling of assets of the GTAA

Internal Controls - The GTAA has implemented controls and practices to gain comfort over the safeguarding of its assets. The control environment includes financial controls to supporting management's certification over Internal Controls over Financial Reporting and physical access controls to protect the Airport's physical property. The GTAA's IT Security practices has been identified as an area of focus by management and is currently undergoing changes to enhance its effectiveness.

The Quality Assurance Program (QAP) ensures that the appropriate business processes are in place to maintain required standards across multiple processes at GTAA. In addition, QAP identifies ineffective or inefficient processes to enable continuous improvement. During the review period, management indicated that results are being properly leveraged to enhance GTAA's practices.

Business Continuity - The business continuity management program was released during the review period. The program is a requirement under regulatory bodies and encompasses a number of areas including disaster recovery. GTAA monitors and tests these plans to ensure they are capable of delivering the required service when needed. A January 2014 disruption to services due to extreme winter weather resulted in full review of the event and a report. A number of recommendations were made in the report and have since been reported as implemented by management.

4. Economical and efficient management of resources

Financial Sustainability - Management identified financial sustainability as one of the key strategic goals and has made considerable progress in reducing debt in order to improve sustainability. On December 31, 2011 the GTAA had \$7.7B in outstanding debt and recorded annual interest charges of \$431M. By the end of 2015, debt was reduced to \$6.3B with annual interest charges of \$363M.

Capital Planning- Management has shifted focus in budgeting and capital planning to ensure that projects are aligned with the Strategic Framework and infrastructure needs to manage the continued growth of the Airport. Budgets are approved and closely monitored by both management and the Board. Management has reported a strong focus on optimizing the utilization of existing assets and carefully reviewing plans for engaging on new capital assets investments.

5. Effective operations of the GTAA

Relationship with Airlines and Tenants - During the review period GTAA has signed new service level agreements with the largest two air carriers to help facilitate growth and has engaged in new partnerships with retail tenants. Management has made efforts to enhance its relationship with the airlines. Feedback obtained indicates that the GTAA should keep strengthening these practices.

Human Resources – Management has indicated that GTAA is focused on adopting strong talent management practices to further enhance the employee engagement levels and continuously attract and retain the best human resources. The implementation of effective succession planning practices for senior management positions has also been outlined as a priority by Management and the Board.

The annual employee engagement survey score have presented a positive increase from 48% in 2013 to 56% in 2015, however this is still below the transportation infrastructure industry average of 60%. Relationship with unions has also been reported during interviews as positive throughout the review period.

Financial Performance - The Authority has been able to reduce outstanding debt and financing and interest costs. This has been accomplished while maintaining compliance with statutory and regulatory requirements in addition to applicable debt covenants under the Master Trust Indenture. Overall financial performance has seen positive results during the review periods, with a 6% total revenue increase (+21% for non-aeronautical revenues) and 18% debt reduction from 2011 to 2015. GTAA has maintained or reduced overall aeronautical rates and charges in each year of the review period.

Summary of Findings

Throughout the review process there were a number of reoccurring items that warranted disclosure on a separate basis. GTAA should continue focusing efforts on mitigating potential risks in the following areas:

Passenger Processing Time

- Management expressed concern over the ability to improve wait times due to limited control over the security screening process. The GTAA is committed to continuing to work with CATSA to find solutions that will improve passenger processing times without hindering the ability to meet security regulations.

Information Technology

- The Airport is undergoing a change in their outsourced IT service provider from IBM to Wipro. The change is anticipated to result in an improved IT infrastructure which will allow the Airport to operate more efficiently. The inherent risk of changing service providers is high and must be carefully monitored by management. Additionally, management has identified potential areas for improvement on IT security areas and has begun an effort to enhance security of assets with a Security Operations Center (SOC) project.

Employee Engagement

- The level of employee engagement has fluctuated throughout the period and remains below the industry average reported by the survey service provider. Management needs to continue with initiatives that engage the entire workforce, from upper management down to the front-line employees.

Airport Growth and Capacity

- The Airport has experienced continued growth throughout the review period. In order to support the growth and continue to improve their service, management must find appropriate solutions for handling the increased passenger traffic in a manner that is fiscally responsible and makes best possible use of the assets on-hand. The capacity to physically expand the Airport is restricted, making development plans that much more crucial in order to handle an expected 51 million passengers by 2020.

Leadership Succession

- The new Executive leadership has brought positive results during the review period. Management and the Board have identified the need of establishing an effective succession planning process and developing candidates internally to support the long-term sustainability of the Authority.