GTAA 2018 ANNUAL REPORT

COUNT *on* PEARSON

GTAA

Toronto Pearson
International Airport | Aéroport International

FORWARD-LOOKING INFORMATION

This document contains certain forward-looking information. Please refer to the section titled "**Caution Regarding Forward-looking Information**" contained at the end of Management's Discussion and Analysis for a discussion of the risks and uncertainties and the material factors and assumptions related to forward-looking information.

CONTENTS

COUNT *on* PEARSON

Count on our airport to be a global hub and a North American gateway, connecting Canada to opportunity.

Because that's what our region, the country and millions of international travellers need us to be.

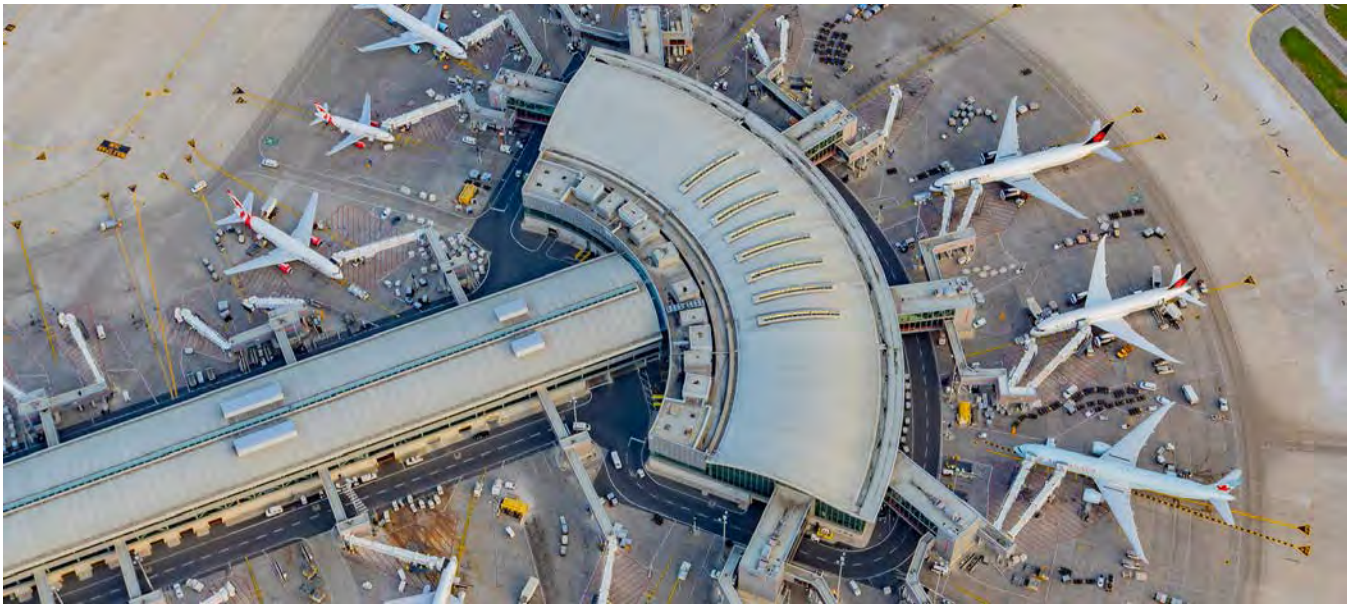
CONNECTING CANADA *to* OPPORTUNITY

Count on Pearson to be a catalyst for trade and commerce, with regular direct flights reaching nearly 3/4 of the global economy.

Because Canadian enterprises need worldwide connections to grow, diversify and stay competitive.

72% of the global economy via regular direct flights

Every day, Toronto Pearson has scheduled non-stop flights to destinations worldwide that account for about 72 per cent of global GDP. As our airline partners continue to add new routes and expanded services, that access will soon reach 80 per cent – bringing added economic benefits right across Canada.



Our airport provides the regular direct connections that Canadian businesses need to explore new markets, forge valuable partnerships, arrange overseas manufacturing and services, and participate in trade missions and events.

- Toronto Pearson ranks second among North American airports for international connectivity. We're the 5th most connected mega hub globally.
- We provide non-stop flights to 175 international destinations, including nearly 60 U.S. cities.
- Compared to our Canadian peers, we offer direct service to 55 per cent more international destinations, and the most connections to all continents.
- Our airline partners serve 15 destinations outside North America with at least two flights daily – more than any other Canadian airport.

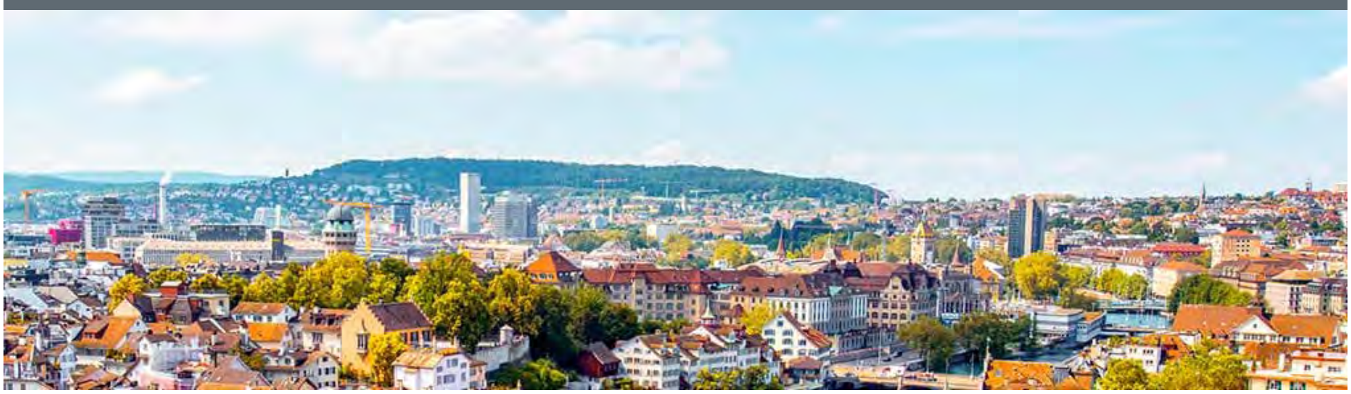
The number of international flights in and out of Toronto Pearson has been growing steadily over the past decade. And as carriers sell additional seats and switch to larger, more efficient aircraft, the volume of travellers has risen even more quickly. From 2011 to 2018, Pearson's total international traffic increased by more than 55 per cent.

Many of these travellers are expanding their personal horizons. But many others are venturing abroad to create new business opportunities – and that helps to build a more prosperous economy back home.

Extending our reach

In 2018, Toronto Pearson introduced new* or expanded services to the following destinations:

Bucharest*	London Gatwick	Providence
Buenos Aires	Mexico City	Shannon
Chongqing	Miami	Zagreb*
Guangzhou	Milan	Zurich
Kiev*	Porto*	



Connecting all of Canada

Nova Scotia and China

- 4,000+ passengers flew between Halifax and Beijing via Toronto Pearson in 2018.
- 40 per cent of international students in Nova Scotia are from China.
- 12 per cent of the province's fish and seafood exports are to China – including more than $80 million worth of lobsters shipped each year through Toronto Pearson.

Manitoba and India

- 5,700+ passengers flew between Winnipeg and Delhi via Toronto Pearson in 2018.
- 1/3 of economic immigrants to Manitoba were from India.
- 40 per cent of students in the aircraft maintenance program at Winnipeg's Red River College are from India. Many are hired before completing their studies by area employers, including major companies like Boeing and Magellan Aerospace.

RELATED SDGs

GRI INDICATORS 102-2 102-6

7 million passengers flying to nearly 60 U.S. cities

For travellers to the United States, Toronto Pearson offers the tremendous advantage of pre-clearance in our terminals by U.S. Customs and Border Protection. Last year, seven million people flew to the nearly 60 U.S. cities served by our carriers, making Pearson the fourth largest U.S. port of entry by air.

This pre-clearance capability, which dates from the early 1950s, reflects a broader tradition of political and economic cooperation that has characterized Canada-U.S. relations since the 19th century. But in recent years, cross-border air travel has increased significantly. Between 2012 and 2018, passenger volumes between Toronto Pearson and U.S. cities grew by 32 per cent, compared to a 26 per cent increase on routes within Canada.

There are many factors behind this continuing growth, including more economical airfares (despite the relative weakening of the Canadian dollar). But a significant driver is the further integration of economic links between the two countries. Notable trends north of the border include expansion into U.S. markets by Canadian banks and other large companies; increased exports of services such as engineering and management consulting; and higher levels of cross-border shopping via e-commerce providers like Amazon.

8% of traffic to/from North America

In 2018, eight per cent of travellers flying beyond the continent – or 16 million passengers – departed from, arrived at or connected through Toronto Pearson.

The international connection

Importantly, the increase in north-south air traffic doesn't just reflect the fact that more Canadians are travelling to the U.S. Toronto Pearson also serves a growing number of international connecting passengers who choose our airport as the most convenient point of access to and from North America. Our proportion of connecting travellers, at about 31 per cent, is the highest among major Canadian airports. And over the past six years, that connecting traffic has grown at a much higher rate than that of our peers – and of most major U.S. hubs.

This is good news for our airline partners, of course, as well as for Toronto Pearson's financial sustainability. But most significantly, it speaks to our airport's growing profile as the gateway of choice for overseas travellers flying in and out of North America. And that, in turn, benefits all Canadians, who can take advantage of more frequent and wide-ranging services from carriers, not to mention the many enhancements to our facilities made possible by increased connecting traffic.

RELATED SDGs

GRI INDICATORS 102-6

$35 billion in exports to 200+ countries as air cargo

Last year, Toronto Pearson handled some $35 billion in goods shipped from producers in all provinces and territories to nearly every country around the globe. This represented about 67 per cent of all Canadian exports by air.

While about a third of air cargo shipments are sent via dedicated freighters, most are shipped in the bellies of passenger aircraft. As carriers continue to add more efficient wide-body aircraft to their fleets, cargo capacity is growing to match rising demand – and competitive rates mean that more exporters are seeing the value of shipping by air. This provides airlines with additional revenues, strengthening the viability of international routes while opening up potential new markets for Canadian manufacturers and agricultural producers.

Gold Award for Cargo Excellence

Toronto Pearson won Gold at the 2018 Air Cargo Excellence Awards, which recognized our outstanding performance among airports handling between 400,000 and one million tonnes of goods annually.

As global supply chains grow in scope and complexity, the goods most economically transported by air tend to be lightweight, compact and high in value. Worldwide, it's estimated that three per cent of air shipments account for about 35 per cent of trade value. That's certainly true at Toronto Pearson, as the connections we provide to support the flow of people, services and capital prove equally crucial in moving a wide array of high-value products – from biotech and robotics-based innovations created in Ontario and Quebec to resource and energy technologies developed in Alberta and B.C.

In 2018, shipments from Toronto Pearson to international markets – which account for about three-quarters of the total – grew by 3.4 per cent, year over year. Since 2014, total air cargo volume has increased at a compound annual growth rate of about 5.2 per cent.

RELATED SDGs

GRI INDICATORS 102-9

35 Canadian cities linked by the most frequent flights

As a global mega hub, Pearson is also a vital crossroads for Canada. Last year, 22 million passengers travelled domestically via Toronto Pearson, more than through any other Canadian airport. Of the 35 cities to which we provide direct connections, 28 are served by at least two flights daily, and 20 have more than five.

The domestic connectivity we provide increases productivity, facilitates investment, boosts job creation and access to talent, stimulates commercial partnerships and links the critical resources that fuel innovation. Across this network of busy flight paths, we extend our impact as an economic engine from coast to coast to coast.

For primary industries such as agriculture, forestry, mining and energy – typically based in rural and often remote areas – and also for secondary industries like manufacturing and construction, ensuring businesses run well means moving people, equipment, materials and finished goods smoothly and efficiently across Canada. The same is true for support services in everything from accounting and finance and engineering, to design, IT and process automation. To ensure that enterprises and entire sectors thrive, we must have quick, convenient connections between all parts of the country.

This is what Toronto Pearson helps our airlines deliver. We support the largest share of domestic flights by the country's two major carriers, Air Canada and WestJet. They, in turn, weave together cities large and small, strengthening the fabric of Canada and extending our country roads and urban streets to the far horizons of the global community.

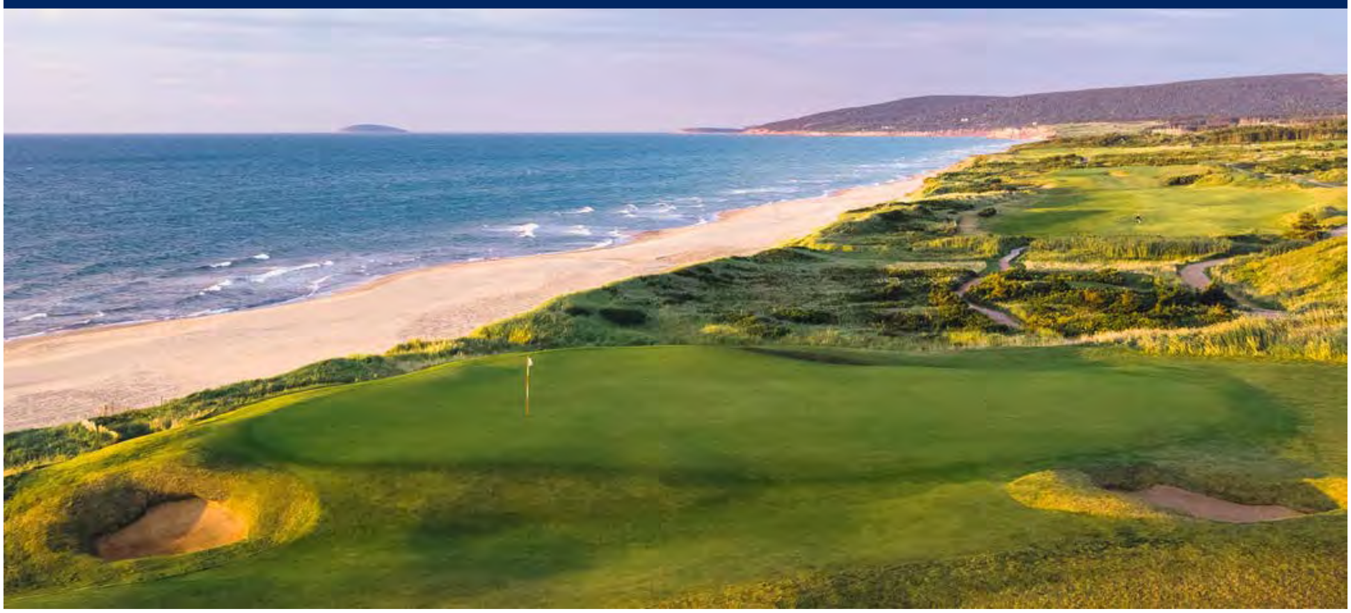
RELATED SDGs

GRI INDICATORS 102-6

SHOWCASE

Global links

How do you turn a magnificent stretch of Nova Scotia coastline into a worldwide golf destination? First, design and build a spectacular course – and then ensure easy air connections from the rest of Canada, the U.S. and every corner of the globe.



From his first glimpse of the rugged, cliff-lined coast at Inverness, on the western shore of Cape Breton Island, Ben Cowan-Dewar was inspired. It was December 2004, and the 25-year-old travel entrepreneur had flown out from Toronto to see for himself what local golf enthusiasts had been talking about for years. As he walked a rolling trail high above the dune-lined beaches, looking across the vast Gulf of St. Lawrence, what had begun as a promising idea coalesced into a vision: this was the perfect place to create a course in the spirit of the original links – the narrow stretches of land along the Scottish seacoast where the game was first played some 500 years ago.

“Air accessibility is a driving force for our business – and the whole region.”

Like most visions, it didn’t turn into reality overnight. Partnering with investor Mike Keiser, a fellow links aficionado who had created the renowned Bandon Dunes courses in Oregon, Ben spent the next eight years piecing together parcels of land, enlisting world-class designers, developing the property – including a house for his wife and young family – and personally overseeing construction of the course and facilities.

What came next is now part of golf lore. When Cabot Links opened in 2012, it gained immediate acclaim, joining the World's 100 Greatest Golf Courses ranked by *Golf Digest*. Four years later, the growing enterprise added a second 18-hole course: Cabot Cliffs, which quickly took the #9 spot on the authoritative *Golf Digest* list. Today the property includes a 72-room lodge, three restaurants and a pro shop. The development also has a collection of architect-designed villas available for purchase and short-term rentals.

Fast, easy connections

While the Cabot resort offers a one-of-a-kind golf experience, it was clear from the outset that creating a true destination would mean reaching outside Atlantic Canada – and beyond the worldwide community of diehard players who will travel anywhere – to attract the kind of guests who appreciate great golf but also value a smooth, convenient journey.

"We understand that we're what some would describe as 'a long way from anywhere,'" Ben says. "Ontario is our biggest market. We also attract many visitors from across Canada and, of course, the U.S. And we regularly welcome guests from other parts of the world. With the steady growth in air travel globally, we see more and more people venturing further afield to enjoy unique experiences. And in our case, we know many of them take advantage of fast, easy connections through Toronto Pearson."

An economic driver

The success of the Cabot resort has also brought benefits to the surrounding community. Inverness, a thriving coal-mining town in the late 19th and early 20th centuries, had seen prosperity steadily decline through the 1960s, after most of the remaining mines closed. In the decades since, faced with chronic high unemployment, many residents had left to find work elsewhere in Canada. So for Cape Bretoners, who'd long enjoyed sharing the beauty of their island with visitors, a new wave of golf vacationers meant welcome jobs close to home. "Today we employ about 600 people, including part-time staff and caddies," Ben explains. "And in a town of 1,200, that obviously has a big impact."

The influx of tourist spending has also sparked growth across the regional economy, from support services, restaurants and other amenities to additional visitor attractions. And as the Cabot resort continues to expand – adding a clubhouse, a wellness centre and a 10-hole, par-three course – Ben and his team see evidence daily of the close links between local enterprise and global connectivity: "In the past, when Nova Scotia tourism was mainly focused on road travel, a lot of Cape Breton's magic went undiscovered. Today, air accessibility is a driving force for our business – and the whole region."

“When you take a look at what a great airport does, it creates the piece of infrastructure that draws business and enables business to be far more competitive. And this is what Pearson does for Canada.... It’s an enabler for us to attract investment from abroad, and for Canadian businesses to be able to compete and succeed in a dramatically globalizing world economy.”

Perrin Beatty,
President and Chief Executive Officer, Canadian Chamber of Commerce

CONNECTING OUR REGION *to* PROSPERITY

Count on Pearson to grow the regional economy, facilitating more than 330,000 jobs and directly employing nearly 50,000 people.

Because the connections we provide drive business expansion, investment and economic growth.

49.5 million people travelled to, from and through our airport

In 2018, the flow of passengers through Toronto Pearson continued to grow, reaching 49.5 million – an increase of 2.4 million, or 5 per cent, over the previous year. The growth rate among international passengers was even higher, rising by 6.7 per cent and reinforcing our position as North America's second-largest airport measured by international traffic.

There are many factors driving this growth. Airlines are investing in larger, more fuel-efficient aircraft, which means they can carry larger numbers of passengers at a lower cost – and with reduced environmental impact. The resulting competitive fares make it possible for more people to fly more often and travel greater distances. But these are simply enablers of a more fundamental upsurge in demand. Canadians, whether pursuing business opportunities or simply eager to explore abroad, want convenient, affordable air connections to every corner of the globe. And our neighbours on other continents – particularly those in emerging economies – want to see what the rest of the world, including Canada, has to offer.

Driving economic growth

This exponential growth in two-way air traffic reflects Canada’s increasing connectedness to the global economy. Between 2013 and 2017, Toronto Pearson’s passenger volumes grew at more than triple the rate of national GDP – faster than any other Canadian airport. Our average annual traffic growth in the same time frame, at 5.5 per cent, was the strongest of all global mega hubs.

This trend will continue as the focus of Canada’s economy continues to shift from resources and manufacturing to services. When innovative companies venture into overseas markets, it boosts prosperity at home, which in turn motivates more Canadians to travel abroad. At the same time, economic growth in Asia and elsewhere enables more international travellers to visit Canada – and through our gateway airport, all of North America.

42% of visits with economic impact

Last year, 42 per cent of tourists, investors and students visiting Canada arrived through Toronto Pearson.

Over the next 20 years, we project that Toronto Pearson will see twice the growth in traffic that we've experienced in the past two decades, reaching 85 million passengers annually. This requires a systematic and responsible growth strategy coordinated among all stakeholders, as outlined in the 2017–2037 Master Plan we presented last year to the federal Minister of Transport. The economic benefits for our region, our province and all of Canada make it a worthy challenge.

2018 Passenger Growth

	Volume in millions	Increase over 2017
Domestic	17.8	2.0%
International	31.7	6.7%
Origin and destination	35.0	5.6%
Connecting	14.5	3.5%
Total	49.5	5.0%

RELATED SDGs

GRI INDICATORS 102-7 A01

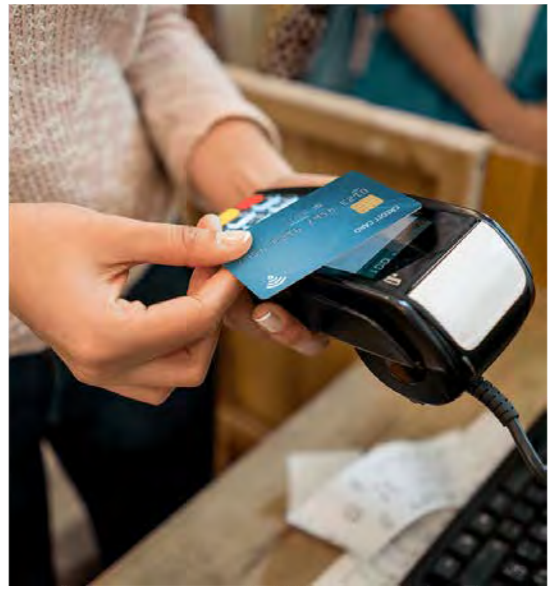
$42 billion in economic activity is driven by Toronto Pearson

An independent study commissioned by the GTAA in 2016 concluded that Toronto Pearson contributes about $42 billion annually to Ontario's economy, or 6.3 per cent of GDP. Key components of this economic activity include:

- Expenditures on goods and services by businesses and organizations directly associated with our airport.
- The impact of wages paid to the nearly 50,000 people who work at Toronto Pearson and live in nearby communities.
- Spending on accommodations, dining, retail shopping, services and attractions by Canadian and international tourists visiting our region.
- Foreign direct investment in human resources, real estate, production and distribution facilities, and other aspects of business development facilitated by a global mega hub.
- The cascading effect from all of the foregoing factors, as economic expansion sparks further growth in everything from financial and real estate services, to technical and professional consulting, to sales of commercial and consumer goods.

Creating value on the ground

Economic research funded by the GTAA has determined that for every 10 per cent increase in the volume of international flights at Toronto Pearson, commercial property values in nearby communities increase by 6.9 per cent.



Mega hub for a mega region

The connectivity that Toronto Pearson provides has a long-term material impact on the entire Canadian economy. Every province and territory exports goods and services via our airport – and in return welcomes skilled workers, investors, entrepreneurs, tourists and international students. But in fact, the full scope of our economic impact extends even deeper into the heart of the continent, encompassing a mega region comprised of Canada's most populous provinces, Ontario and Quebec, along with eight key U.S. states.

Toronto Pearson's total catchment area has a population of nearly 110 million and, within that, a workforce of 50 million – about a third of the combined Canadian and U.S. labour pool. With annual economic activity totalling US$5.8 trillion, or eight per cent of global GDP, there is boundless potential for valuable interconnections and catalytic growth – all within 90 minutes' flying distance of our airport.

Igniting regional innovation

As rising demand continues to drive traffic growth, Toronto Pearson is constantly seeking ways to expand and enhance our services for passengers, aircraft and cargo – within a physical footprint that has more constraints than most mega hubs. The challenges we face call for innovative thinking, both within the GTAA and among our diverse stakeholders. So to help spark our collective creativity, we've launched the Toronto Pearson Innovation Fund.

Over the past year, we developed a detailed business model and policy framework for the new fund while identifying key operational challenges that it could be used to address. At the same time, we began engaging with innovation hubs such as the MaRS Discovery District in Toronto, as well as designated Regional Innovation Centres around the province. We also found welcome support among other members of the Southern Ontario Airport Network, whose valuable insights will help ensure that any projects we finance benefit the whole region.

The GTAA's Board of Directors has authorized an annual allocation for the Innovation Fund equivalent to one per cent of net income, which in 2018 represented $1.1 million. In the coming year, we expect to see this initiative gain momentum in an array of collaborative research projects, proof-of-concept pilots and experimental "sandboxes" for testing new systems and processes.

RELATED SDGs

GRI INDICATORS 102-9

6% of Ontario workers have jobs linked to our airport

More than 49,000 people work at Toronto Pearson, and the economic impact of our operations facilitates about 332,000 jobs across the region. By expediting trade, helping to attract investment and providing a convenient gateway to Canada and the entire continent, we also generate significant employment in our own backyard.

As the economic engine at the heart of the Airport Employment Zone – Canada's second-largest employment cluster – Toronto Pearson contributes to productivity right across the country, linking Canadian businesses with markets, commercial partners and investors worldwide. Studies show that each time we extend daily service to another international destination, it adds an estimated 400 jobs to the Canadian economy.

Toronto Pearson's impact on employment will continue to grow over the next decade and beyond. Based on current projections, we've forecast the following metrics for 2030:

- 136,000 direct, indirect and induced jobs
- 131,000 jobs from spending by visitors flying into the region
- 275,000 jobs resulting from additional trade and investment made possible by the connectivity we provide

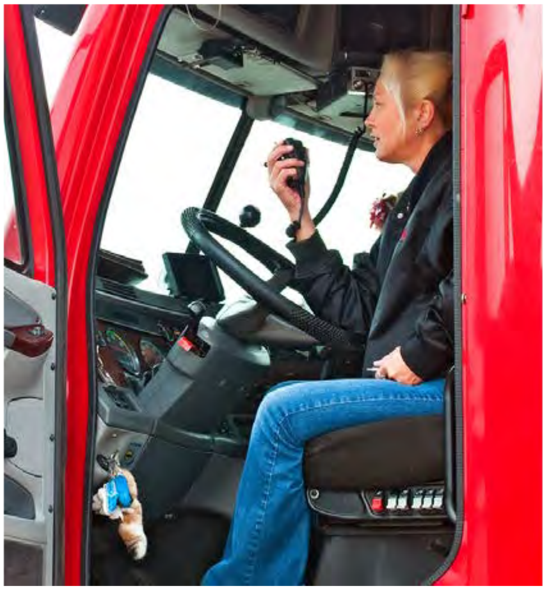
Transport-related job growth

From 2007 to 2017, the proportion of national employment ascribed to the Greater Toronto Area (GTA) grew by one percentage point to 18 per cent. Over that same decade, the GTA's share of transportation and warehousing jobs grew more substantially, from 16 per cent to 20 per cent. Toronto Pearson's growing impact as a mega hub contributed significantly to that differential.

As a mega hub, Toronto Pearson not only connects Canada to the world – we connect Canadians to livelihoods and future opportunities.

$23 billion in FDI

Economic studies estimate that Toronto Pearson generates or facilitates $23 billion annually in inward foreign direct investment (FDI), and $25 billion in outward FDI.



Helping careers take flight

Most people want a job that enables them to reach their full potential. For airport employees who work directly for the GTAA, we've put in place programs to foster individual and collective success. Having achieved our highest-ever employee engagement score in 2018, we seem to be on the right path.

For people living in our surrounding communities, we've reoriented our community investment program to focus on breaking down barriers to meaningful employment. The Propeller Project champions on-the-ground solutions to underemployment by directly investing in local organizations that nurture talent and connect people to the right opportunities.

RELATED SDGs

SHOWCASE

Location, location, location

Some companies need to locate right next to a global hub airport to operate effectively; others choose to be as close as possible, ensuring easy connectivity in a fast-changing marketplace. To help both types of businesses, CBRE Limited, a leader in commercial real estate, has a special team dedicated to finding ideal industrial and office sites around Toronto Pearson.

"Given the option, every company would choose to locate near the airport," says Scot Steele, an executive vice president with CBRE. "That's a key consideration for the industrial sector in this part of the city."

Scot heads a team of brokers who focus on the western end of the Greater Toronto Area. It's a market that was starting to gain momentum when he joined CBRE in the mid-1980s. And as he set out to identify the key factors driving growth, he quickly saw the importance of having a major airport nearby: "Toronto Pearson was clearly a magnet for real estate sales and leasing." That insight led CBRE to form a specialized Airport Industrial Team, which Scot still leads today.

Businesses on the doorstep

For some companies, ensuring the best possible air connections is built into the business model. The most obvious examples are international courier services: both UPS and FedEx have large facilities immediately adjacent to Toronto Pearson.

Another industry that depends on easy access to a global hub is freight forwarding. In recent years, as many smaller logistics providers have been acquired by larger ones, merged companies have consolidated their operations in new or expanded facilities around the airport. Adding to the need for proximity is the fact that many of these companies operate sufferance warehouses – special storage facilities, licensed by the Canada Border Services Agency (CBSA), where imported goods can be stored up to 40 days before being cleared through customs for sale in Canada. To facilitate inspection by CBSA officers, these warehouses must be located within a prescribed perimeter around the airport.

Close enough for comfort

Even companies for which air connectivity is less critical still prefer to locate close by – especially growing businesses with a global perspective. A good example is Wayfair, the U.S.-based e-commerce retailer of home furnishings and décor items. In 2018, the company opened its first Canadian warehouse in Mississauga, employing 200 people in an 800,000-square-foot storage and logistics facility. Having a global hub airport right next door was critical for employees travelling to and from Wayfair locations across the U.S., as well as for some air-based order fulfillment. Equally important was having an efficient road network for the online retailer's truck-based distribution. "Toronto Pearson is not only a draw in terms of air connections," Scot explains. "It's also extremely well connected by surface roads – especially the 400-series highways."

As for public transit, while most people working in the area currently travel by car, Scot foresees a shift in commuting patterns with the opening of the proposed Regional Transit and Passenger Centre at Toronto Pearson. He predicts that the impact will be particularly evident for office-based businesses – some of which have been moving closer to downtown to attract younger employees, who tend to avoid commuting by car (and increasingly don't even own a vehicle).

"Employers have had trouble attracting millennials to the suburbs," Scot says. "The 'Union Station West' transit hub will get them here." He predicts that office vacancy rates in the area, currently higher than in Toronto's core, will drop as well, ultimately sparking more development.

The next wave

What remains constant amidst these changing trends is the demand among globally focused enterprises for the kind of connectivity that only a mega hub airport can provide. This is true for multinationals – including CBRE itself – that have leaders constantly travelling back and forth for face-to-face meetings. And it's a priority for many other rapidly expanding companies as they try to determine the best strategic locations for new offices.

"Air connectivity is very important for anybody trying to find the best way to get from point A to point B," says Scot. "And oftentimes the conclusion is to meet at point C – which is Toronto. The hub factor is extremely important."

It's a factor that's opening up new avenues for development in the Airport Employment Zone, from innovative hotel chains creating economical "express" locations in nearby industrial parks to the recent launch – backed by U.S. media giant CBS – of a 260,000-square-foot TV production facility just south of the airport.

"Developments like these are part of the next wave," Scot says, "as land and buildings are being put to new and better uses all around Toronto Pearson."

> *"Toronto Pearson is not only a draw in terms of air connections. It's also extremely well connected by surface roads – especially the 400-series highways."*

"We are a product company and an export company. If our customers need to promote our products in their markets, we have to be there – to train them, to support them and to provide the confidence that we're there, we're not just a face on a screen."

Diego Lai,
CEO, Laipac Technology Inc.

STRENGTHENING *our* COMMUNITIES

Count on Pearson to strengthen our communities with integrated transit solutions, environmental initiatives and programs to build social well-being.

Because this is what it means to be a mega hub: not just providing connections but helping to advance economic growth, sustainable development and access to opportunity.

1 million vehicles drive past Pearson every day: it's time for a better solution

In 2017, the GTAA announced plans for an integrated transit centre at Toronto Pearson that would link rail and bus networks in the region and ultimately connect Toronto's western suburbs with much of Southern Ontario. Over the past year, the concept continued to evolve as we worked with Metrolinx and other transportation agencies, as well as community stakeholders and all levels of government, to more clearly define our collective vision for what many are calling "Union Station West."

If we only consider the goal of facilitating air travel, there are compelling reasons to integrate this new piece of infrastructure – known formally as the Regional Transit and Passenger Centre, or RTPC – into Toronto Pearson. Providing better ground transportation connections would help accommodate the growing demand for global access that we expect will continue in the coming decades. The RTPC would not only get people to and from our airport more quickly and efficiently, but would also meet our need for expanded passenger processing facilities.

The concept envisions outbound passengers, travelling by various mode of ground transport, checking in at the RTPC, while Toronto Pearson's terminals would be reconfigured as concourses only. Similarly, the flow of arriving passengers would be directed to the RTPC for easy connections to ground transportation networks.

Extending our responsibility

But the scope of our responsibility as a mega hub is not limited to moving passengers within Toronto Pearson's footprint – "from the curb to the gate," as the industry saying goes. Our vision, *to be the best airport in the world*, extends beyond the immediate needs of air travel to take in all dimensions of regional connectivity. It will only be fully realized if we help to facilitate the entire passenger journey, "from home to home."

The value Toronto Pearson delivers to individual passengers is measured by how easily they can travel those crucial extra kilometres to or from their front door or office or hotel room. And the value we deliver as an economic engine can only fulfill its potential if the connectivity we provide extends into the region's commercial, financial and employment ecosystem. This isn't just a gesture of community goodwill; it's a fundamental social and economic obligation of Toronto Pearson – and of any airport that aspires to be a true mega hub.

The road to peace of mind

The roads and highways that serve the Airport Employment Zone are regularly clogged, as commuters and other commercial vehicles make over a million trips daily. The RTPC would help to alleviate traffic jams – a significant source of carbon pollution – not to mention unhealthy stress for the 300,000 people who work in the area, 95 per cent of whom commute by car.

We've also examined the potential benefits for nearly 450,000 people who travel from the western end of the Greater Toronto and Hamilton Area and back each day. Of those who head into the downtown core, about half use public transit. But twice as many commuters travel the Midtown Arc (the Highway 401 corridor) or the Northern Arc (Highway 407), and less than 10 per cent of them use public transit. Here again, the RTPC would provide a welcome alternative: economical, sustainable and better for everyone's peace of mind.

Among North American cities with populations over five million, virtually all have at last two major transit centres. Whereas Toronto, despite having the worst average commuter drive times in North America – and ranking sixth in the world for traffic congestion – has only one ground transportation hub, Union Station, which cannot alleviate the steady erosion of economic productivity and community well-being.

The RTPC would better connect people to their current workplaces and new opportunities while giving employers access to a larger talent pool. It would improve the flow of goods and services across the GTHA. And indeed, it would get travellers to and from our airport more smoothly and conveniently. All of these positive impacts together represent Toronto Pearson's mega hub vision.

RTPC = lower GHG

We believe that creating the Regional Transit and Passenger Centre (RTPC) at Toronto Pearson would increase transit usage among air travellers and airport employees from the current 10 per cent to a target range of 25–30 per cent. This would reduce greenhouse gas (GHG) emissions by an estimated 83,000 tonnes a year – equivalent to taking 18,000 cars off the road.

Partnerships in progress

In April 2018, the GTAA and Metrolinx formally committed to work together in studying how the planned Regional Transit and Passenger Centre (RTPC) would connect to existing and proposed networks, including:

- the UP Express service between Pearson and downtown Toronto
- the rail corridor serving the Kitchener-Waterloo innovation hub
- the Eglinton Crosstown West LRT and Finch LRT services
- Mississauga Transitway, as well as various local and regional bus services
- other improved ground transportation links to/from Toronto Pearson and the Airport Employment Zone.

In November 2018, Mississauga Transitway launched a new MiWay airport express service, providing faster service between Pearson and western Mississauga – another key step toward aggregating regional transit connections at the RTPC. And at the beginning of 2019, the Toronto Region Board of Trade, supported by the chair of Durham Region, the mayor of Kitchener and other regional leaders, published a report on improving transportation in the Southern Ontario innovation corridor that endorses the RTPC as "a priority infrastructure project that would reduce congestion, increase supply chain efficiency and support export-driven business in the corridor."

Transit schedule

2017	2018	2019	2020	Late 2020s
GTAA announces plans for the Regional Transit and Passenger Centre (RTPC).	Architecture and engineering firm HOK begins initial design development.	Concept design and planning of construction phases. Joint studies with Metrolinx on potential transit connections.	More detailed design development and implementation planning.	First phase of RTPC is expected to become operational.

Uber and Lyft pilot

In June 2018, Toronto Pearson launched a pilot with two leading transportation network companies, Uber and Lyft, in response to demand from passengers who find these services convenient. Initial feedback indicates that travellers appreciate having additional choices within our range of ground transportation options.

SOAN soars

The Southern Ontario Airport Network (SOAN) continues to gain momentum, with Sarnia Chris Hadfield Airport joining in early 2019. Toronto Pearson and 10 of the region's most commercially significant airports launched the network two years ago to develop a more integrated air transportation network, optimize current capacity and coordinate investments to meet growing demand in Ontario's industrial heartland. In 2018, we worked to raise the profile of SOAN airports through meetings with local and elected municipal officials, underlining the economic benefits of having airports in their communities. SOAN airports also marketed our network at events in Ontario and the U.S.

As part of the GTAA's Senior Leadership Development Program (developed with the Ivey Business School at Western University), one of our teams was charged with identifying opportunities for further collaboration within SOAN. Among the ideas that won support was a proposed materials exchange in which snow removal machines, terminal seating and other equipment would be offered to other SOAN members instead of being sold when no longer needed by an individual airport.

RELATED SDGs

$1 million-plus invested in community building

A global mega hub is obviously defined, first and foremost, by the connections it provides to other parts of the world. But that connectivity only has value if it also reaches deep into an airport's surrounding region, creating impacts that extend beyond transportation infrastructure to all aspects of economic and social well-being.

This is how we frame the GTAA's commitment to corporate responsibility: to fully deliver on our promise as a mega hub connecting Canada to opportunity, we must also take a leadership a role in helping the communities on our doorstep grow stronger.

Our community-building efforts are particularly focused on helping the underemployed pursue more rewarding livelihoods. More than 300,000 people work in the Airport Employment Zone, Canada's second-largest employment cluster after downtown Toronto. But for the two million people living within a 17-km radius of Toronto Pearson, there is a significantly higher rate of underemployment than in the overall Greater Toronto Area. Approximately 43 per cent of our neighbours, despite having post-secondary degrees, are working in jobs that are well below their education or skill levels.

$100,000 charity run

In September 2018, our 11th annual Runway Run welcomed 2,500 participants in a 5K run and a 2K walk at Toronto Pearson, raising $100,000 to help support local communities through the Propeller Project.

This is where we believe the GTAA can help make a difference: championing on-the-ground solutions to underemployment by directly investing in local organizations that foster talent and connect people to the right opportunities.

Making good things fly

Our signature community investment program is the Propeller Project. Through it, we invest one per cent of net income annually in community-building initiatives across our region. Many GTAA employees play an active role in these efforts. And we invite the broader public to join us by placing donations in the Propeller Project globes situated throughout the airport, or by participating in our annual Runway Run fundraiser.

In 2016, we started a project to determine an appropriate focus area for the Propeller Project going forward – one that was a high priority for nearby communities and would address a significant social issue. Through research, stakeholder interviews and consultations, we learned about the high levels of underemployment in our region – a challenge that is reflected in low income levels and often leads to chronic poverty. This was particularly true for recent school graduates, as well as for later-stage newcomers to Canada – people who have been in the country for three years or more and are no longer eligible for support from social services agencies. At the same time, we found that local businesses were frustrated by a shortage of skilled labour that inhibited their ability to grow.

Based on these learnings, we reoriented the Propeller Project in 2018 to focus on research, advocacy and programs aimed at helping local residents move into jobs that are better aligned with their knowledge, skills and education. In doing so, we also expect to identify and support pilot ideas that will help area businesses identify, hire and retain the workforce they require for sustained growth.

While we'll continue to support a number of broader-based initiatives aimed at creating stronger and healthier communities, our primary focus will be on helping to address the complex issues of underemployment in our region.

In 2018, the GTAA invested $1.02 million in 24 local non-profit organizations serving Toronto, Mississauga and Brampton.

Our community partners

In keeping with our new focus, we've made a three-year, $300,000 commitment to MABELLEarts, a community organization in Central Etobicoke that has taken a leading role in developing arts programs for unemployed and underemployed newcomers (see our feature story, "Creating change through art"). Here are some of the other organizations we're partnering with:

NPower Canada – We work with NPower to address both unemployment and underemployment through its sector-based workforce development program. In 2018, this partnership offered free skills training, job placement and career laddering services in the IT sector to 120 low-income young adults across Peel Region.

Windmill Microlending – We support the work of Windmill Microlending (formerly the Immigration Access Fund) in providing access to low-interest loans for skilled immigrant professionals living in communities around the airport. These loans facilitate the accreditation process for newcomers seeking work in the professions they were trained for, or looking to upgrade their education and skills to help establish new careers in Canada.

Newcomer Kitchen – The GTAA is a signature partner of Newcomer Kitchen, an organization that brings together Syrian refugee women to cook and sell homemade meals to the community, with all proceeds shared among the cooks.

Since the program was launched, Newcomer Kitchen has grown to support over 50 Syrian families and has built a large team of volunteers.

> *"Toronto Pearson has demonstrated a real concern for the community and the many newcomers who travel to Canada with high hopes when they arrive at the airport. Through its funding of social services initiatives, Toronto Pearson is helping make their hopes and dreams a reality."*
>
> **— COSTI Immigrant Services**

RELATED SDGs

8,300+ responses to our online noise survey

As our airport grows, we find new ways to collaborate with neighbouring communities and other stakeholders as we work to manage the effects of aircraft noise. While we can't eliminate noise entirely, we're learning that there are things we can do to provide relief and lessen impacts – through sustained consultation and collaboration with communities, industry partners and noise experts.

Growing responsibly

Growing Responsibly, our 2018–2022 Noise Management Action Plan, sets out a five-year strategy for improving how Toronto Pearson manages noise. Created following an international best practices study of 26 comparator airports around the world – and guided by input from more than 3,000 local residents – the plan includes a range of ambitious programs based on the 10 commitments we've made to our communities.

In 2018, we started tackling the short-term priorities outlined in the plan – notably the Quieter Fleet Incentive Program, which targets aircraft noise by encouraging airlines to bring the quietest planes in their fleets to Toronto Pearson. By 2020, we will offer carriers incentives to retrofit the A320 family of aircraft, whose engines produce a high-pitched whistling sound related to air intake. As a first step, we have engaged with carriers to advise them of our plans and ask for their support.

A better way to engage

Another key Action Plan initiative was a review of the Community Environment and Noise Advisory Committee (CENAC), which for many years has been the only regular forum through which community members and elected officials can suggest how we should work together to manage impacts.

It became apparent, through engaging with stakeholders and conducting extensive research, that our noise management strategy had outgrown a single committee. We needed to find another approach that was more inclusive and would better enable us to coordinate and pursue various noise-related initiatives. As a result of this analysis, we decided to replace CENAC with an expanded engagement platform: the Toronto Pearson Noise Management Forums.

The new forums will create opportunities for sustained, productive conversations about noise through more frequent political briefings and neighbourhood table discussions, as well as enhanced public meetings and more regular resident working groups and reference panels. In addition to incorporating many of the noise engagement practices we've implemented over the past few years, the forums will introduce two new elements: an independent panel of industry experts who will assess and respond to community proposals about noise management; and a biannual external audit to review and publicly report on our progress toward Noise Management Action Plan goals.

Toronto Pearson Noise Management Forums

Please see our community presentation to learn more about the Toronto Pearson Noise Management Forums.

Six ideas to reduce noise

In 2015, the GTAA and NAV Canada, the national provider of civil air navigation services, began a series of conversations on the topic of noise mitigation in communities across the Greater Toronto Area. This was in direct response to neighbours asking that we do more to manage our airport's impact – and telling us we needed to get better at addressing community concerns and suggestions.

These conversations informed a noise mitigation engagement plan that has become known as the *Six Ideas*. In 2018, following two years of technical analysis, we reported back to the community on our progress and gathered additional feedback.

Information about the *Six Ideas* and our consultations reached more than 2.9 million people over the past year via multiple communications channels, from online surveys and technical briefings to opportunities for one-on-one interactions with NAV Canada air traffic controllers about aircraft management. During a six-week period in March and April, 430 residents attended meetings across the region, and more than 900 people responded to our survey. The resulting Public Engagement Report, published in July 2018, outlined what we'd heard from community members about each idea and how we planned to respond.

From idea to action

Many of the *Six Ideas* were implemented by the end of 2018. While NAV Canada has primary responsibility for ideas 1 to 4, which relate to how airborne aircraft approach and depart Toronto Pearson, we have a major role to play in Idea 5.

For eight weekends in the summer, we tested a runway alternation program, providing scheduled relief from aircraft noise every other weekend to residents living under the final approach and initial departure paths of the east-west runways. Operational analysis showed that relief was possible in the early morning and late evening. At the same time, survey results indicated community support for the program. As a result, we are exploring the option of a full summer trial in 2019 with continued collaboration from airline partners and NAV Canada.

Why noise annoys

The GTAA is supporting research at the University of Windsor analyzing the effects of aircraft noise on airport-neighbouring communities. The researchers, citing several decades of study in this area, hypothesize that to manage noise effectively, we need to consider the annoyance factor alongside decibel levels.

Six Ideas

Idea 1

Nighttime approaches

Idea 2

Nighttime departures

Idea 3

Increase downwind speed

Idea 4

Continuous descent operation

Idea 5

Summer weekend runway alternation program

Idea 6

Preferential runway system review

Hearing the message

Prior to testing Idea 5, we conducted a communications and consultation campaign that reached:

- 747,000 people through an advertising campaign
- more than 163,000 residents by phone
- 101 elected officials via briefings and communications

In return, we received more than 8,300 online survey responses.

RELATED SDGs

GRI INDICATORS 103-1 103-2 A07

46% reduction in GHG emissions since 2006

The United Nations has included climate action among its 17 Sustainable Development Goals (SDGs), underlining the serious global threats posed by climate change and the need for strong action by countries, businesses and communities. At Toronto Pearson, we're focused on achieving a 20 per cent reduction in greenhouse gas (GHG) emissions from 2006 levels by 2020, and an 80 per cent reduction by 2050. Having so far cut GHG in our operations by 46 per cent, we feel the prospects are good for reaching our long-term goal.

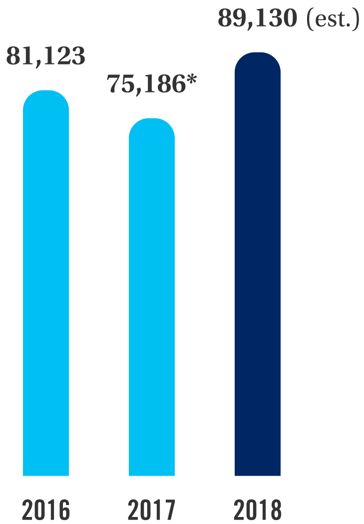
Ten years ago, as the magnitude and potential impact of climate change was becoming increasingly clear, the GTAA chose to lead by example. Rather than waiting to comply with international agreements and planned legislation, we moved proactively to find ways of reducing energy consumption and associated GHG emissions. We believed then, as we do today, that it is our responsibility, as Canada's largest airport and a leading global mega hub, to make a meaningful contribution in this area.

Our efforts are wide-ranging, reflecting the myriad business activities, vehicles and job types that are part of Toronto Pearson's day-to-day operations. However, the actions we take generally fall into two categories: mitigation, as we work to lower GHG emissions through reduced energy consumption; and adaptation, as we ensure that our facilities are ready for the expected future effects of climate change.

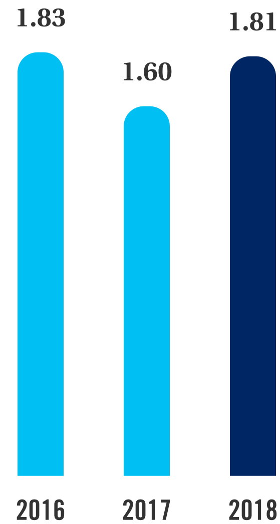
We have achieved significant success with energy reduction projects that focus on switching to energy-efficient LED lighting, and on upgrading the airport's heating, ventilation and air conditioning (HVAC) systems. In addition, we invest in electric vehicles and charging stations. We encourage employees, passengers and visitors to use public transit. We've incorporated green building standards into our construction codes. And we work with our airline partners to promote processes and technologies that lower fuel burn and emissions – for example, by designing our airside infrastructure to minimize the time aircraft spend with their engines idling.

There are currently 32 electric vehicle charging stations around Toronto Pearson, all of them available free of charge to airport employees and the general public. These complement a more extensive network of about 80 charging stations used by electric baggage tugs and other service vehicles in airside operations.

Total annual CO_2e emissions
(tonnes)



Intensity CO_2e
(kilograms per passenger)



The increase from 2017 to 2018 was a result of higher exports from the airport's cogeneration plant to the Ontario electricity grid. Such exports are part of the GTAA's contract with the Independent Electricity System Operator, and their volume is driven by provincial demand.

*The total stated in our 2017 Annual Report was an estimate (exact figures were not available at the time of publication). It has been restated in this year's report to reflect actual 2017 CO_2e emissions.

Level 3 carbon rating

In 2018, Toronto Pearson was recertified at Level 3 in the Airport Carbon Accreditation program managed by Airports Council International. This places us in rare company among North American airports. Certification at this level requires us to measure the carbon footprint of our operations, set and achieve reduction targets, and engage third parties in our efforts. The final step, Level 4, is carbon neutrality – a goal we hope to achieve in the future. (There is currently only one carbon-neutral airport in North America.)

Please see the Sustainability Overview to learn about what we're doing to manage waste responsibly and to protect and restore our natural environment.

Going Green Award

Toronto Pearson was recognized with a 2018 Airports Going Green Award for our Green Commuter Rebate Program, which offers GTAA employees a $50 monthly reward when they carpool, walk, cycle or use transit to and from work at least 70 per cent of the time.

RELATED SDGs

GRI INDICATORS 103-1 103-2 305-5

SHOWCASE

Creating change through art

MABELLEarts is a special kind of organization that exists to create art and inspire collaboration among neighbours. In the process, it transforms neglected spaces into meeting places where people in low-income communities can connect, make friends and pursue economic opportunities.

“Over the years, we’ve learned that parks and public spaces can play a vital role in welcoming newcomers to Canada and helping them integrate into communities,” says Leah Houston, founder and artistic director of MABELLEarts. “In 2016, when waves of Syrian refugees came to Canada, we invited those being resettled in our area – central Etobicoke’s Mabelle neighbourhood, not far from Toronto Pearson – to take part in our summer programming. While working together to transform a small park in the centre of the community, we’ve built lasting relationships with people of all ages, backgrounds and abilities.”

Help where it’s needed

Founded in 2007, MABELLEarts set out to gain a deeper understanding of the needs of community members and the barriers they faced in their search for meaningful employment. Today, the not-for-profit’s training and employment program provides summer jobs and post-secondary preparation for local youth; job-related training for diverse community members; hands-on skills development for newcomer women; and a range of volunteer opportunities for newcomers, refugees and asylum-seekers.

In 2018, the GTAA, having previously supported the organization’s arts programming, committed an additional $300,000 in funding to MABELLEarts over a three-year period. One of the largest-ever donations made through our Propeller

Project, the funds will be used to scale up community leadership programming, skills development and placemaking activities with the goal of creating more employment and economic opportunities for community members.

"The GTAA understands how an arts organization can be an economic engine in a low-income neighbourhood," Leah says. "Among other priorities, the GTAA's investments will enable us to offer more training and support to women for small-scale economic ideas. For example, we've retrofitted a trailer into a mobile kitchen. Women from the community will now have the opportunity to make food they can then sell out of the trailer during our events."

A fitting tribute to a special place

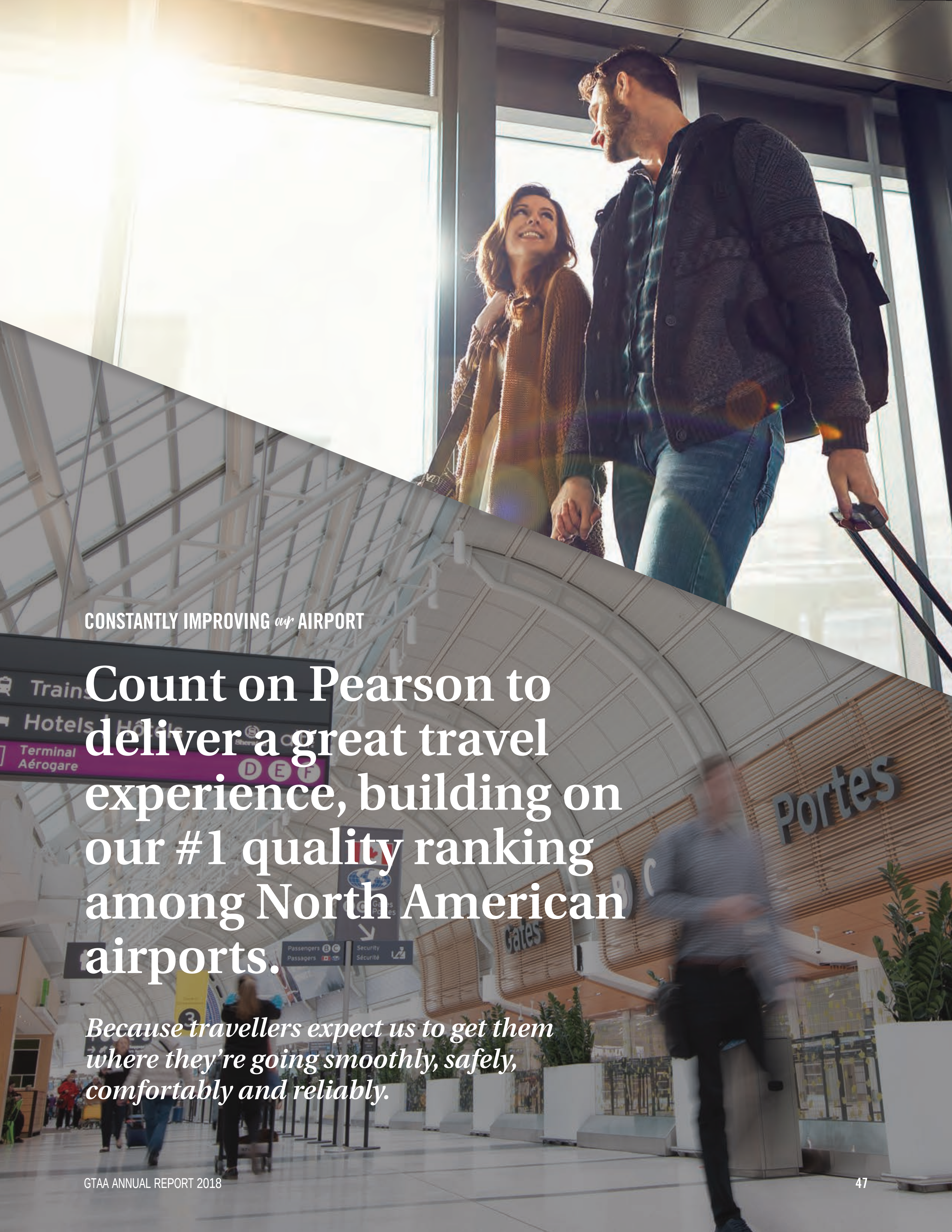
Tasmeen Syed, a Grade 11 student at the local high school, has been involved with MABELLEarts since she was five years old and is now a part-time staff member. "There was never much to do in our neighbourhood," she recalls, "so we'd run around the park. One day we saw a program that MABELLEarts had organized, and we joined in. Since then, I've been involved in everything from building a large public bake oven in the middle of the park to making paper, creating shows and doing after-school activities."

The young woman credits MABELLEarts with helping her find a path in life. "They really care about you and try to incorporate something for everyone. In the future, I want to become a psychiatrist and help people – but in a way that makes everyone feel safe, welcome and special, just like MABELLEarts does."

> *"The GTAA understands how an arts organization can be an economic engine in a low-income neighbourhood."*
>
> **— Rana Sarkar, Consul-General of Canada, San Francisco and Silicon Valley**

"This is the front door for Canada in many ways. I think there's a real opportunity for this airport to be one of the great windows on the world for Canada… [and] the bedrock for building the prosperity engine for the 21st century."

Rana Sarkar,
Consul-General of Canada, San Francisco and Silicon Valley



CONSTANTLY IMPROVING *our* AIRPORT

Count on Pearson to deliver a great travel experience, building on our #1 quality ranking among North American airports.

Because travellers expect us to get them where they're going smoothly, safely, comfortably and reliably.

#1 in North America – once again – for airport service quality

In 2018, for the second consecutive year, Toronto Pearson received top ranking for our size category in the annual Airport Service Quality (ASQ) survey, conducted globally by Airports Council International. Our ASQ score of 4.45, up from 4.31 the previous year, places us ahead of all other airports serving more than 40 million passengers annually – not only in North America, but also in Europe, Africa, Australia, Latin America and the Caribbean.

The benchmark ASQ survey, conducted quarterly, measures 10 key quality indicators, from wait times at security, to the helpfulness of airport employees, to overall cleanliness and ambience. Toronto Person's scores once again rose significantly in all categories, extending the upward curve of continuous improvement we've charted over the past decade.

This recognition for our collective efforts means all the more when we consider who ultimately judges our performance: the travellers who appreciate all aspects of their Pearson experience, from the efficiency of our check-in kiosks, to the range of dining options we offer, to the 1,700 new signs we've installed to improve flight updates and wayfinding.

1.5 million passengers assisted

Over the past year, community members participating in the Toronto Pearson Volunteer Program helped more than 1.5 million passengers through our terminals, answering questions and guiding them on their way in both pre- and post-security areas.

11.4% growth in commercial revenues

Toronto Pearson's fastest-growing source of income continues to be commercial revenues from non-aeronautical sources such as parking and ground transportation fees, retail and dining concessions, and rent paid by airlines for check-in counters and kiosks. In 2018, commercial revenues grew by 11.4 per cent to $501.9 million – an all-time high.

The aeronautical fees we charge to airlines flying in and out of Toronto Pearson have either been held constant or lowered for 11 consecutive years. Our carriers have been able to reduce the average cost per enplaned passenger, benefitting from the overall growth in passenger traffic, as well as our successful efforts to increase commercial revenues while managing operating costs and capital expenditures.

In 2018, we advised carriers that Toronto Pearson's aeronautical rates and charges would once again remain unchanged in 2019. The Airport Improvement Fee – collected by carriers from their passengers and invested by the GTAA in capital programs (including associated debt service) to further enhance Toronto Pearson – has likewise been held constant or lowered for the past nine years.

The GTAA's continued strong financial performance enables us to pursue new initiatives that will further improve both the passenger experience and services to carriers – while reinforcing Toronto Pearson's commitment to safety and security, employee engagement and corporate responsibility. At the same time, we're advancing our long-term goals for financial sustainability by increasing net income and reducing debt per enplaned passenger.

2018 Revenue Growth (in $ millions)

	2018	2017	Increase
Aeronautical: landing fees, general terminal charges and apron fees	509.8	501.0	1.8%
Commercial: concessions and rentals, ground transportation, parking, etc.	501.9	450.6	11.4%
Airport improvement fees	460.0	436.1	5.5%
Total	**1,471.7**	**1,387.7**	**6.1%**

27 new restaurants, shops and services

Toronto Pearson’s array of passenger amenities continued its steady growth in 2018 with the opening of an additional 27 retail stores, restaurants and services in redeveloped areas of both terminals. Among the new brands represented are Johnston & Murphy, the footwear and fashion accessory retailer, and boutique-style Dylan’s Candy Bar. Restaurant options in Terminal 3 were expanded with the launch of the Distillery District Food Hall, which showcases venues in the historic dining and shopping precinct in downtown Toronto.

Overall sales from dining and retail concessions increased by $38 million from 2017, yielding a gain of $10 million in revenue to the GTAA. This was complemented by a gain of $5 million, year over year, in partnership and advertising revenue.

The Look of Genesis

Travellers know they can easily rent a car at Toronto Pearson, but they don’t think of the airport as a place to shop for a new vehicle. That changed in 2018 when Genesis Motor, the luxury division of South Korean automaker Hyundai, opened its first airport showroom in Terminal 1. The Genesis brand presence also includes digital signage in the parking garage and sponsorship of valet parking services.

Our FAB award

Toronto Pearson won the award for Airport Food & Beverage Offer of the Year at the 2018 FAB Awards, an annual competition recognizing best practices among more than 200 international airports. At the same event in Helsinki, The Hearth by Lynn Crawford, operated by HMSHost in Terminal 1, was named Airport Casual Dining Restaurant of the Year.

GRI INDICATORS 102-7

95% in 10 minutes: our security-screening goal

In 2018, the Canadian Air Transport Security Authority (CATSA) screened 19.5 million departing passengers at Toronto Pearson, an increase of about 4.8 per cent over the previous year. Of this total, 92.3 per cent passed through security in less than 15 minutes. Although this compares favourably to average security wait times at airports worldwide, we've joined with other mega hub airports in adopting the "95/10" standard: 95 per cent of passengers screened within 10 minutes.

Meeting the 95/10 goal will require significant investment in new security technologies such as facial recognition and biometrics, as well as continued collaboration among the various government agencies who help facilitate the flow of outbound passengers at Toronto Pearson. We recognize that human resources are constrained by the current fiscal and staffing policies of the federal government. Still, by sharing ideas and working together, we're making progress.

A case in point is the CATSA Plus initiative, which deploys redesigned security lanes to help passengers proceed more quickly to their gates while ensuring a safe, secure screening process. Introduced in mid-2017 in the U.S. departures area of Terminal 1, CATSA Plus was subsequently launched in Terminal 3 at the beginning of 2018. We then undertook a phased implementation in the domestic and international areas of Terminal 1 through the rest of the year and into early 2019.

58 U.S. customs kiosks

Most passengers flying from Toronto Pearson to the U.S. can use 58 self-service Automated Passport Control kiosks, reducing the time they spend interacting with United States Customs and Border Protection (USCBP) officers. (In addition, members of the Nexus and Global Entry trusted traveller programs can use 47 Global Entry kiosks in both terminals to pre-clear U.S. Customs.)

CATSA Plus has proven to be highly effective in processing passengers efficiently, yielding more than double the throughput of standard CATSA screening lanes. We're confident that these investments in faster, higher-volume checkpoints, combined with efforts to harmonize processes such as trusted traveller screening to the U.S. – as well as our continued cost-recovery partnership with CATSA – will enable us to move steadily closer toward our 95/10 goal.

66 self-service baggage drops

We added another 10 self-service baggage drops in 2018, bringing the total for both terminals to 66. A dozen airlines carrying more than 80 per cent of Toronto Pearson passengers benefit from this automated system.

338 convenient check-in kiosks

To optimize flow, we continue to encourage both passengers and airlines to take advantage of self-service check-in kiosks, adding another 43 in the past year for a total of 338. We've also increased the number of accessibly designed kiosks from 30 to 83. Automated check-in is now available with 22 carriers, up from 17 in 2017.

Making customs easier

We've also adopted the 95/10 standard as our objective for processing inbound passengers through immigration and customs in collaboration with the Canadian Border Services Agency (CBSA). In 2018, we continued to add primary inspection kiosks in Terminal 3; up to 98 per cent of all arriving passengers can now use the 150 available kiosks to clear CBSA checkpoints.

At the same time, in Terminal 1 we've expanded the Automated Border Clearance program for Canadian citizens and U.S. passport holders, increasing the number of kiosks to more than 50. (In addition, Toronto Pearson has 30 Nexus kiosks for passengers in the joint U.S./Canada trusted traveller program.)

E-gates in Terminal 1

In June 2018, we introduced four electronic gates on the bridge connecting domestic and U.S./international gates in Terminal 1. Now passengers simply scan their own boarding passes rather than having them checked by operations representatives – which helps them move more easily through the airport while enabling us to deploy valuable human resources elsewhere.

The International-to-Domestic Passenger and Baggage Connections Program – known as ITD – enables passengers arriving from designated European and U.S. cities to proceed directly to domestic connecting flights without having to collect and recheck their luggage; instead, they retrieve their bags at their final Canadian destination. In 2018, we enhanced ITD in Terminal 1, extending it to more European origin cities, as well as Air Canada flights from Japan. We also expanded the program in Terminal 3 for WestJet passengers. ITD connection times are shorter – in many cases facilitated by buses that carry international passengers directly to their domestic departure gates – and the smooth-flowing process has prompted favourable feedback from passengers.

Following a similar strategy, in 2018 we collaborated with CBSA on a pilot project called I-to-I – for International-to-International – installing 35 kiosks for passengers who arrive in Terminal 1 from outside Canada and are connecting on the same day to other international (non-U.S.) destinations. Instead of interacting with CBSA officers, these connecting passengers simply scan their passports at I-to-I kiosks and proceed to their departure gates. Those who do need to be rechecked are processed through special pre-board screening lanes. Over 600,000 passengers took advantage of I-to-I in 2018, which significantly reduced connection times while helping to streamline traffic in other CBSA processing areas.

SHOWCASE

Long-range forecast

Pelmorex, the pioneering Canadian company behind The Weather Network and its French-language counterpart, MétéoMédia, has evolved into a leading provider of weather information and data solutions, expanding into markets worldwide – and maintaining national and global connections through Toronto Pearson.

Every day, The Weather Network helps millions of people plan their lives – and dress accordingly. After more than a quarter-century, Canada's leading source of round-the clock weather updates ranks among the country's most trusted brands. The business behind the forecasts, though, is less well known – even though Pelmorex Corp., headquartered in the Toronto suburb of Oakville, has been celebrated as one of Canada's top employers and best-managed companies.

Founded in 1989 by Montreal-born entrepreneur Pierre L. Morrissette, Pelmorex began as a network of radio stations in northern Ontario. But with the 1993 acquisition of The Weather Network and MétéoMédia, the broadcaster soon became Canada's go-to source for timely and accurate weather information. From the outset, Pelmorex was an innovator, developing technology that could generate forecasts for any point on the planet within a square kilometre. The Weather Network was quick to embrace the power of the Internet; its website, launched in 1995, is now one of Canada's top 10 online destinations. The network was similarly ahead of the curve with its introduction of mobile web services in 2002; today its smartphone, tablet and TV apps are part of Canadians' daily routine.

"Because Pearson is a world-class hub, we know we'll get in and out quickly and efficiently."

And now the latest… data

As Pelmorex has grown through these three phases – broadcast, web and mobile – its main source of revenue continues to be the fees paid by advertisers to reach millions of subscribers. But now the business model is evolving once again.

"The fourth phase is data," explains Sam Sebastian, President and CEO since 2017 (when Pierre L. Morrissette became Executive Chairman). Pelmorex data scientists take weather information and correlate it with the sales data of consumer-facing companies, yielding insights that enable more effective, localized decision-making. Working with a quick-service restaurant chain, for example, the Pelmorex team shows how sales of key items rise or fall depending on weather conditions. Even better, they advise on how to adjust local advertising, promotions and inventory in response to detailed forecasts.

"We can provide a remarkable level of insight on when to lean in or lean back on products or services affected by weather," says Sam, who joined Pelmorex after a dozen years with Google, most recently as managing director for Canada. "The scale and precision we bring to targeting these kinds of decisions helps us engage our advertising customers in new strategic conversations."

Weather is everywhere

The other dimension of Pelmorex's growth is geographical. The Weather Network initially established a presence in English-speaking markets like the U.S. and the U.K. Now, as a web and app-based information hub, it provides customized local forecasts wherever users happen to be. At the same time, Pelmorex has acquired or built uniquely branded platforms in several countries, including Eltiempo.es in Spain, Otempo.pt in Portugal and the Clima network in Mexico, Colombia, Argentina and other parts of Latin America. And that global expansion continues, as the company explores potential partnerships from India to Australia to elsewhere in Europe.

"Like a lot of great Canadian companies, our goal is to export what we've created," Sam says, "expanding our advertising and data businesses around the world. Whether we grow organically, by acquisition or through partnerships, our approach everywhere is to keep it local, making sure we have the team, the trusted brand and, obviously, the language and culture that fit each market we serve."

The Pearson forecast: zero friction

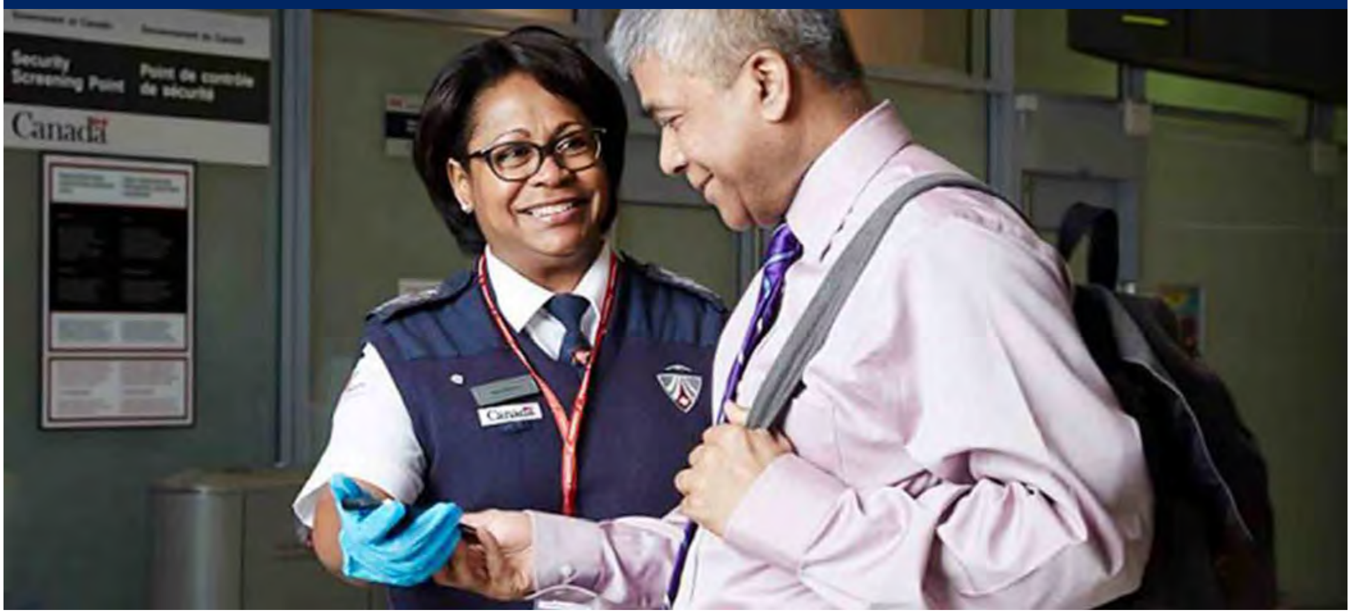
Even in the accelerating digital economy that has fuelled Pelmorex's growth, there's still a need to bring people together. Within Canada, team members travel between Toronto, Montreal and sales offices across the West. "We're flying back and forth constantly," Sam says, "having face-to-face conversations to make sure we're all aligned." Similarly, leaders and teams regularly fly to and from both U.S. coasts, as well as Europe, Asia and Latin America. "It's a business requirement as we continue building the connections and partnerships we need to expand internationally."

A critical enabler of those connections is minutes from Pelmorex's Oakville headquarters: Toronto Pearson. "When you travel for business, you just want to fly there, get the work done and come back to your family," Sam says. "And because Pearson is a world-class hub, we know we'll get in and out quickly and efficiently. We're in the weather business, so we know things may slow down a bit when active weather hits. But aside from those few uncontrollable exceptions, the planes run on time. The ability to clear U.S. customs is a huge advantage. And the operating machinery of Pearson is almost unnoticeable – which is a huge compliment. It just becomes frictionless travel, which for any business person is all you really want."

SHOWCASE

I am Toronto Pearson

"I am here to help people," says Michelle Henry, a screening officer with the Canadian Airport Transport Security Authority (CATSA) at Toronto Pearson. "They see that I have a smile on my face and that I want to create a positive relationship. Some regular passengers say they look forward to seeing me, and that makes me happy. I love my job."



In 2016, people working in all areas of Toronto Pearson came together to discuss what they did each day to give passengers the best possible airport experience. Those conversations soon became a grassroots movement, and by the end of 2017, more than 10,000 proud airport employees had adopted its rallying cry: *I am Toronto Pearson*.

The movement continued to gain momentum over the past year, attracting over 8,000 additional members from companies and organizations responsible for everything from baggage handling to dining to cleaning and maintenance. Michelle Henry is one of 500 *I am Toronto Pearson* ambassadors who take the lead in creating a positive difference for passengers – and inspiring co-workers to do the same.

"Sometimes people I work with tell me, 'I could never be like you,'" says Michelle, who screens passengers in Terminal 1 domestic departures for GardaWorld, a private security firm under contract to CATSA. "But kindness is not difficult. And the more you help people, you don't even think about it. It's just a matter of being who you are. I believe everybody has goodness in them."

"I am Toronto Pearson just means being the person I've always been – but now I can show it a little more."

Nearly 50,000 people work at Toronto Pearson for a wide array of enterprises, public and private, large and small. *I am Toronto Pearson* encourages all employees to reach beyond their official job descriptions and provide directions, share tips or simply welcome passengers with a friendly greeting. Through countless informal encounters linked by a common question – "How can I help?" – they ensure millions of travellers move more smoothly and comfortably through our airport each year. And in doing so, they reinforce the reputation for courtesy and helpfulness that once again earned Toronto Pearson the #1 quality rating among North American airports in the 2018 ASQ global passenger survey.

"I look forward to coming to work every day," says Michelle, who lives in nearby Mississauga with her husband and four children. "*I am Toronto Pearson* just means being the person I've always been – but now I can show it a little more."

"I'm excited and I'm encouraged to see that Pearson… [is] aggressively pursuing the whole idea of becoming the best airport in the world. That's a great thing for the region, and it's a great thing for Canada overall… and it's a great thing for tourism."

Charlotte Bell,
President and Chief Executive Officer, Tourism Industry Association of Canada

CONNECTING CANADA TO OPPORTUNITY

A message from the Board Chair

In 2018, a record 49.5 million passengers travelled through Toronto Pearson. This was an increase of five per cent, or 2.4 million passengers, compared to the previous year. It reflects the steady rise in demand that has shaped our airport's development over the past two decades, as more and more Canadians fly for business, pleasure, education and research, and in doing so strengthen professional, cultural and family connections around the globe.

"We provide the vital connections that help ensure our region and all of Canada are more dynamic, resilient and ready for the future."

David Wilson, Chairman

Toronto Pearson is a vital piece of regional infrastructure, providing easy access to the world for people in the Greater Toronto Area and across Southern Ontario. At the same time, the number of connecting passengers flying through our airport continues to rise, accounting for 29.2 per cent of traffic during the past year. Their decision to travel via Pearson speaks to the superior connections we offer over other hubs, as well as our reputation for delivering a convenient, smooth-flowing travel experience.

That millions more passengers every year are choosing to fly in and out of Toronto Pearson attests to our continued progress in delivering on the GTAA's strategy. It's also a tribute to the diligence, dedication and pride of nearly 50,000 people who work at our airport. But as demand for air travel continues to grow, we never lose sight of longer-term challenges. As forecast in our Master Plan, we envision serving 85 million passengers annually by 2037. And while the total number of aircraft movements will not go up proportionately (as the average number of passengers per flight rises to 140 from the current 110), we'll face increasing pressure to optimize facilities while investing strategically in further enhancements within the airport's prescribed footprint.

Building a strong foundation

As a non-share capital corporation, the GTAA constantly reinvests in Toronto Pearson to keep pace with future needs. In 2018, adjusted net income rose to $139.8 million, compared to $112.2 million in the previous year. This was a result of overall growth in passenger traffic and a corresponding increase in commercial revenues of more than 11 per cent, to a record $501.9 million.

Commercial revenues are mainly generated from ground transportation and parking fees, retail and dining concessions, and rent paid by carriers for check-in counters and kiosks. As Toronto Pearson's fastest-growing source of income, they're critical to funding the significant investments the GTAA has mapped out over the next few years for everything from additional gate capacity to new passenger amenities to further integration of automated baggage systems.

These and other commitments are detailed in the GTAA's strategic plan, which the Board and management are currently updating to cover the five-year period through 2024. Moving forward, we'll continue to enhance the passenger experience and the support we provide to carriers and other partners – as always, while upholding the highest standards of safety and security for both passengers and airport employees.

Equally important, we're committed to maintaining a robust financial position and increasing capital strength to prepare for future growth. As total revenues rose over the past year to $1.5 billion, we once again took the opportunity to retire a portion of long-term debt ahead of schedule. At year-end, we had reduced gross debt per enplaned passenger by 3.8 per cent compared to 2017, strengthening the foundation of a company that must plan ahead over several decades.

Connected to our communities

Toronto Pearson's performance is both an outcome and a driver of economic growth, as we provide the vital connections that help ensure our region and all of Canada are more dynamic, resilient and ready for the future. And as CEO Howard Eng notes in his message, the global connectivity that our airport provides also extends into surrounding communities. The GTAA has taken the lead on regional transportation initiatives such as the Southern Ontario Airport Network and the integration of bus and rail services through our proposed Regional Transit and Passenger Centre at Toronto Pearson.

These initiatives are anchored by a deeper sense of responsibility toward the communities we're in business to serve – and in particular those neighbourhoods that are directly and indirectly affected by Toronto Pearson's operations. The GTAA has committed to investing 1 per cent of annual net revenue in support of community organizations across our region. In 2018, we provided $1.02 million to support 24 not-for-profits that are working to advance social change in Toronto, Mississauga and Brampton – with a focus on addressing the problem of underemployment.

The Airport Employment Zone around Toronto Pearson is the second-largest employment cluster in the country. But among the nearly two million people who live within a 17-km radius of the airport, there is a significantly higher rate of underemployment than in the overall Greater Toronto Area. About 43% of our neighbours, despite having earned post-secondary degrees, hold jobs that are well below their education or skill levels. A high proportion of the underemployed are women; many are recent immigrants whose credentials and experience aren't readily recognized in Canada.

This is an area where the GTAA can have a concrete and lasting impact. Through our community investment program, the Propeller Project – whose various initiatives are detailed in this annual report – we can help to bring about meaningful change while fostering longer-term social and economic well-being.

"Through our community investment program, the Propeller Project, we can help to bring about meaningful change while fostering longer-term social and economic well-being."

David Wilson, Chairman

Representing all stakeholders

The Board of Directors provides oversight and guidance to management, helping set strategic priorities while collectively representing the interests of the GTAA and all of its diverse stakeholders. Three members will be retiring from the Board in 2019: we thank **Paul Currie**, **Kathy Milsom** and **Danielle Waters** for their valuable contributions and wise counsel.

The Board also welcomed three new members in 2018:

Peter Gregg is President and CEO of the Independent Electricity System Operator, the corporation that manages Ontario's electricity market and directs the operation of the province's bulk electrical system.

Doug Allingham is a transportation engineer with 40 years of experience in both the public and private sectors, most recently as an Executive Vice President of engineering firm AECOM Canada Ltd.

Michele McKenzie is the founder of McKenzie Business Strategies, an advisory practice focused on economic development, strategy, marketing and tourism, and is the former President and CEO of the Canadian Tourism Commission.

A legacy for the future

Howard Eng has indicated that he will be retiring in 2020 after eight years as President and CEO of the GTAA. Under Howard's leadership, Toronto Pearson has experienced unprecedented growth, gaining an additional 15 million passengers since 2012. Our airport has emerged as a global mega hub, joining the 30 largest hubs worldwide and ranking fifth for international connectivity. Leading a handpicked management team, Howard has helped Pearson set new benchmarks in operational excellence while earning top marks for service quality.

On behalf of the Board, I want to thank Howard for his vision, determination and exemplary leadership. His wide-ranging accomplishments, from growing valuable international traffic to developing an integrated transit strategy to strengthening financial sustainability, will bear fruit for years to come. And his legacy will inspire GTAA employees and their colleagues across Toronto Pearson as they continue working together to connect Canada to a world of opportunity.

David Wilson
Chairman

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COUNT ON PEARSON

A message from the President and CEO

Toronto Pearson's many stakeholders count on us to connect Canada to the world, and the world to Canada. Our airport creates jobs and facilitates imports and exports. We help attract tourism and investment throughout the surrounding region and across the country. We welcome newcomers who expand our nation's talent pool. And by making Canada more globally connected, we contribute to long-term growth in the local, regional and national economies.

"As more and more Canadian companies see that their future growth lies beyond our borders, we're constantly looking to add new routes."

Howard Eng, President and Chief Executive Officer

Canada has always been a trading nation. But the commodities we trade in are changing dramatically as the global marketplace evolves and our own economy matures. In the past, we exported resources like ore, grain and lumber by ship, and finished products such as vehicles and machinery by rail. While such exports continue to be important, today a growing number of Canadian enterprises earn their revenue from the exchange of knowledge and services. And this is where air connectivity plays a crucial role.

Canadian expertise in diverse fields – from engineering and investment banking to artificial intelligence and biotech – requires fast, convenient connections to support interactions with clients, partners and investors worldwide. At the same time, professionals from overseas must be able to reach Canada easily, whether they're flying here to complete a deal or commuting regularly as part of an ongoing collaboration.

Joining the businesspeople, entrepreneurs and investors who arrive through our airport are millions of tourists who look forward to exploring our region and the rest of Canada. Even the tens of thousands of foreign students who attend Canadian colleges and universities represent, in effect, another source of export income within the booming global knowledge economy.

Toronto Pearson has grown steadily to support this growth. With regularly scheduled, non-stop flights to 175 international destinations, we provide direct access to more than 70 per cent of the world's economy. We've added valuable connections as Canada has expanded existing trade alliances and forged new ones. And as more and more Canadian companies see that their future growth lies beyond our borders, we're constantly looking to add new routes. As Perrin Beatty, President and CEO of the Canadian Chamber of Commerce, says elsewhere in this report, Toronto Pearson is "an enabler for us to attract investment from abroad, and for Canadian businesses to be able to compete and succeed in a dramatically globalizing world economy."

Strategically positioned

Pearson is ideally located not only to serve the most populous part of the country, but to be a continental gateway; at about 44ºN, we're actually south of many of our airlines' U.S. destinations. We provide an efficient point of access to the dynamic Northeast economic mega zone straddling the Canada-U.S. border. For up to 200 million people living within two hours' flying time, we're the most convenient hub for reaching key economies on five continents. That's why we continue to be North America's second busiest airport in terms of international traffic: of the 2.4 million additional passengers who travelled through Toronto Pearson last year, 2.1 million were flying to and from international destinations.

All of this connectivity translates into employment and economic growth in our region. At the same time, our airport is strategically situated to provide an efficient hub for ground transportation. Over the past year, we continued to work with Metrolinx and all levels of governments on our plan for an integrated Regional Transit and Passenger Centre linking rail and bus networks across the western GTHA and much of Southern Ontario. The same rising demand that has spurred the growth of Toronto Pearson is driving pressure for better transit connections to the Airport Employment Zone, along with the congested Northern Arc corridor that spans communities like Vaughan, Richmond Hill and Markham.

The creation of "Union Station West," as many are calling the proposed transit centre, is long overdue; Toronto is the only major city of its size with a single ground transportation hub – Union Station. In taking a leadership role on this project, we recognize the advantages it will offer for people travelling to and from Toronto Pearson. But that's not the real driver. Our region needs better transit solutions for the same reason it needs a globally connected airport: to continue thriving economically and ensure even greater prosperity in the future.

In April 2019, Premier Ford of Ontario unveiled his government's ambitious transit vision, explaining that the province is "investing in transportation to bring relief and new opportunities to transit users and commuters." As experts in connectivity, including the day-to-day challenges of getting people smoothly from A to B, the GTAA is committed to help move this initiative forward and make a tangible contribution to its success.

"Our region needs better transit solutions for the same reason it needs a globally connected airport: to continue thriving economically and ensure even greater prosperity in the future."

Howard Eng, President and Chief Executive Officer

Consistent, reliable flow

As we strengthen Toronto Pearson's regional, national and global connections, we're equally focused on enhancing our own services and infrastructure. These efforts are having an impact on passengers, who voted Toronto Pearson #1 in North America for the second straight year in the Airport Service Quality (ASQ) satisfaction survey conducted by Airports Council International. Our ASQ score of 4.45 is the highest not only on this continent, but also among hubs in Africa, Australia, Europe, Latin America and the Caribbean serving more than 40 million passengers annually.

Over the next five years, we'll continue investing in new systems and processes across Toronto Pearson. Many aspects of that work are detailed in this annual report. As always, our goal is to give passengers and carriers what they value most: consistent, reliable flow in an environment that balances comfort and efficiency with safety and security.

This push to optimize flow extends beyond the footprint of our airport. It's what we're trying to achieve on a global scale as we collaborate with airlines to develop new routes, smooth connections for international passengers and coordinate regional air traffic with other members of the Southern Ontario Airport Network. The same motive drives our commitment to improve ground transportation. We want to ensure the best possible experience for passengers travelling between Pearson and their homes, offices and hotels. And more generally, we want to facilitate the movement of people and goods across the region as our airport helps to create – in the words of Rana Sarkar, Canada's Consul General in San Francisco and Silicon Valley – "the prosperity engine for the 21st century." These are the dimensions of impact and responsibility that have led to Toronto Pearson being ranked among the world's mega hub airports.

In all of our efforts, we benefit from the strategic insights of a strong Board of Directors led by Chairman David Wilson (who shares the Board's perspective in his annual report message). And as we work each day to put strategy into action, we're supported by the GTAA's 1,800 dedicated employees and a broader community of nearly 50,000 people who work together in all areas of the airport. Thanks to their energy and talent, millions of passengers from across Canada and around the world can count on Toronto Pearson – today and tomorrow.

Howard Eng
President and Chief Executive Officer

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Board of Directors

W. David Wilson

Chairman of the Board

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

Prior to his appointment to the Ontario Securities Commission, David was Vice Chair of the Bank of Nova Scotia and Chair and Chief Executive Officer of Scotia Capital.

Municipal Member
(City of Toronto)

Doug Allingham

Doug is a civil engineer with 40 years' experience encompassing both the public and private sectors.

The former Executive Vice President of AECOM Canada Ltd., his background in transportation engineering includes transit planning, urban design, traffic engineering, environmental assessment, master planning, airport planning and transportation economics. He has served as President of the Canadian Institute of Transportation Engineers, Chair of the Board for the University of Ontario Institute of Technology, Trustee and Chair of the Board of Lakeridge Health, and has served on the boards of Durham College and the Durham Abilities Centre. In 2012, Doug was awarded the Queen Elizabeth II Diamond Jubilee medal for service to the community.

Community Member

Paul W. Currie

Paul is the founder of CSCI and currently serves on several Boards of Directors.

He 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, Paul 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 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

Peter Gregg

Peter is the President and CEO of the Independent Electricity System Operator (IESO), the corporation responsible for operating the electricity market and directing the operation of the bulk electrical system in the province of Ontario.

He was previously President and CEO of Enersource Corporation (now Alectra Utilities) where he led the merger of Enersource with Powerstream and Horizon Utilities, and the purchase of Hydro One Brampton. Peter has an MBA from the Ivey School of Business at the University of Western Ontario and received his ICD.D designation from the Institute of Corporate Directors.

Municipal Member (Halton Region)

Kathleen L. Keller-Hobson

Kathleen is a corporate director and is currently Lead Director and Chair of the Nominating and Governance Committee of CCL Industries Inc. (TSX: CCL), and a member of the Board of Directors of Premium Brands Holdings Corporation (TSX: PBH), both publicly traded companies.

Prior to January 2015, Kathleen was a business lawyer with 35 years of experience advising businesses and boards of directors on mergers and acquisitions, corporate finance and corporate governance. She holds her ICD.D from the Institute of Corporate Directors.

Nominated by the Federal Government

Roger R. Mahabir

Roger is Chairman and CEO, Tracker Networks. He was founder and CEO, Assurent Secure Technologies, which he sold to TELUS.

He served in C-level roles at Royal Bank (Capital Markets & Dominion Securities), GE and Suncor. He has been inducted into the Canadian Information Productivity Hall of Fame and his innovations have been recognized by the Smithsonian. He was conferred an honorary Doctor of Laws degree from York University in 2016.

Community Member

Hazel McCallion

Hazel is the Chief Elder Officer of Revera Inc., Chancellor of Sheridan College, and special advisor to the University of Toronto, Mississauga campus.

She 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

Michele McKenzie

Michele is the former President and CEO of the federal Crown corporation Canadian Tourism Commission (CTC/Destination Canada).

She is the founder of McKenzie Business Strategies, an advisory practice focused on economic development, strategy, marketing and tourism. Michele is also a director of Invest in Canada, the Trans Canada Trail, and the Christian Children's Fund of Canada. Michele has been recognized as one of "Canada's Most Powerful Women – Top 100" by WXN and was named one of Hotelier Magazine's "10 Most Influential Leaders in Canada's Hospitality Industry." Michele is a graduate of Dalhousie University and holds an honorary degree from Humber College.

Municipal Member
(Region of Peel)

Kathy Milsom

Kathy is the Chair of the Standards Council of Canada.

She has held executive leadership roles with both private and public sector organizations, including President and CEO of Toronto Community Housing Corporation, 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.

She was also a senior fellow of the Canada School of Public Service delivering their Crown corporation director orientation program. Kathy has also served on a variety of other boards. She is a professional engineer and a graduate of the Institute of Corporate Directors' Director Education Program. She is honoured to be a 2017 inductee into the University of Toronto's Engineering Hall of Distinction, a recipient of the 2008 2T5 Meritorious Service Medal Award for Mid-Career Achievement, also bestowed by the University of Toronto, the 2006 Arbor Award for volunteerism, and the Ontario Professional Engineers' 2004 engineering medal for management.

Community Member

Terrie O'Leary

Terrie is Executive Vice President, Business Strategy and Operations at Toronto Global, Toronto Region's foreign direct investment attraction, marketing and sales corporation.

A seasoned executive with extensive private and public sector experience, Terrie 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.

Nominated by the Province of Ontario

Michelle Samson-Doel

Michelle is a Director of Boralex Inc. (BLX) and serves on the Board of Lallemand Inc., a global private company.

She is a Chartered Professional Accountant and the former Executive Chair of Multi-Marques, which led the consolidation of the bakery industry in Quebec. She has also served on the boards of the Ontario Lottery and Gaming Corporation (OLG) and many private companies and not-for-profit organizations.

Municipal Member
(Region of York)

Mark F. Schwab

Mark is a highly experienced airline industry executive, having recently served as Chief Executive Officer of Star Alliance, a complex 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 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.

He has several years’ experience in project finance, infrastructure financing and public-private partnership transactions, and has been a director of ten entities, both inter-listed public companies and several private, as well as multi-million dollar non-profit organizations and charities. Johan received his MBA from the Rotman School of Business at the University of Toronto, and is a chartered accountant and a CPA in Ontario.

Municipal Member (Region of Durham)

Danielle M. Waters

Danielle is the principal of Water’s Edge Consulting, a loyalty travel consulting firm.

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. Danielle has senior operational and management experience in the travel industry.

Community Member

Photos: Lorella Zanetti

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Executive Team

Craig Bradbrook

Vice President, Aviation Services

Martin Boyer

Vice President and Chief Information Officer

Ian L.T. Clarke

Chief Financial Officer

Scott Collier

Vice President, Customer and Terminal Services

Howard Eng

President and Chief Executive Officer

Katherine Hammond

Vice President, General Counsel, Corporate Safety and Security

Mary Madigan-Lee*

Vice President, Human Resources and Corporate Services

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

Photos: Lorella Zanetti

* Effective January 2019, Valerie Duffey (Vice President, Human Resources and Corporate Services) resigned from the GTAA.

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. The GTAA is a reporting issuer under Canadian securities legislation. 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 to serve for a maximum of nine years.

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.

In addition, seven Directors are elected by the Members on a cyclical basis from candidates who are identified and assessed through a search process, which includes engaging the Law Society of Ontario, 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.

The Board assesses candidates put forward by the relevant nominators to determine whether the candidates possess the desired skills and experience and assess fit with the Board.

All of the Directors on the GTAA's Board are independent, as that term is defined in 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 2018, 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 Board established an Ad Hoc CEO Search Committee in September 2018 to facilitate the search to identify and recommend candidates for the position of President and CEO of the GTAA. The mandates of the Committees of the Board are summarized below:

Audit Committee

The Audit Committee is mandated by the Board to undertake delegated work on the Board's behalf to gain reasonable assurance regarding the integrity of the financial reporting, accounting, auditing and internal controls as well as to fulfill relevant legal obligations of an Audit Committee of a reporting issuer. In so doing, the Committee oversees and monitors the integrity of the GTAA's financial statements and financial reporting processes, including overseeing the work of the GTAA's external auditor, 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 effectiveness of risk management for audit-related, financial and such other risk assigned by the Board of Directors and provides oversight of the GTAA's pension fund and plans. 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 overseeing the effective governance of the GTAA, and making recommendations to the Board and its Committees on measures to enhance effectiveness. The Committee also oversees the GTAA's stakeholder relations and communications strategy for building brand and social license, including oversight of the GTAA's relationships and strategic communications program with stakeholders, and overseeing the GTAA's Community Investment Program.

The Committee is also responsible for overseeing the Board Member nomination process; maintaining a skills matrix to identify desired skills, experience and other attributes; recruiting, interviewing and assessing candidates to the Board, and recommending the issuance of memberships to candidates; 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 Commitee

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 enterprise risk management program including resilience and adaptability to deal with foreseen and 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 Commitee

The Human Resources and Compensation Committee's mandate is to oversee matters related to the GTAA's human resources strategy, oversight of strategic human resources matters, including executive compensation, succession-planning, development, talent management, performance oversight and 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 Commitee

The Planning and Commercial Development Committee's mandate includes oversight of the Corporation's 2017-2037 Master Plan and Land Use Plan, ensuring that the Corporation has an appropriate up-to-date and approved Long-Term Infrastructure Plan, oversight of commercial development of the airport, planning and development activities including real estate development, ensuring utilization of infrastructure and facilities to meet the needs of the GTAA's passengers and stakeholders, including air carriers, and cargo shippers.

The Committee is also responsible for reviewing and making recommendations with respect to capital projects in excess of the CEO's delegated authority, overseeing the effective implementation of material capital projects, and providing feedback to Management on strategic capital projects.

AD Hoc CEO Search Commitee

Established in 2018, this Committee undertakes delegated work on the Board's behalf to facilitate the search to identify and recommend candidates for consideration by the Board for the position of the President and CEO of the GTAA. The Committee is responsible for assessing the capabilities and readiness of internal candidates who express and interest in the position, conducting a targeted search to identify external candidates, conducting first round interviews and assessments, conducting final due diligence and reference checking, and negotiating the terms with the final candidate.

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Sustainable Development Goals

In 2015, United Nations member states adopted the 2030 Agenda for Sustainable Development, at the heart of which are 17 Sustainable Development Goals (SDGs) aimed at promoting a universal call to action to end poverty, protect the planet and ensure prosperity for all by 2030. We at the GTAA support the SDGs and have been thinking about how we can contribute to their achievement.

We've identified six SDGs and related targets that align with our strategic priorities and projects and help us consider where we can make our greatest impact. The table below shows the correlation. Throughout this report, we've included SDG symbols on relevant pages.

GTAA STRATEGIC PRIORITY

Passenger and Customer Service

RELEVANT SDG	RELEVANT TARGETS
SDG 9 Industry, Innovation and Infrastructure	**9.1** Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.
SDG 17 Partnership for the Goals	**17.17** Encourage and promote effective public, public private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

GTAA STRATEGIC PRIORITY

Safety

RELEVANT SDG	RELEVANT TARGETS
SDG 3 Good Health and Well-Being	**3.6** By 2020, halve the number of global deaths and injuries from road traffic accidents.

GTAA STRATEGIC PRIORITY

People

RELEVANT SDG	RELEVANT TARGETS
SDG 8 Decent Work and Economic Growth	**8.5** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value. **8.6** By 2020, substantially reduce the proportion of youth not in employment, education or training. **8.8** Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.
SDG 9 Industry, Innovation and Infrastructure	**9.2** Promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.

GTAA STRATEGIC PRIORITY

Aviation Growth

RELEVANT SDG	RELEVANT TARGETS
SDG 8 Decent Work and Economic Growth	**8.2** Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.
SDG 9 Industry, Innovation and Infrastructure	**9.1** Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all. **9.4** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
SDG 17 Partnership for the Goals	**17.11** Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020. **17.17** Encourage and promote effective public, public private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

GTAA STRATEGIC PRIORITY

Corporate Responsibility

RELEVANT SDG	RELEVANT TARGETS
SDG 3 Good Health and Well-Being	**3.9** By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination. Note: This target is also applicable in terms of noise pollution.
SDG 8 Decent Work and Economic Growth	**8.4** Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead.
	8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.
	8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training.
	8.9 By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products.
SDG 9 Industry, Innovation and Infrastructure	**9.4** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

	SDG 10 Reduced Inequalities	**10.1** By 2030, progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average.
		10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
	SDG 13 Climate Action	**13.1** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
		13.2 Integrate climate change measures into national policies, strategies and planning.
	SDG 17 Partnership for the Goals	**17.6** Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilise and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries.
		17.17 Encourage and promote effective public, public private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

GRI INDICATORS 102-12

Safety and security

At Toronto Pearson, we take an uncompromising approach to safety and security. We have a saying – Be Safe. You mean the world to someone. – which reminds us of why we need to be vigilant and why we invest so much time and resources in our safety and security systems.

While all companies operating at the airport are responsible for the safety of their own employees, we work together to achieve our shared vision of zero injuries to everyone who travels through or works at Toronto Pearson.

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. All contractors must have a Certificate of Recognition (COR) as confirmation that their health and safety program meets provincial standards and has been evaluated by a certified auditor.

All airports in Canada are required to have a security awareness program that educates employees about their roles and responsibilities in airport security. At Toronto Pearson, employees complete both the national and site-specific modules of the Canadian Airport Security Awareness Program. This

3,000 employees

Nearly 3,000 employees provided feedback on Toronto Pearson's safety culture through the annual safety climate survey training is mandatory for everyone who needs access to restricted areas and for any airport employee who has been away from work for more than a year.

Across our airport community, we try to bolster our safety and security culture through a constant focus on communications and risk identification. We also conduct an annual safety climate survey and use the findings to improve safety-related programs. Contests are run to encourage high employee participation in the survey.

Safety performance is tracked through the Toronto Pearson Safety Index, which measures employee lost-time injuries per million passengers. Despite growing passenger traffic volumes and new aviation technologies that often increase the complexity of managing safety, we strive for at least a five per cent reduction in injuries each year.

2018 highlights

- With manual handling injuries, such as back sprains and strains, accounting for 45 per cent of our lost-time injuries, we introduced a manual handling safety program airport-wide. Run by Pristine Condition International, the program is based on Olympic weightlifting techniques that are proven to take more than 70 per cent of pressure off the body when performing manual handling tasks. The program was launched during Canadian Airports Safety Week events, with Pristine Condition trainers teaching employees some of the key principles.

- Safety forums and summits bring together health and safety representatives from across our airport community to discuss safety trends and issues and to generate ideas for improving performance. The 2018 Fall Safety Summit in October attracted representatives from more than 37 organizations including air operators, ground handling companies, general aviation and government agencies and other airport business operators. In November, the inaugural meeting of the Toronto Pearson Safety Leadership Forum brought together leaders from Toronto Pearson's 16 largest employers. The meeting was an important first step towards tackling common issues and collaborating on strategic initiatives. In January 2019, we held our first Workers' Council meeting, which included representatives from each of the unions at Toronto Pearson. The Council will meet on a regular basis to prioritize worker safety issues and propose solutions that can then be integrated into the master Toronto Pearson Safety Program.
- We launched the Tenant Safety Education Program to facilitate safety discussions with Toronto Pearson tenants. Under the program, GTAA safety resources engage with tenants one-on-one to learn more about their safety programs, review their safety documentation and training, and provide feedback on how they could improve. We believe that this approach, which focuses on offering guidance and support as opposed to instructions, will be instrumental in changing the safety culture at the airport.
- New safety reporting tools are being deployed across the airport to help us capture safety data more readily and identify trends early, with an eye to driving improvement. Among the features, the tools pinpoint exactly where at the airport most safety incidents are occurring, so that we can, in turn, implement targeted prevention programs. Ultimately, we want to expand our data gathering to capture more leading statistics, such as close calls or risk assessments, and to dig deeper into the data to obtain actionable insights.

In case of emergency

Emergency exercises are an important part of being prepared for the worst-case scenario by testing plans, protocols and communications for emergency and security incidents. In May 2018, our emergency exercise was a response to an aircraft incident. More than 150 airport employees and responders supported the exercise, and nearly 250 of our neighbours volunteered.

2018 performance

The GTAA was disappointed with the 2018 increase in the Toronto Pearson Safety Index (TPSI) to 0.46, up from 0.43 in the previous year. This was attributable to the increased number of lost-time injuries reported by many employers at Toronto Pearson. We are continuing to work with our community of airport employers to raise awareness around the importance of safety. In addition, we have instituted some innovative programs that focus on injury prevention and sharing best practices.

RELATED SDGs

GRI INDICATORS 103-1 103-2 103-3

Our communities

Toronto Pearson is Canada's front door, an important economic enabler for our region, and a neighbour to the communities that surround us. We thrive and grow together with these communities – and we have a responsibility to connect with them, to understand their issues and concerns, and to help out. Our actions earned us a spot in Corporate Knights' 2018 Best 50 Corporate Citizens in Canada report.

Economic impact

The number of direct jobs at the airport has grown from 40,000 to nearly 50,000 since 2011. In total, Toronto Pearson generates or facilitates 332,000 jobs in Ontario, which accounts for about $42 billion, or 6.3%, of Ontario's GDP. By 2030, it's estimated that Toronto Pearson could generate and facilitate 542,000 jobs in Ontario.

What's more, Toronto Pearson's ability to access the world is critical for Canada's future and necessary to ensure a diverse, creative and innovative economy.

Learn more about our economic impact.

Community outreach

For the communities around Toronto Pearson, we're more than just an airport – we're also a neighbour. We connect with these communities in a number of ways, including:

- Community event sponsorships that align with our corporate vision and mission, increase brand recognition, and enable us to engage with attendees and build relationships in neighbouring communities.
- Partnerships with organizations that are doing meaningful work in the areas of environmental sustainability, community vitality, community-building activities, accessibility enhancements or education.

- One-on-one opportunities to engage in conversations about noise, environment, transit and more.
- Pop-up booths that enable us to build relationships with local organizations and elected officials while meeting our neighbours in hubs such as libraries and community centres.

> *"The experience with the Propeller Project allowed us to make important connections in an underserved community and provided meaningful arts opportunities to youth. Our experience with this project provided a deeper understanding into the mandate of the GTAA."*
>
> **— Arts Etobicoke**

2018 highlights

- Our Street Team met more than 5,000 of our neighbours at 60 community events, such as farmers' markets and ribfests. For the first time, we worked with ACCES Employment and hired local youth to be part of the Team. One of the team members was a Syrian refugee who fondly remembered Toronto Pearson as his first place of welcome to Canada.
- Final Approach – Danville Terminal officially opened for viewing. We partnered with the City of Mississauga to sponsor this unique aviation-themed park space that serves as a tribute to Malton's aviation history and features a sleek overhead airplane and limestone from the former Avro Arrow building. Danville Terminal sits 25 metres above the surrounding area, enabling park goers to see planes travelling to and from the airport.
- Nearly 2,400 neighbours participated in an airside tour to see behind the scenes at Toronto Pearson and get a glimpse of the different aircraft and equipment used.
- As a founding member of Partners in Project Green, we celebrated the organization's 10th anniversary by hosting restoration events in Claireville Conservation Area and Danville Park. Learn more about our work with Partners in Project Green in the Environment section of this report.
- To help revitalize the local SEVA Food Bank and ensure that it can continue to meet the needs of the people it serves, we connected the food bank to some of our trades partners.
- Among our 2018 partnerships, the GTAA was the lead sponsor at the Streetsville Bread and Honey Festival, supported the zero-waste program at the Etobicoke Rotary Ribfest, hosted the kick-off ride for the annual Mississauga Community Rides and engaged with families at the Oakville Children's Festival.

Community Investment

While nearly two million people live in the area surrounding Toronto Pearson, which is the second largest employment zone in the country, we face an underemployment rate that's higher than that of the Greater Toronto Area. Approximately 43 per cent of our neighbours with post-secondary degrees are working in jobs that are well below their education or skill level.

That's why our signature community investment program – the Propeller Project – is championing on-the-ground solutions to underemployment by directly investing in local organizations that foster talent and connect people to the right opportunities.

Our key commitments under the Propeller Project are to:

- Give back to neighbourhoods directly and indirectly impacted by Toronto Pearson operations
- Invest one per cent of the GTAA's net income annually in community building initiatives
- Foster growth and prosperity in our regions, communities and among local residents

Through the Propeller Project's Uplift Fund, Toronto Pearson helps local area residents gain the skills, connections and opportunities needed to be meaningfully employed. This funding stream supports research, advocacy and programming focused on understanding, addressing and reducing underemployment.

Through the Nest Fund, we support programs and organizations that will have a positive impact on communities surrounding Toronto Pearson. This funding stream assists a select number of initiatives in local neighbourhoods that create stronger, healthier and happier communities with priorities in environmental sustainability, community vitality and employment.

Learn more about how we've reoriented the Propeller Project.

> *"The commitment of the GTAA team to working on projects that the community has identified as a need in the area surrounding Pearson is unwavering. It is a pleasure to work with a corporate partner who supports new and innovative ideas and their commitment to Torontonians shines through with the work they do. We are truly grateful to be the recipient of this vital funding and to work with a great community partner like the GTAA."*
>
> **— Toronto Public Library Foundation**

2018 highlights

- Through the Propeller Project, we donated $1.02 million to 24 local, non-profit organizations in Toronto, Mississauga and Brampton.
- We committed to investing $300,000 over three years to MABELLEarts, a community arts organization in Central Etobicoke, that has taken a leading role in developing programs geared at providing unemployed and underemployed newcomers in the Mabelle community with opportunities to take part in micro-business and community leadership skills training. See our feature story: "Creating change through art."
- Our partnership with Scientists in School is a three-year investment, ending in 2019, to provide more than 38,000 young students across the GTA with access to STEM programming. Over the three years, we're investing $600,000 towards adopting 25 local schools in Brampton, Etobicoke and Mississauga through the Scientists in School Adopt-a-School program.
- In keeping with our focus on underemployment, we partnered with new organizations such as NPower Canada and Windmill Microlending. See our Propeller Project page for more information about these partnerships.

Managing noise

Noise management is a top concern for our communities and we continually evolve our approach to addressing the issue. While aircraft noise can't be eliminated completely, we believe that continuous improvements should be studied, discussed and implemented with communities and industry partners.

As part of regular business at the airport, we have a noise management program that guides how we work with our partners to manage noise impacts on a daily basis. The program is based on a balanced approach and includes land use planning, operation restrictions (such as limiting the number of flights at night), noise abatement procedures for planes and preferential runway systems.

Our Noise Management Office monitors noise and noise abatement procedures, and receives, analyzes and responds to public complaints. The Office periodically publishes advisories to notify residents of airfield construction, airport activities, and engagement opportunities that could have an impact on normal airport traffic operations and aircraft noise. Noise complaints can be registered through our website or by phone.

We also have noise monitoring terminals strategically located near the airport to gather objective data and assess noise levels in neighbouring communities.

Every five years, we commit to a noise management action plan, which is based on international best practices and public input, and explores ways to evolve and improve the way we manage noise. Our 2018–2022 Noise Management Action Plan currently serves as our roadmap. Created following an international best practices study of 26 comparator airports around the world and input from more than 3,000 local residents, the plan includes nine ambitious programs, which are based on 10 commitments we've made to our communities.

Learn more about our approach to managing noise.

There were 119,613 noise complaints from 1,471 individuals in 2018, compared to 168,676 complaints from 2,399 individuals in 2017.

2018 highlights

- We started tackling short-term priorities outlined in our 2018–2022 Noise Management Action Plan; among them, the Quieter Fleet Incentive Program, which targets noise from aircraft. The program encourages airlines to bring the quietest aircraft in their fleet to Toronto Pearson and, by 2020, will offer incentives to those who retrofit the A320 family of planes. To start, we have written and engaged our carriers to advise them of our plans and ask for their support.
- As part of the 2018–2022 Noise Management Action Plan, we conducted a review of the Community Environment and Noise Advisory Committee (CENAC), which for many years had been the only regular forum for community members and elected officials to advise us on how to work with the community to manage impacts. It became apparent in engaging with stakeholders and conducting research that the airport had outgrown a single committee – and the decision was made to replace CENAC, as of January 2019, with a new and expanded series of forums called the Toronto Pearson Noise Management Forums.
- Following two years of technical analysis of the Six Ideas, a noise mitigation initiatives engagement plan created by NAV Canada and the GTAA, we reported back to the community on our progress and gathered additional feedback in 2018. More than 430 residents attended meetings held across the region, and more than 900 residents provided feedback. The Public Engagement Report, which was published in July 2018, outlined what we heard from the community about each idea and what would be done about it.

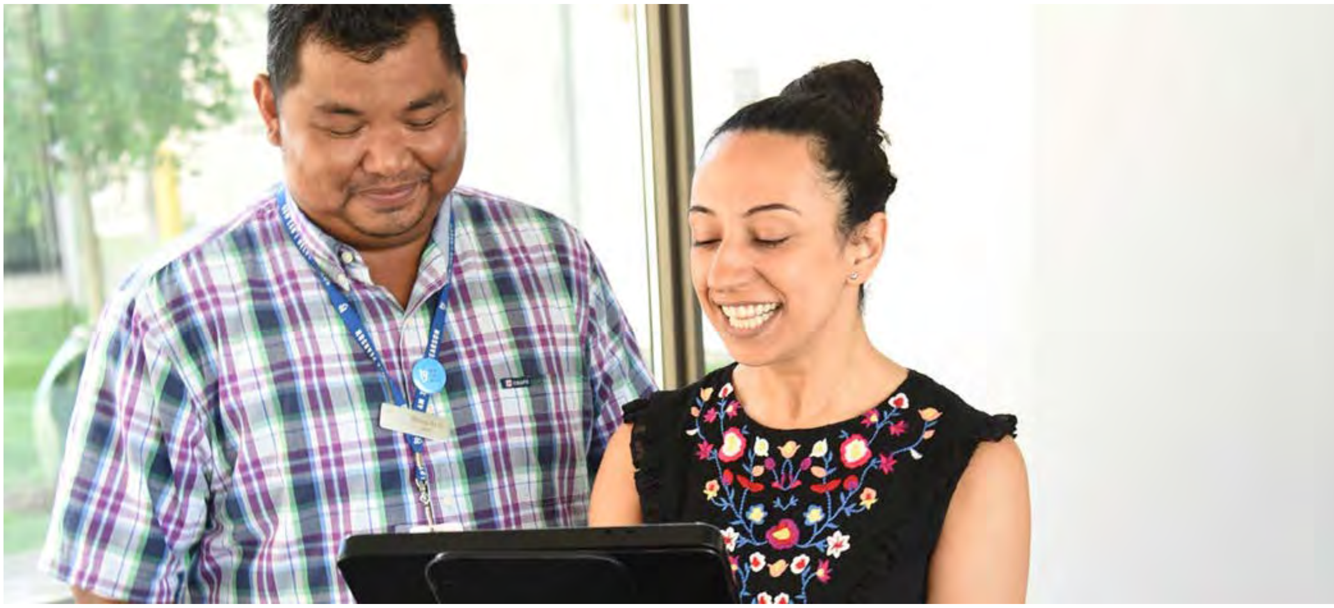
- Many of the *Six Ideas* were implemented by the end of 2018. Among them, we tested a runway alternation program for eight weekends in the summer of 2018 to provide scheduled relief from aircraft noise every other weekend to residents living under final approach/initial departure of the east-west runways. Operational analysis showed that relief was possible in the early morning and late evening and survey results indicated community support for the program. As a result, we are exploring the option of a full summer trial in 2019 with continued collaboration from airline partners and NAV Canada.

RELATED SDGs

GRI INDICATORS 103-1 103-2 103-3 413-1

Our people

Our airport is a dynamic place to work and there's a deep sense of pride among our employees in the difference we make for passengers, for our community and for our country. We strive to create a workplace where people are engaged and their careers can take flight, so that collectively and individually we achieve our goals and fulfill our potential.



Of the nearly 50,000 people directly employed at Toronto Pearson, 1,798 worked at the GTAA as of December 31, 2018. 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, we need to attract, develop, engage and reward a high-performing workforce. 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.

Careers taking flight in 2018

- 299 internal transfers or promotions
- 205 external hires
- 32 co-op students

- Equip and support GTAA colleagues with the right tools and expertise.

We view our diversity as a competitive advantage. A diverse workforce ensures the airport's ability to meet the demands of a challenging global marketplace, drives innovation and provides a warm welcome to people from around the globe. Our Diversity & Inclusion Committee is leading a five-year strategy to do even more to create a place where everyone can feel included, safe and valued, and can be their very best.

As part of our strategy, we make deliberate efforts to recruit and hire qualified job candidates from diverse backgrounds, by nurturing relationships with local community organizations that can help us source talent, and through co-op and apprenticeship programs for young people.

Our annual feedback survey measures employee engagement and invites write-in comments about what's working and how to improve. Since 2015, our engagement score has risen from 58 per cent to 74 per cent in 2018, and is rapidly approaching the level we would need to be among the top quartile of Canadian employers.

Sky's the limit

With the launch of a diversity internship pilot program, we welcomed our first intern, Susan Stewart, who spent six months in the Human Resources department. An Olympic athlete who represented Canada in the 1996 Atlanta Games, Susan later suffered an accident that left her with a life-threatening brain injury. After years of rehabilitation, she has made it her life's goal to motivate others to push beyond their limitations. At the GTAA, Susan created her own blog on Yammer called "Sky's the Limit," sharing her experiences as an HR intern. She also completed three job shadowing experiences, including Manager of Operations, Airside, before joining us full time.

2018 highlights

- To drive home the GTAA's core value of respect, we facilitated That's How We Fly conversations across the organization about respect in our workplace. A top-down approach to rolling out these conversations was deliberately chosen to demonstrate visible leadership support. During the sessions, employees were encouraged to speak up if they encounter inappropriate behaviour and to help create a workplace that makes us proud.
- At our spring all-employee meeting, all unionized employees were given a red envelope containing a cheque for $550 in recognition of their contributions towards Toronto Pearson's strong financial performance in 2017.
- Our new People Manager Promise (PMP) is aimed at ensuring that all employees have a consistent management experience. It's an accountability statement that tells employees what they can expect from their manager in terms of support. To help managers fulfill the expectations, we also fine-tuned the People Manager Fundamentals training program, which covers topics such as onboarding, communications, labour relations and e-learnings, and is expected to be completed by new managers within their first year. From there, managers participate in the Leadership Essentials course, a two-day workshop that gives them tactical skills to lead and support their teams. A total of 173 managers completed this Leadership Essentials curriculum in 2018.

- The Pearson Aviation Academy is an innovative new training program at the GTAA. In partnership with Seneca College, the program delivers integrated airport operations training. This unique training enables us to develop manager-level knowledge and capability, and over time will help build our operational talent pipeline. The first class of 16 participants from across all areas of the business spent two months in the pilot program in 2018 and will help shape the future of this program. We plan to add to the curriculum in 2019 and beyond.
- 76% of GTAA employees completed a voluntary *Diversity Meter* census that gives us a better understanding of our workforce demographics and will inform future diversity and inclusion activities. In lead-up to the census, small group meetings were organized to explain the purpose and importance of the census and encourage participation.
- Organizations with whom we partnered to source more diverse talent from the community included: Access Employment; YMCA; City of Mississauga; City of Toronto; Indigenous Works; Women in Aviation; Canadian Centre for Diversity and Inclusion; and Careers in Aviation – *Wings* magazine.

RELATED SDGs

GRI INDICATORS 103-1 103-2 103-3

Environment

Enhancing our airport's benefits while reducing its environmental impacts is a careful balancing act that we perform every day. For us, it's not just about meeting our legal requirements – it's about protecting our planet, preparing for the future, and doing our part to tackle local and global environmental issues. The biggest challenge is doing so while our airport continues to grow.

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 reporting practices align with the ISO 14064 standard and the internationally recognized Airport Carbon Accreditation program (in which the GTAA has achieved Level 3 certification).

The EMS focuses on three areas: climate change, healthy environment and resources.

Climate Change

Climate change work at the airport falls into the categories of mitigation (reducing GHG emissions through energy reduction) and adaptation (ensuring that our facilities are ready for the expected future effects of climate change).

Toronto Pearson's Greenhouse Gas program targets a 20 per cent reduction of emissions from 2006 to 2020, with a larger goal of an 80 per cent reduction by 2050. Program parameters can be found in our GHG Policy. Energy reduction projects, which focus mainly on switching to energy-efficient LED lighting and upgrading heating, ventilation and air conditioning (HVAC) systems, enabled us to achieve our 20 per cent reduction target ahead of schedule; however, most of our gains are being offset by the airport's growth.

Other aspects of our approach to climate change include investing in electric vehicles (EV) and EV charging stations; encouraging employees, passengers and visitors to use public transport; incorporating green building standards into our construction codes; and working with airline partners to promote processes and technologies that lower fuel burn and emissions – for example, designing our airside infrastructure to minimize the time aircraft spend with their engines idling.

In pursuit of our 2050 target, we are looking to be even more aggressive with GHG reduction in the coming years. For example, by ensuring that all new buildings meet best-in-class standards for energy efficiency.

Learn more about our climate change approach and performance.

2018 highlights

- By the end of 2018, our continued emphasis on energy and GHG emissions reduction resulted in a 46% decrease in GHG emissions since 2006.
- We completed LED lighting conversions at both terminals – replacing Terminal 1 high ceiling pot lights and apron lights, and Terminal 3 curb lights and main terminal lights – installing a total of 6,000 LED tubes and 1,800 new fixtures. Together with a Terminal 1 heating, ventilation and air conditioning (HVAC) optimization project, these initiatives saved approximately 4,114 eMWh of energy and 165 tonnes of GHG emissions. The GHG savings are roughly equivalent to taking 35 cars off the road for a year.
- We have incorporated the ASHRAE 189.1 green building standard into our construction code, requiring all new builds to meet this best-in-class standard for the design, construction and operation of high-performance green buildings. This was the first year of applying the standard to our capital projects.
- Toronto Pearson was recertified at Level 3 in the Airport Carbon Accreditation program managed by Airports Council International, which requires us to measure our carbon footprint, set and achieve reduction targets, and engage third parties in our efforts.
- Toronto Pearson received a 2018 Airports Going Green Award for our Green Commuter Rebate Program. The award recognizes outstanding contributions to sustainability in the aviation industry. Our commuter program offers GTAA 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.

89,130 tonnes* of CO_2e

Emitted an estimated 89,130 tonnes* of CO_2e in 2018 compared to 75,186 tonnes in 2017.

* Exact figures are not available until later in the year.

Healthy environment

With grasslands, agricultural space and creek valleys making up about one-third of our airport's land, mitigating the environmental impacts of airport operations and managing issues related to air quality, stormwater quality, ecology and wildlife is an ongoing priority.

A permanent air quality monitoring station has operated at the southeast corner of the airport property since 1994 and the concentrations measured on site are typical of large urban areas and other spots along Highway 401.

The airport lands are home to four end-of-pipe stormwater facilities and 13 stormwater retention ponds. The stormwater facilities normally represent the final control point prior to leaving airport property. All have the ability to divert the stormwater to the sanitary sewer system, enabling us to control the quantity and quality of stormwater leaving the airport. Water quality sampling is conducted weekly at key locations.

Managing the central deicing facility, where most of the storage, spraying and recovery of glycol-based deicing fluid occurs, is part of our stormwater management system. The entire facility has a high-density polyethylene liner installed underneath to collect any fluids that weep through the surface. Used fluid is collected for recycling.

1,950 pounds of honey

That's how much Toronto Pearson's honeybee apiary harvested from its 24 hives in 2018. 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.

2018 highlights

- We invested $2.1 million in upgrades to our air quality monitoring station that will enable real time testing of air quality and improved reporting capabilities.
- A $4.8-million refurbishment of the Moores Creek stormwater facility, the largest of our four facilities, will extend its life and ensure that it continues to perform as needed.
- While our stormwater facilities have always done a good job of separating out small particulates and large debris from waste water, we improved their effectiveness and efficiency by installing trash racks that collect mid-sized trash, such as bag tags and floatable plastic pieces.

Partners in Project Green

As a founding member of Partners in Project Green, we celebrated its 10th anniversary by planting enough native trees and shrubs to offset the GTAA's 2017 total paper consumption. Employees and their families, neighbours and local school groups participated in four plantings in Claireville Conservation Area and Danville Park throughout the year, planting more than 900 native trees and shrubs and restoring 1,775 m2 of land, which mitigated our use of 2.8 million sheets of paper in the prior year.

Resources

Tracking the resources we use and the waste we generate is 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.

Waste management programs across the airport range from traditional paper, plastic and organics recycling to paper towel, shrink-wrap, battery, pens and even cellphone recycling. Construction contractors are required to have programs in place to recycle construction and building materials. We also donate used furniture and windows to Habitat for Humanity, and participate in an online materials exchange program through Partners in Project Green.

72% waste diversion rate

Achieved our targeted 72% waste diversion rate

We target an annual 72 per cent waste diversion rate. However, waste from inbound aircraft is not included in this target or in our diversion processes because it is considered international waste. This type of waste must be 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, although recent trials aim to improve domestic aircraft waste diversion.

2018 highlights

- We started working with Partners in Project Green on a waste management master plan that will include aggressive waste reduction targets and improve customer service through actions such as adding more organics disposal options throughout the airport, sourcing alternatives to single-use plastics for customer-facing areas and consulting with stakeholders on emerging concerns.
- Paper Cut was an initiative implemented over the past two years to get people to think twice before printing and thereby reduce office paper consumption. Under the program, printers are shared by multiple users and print jobs are held in queue until the user scans his or her badge.
- With approval from the Canadian Food Inspection Agency, we started trials with Air Canada for recycling waste from domestic flights arriving at Air Canada designated gates. Under the pilot, Air Canada separates waste at source and the GTAA collects and manages the separate streams. It's estimated that the project could divert up to 10 tonnes of recyclables per month from incineration.
- Through a partnership with Diabetes Canada, we installed donation bins where employees can drop off their gently used clothing and cloth items. Diabetes Canada collects and sells the donations as a way of diverting textiles from landfill and generating revenue.

RELATED SDGs

GRI INDICATORS 103-1 103-2 103-3

Stakeholder engagement

Our stakeholders keep us abreast of the latest changes, challenges and opportunities affecting Toronto Pearson, our industry, neighbouring communities and the regional economy. We gather feedback and collaborate with them in a wide variety of ways to help ensure we're in the best possible position to plan strategically and act responsibly.

The chart below shows the stakeholder groups we engage with most regularly. We identify our stakeholders as passengers and other airport users, as well as anyone who influences or is affected by our operations. This includes our surrounding communities, our partners, the people who work here and anyone with economic ties to our airport – such as service providers, businesses and organizations with a need for connectivity, and institutional investors.

Passengers

We served 49.5 million passengers in 2018, a five per cent increase over 2017.

HOW WE ENGAGE	2018 HIGHLIGHTS AND KEY TOPICS
• 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)	• Won an ASQ Award and the title of Best Large Airport in North America for our 2017 performance. The ASQ survey assesses passengers' satisfaction on the day of travel in areas such as check-in, security, food and beverage, and more.

GTAA Employees

GTAA directly employed 1,798 people as of December 31, 2018. Our employees work in management, technical, administrative and other operational roles, or are seasonal employees hired for deicing and airfield maintenance.

HOW WE ENGAGE

- Annual employee feedback survey
- Diversity census and conversations
- *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
- Yammer social networking platform
- Evening of Excellence employee recognition event

2018 HIGHLIGHTS AND KEY TOPICS

- Achieved a 74 per cent employee engagement score, up from 69 per cent in 2017.
- 76% of employees completed a voluntary *Diversity Meter* census that gave us a better understanding of our workforce demographics and will inform future diversity and inclusion activities. In lead-up to the census, small group meetings were held to explain the purpose and importance of the census so as to encourage participation.
- Facilitated *That's How We Fly* conversations across the organization about showing respect in our workplace. The emphasis was on encouraging employees to call out inappropriate behaviour, speak up on behalf of themselves or their colleagues, and help create a great workplace.

- Introduced the People Manager Promise (PMP), an accountability statement outlining what the GTAA expects of all people managers in terms of how they support their team members. Managers held meetings with their employees to discuss the PMP and what it meant for them.

Airport Employees

Nearly 50,000 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* movement and workshops
- Toronto Pearson Safety Program events and activities
- Annual safety climate survey
- Employee updates on the Toronto Pearson website
- Electronic and printed newsletters
- Digital screens
- Cross-functional airport working groups
- Airport employee tours (airside and terminal)

2018 HIGHLIGHTS AND KEY TOPICS

- 8,386 Toronto Pearson employees engaged in the *I am Toronto Pearson* movement, bringing total membership to 18,439 since the initiative's inception in 2016.
- *People of Pearson* showcased employees on social media.
- Nearly 3,000 employees participated in the annual safety climate survey.
- Strong employee participation in Canadian Airports Safety Week events (September 17–21).

Airport Service Providers

Airport service providers include ground transportation service, airlines, aviation services and tenant enterprises. We work together to manage customer-service needs and issues, and day-to-day operational requirements.

HOW WE ENGAGE

- Airline Consultative Committee
- Airline Consultative Committee – Technical Subcommittee
- Commercial Affairs Subcommittee
- Passenger Operations Subcommittee
- Airside Operations Subcommittee
- Irregular Operations Subcommittee
- Safety summits
- Toronto Airport Workers Council

2018 HIGHLIGHTS AND KEY TOPICS

- Launched the Toronto Pearson Leadership Safety Forum to discuss safety trends, share best practices, and maintain our collective focus on safety.
- In collaboration with Toronto Airport Workers Council, continued benchmark research on practices related to work arrangements and identified opportunities for improvement in contract renewals and procurement, which were implemented in 2018. Future collaborative work will focus on completing a comprehensive demographic profile of the airport workforce, and on employment planning and investment.

Regional Communities

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

HOW WE ENGAGE

- General community engagement line and email
- Noise complaints line at WebTrak
- Topic-specific phone surveys
- Public opinion and key influencer research
- Community Environment and Noise Advisory Committee (CENAC) (replaced by Toronto Pearson Noise Management Forums as of January 1, 2019)
- Community Relations section of the Toronto Pearson website
- *Checking In* monthly email newsletter
- Welcome Team volunteer program
- Events, town halls and meetings (in the community and at Toronto Pearson)
- Community events
- Community tours
- Educational talks

2018 HIGHLIGHTS AND KEY TOPICS

- Conducted an online public attitudes survey of 2,370 Greater Toronto Area residents and six in-person focus groups with involved Canadians. Among the key takeaways: GTA residents are familiar with and continue to hold favourable impressions of Toronto Pearson with little evidence of erosion of opinion; Toronto Pearson's important economic contribution is well understood and deeply entrenched; aircraft noise is less of an irritation than most other sources tested, such as construction, road traffic, industrial activity, neighbours and small machinery; initial reaction to the proposal of a transit hub at Toronto Pearson is positive but upon reflection, most are not sure they would use it personally or believe there would be a significant reduction in traffic and congestion around the airport.

- Corporate giving – Propeller Project
- Partners in Project Green (PPG)
- Social media channels
- Completed an extensive public consultation with NAV Canada on *Six Ideas* for noise mitigation based on a two-year technical study. Communications and outreach efforts included 2.9 million reached through advertisements, 250,000 social media impressions, 160,000 households called, 8,700 website visits, and 430 attendees to 19 public meetings, all of which resulted in more than 900 survey responses. The Public Engagement Report was published in July 2018.
- Coordinated a communications and consultation campaign prior to testing Idea 5 of the *Six Ideas* – Summer Weekend Runway Alternation Program – which included 747,000 reached through advertisements, more than 163,000 residents reached by phone, 123,000 media impressions, and briefing and communications with 101 elected officials across the region, all of which resulted in more than 6,800 website visits and over 8,300 survey responses.
- As a result of stakeholder consultation and research, CENAC was replaced with the new Toronto Pearson Noise Management Forums as of January 1, 2019.

- Launched #UnionStationWest campaign to build community support for a regional transit centre at Toronto Pearson.
- Initiated new formats for community consultation, including digital tools for town halls that enable residents to participate and submit questions online.
- Toronto Pearson Street Team met with more than 5,000 neighbours at 60 community events, where they answered questions and shared airport trivia.
- Nearly 2,400 community neighbours participated in airside tours for a behind-the-scenes look at Toronto Pearson.
- Through the Toronto Pearson Volunteer Program, community volunteers helped more than four million passengers, collectively volunteering nearly 240,000 hours.
- Partnered with 24 local, non-profit organizations through the Propeller Project, providing $1.02 million in financial support.
- Celebrated the 10th anniversary of Partners in Project Green, an organization co-founded by GTAA, which brings together local businesses, government bodies, institutions and utilities

to build the largest eco-business zone in the world.

- Social media followers in 2018:

  Twitter: 56,871

  Facebook: 183,701

  LinkedIn: 19,211

  Instagram: 25,405

Facilitation Agencies

GTAA works closely with the Canadian Airport 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	2018 HIGHLIGHTS AND KEY TOPICS
• Meetings with local leadership of each of CATSA, CBSA and USCBP	• The GTAA meets daily with CATSA, CBSA and USCBP to discuss and coordinate operational issues. • The GTAA also meets with each agency to plan and promote longer-term projects and initiatives to support aviation growth, use of new technologies and processes, and resource requirements so that the customer experience at Toronto Pearson is safe, efficient and up to world-class standards. • With each agency, the GTAA has a collaborative and constructive working relationship, which has resulted in significant investments and improvements to their operations.

Governments and Regulators

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

HOW WE ENGAGE	2018 HIGHLIGHTS AND KEY TOPICS
• One-on-one and community meetings	• Signed a Memorandum of Understanding with NAV Canada to work together on initiatives aimed at accommodating growth and building social licence. • Worked closely with NAV Canada on a variety of initiatives related to noise management. • Held regular meetings with all levels of governments to discuss the Toronto Pearson Regional Transit and Passenger Centre. • Announced a partnership with Metrolinx to study potential connections to the Toronto Pearson Regional Transit and Passenger Centre, such as the Kitchener GO corridor, Eglinton Crosstown West LRT and Finch LRT.

- Presented to the Standing Committee on Transport, Infrastructure and Communities assessing the impact of aircraft noise in the vicinity of major Canadian airports.
- Government touchpoints included:

  Federal government – 287

  U.S. government – 16

  Provincial government – 142

  Municipal government – 195

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	2018 HIGHLIGHTS AND KEY TOPICS
• Interviews • Social media • News releases • Media statements	• Severe weather affecting flight schedules. • Busy travel period, including March break, summer and winter holidays. • Quarterly passenger traffic and financial information. • Spring 2018 runway resurfacing.

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), International Air Transport Association (IATA) and the International Civil Aviation Organization (ICAO).

HOW WE ENGAGE	2018 HIGHLIGHTS AND KEY TOPICS
• Industry association meetings, conferences and working groups	• Continued to grow and raise awareness of the Southern Ontario Airport Network, which is aimed at developing a more integrated air transportation network. Sarnia Chris Hadfield Airport became the newest member, joining in early 2019. • Reaffirmed our Level 3 certification in ACI's Airport Carbon Accreditation Program.

GRI INDICATORS 102-12 102-15 102-21 102-29 102-40 102-41 102-42 102-43 102-44 413-1

Priorities and performance

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, which includes the management approach, metrics and performance data related to each of our priorities included in our online annual report. Our reporting is in accordance with the GRI Standards: Core option (self-declared) and includes the Airport Operators Sector Disclosure, which the GTAA helped to develop in 2011.

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 assessed in 2015 and align with specific GRI topics. Our next materiality assessment will be conducted as part of the development of our five-year strategic plan. For 2018 reporting purposes, we considered ongoing feedback from our stakeholders, gathered through surveys and other methods outlined in the Stakeholder engagement section.

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.

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	2018	PROJECTED
Aviation Growth				
Passenger traffic (millions)	44	47	49.5	51 (2018)
Aircraft movements (thousands)	456	465	472	510 (year 2020)
Cargo volume (tonnes)	472,300	534,500	700,000	590,000 (year 2020)
New international cities (net increase)	10	11	10	Continue to increase 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)	4.45 First among North American and European airports (>40MM passengers)	Continue to be first among North American and European airports (in the same size category) for ASQ
Customer complaints per million passengers*	52.7	74	109	Continue to improve the passenger and customer experience
Customer compliments per million passengers*	9.4	11	15	Continue to improve the passenger and customer experience

GOALS AND PERFORMANCE METRICS	2016	2017	2018	PROJECTED
Engaged People				
Employee engagement (Aon Hewitt)	66%	69%	74%	Top quartile among Canadian employers by 2019
Direct jobs	49,000	51,000	51,000	By 2030, it’s estimated that Toronto Pearson could generate and facilitate 542,000 jobs in Ontario
Diversity	*Diversity (% employees)* Women: 27.2% Aboriginal peoples: 0.8% Persons with disabilities: 0.7% Visible minorities: 19.7%	*Diversity (% employees)* Women: 28.4% Aboriginal peoples: 0.9% Persons with disabilities: 0.7% Visible minorities: 20.7%	*Diversity (% employees)* Women: 32.4% Aboriginal peoples: 2.2% Persons with disabilities: 5.1% Visible minorities: 33.9%	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

GOALS AND PERFORMANCE METRICS	2016	2017	2018	PROJECTED
Engaged People				
Average salary	*Women* Managers: $113,000 Non-managers: $69,000 *Men* Managers: $120,000 Non-managers: $78,000	*Women* Managers: $114,932 Non-managers: $74,798 *Men* Managers: $130,522 Non-managers: $83,456	*Women* Managers: $121,538 Non-managers: $72,778 *Men* Managers: $130,739 Non-managers: $82,638	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	7.8% increase in injuries from 2017	Vision of zero lost-time injuries
Corporate Responsibility – Environmental				
Stormwater	Refer to 2016 GRI Index	Refer to GRI Index	Refer to GRI Index	Stormwater Management
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		Refer to GRI Index	Develop and implement an action plan associated with the Air Quality and Human Health Risk Assessment
Solid waste	74% diversion	71% diversion	71% diversion	Develop a roadmap for GTAA to achieve zero waste

GOALS AND PERFORMANCE METRICS	2016	2017	2018	PROJECTED
Corporate Responsibility – Environmental				
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.	Refer to GRI Index	80% reduction by 2050
Energy conservation (MWh)	4,100 MWh	5,000 MWh	4,114 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	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	Over 250 employees registered for the Green Commuter Rebate Program	Continue to increase participation in the Green Commuter Rebate Program

GOALS AND PERFORMANCE METRICS	2016	2017	2018	PROJECTED
Corporate Responsibility – Social				
Noise	53,135 complaints from 880 callers	168,676 complaints from 2,399 callers	119,613 noise complaints from 1,471 individuals	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	Invested over one million dollars in community projects through partnerships with 24 organizations within Toronto, Mississauga and Brampton	Continue to support community investment opportunities

GRI INDICATORS 102-15 102-29 102-31 102-38 102-46 102-47

Management's Discussion and Analysis

FOR THE YEAR ENDED DECEMBER 31, 2018

Dated March 20, 2019

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, 2018 and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the years ended December 31, 2018 and 2017, and the Annual Information Form for the year ended December 31, 2018. 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 – Lester B. 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. The GTAA's wholly-owned subsidiary, Malton Gateway Inc. ("MGI"), a holding company, was incorporated in April 2017 and holds the shares of Airway Centre Inc. Airway Centre Inc. was also incorporated in April 2017 to acquire and manage commercial properties that are unrelated to the direct management, operation or maintenance of the Airport. 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.

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

($ millions)	**2018**	2017	Change[1] 2018–2017		2016
Total Revenues	**1,471.7**	1,387.7	84.0	6.1%	1,301.6
Total Operating Expenses (excluding Amortization)	**751.1**	683.8	67.3	9.8%	626.4
EBITDA[2], [3]	**720.6**	703.9	16.7	2.4%	675.2
EBITDA margin[2], [3]	**49.0%**	50.7%		(1.7)pp	51.9%
EBIT[4]	**443.6**	439.2	4.4	1.0%	426.4
Net Income	**113.7**	112.2	1.5	1.4%	85.5
Adjusted Net Income[5]	**139.8**	112.2	27.6	24.6%	85.5
Free Cash Flow[6] ($ millions)	**(124.6)**	(175.7)	51.1	(29.1)%	119.7
Credit Metric[7]					
EBITDA/Interest (net)[1]	**2.29x**	2.11x	0.18	8.5%	1.93x
Rate Covenant[8]					
Operating Covenant (minimum requirement of 100%)	**135.9%**	137.6%		(1.7)pp	134.9%
Debt Service Covenant (minimum requirement of 125%)	**148.5%**	144.9%		3.6pp	136.3%
Passenger Activity (millions)					
Domestic	**17.8**	17.5	0.3	2.0%	16.9
International	**31.7**	29.6	2.1	6.7%	27.4
Total	**49.5**	47.1	2.4	5.0%	44.3
Flight Activity					
Aircraft movements (thousands)	**473.0**	465.4	7.6	1.6%	456.4
MTOW[9] (million tonnes)	**37.4**	36.3	1.1	3.2%	34.4
Seats (millions)	**59.3**	57.0	2.3	4.0%	54.2
Load factor (%)	**83.4**	82.6		0.8pp	81.8

At December 31	**2018**	2017	Change		2016
Total Debt – GAAP ($ millions)	**6,370.3**	6,311.8	58.5	0.9%	6,222.6
Net Debt[10]	**5,959.1**	5,844.6	114.5	2.0%	5,665.9
Key Credit Metrics ($)					
Total Debt/EPAX[11]	**258**	268	(10)	(3.8)%	281
Net Debt[10]/EPAX[11]	**241**	248	(7)	(2.8)%	256

(1) "% Change" is based on detailed actual numbers (not rounded as presented); pp = percentage points; x = times.
(2) EBITDA, a non-GAAP financial measure, is earnings before interest and financing costs and amortization. Refer to section "Non-GAAP Financial Measures".
(3) Refer to "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) Adjusted net income, a non-GAAP financial measure, is defined as net income before the early retirement of debt charge, remaining unamortized bond premiums and loss on cash flow hedge. Refer to section "Non-GAAP Financial Measures".
(6) Free cash flow, a non-GAAP financial measure, is cash generated from operations, less cash interest and financing costs less capital expenditures. Refer to section "Non-GAAP Financial Measures". See "Liquidity and Capital Resources" section for narrative details and the free cash flow calculation.
(7) This credit metric is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".
(8) The GTAA's Master Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant).
(9) MTOW is aircraft maximum take-off weight as specified by the aircraft manufacturers.
(10) Net Debt, a non-GAAP financial measure, is gross debt, less cash and restricted funds. Refer to section "Non-GAAP Financial Measures".
(11) 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 strategic framework comprising a set of goals that focuses its efforts and drives the GTAA toward its vision.

Building on and supplementing the strategic framework, the GTAA has over the last two years articulated a vision for Toronto Pearson aspiring to become a mega hub from a global hub, growing its number of international passengers and striving to provide direct air service to 80 per cent or more of the global economy – creating additional jobs, fuelling exports and attracting foreign investment.

Air travel activity at Toronto Pearson has risen significantly over the last several years as 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 and Passenger Centre ("RTPC"), and a replacement of the baggage systems.

As a worldwide connector of people and businesses, and a driver of economic prosperity in the region, the GTAA views enhanced access to effective transit at the Airport as a priority. Currently, one million car trips a day are taken into and out of the Airport employment zone and driving times to Toronto Pearson are expected to rise by an average of 30 per cent over the next two decades. The GTAA has a vision to build a RTPC to better move people to, from and around the Airport, making it easier to travel, connecting people with jobs, facilitating tourism, enabling business and facilitating the movement of goods. The project is expected to be completed in phases, with the first phase planned for the late-2020s. In February 2018, the GTAA engaged HOK – a leader in sustainable, high-performance projects – to design the RTPC at Toronto Pearson. In April 2018, the GTAA and Metrolinx announced that they will work together to study potential connections for the Kitchener rail corridor to connect directly to the Airport's proposed RTPC, in addition to other potential direct transit connections such as the Eglinton Crosstown West Light Rail Transit and various regional bus services. The GTAA will continue to advance the planning of the facility and looks to all levels of government to partner on the study of connecting various local transit lines to harness the benefits of a major transit hub for the West Greater Toronto and Hamilton Area.

During 2017, the GTAA released a report, "Toronto Pearson International Airport: Master Plan: 2017–2037" ("Master Plan"). 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.

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 commercial revenues, as well as investments to meet regulatory requirements.

HIGHLIGHTS

Toronto Pearson's growth reflects the region's economic growth and the impact of the GTAA's overall business strategy. During 2018, passenger traffic grew by 5.0 per cent compared to the same period in 2017 with the international sector leading the passenger growth at 6.7 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, geopolitical and trade implications. The GTAA remains focused on optimizing the utilization of its facilities, growing 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 11 consecutive years, resulting in a reduction in the average air carriers' cost per enplaned passenger.

For the second consecutive year, Toronto Pearson was recognized by Airports Council International as the Best Large Airport in North America for airports that service greater than 40 million passengers annually, based on passenger feedback resulting in an Airport Service Quality ("ASQ") score of 4.45 in 2018. 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. In addition, the score of 4.45 is the highest passenger satisfaction score among airports serving greater than 40 million passengers annually in Africa, North and South America, Australia and Europe. The investments that the GTAA has made over the past several years in enhancing the passenger experience have helped it earn this 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, cost effective 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 2018 by 5.0 per cent, from 47.1 million passengers in 2017 to 49.5 million passengers in 2018, representing an annual growth of 2.4 million passengers. This represents the fifth consecutive year of total annual passenger growth of 5.0 per cent or more.

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 2018, the strongest growth was in the international sector, where there was an increase in passenger traffic of 6.7 per cent, or 2.1 million passengers from 29.6 million passengers in 2017 to 31.7 million passengers in 2018. The domestic sector experienced an increase of 2.0 per cent, or 300,000 passengers from 17.5 million passengers to 17.8 million passengers over the same comparable period.

The following table summarizes passenger activity by sector for 2018, 2017 and 2016:

PASSENGER ACTIVITY

(in millions)	**2018**	2017	Change[1] 2018–2017		2016
Domestic	**17.8**	17.5	0.3	2.0%	16.9
International	**31.7**	29.6	2.1	6.7%	27.4
Total	**49.5**	47.1	2.4	5.0%	44.3
(in millions)					
Origin and destination	**35.0**	33.2	1.8	5.6%	30.6
Connecting	**14.5**	13.9	0.6	3.5%	13.7
Total	**49.5**	47.1	2.4	5.0%	44.3
(per cent)					
Origin and destination	**70.8**	70.4		0.4pp	69.0
Connecting	**29.2**	29.6		(0.4)pp	31.0
Total	**100.0**	100.0			100.0

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

Toronto Pearson's mega hub strategy propelled the growth in 2018. 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 2018. 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 market in the Greater Toronto Area, have contributed to Toronto Pearson's increased passenger activity. In addition, the other Canadian and foreign carriers have also significantly contributed to Toronto Pearson's growth.

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. In 2018, total origin and destination traffic increased by 1.8 million passengers, while the total number of connecting passengers increased by 600,000 passengers from 2017. Origin and destination traffic increased in 2018 due to the strong population growth and favourable economic conditions in the Greater Toronto Area, a shift to a service sector-oriented economy with its higher propensity for air travel and the stimulative effect on origin-destination demand of the greater connectivity available at a global hub airport. Connecting traffic also increased due in part to the GTAA's mega hub strategy. In 2018, 70.8 per cent of Toronto Pearson's total passengers were origin and destination passengers, while the remaining 29.2 per cent were connecting passengers, compared to 70.4 per cent origin and destination passengers and 29.6 per cent connecting passengers in 2017.

Flight Activity

As a global hub airport, Toronto Pearson has 65 air carriers providing flights to 180 international and 35 Canadian cities (non-stop flights to 175 International and 35 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 2018, 2017 and 2016.

FLIGHT ACTIVITY[1]

(in thousands)	**2018**	2017	Change[2] 2018–2017		2016
Aircraft movements[3]	**473.0**	465.4	7.6	1.6%	456.4
Passenger aircraft movements	**435.5**	427.8	7.7	1.8%	419.2
(in millions)					
MTOW (tonnes)	**37.4**	36.3	1.1	3.2%	34.4
Seats	**59.3**	57.0	2.3	4.0%	54.2
Seats per passenger aircraft movement	**136.3**	133.3	3.0	2.2%	129.2
Load factor (%)	**83.4**	82.6		0.8pp	81.8

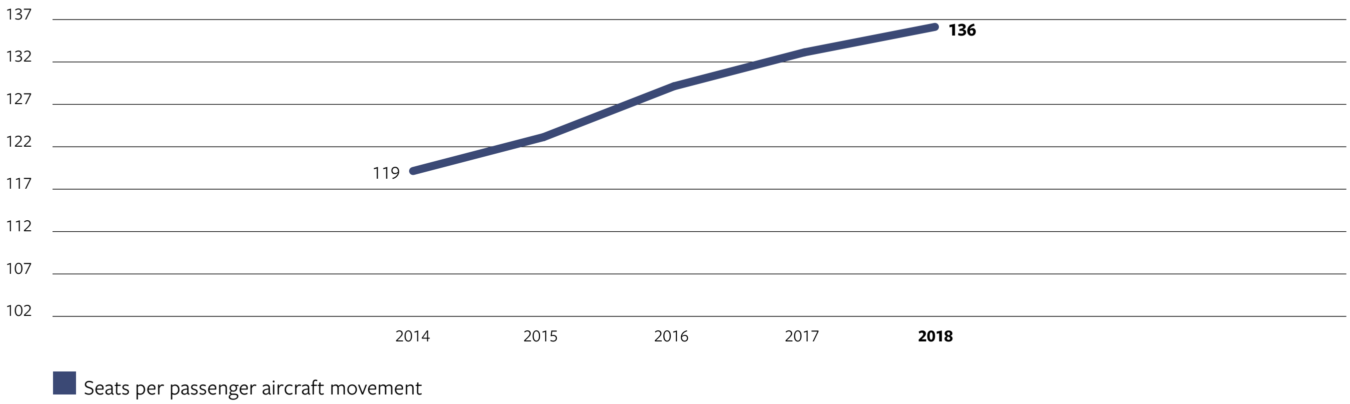
(1) Flight activity measures above reflect both arriving and departing.
(2) "% Change" is based on detailed actual numbers (not rounded as presented).
(3) Aircraft movements include both passenger and non-passenger aircraft movements.

There was growth in MTOW during 2018 with 37.4 million tonnes, an increase of 3.2 per cent as compared to 2017. This growth reflects an increase in the number of flights and airlines shifting their fleet to larger aircraft. Seats also increased during 2018 by 4.0 per cent to 59.3 million as compared to 2017. As noted above, airlines have been upgauging their aircraft by increasing the seat capacity on existing aircraft and utilizing larger planes. The number of seats per passenger aircraft movement during 2018 was 136.3, an increase of 3.0 seats or 2.2 per cent when compared to 2017, which reflects the air carrier's response to strong growth in passenger demand at the Airport. In addition, load factors have increased from 82.6 per cent in 2017 to 83.4 per cent in 2018. This trend, in effect, increases the passenger capacity of Toronto Pearson's runways and is consistent with the experience of other global and mega hub airports, namely, a trend towards larger aircraft with an increased number of seats and higher load factors.

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

SEATS PER MOVEMENT

(seats)



During the year, 18 new flight routes were added while five routes were discontinued, resulting in 13 net new routes for the Airport.

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.

Several routes that were added in 2018 with new or increased service to significant economic centers include London Gatwick (United Kingdom), Buenos Aires (Argentina), Bucharest (Romania), Zagreb (Croatia), Shannon (Ireland), Kiev (Ukraine), Chongqing (China), Guangzhou (China), Miami (United States), Milan (Italy), Mexico City (Mexico), Providence (United States) and Zurich (Switzerland). The discontinued routes included services to Birmingham (UK), Narita (Japan), Jeddah/Riyadh (Saudi Arabia), London Stansted (United Kingdom) and Lisbon (Portugal). During 2018, Ukraine International Airlines commenced services while Primera Air and Saudia discontinued services at Toronto Pearson.

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 2018, the GTAA advised that it would not change its aeronautical rates and charges to air carriers operating at the Airport in 2019. 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.

In 2014, the GTAA and Air Canada entered into a long-term commercial agreement which further supports Toronto Pearson's mega hub strategy. The non-exclusive agreement covered an initial five-year term, with an automatic extension for a further five years subject to certain conditions, which have 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, 2018 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.

The GTAA also has Airport Improvement Fee ("AIF") agreements with each air carrier that takes off from and lands at Toronto Pearson whereby air carriers undertake to collect AIF from each of their enplaned passengers on the GTAA's behalf. The GTAA commits in these agreements to using AIF revenues for capital programs, including associated debt service. AIF has been held constant or lowered for the past nine years.

Revenues

Revenues are derived from aeronautical rates and charges (which include landing fees, general terminal charges and apron fees), AIF and commercial revenues (which include car parking, ground transportation, concessions, rentals, counter fees, check-in fees, deicing facility fees and other sources). Rentals include activities for both the GTAA and 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 commercial revenues is correlated with passenger activity.

The following table summarizes the GTAA's consolidated revenues for the years ended December 31, 2018, 2017 and 2016.

REVENUES

($ millions)	2018	2017	Change[1] 2018–2017		2016
Landing fees	**318.5**	312.2	6.3	2.0%	305.5
General terminal charges	**191.3**	188.8	2.5	1.3%	183.8
Aeronautical revenues	**509.8**	501.0	8.8	1.8%	489.3
Concessions & rentals	**277.5**	241.4	36.1	15.0%	214.7
Car parking & ground transportation	**191.8**	177.7	14.1	7.9%	169.1
Other	**32.6**	31.5	1.1	3.6%	28.7
Commercial revenues	**501.9**	450.6	51.3	11.4%	412.5
Airport improvement fees	**460.0**	436.1	23.9	5.5%	399.8
Total	**1,471.7**	1,387.7	84.0	6.1%	1,301.6

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

Aeronautical revenues increased 1.8 per cent to $509.8 million during 2018, when compared to 2017, due to increased passenger growth and flight activities.

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 34 per cent from 2008 to 2018, respectively.

Consolidated concession and rental revenues increased by 15.0 per cent to $277.5 million during 2018 when compared to 2017. 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 Airway Centre Inc.'s commercial buildings. In 2018, the GTAA's revenues from its retail tenants (concession revenues) at the Airport increased to $144.2 million from $129.1 million in 2017, an 11.8 per cent increase. There was significant growth due to the redevelopment and opening of 26 new retail stores during 2018 and the introduction of new and enhanced products and services. Rental revenues increased 18.7 per cent to $133.3 million in 2018 from $112.3 million in 2017. This is primarily due to the acquisition by Airway Centre Inc. of commercial buildings which generated additional rental revenues, and to increased rental rates and higher activity at the Airport. Excluding Airway Centre Inc. revenues (a non-GAAP financial measure), rental revenues increased by 6.2 per cent to $107.6 million during 2018 when compared to 2017.

Retail store sales per enplaned passenger in 2018 at Toronto Pearson were $21.66 versus $21.00 in 2017, a $0.66 or 3.1 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 7.9 per cent to $191.8 million during 2018 when compared to 2017. The roll out of an 18-month pilot program to allow Transportation Network Companies, such as Uber and Lyft, to operate at Toronto Pearson contributed towards this increase alongside a combination of rate increases, enhanced marketing and business development initiatives in parking and ground transportation. Parking volumes have increased slightly during 2018 over 2017 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 long-term strategy of providing passengers and employees more choice and supporting increased mode share of mass transit to 35 per cent at the Airport as outlined in the Master Plan.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 3.6 per cent to $32.6 million during 2018, when compared to 2017. Deicing revenues have increased 5.2 per cent or $1.4 million during 2018 to $28.6 million, compared to 2017, due to the growth in flight activities. The deicing revenues are based on a cost-recovery model.

AIF revenue increased 5.5 per cent to $460.0 million during 2018 compared to 2017. This increase was due to higher passenger activity.

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 GTAA's consolidated expenses for the years ended December 31, 2018, 2017 and 2016.

EXPENSES

($ millions)	**2018**	2017	Change[1] 2018–2017		2016
Ground rent	**165.2**	156.9	8.3	5.3%	148.1
PILT[2]	**37.8**	36.3	1.5	4.0%	34.6
Total Ground rent and PILT[2]	**203.0**	193.2	9.8	5.0%	182.7
Goods and services	**356.2**	314.9	41.3	13.1%	285.3
Salaries, wages and benefits	**191.9**	175.7	16.2	9.2%	158.4
Total operating expenses before amortization	**751.1**	683.8	67.3	9.8%	626.4
Amortization of property and equipment, investment property and intangible assets	**277.0**	264.7	12.3	4.7%	248.8
Total operating expenses	**1,028.1**	948.5	79.6	8.4%	875.2
Interest expense on debt instruments and other financing costs, net of interest income	**298.5**	327.0	(28.5)	(8.7)%	340.9
Early retirement of debt charge	**28.7**	–	28.7	100.0%	–
Loss on cash flow hedge	**2.7**	–	2.7	100.0%	–
Total expenses	**1,358.0**	1,275.5	82.5	6.5%	1,216.1

(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 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 5.3 per cent to $165.2 million during 2018, when compared to 2017. This increase in ground rent expense was due to an increase in Airport Revenues in 2018.

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*. The PILT expenditure increased 4.0 per cent to $37.8 million during 2018, when compared to 2017. 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 and are thus not exempt. In the 2018 Ontario budget, the province announced that it is looking to review the way PILT is calculated for airports. No changes to the rates used to calculate PILT have been made since 2001. The province has indicated that it will consult with airport authorities and municipalities affected in its review.

Ground rent and PILT together comprised approximately 19.7 per cent of the GTAA's operating expenses, and 15.0 per cent of total expenses in 2018.

Expenditures for goods and services increased 13.1 per cent or $41.3 million to $356.2 million during 2018, when compared to 2017. The GTAA incurred higher expenditures due to increased Airway Centre Inc.'s costs by $6.8 million, snow removal costs by $4.3 million, Airport maintenance and utilities by $4.2 million, RTPC related costs by $2.2 million, and the increasing investments to support improved passenger and baggage flow, with an increase of approximately $5.9 million.

Management believes that investments in support of the GTAA's vision have had a positive impact on the passenger experience, as reflected in the 2018 ASQ survey where Toronto Pearson achieved the highest passenger satisfaction score in five of the six continents wherein the ASQ survey was administered for airports greater than 40 million passengers annually. Refer to 'Highlights' section for further information.

Salaries, wages and benefits increased 9.2 per cent or $16.2 million to $191.9 million during 2018, when compared to 2017. The increases were due to increased salaries, wages, severances, staff and approximately $4.9 million of expenditures in connection with enhanced passenger and baggage flow related to the GTAA's vision. 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 increased 4.7 per cent to $277.0 million during 2018, when compared to 2017. This increase was due to additions to the depreciable asset base and the inclusion of the amortization of Airway Centre Inc.'s investment properties.

The GTAA incurred operating expenses, which includes goods and services, salaries and amortization, in support of government agencies' performance in customs and security clearances to improve passenger flow at the Airport of $38.9 million during 2018, an increase of $3.6 million or 10.2 per cent, when compared to 2017. These included direct and indirect operating costs to enhance services provided by Canadian Air Transport Security Authority ("CATSA"), U.S. Customs and Border Protection ("USCBP") and Canada Border Services Agency ("CBSA"). During 2018, CATSA screened 19.5 million departing passengers at Toronto Pearson, an increase of approximately 893,000 or 4.8 per cent over 2017. Of these screened passengers, 92.3 per cent waited less than 15 minutes to be screened compared to the CATSA funding standard service level target across Canada of 85.0 per cent in less than 15 minutes.

Interest expense and other financing costs, net of interest income, decreased by 8.7 per cent to $298.5 million during 2018 when compared to 2017. This decrease was attributable to refinancing a portion of the GTAA's debt at lower interest rates and recognizing the remaining Series 2009-1 Medium Term Notes ("MTNs") unamortized premium. The GTAA reduced its interest cost when it funded the maturities of the $415.9 million Series 2007-1 MTNs on June 1, 2017 and the $460.9 million Series 2008-1 MTNs on April 17, 2018 with the issuance of commercial paper ("CP"). 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 "Redemption Date"). It did so to lower the interest rate on this instrument from 5.96 per cent to 3.26 per cent per year and lock in such lower rate for the next 19 years, reducing interest expense by approximately $12 million annually. As a result, the GTAA incurred an early retirement of debt charge of $28.7 million which will be offset by lower interest rates. In addition, the GTAA recognized the unamortized premium remaining on the Series 2009-1 MTNs during the first quarter of 2018 reducing interest expense and financing costs by $5.3 million. In accordance with International Financial Reporting Standard ("IFRS") 9, *Financial Instruments*, the loss on the cash flow hedge of $2.7 million that was recognized in the first quarter of 2018 was the 'ineffective' portion of the change in the fair value of the interest rate lock contract. Refer to 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, 2018, 2017 and 2016.

NET OPERATING RESULTS

($ millions)	**2018**	2017	Change[1] 2018–2017		2016
Net Income	**113.7**	112.2	1.5	1.4%	85.5
Add: Early retirement of debt charge	**28.7**	–	28.7	100.0%	–
Loss on cash flow hedge	**2.7**	–	2.7	100.0%	–
Less: Unamortized bond premium	**(5.3)**	–	(5.3)	100.0%	–
Adjusted Net Income[2]	**139.8**	112.2	27.6	24.6%	85.5
Add: Interest and financing costs, net	**298.5**	327.0	(28.5)	(8.7)%	340.9
Unamortized bond premium	**5.3**	–	5.3	100.0%	–
EBIT	**443.6**	439.2	4.4	1.0%	426.4
Add: Amortization[3]	**277.0**	264.7	12.3	4.7%	248.8
EBITDA[2]	**720.6**	703.9	16.7	2.4%	675.2
EBITDA margin	**49.0%**	50.7%		(1.7)pp	51.9%

(1) "% Change" is based on detailed actual numbers (not rounded as presented).
(2) Adjusted Net Income and EBITDA are non-GAAP financial measures.
(3) Amortization means amortization of property and equipment, investment property and intangible assets.

The GTAA's net income increased 1.4 per cent to $113.7 million during 2018, when compared to 2017. This increase was primarily due to the positive earnings from operations and lower interest and financings costs offset by the early retirement of debt charge, the remaining unamortized premium from Series 2009-1 MTNs, and loss on the cash flow hedge. Refer to the "Liquidity and Capital Resources" section for details. Excluding the one-time interest and financing items, adjusted net income increased $27.6 million or 24.6 per cent to $139.8 million due to the strong operating results and reduction of interest expense. Adjusted net income is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Earnings before interest and financing costs ("EBIT") increased 1.0 per cent to $443.6 million during 2018, when compared to 2017. This increase in EBIT was the result of higher increases in commercial revenues and passenger activities over increases in operating costs.

Earnings before interest and financing costs and amortization ("EBITDA") increased 2.4 per cent to $720.6 million during 2018, when compared to 2017, due to the same reasons as discussed with respect to EBIT above. The EBITDA margin decreased by 1.7 percentage points to 49.0 per cent during 2018, when compared to 2017. 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, 2017 through December 31, 2018, is set out in the following table.

								Quarter Ended
				2018				2017
($ millions) [1]	**Dec**	**Sep**	**Jun**	**Mar**	Dec	Sep	Jun	Mar
Revenues	**367**	**397**	**359**	**349**	344	374	345	324
Operating expenses (excluding amortization) [2]	**200**	**180**	**179**	**192**	182	170	162	168
Amortization [2]	**73**	**68**	**68**	**68**	68	67	65	65
Earnings before interest and financing costs, net	**94**	**149**	**112**	**89**	94	137	118	91
Interest and financing costs, net	**74**	**75**	**75**	**74**	80	81	83	83
Early retirement of debt charge	**–**	**–**	**–**	**29**	–	–	–	–
Loss on cash flow hedge	**–**	**–**	**–**	**3**	–	–	–	–
Net (loss) income	**20**	**74**	**37**	**(17)**	14	56	35	8

(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 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 1 Pier G – The GTAA is upgrading and expanding its capacity at the Pier G commuter facility in Terminal 1 to accommodate narrow body aircraft operations in response to increased passenger traffic at the Airport. Formerly named Pier 193 expansion, this project will increase the planned narrow body aircraft parking positions to 10, further expand the associated apron, increase the retail services for transborder passengers and improve passenger flow and circulation. Phases One and Two of the building expansion were opened in 2017. The planning and designs of a new apron and the associated boarding bridges commenced in the third quarter of 2017 and the associated work is expected to be completed in early 2019. From the inception of the Pier G expansion to December 31, 2018, the GTAA has expended $46.9 million. During 2018, the GTAA expended $16.0 million.

Terminal 3 Improvement Projects (Phase One) – The following Terminal 3 improvement projects were completed at the end of 2018: revitalization of certain gates 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, 2018, the GTAA has expended $92.3 million. During 2018, the GTAA expended $13.4 million.

Baggage Handling Improvements (Phase One) – The baggage handling improvement program has been undertaken to add baggage handling capacity, and improve system reliability and dependability, to meet current as well as future anticipated transfer baggage processing requirements. The work is expected to be executed in three implementation phases. Phase One commenced in the fourth quarter of 2018 and is expected to be completed in late 2021 or early 2022. Subsequent to December 31, 2018, the GTAA entered into a master agreement with PCL Construction and BEUMER Group which includes several design-build work packages that are intended to enhance the way the Airport operates, enhance the passenger experience and ultimately move Toronto Pearson closer toward its vision. During 2018, the GTAA expended $22.8 million.

Property Acquisitions – During 2018, the GTAA's wholly owned subsidiary, Airway Centre Inc., acquired 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 and expended on office space and building improvements totaling approximately $178.4 million.

FUTURE CAPITAL PROJECTS

The GTAA is undertaking designs, studies, and planning with respect to the following capital projects:

Terminal 1 Expansion – New Concourse and Processor – The Terminal 1 expansion planning and preliminary designs are being undertaken to create new gates to support future increases in US travel activity and to further enhance the GTAA's mega hub strategy. The planning and designs for the project commenced in the fourth quarter of 2017. From the inception of the Terminal 1 expansion to December 31, 2018, the GTAA has expended $11.8 million. During 2018, the GTAA expended $6.7 million.

Terminal 3 Improvement Projects (Phase Two) – The preliminary planning and design for future Terminal 3 enhancements commenced in late 2018 and will conclude in 2019 with a focus on setting the conditions to meet 2027 passenger growth projections. The Phase Two program is intended to renovate and upgrade the parts of the Terminal that were not part of the original Terminal 3 Improvement Projects (Phase One) as discussed above.

Regional Transit and Passenger Centre – The RTPC is intended to create a regional ground transportation hub, providing much needed improved connection between the area surrounding Toronto Pearson and the rest of the Greater Toronto and Hamilton Area. The preliminary design development for Phase One of the project, that will consider future phases to complete the overall project, commenced in 2018. During 2018 the GTAA expended $6.8 million.

In addition, the GTAA and Metrolinx will be working together to study potential connections for the Kitchener rail corridor and possibly other potential transit connections to Toronto Pearson's RTPC, linking the Airport to all the key urban centres in Southern Ontario as well as to areas west of Toronto. The joint study will include, but is not limited to, a preliminary design, environmental assessment, feasibility study and detailed cost analysis for a number of transportation options.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at December 31, 2018, 2017 and 2016, are set out in the following table.

($ millions)	**2018**	2017	Change 2018–2017	2016
Total assets	**6,437.6**	6,186.2	251.4	5,967.0
Total liabilities	**6,811.1**	6,651.5	159.6	6,553.2
Deficit & Accumulated other comprehensive loss	**(373.5)**	(465.3)	91.8	(586.2)

At December 31, 2018, when compared to December 31, 2017, the GTAA's total assets had increased by $251.4 million mainly due to the property acquisitions, and office space and building improvements by Airway Centre Inc. of approximately $178.4 million and higher property and equipment assets under construction. The acquisitions, improvements and assets under construction were funded by cash from operations and borrowings. The GTAA's total liabilities increased by $159.6 million mainly due to the borrowings related to the property acquisitions by Airway Centre Inc., which were funded by the GTAA by way of inter-company loans, and an increase in accounts payable and accrued liabilities. Accounts payable and accrued liabilities increased by $97.3 million due to higher capital expenditure and operating expense accruals.

The deficit and accumulated other comprehensive loss of $373.5 million at December 31, 2018, as reported on the consolidated statements of financial position, has arisen primarily due to prior year's operations which were impacted by 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.

RESTRICTED FUNDS

($ millions)	**2018**	2017	Change 2018–2017	2016
Debt Service Fund	**60.6**	72.7	(12.1)	73.3
Debt Service Reserve Funds	**328.1**	382.3	(54.2)	403.7
Total Trust Indenture Directed Funds	**388.7**	455.0	(66.3)	477.0

As shown in the table above, total restricted funds decreased from $455.0 million in 2017 to $388.7 million in 2018 due to the GTAA's use of the respective reserve funds to repay the principal maturity of the Series 2008-1 MTNs and the early bond redemption of Series 2009-1 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 and Pricing Supplement Nos. 3 and 4 dated May 14, 2009 and October 5, 2009, respectively (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.

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:

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	2018	2017	Change 2018–2017	2016
Free Cash Flow ("FCF")[1]				
Cash flows from Operating Activities – GAAP	**730.6**	724.5	6.1	697.5
Capital Expenditures[2] – Projects	**(319.4)**	(279.4)	(40.0)	(227.2)
FCF before property acquisitions	**411.2**	445.1	(33.9)	470.3
Capital Expenditures[2] – Property Acquisitions	**(178.4)**	(286.5)	108.1	–
FCF before interest and financing costs	**232.8**	158.6	74.2	470.3
Interest and financing costs, net[3]	**(314.0)**	(334.3)	20.3	(350.6)
Early retirement of debt charge	**(28.7)**	–	(28.7)	–
Payment on termination of cash flow hedge	**(14.7)**	–	(14.7)	–
Free Cash Flow[1]	**(124.6)**	(175.7)	51.1	119.7
EBITDA[4]/Interest (net)[3]	**2.29x**	2.11x	0.18	1.93x
Rate Covenant[5]				
Operating Covenant (minimum requirement of 100%)	**135.9%**	137.6%	(1.7)pp	134.9%
Debt Service Covenant (minimum requirement of 125%)	**148.5%**	144.9%	3.6 pp	136.3%

				At December 31
($ millions)	2018	2017	Change 2018–2017	2016
Debt				
Total Debt – GAAP	**6,370.3**	6,311.8	58.5	6,222.6
Cash	**22.5**	12.2	10.3	73.8
Restricted funds	**388.7**	455.0	(66.3)	482.9
Net Debt[6]	**5,959.1**	5,844.6	114.5	5,665.9
Key Credit Metrics ($)				
Total Debt/EPAX[7]	**258**	268	(3.8)%	281
Net Debt[6]/EPAX[7]	**241**	248	(2.8)%	256

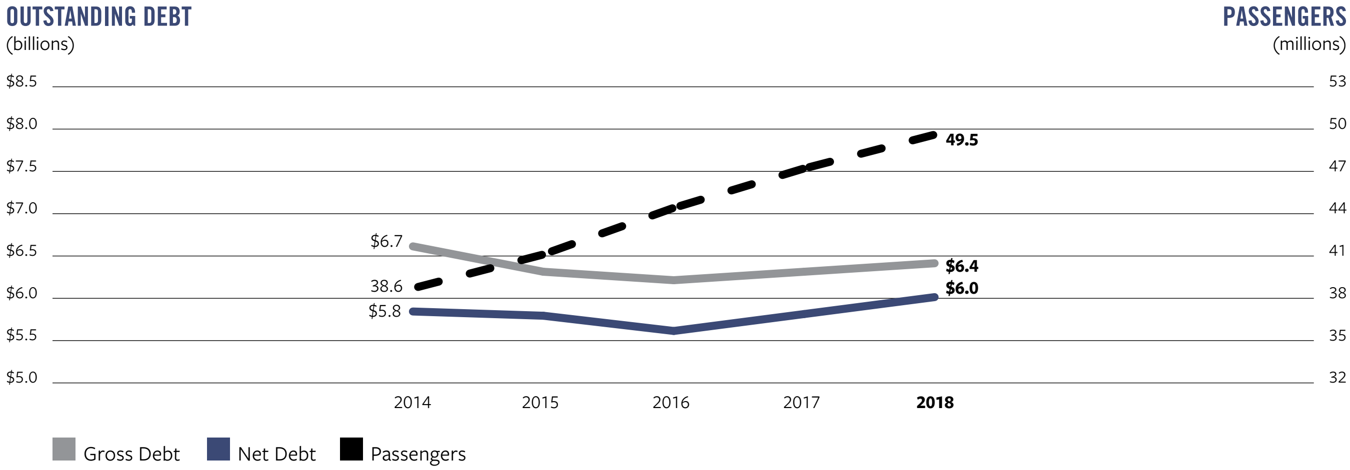
(1) Free cash flow, a non-GAAP financial measure, is defined as cash flow from operationing activities per the Consolidated Statement of Cash Flows less interest and financing costs paid, net of interest income, less capital expenditures (projects and property acquisitions). Refer to section "Non-GAAP 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, 2018.
(3) Interest and financing costs excludes non-cash items and reflects the cash payment activities of the Corporation net of interest income, and therefore, is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".
(4) EBITDA, a non-GAAP financial measure, is earnings before interest and financing costs and amortization. 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 restricted funds. 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 by $6.1 million to $730.6 million during 2018, when compared to 2017. Free cash flow deficit decreased by $51.1 million during 2018, when compared to 2017 due to lower property acquisitions and interest costs offset by additional capital expenditures, the $28.7 million early retirement of debt charge from Series 2009-1 MTNs and the $14.7 million payment on termination of the cash flow hedges. Free cash flow is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

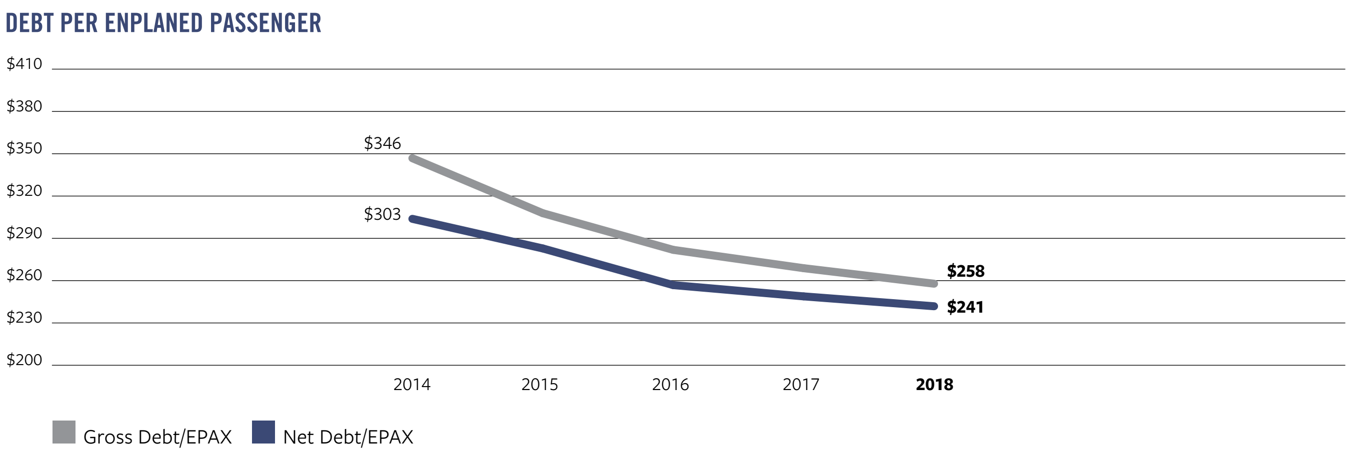
EBITDA over interest costs improved during 2018 when compared to 2017 by 0.18 times to 2.29 times. EBITDA over interest costs is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Net Debt increased by $114.5 million to $6.0 billion as at December 31, 2018 when compared to December 31, 2017 as a result of the GTAA's higher capital expenditures and Airway Centre Inc.'s commercial property acquisitions offset by a reduction in restricted funds and cash generated from operations. Net Debt is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

The following chart tracks the GTAA's reduction of gross debt over the last five years from $6.7 billion in 2014 to $6.4 billion in 2018 and an increase in net debt from $5.8 billion in 2014 to $6.0 billion in 2018.



The GTAA's total debt per enplaned passenger, one of the airport industry's key financial metrics, declined from $346 in 2014 to $258 in 2018, and net debt per enplaned passenger declined from $303 in 2014 to $241 in 2018. 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.



On February 7, 2018, the GTAA exercised its right to redeem all $522.0 million of the outstanding Series 2009-1 MTNs on Redemption Date. 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, was calculated on March 26, 2018. The redemption price, which included a $28.7 million early retirement of debt charge, together with accrued interest was paid on the Redemption Date. To partially refinance the redemption of the Series 2009-1 MTNs, on March 29, 2018 the GTAA issued $500.0 million Series 2018-1 MTNs for net proceeds of $497.2 million.

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 bond maturing on June 1, 2037 as its reference bond. The derivative agreements were settled on the Redemption Date, to coincide with the issuance of the Series 2018-1 MTNs, resulting in the GTAA making a cash payment of $14.7 million. In accordance with IFRS 9, the ineffective portion of the change in the fair value of the interest rate lock contract of $2.7 million was recognized in interest and financing costs on the condensed consolidated statement of operations and comprehensive (loss) income in the first quarter of 2018. The effective portion of $12.0 million was recognized in other comprehensive (loss) income and will be amortized over the remaining term of the hedged debt (19.2 years).

The GTAA refinanced the maturity of the $460.9 million Series 2008-1 MTNs on April 17, 2018 through the issuance of CP. To facilitate the issuance, the GTAA had previously increased its CP program by $500.0 million to $1.0 billion on March 23, 2018. In connection with the increase, the GTAA increased the aggregate availability under its revolving operating credit facility from $900.0 million to $1.4 billion to provide credit facility support for borrowings under the CP program. On October 5, 2018, the GTAA further increased the CP program by $400.0 million to $1.4 billion. On March 23, 2018, the GTAA has also increased its letter of credit facility from $100.0 million to $150.0 million and its pledged bond from $1.35 billion to $1.9 billion.

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 CP 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, 2018 contains more detailed information about the GTAA's credit ratings.

LIQUIDITY & CREDIT FACILITIES

($ millions)					As at December 31, 2018
Source	Currency	Expiry	Size	Drawn	Available
Cash	CAD				**22.5**
Credit Facilities:					
Revolving Operating facility[1]	CAD	May 21, 2021	1,400.0	–	**1,400.0**
Letter of Credit facility	CAD	May 22, 2019	150.0	99.2	**50.8**
			1,550.0	**99.2**	**1,473.3**
Commercial paper backstop[1]					**1,098.8**
Total net liquidity (including cash)					**374.5**
Hedge facility[2]	CAD	Per contract	150.0	–	**150.0**
Total credit facilities and cash			**1,700.0**	**99.2**	**524.5**

(1) At December 31, 2018, $1.1 billion of the revolving operating facility fully backstopped the $1.1 billion of outstanding CP. During 2018, the GTAA further increased the CP program by $900 million to $1.4 billion.

(2) The hedge facility is a non-cash facility and allows the Corporation to enter into derivative transactions. Any amounts reported represent 'mark-to-market' losses on outstanding contracts.

The GTAA maintains 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 $1.4 billion revolving operating credit facility is used to fund capital projects or operating expenses, as required, and backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the revolving operating credit facility. As at December 31, 2018, $1.1 billion of CP was outstanding, no amounts were utilized from the revolving operating credit facility, $99.2 million of the $150.0 million letter of credit facility was utilized, and no amounts were secured on the $150.0 million hedge facility.

At December 31, 2018, the GTAA had a working capital deficiency of $1.4 billion, as computed by subtracting current liabilities from current assets. This consisted mainly of the $1.1 billion of outstanding CP. 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, 2018, the GTAA had $301.2 million available for general corporate purposes and $1.1 billion available that backstopped the outstanding CP under its revolving operating credit facility. Management believes that 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 as they come due.

The following table analyzes the GTAA's contractual obligations 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. The debt obligations include both principal and interest cash flows.

TOTAL CONTRACTUAL OBLIGATIONS

		Payments Due by Period			
($ millions)	Total	Less than 1 Year	1 Year to 3 Years	4 Years to 5 Years	Thereafter
Accounts payable and accrued liabilities	333.3	333.3	–	–	–
Purchase Obligations[(1)]	918.9	462.0	270.0	117.3	69.6
Commercial Paper and short-term debt	1,100.0	1,100.0	–	–	–
Long-term debt	5,244.6	18.3	340.1	433.5	4,452.7
Interest payable on long-term debt	4,173.7	285.4	564.9	540.9	2,782.5
	11,770.5	2,199.0	1,175.0	1,091.7	7,304.8

(1) Purchase Obligations include commitments for goods and services contracts as at December 31, 2018 the GTAA entered into that are required to operate the Corporation in the ordinary course of business over the next few years. It also includes capital and property commitments of approximately $327.8 million.

Accounts payable, accrued liabilities and purchase obligations 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, 2018 of approximately $327.8 million, as compared to $196.3 million at December 31, 2017. The GTAA expects to fund these commitments primarily through its cash flow from operations.

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, enables 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. As of the date of this report, the GTAA does not expect to purchase and cancel additional outstanding debt in the near term.

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 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 2019. There may, however, be events outside of the control of the GTAA that could have a negative impact on its liquidity. Refer to the "Risk Factors" 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. In 2018, the GTAA's operating covenant ratio was 135.9 per cent, which is above the minimum requirement of 100 per cent and the debt service covenant ratio was 148.5 per cent, which is above the minimum requirement of 125 per cent, both under the Trust Indenture.

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 IFRS, and they are referred to as non-GAAP measures which 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.

Adjusted Net Income

Adjusted net income is defined as net income before the early retirement of debt charge, the remaining unamortized bond premium, and the loss on the cash flow hedge.

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 paid, net of interest income (excluding non-cash items), for the year ended December 31, 2018. 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 (projects and property acquisitions) and interest and financing costs paid, net of interest income (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 restricted funds.

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, 2018 and 2017. 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.

The GTAA has adopted the following new and revised standards effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

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

This standard was amended to clarify that to transfer to, or from, investment property there must be a change in use of assets supported by evidence. The adoption of the amendment did not have an impact on the consolidated financial statements.

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

The GTAA adopted IFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018. In accordance with the transitional provisions set out in the standard, the GTAA has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. As a result of the adoption of the standard, the GTAA is now reporting the administration fee charged on AIF in goods and services expense rather than netted off against AIF revenue. For 2018, this reallocation resulted in an increase in revenue of $18.4 million (December 31, 2017 – $17.4 million) and a corresponding increase in goods and services expense of $18.4 million (December 31, 2017 – $17.4 million). This reallocation did not have an impact on net income. No other areas including cash flow were significantly impacted by the adoption of the new standard.

There were no significant impacts to the GTAA's revenue recognition policies as a result of adopting IFRS 15. The GTAA recognizes revenue when it transfers control over a product or service to a customer and revenue is measured at the transaction price agreed under the contract. The GTAA does not currently have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the GTAA is not required to adjust any of the transaction prices for the time value of money.

c) IFRS 9, *Financial Instruments*:

The GTAA adopted IFRS 9, *Financial Instruments* ("IFRS 9"), effective January 1, 2018. In accordance with the transitional provisions set out in the standard, the GTAA has adopted the new rules without restating prior year comparative information. This standard replaces the provisions of IAS 39, *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 did not have a financial impact on the consolidated financial statements. It did however result in changes in accounting policies as set out below.

Effective January 1, 2018, the GTAA classifies its financial assets in the measurement categories outlined below. The classification depends on an entity's business model for managing the financial assets and the contractual terms of the cash flows.

(i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost.

(ii) Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the financial assets' cash flows represent solely payments of principal and interest.

(iii) Fair value through profit and loss ("FVPL"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The GTAA classifies its financial liabilities at amortized cost.

At initial recognition, the GTAA measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of the financial assets carried at FVPL are expensed in profit and loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Subsequent measurement of financial instruments depends on the GTAA's business model for managing the asset and the cash flow characteristics of the asset.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive (loss) income. The gain or loss relating to the ineffective portion is recognized immediately in profit and loss.

Impact on Adoption

(a) Reclassification of Assets – On January 1, 2018, management has assessed which business models apply to the financial asset held by the GTAA and has classified its financial instruments into the appropriate IFRS 9 categories. Cash and accounts receivable were reclassified from the loans and receivable category under IAS 39 to the amortized cost category under IFRS 9. Restricted funds were reclassified from the available-for-sale category under IAS 39 to the amortized cost category under IFRS 9. There were no reclassifications of financial liabilities. The reclassification did not have an impact on the consolidated financial statements.

(b) Impairment of Financial Assets – Effective January 1, 2018, the GTAA assesses on a forward-looking basis the expected credit losses associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The GTAA uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the GTAA's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The GTAA has three types of financial assets that are subject to IFRS 9's new expected credit loss model: cash, accounts receivable and restricted funds. The GTAA was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. For trade receivables, the GTAA applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition on the receivables. Applying the expected credit risk model to cash, accounts receivable and restricted funds did not have a significant impact on the consolidated financial statements upon adoption of IFRS 9.

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

The GTAA has adopted the standard and has reflected the significant required disclosures in the consolidated financial statements.

Accounting Standards Issued But Not Yet Applied

a) 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. The accounting for lessors will not significantly change. 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 has also evaluated the impact of this standard with respect to other leases and subleases and has concluded that the standard would require that the full value of certain subleases flow through the statement of operations and comprehensive income in the year in which the contract is executed. The GTAA is in the final stages of assessing subleases.

b) Amendments to IAS 19, *Employee Benefits*:

This standard was amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements, or curtailments. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments will not have an impact on the consolidated financial statements at this time.

c) Amendments to IAS 23, *Borrowing Costs*:

These amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. These amendments should be applied prospectively for borrowing costs incurred on or after the beginning of annual periods beginning on or after January 1, 2019. The adoption of these amendments will not have an impact on the consolidated financial statements.

d) Amendments to IFRS 9, *Financial Instruments*:

This standard is amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, which include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most such modifications will result in immediate recognition of a gain or loss. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments will not have an impact on the consolidated financial statements.

RELATED PARTY TRANSACTIONS

At December 31, 2018, the GTAA had normal course 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's Board of Directors collectively oversees the management and operation of the Airport. The Board members are, for the purposes hereof, also considered key management. The GTAA also had normal course 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, 2018 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.

RISK FACTORS

The GTAA, its operations, and its financial results are subject to certain risks. The GTAA's Board of Directors is accountable for the oversight of the key 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 business and external risks to be managed and aligned with the GTAA's strategic goals.

Please see the Corporation's most recent Annual Information Form available on SEDAR for a discussion on risk factors that could materially affect the GTAA's business, operating results, and financial condition. The risk factors described in the Annual Information Form are not the only risks and uncertainties that the Corporation faces. Additional risks and uncertainties not presently known to the GTAA or that the GTAA considers immaterial may also materially and adversely affect its business operations.

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.

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: expected growth in passenger volumes; additional investment in the Airport including with respect to physical infrastructure; the GTAA's business strategy and highlights; expected growth in domestic and international passenger traffic and cargo; future growth in Airport demand or activity; the GTAA's capital borrowing requirements and program and its ability to access the capital markets; ability to comply with covenant ratios; 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; revenues, cash flows, working capital and liquidity including the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2019; reductions in average air carrier's cost per enplaned passenger; the mega hub strategy; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; budgets and expenditures relating to capital programs and the funding of such programs; the timing of construction and commencement of operations of facilities currently planned or under construction at the Airport including the new concourse and processor expansion, passenger terminal processor, and the regional transit and passenger centre; 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 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 current and future economic activity; high rates of unemployment and household debt; reduced 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; loss of commercial revenues; 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 Greater Toronto Airports Authority

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Greater Toronto Airports Authority and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company’s consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of operations and comprehensive income for the years then ended;
- the consolidated statements of changes in deficit and accumulated other comprehensive (loss) income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management’s Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 20, 2019

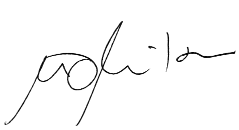
Consolidated Statements of Financial Position

As at December 31 (in thousands of Canadian dollars)	**2018**	2017
	$	$
Assets		
Current Assets		
Cash	**22,530**	12,187
Restricted funds (Note 6)	**60,608**	99,121
Accounts receivable (Note 7)	**87,211**	69,350
Prepaids	**4,987**	5,769
Inventory	**11,215**	9,297
	186,551	195,724
Non-current Assets		
Restricted funds (Note 6)	**328,128**	355,852
Intangibles and other assets (Note 8)	**85,185**	78,209
Property and equipment (Note 9)	**5,309,278**	5,187,763
Investment property (Note 10)	**475,701**	304,549
Post-employment benefit asset (Note 13)	**52,711**	64,135
	6,437,554	6,186,232
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 18)	**333,254**	235,960
Security deposits and deferred revenue	**84,836**	79,612
Current portion of long-term debt and other borrowings (Note 11)	**1,173,246**	1,066,208
	1,591,336	1,381,780
Non-current Liabilities		
Deferred credit (Note 8)	**15,598**	17,800
Post-employment benefit liabilities (Note 13)	**7,121**	6,352
Long-term debt (Note 11)	**5,197,009**	5,245,606
	6,811,064	6,651,538
Deficit and Accumulated other comprehensive loss	**(373,510)**	(465,306)
	6,437,554	6,186,232

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)	**2018**	2017 Reclassified (Note 4(b))
	$	$
Revenues (Note 17)		
Landing fees	**318,533**	312,216
General terminal charges	**191,261**	188,775
Airport improvement fees	**459,964**	436,116
Car parking and ground transportation	**191,800**	177,729
Concessions	**144,276**	129,086
Rentals	**133,309**	112,309
Other	**32,585**	31,455
	1,471,728	1,387,686
Operating Expenses		
Ground rent (Note 1 and 12)	**165,249**	156,938
Goods and services (Note 19)	**356,156**	314,882
Salaries, wages and benefits	**191,915**	175,706
Payments-in-lieu of real property taxes	**37,792**	36,344
Amortization of property and equipment (Note 9)	**268,548**	259,861
Amortization of intangibles (Note 8)	**1,226**	640
Amortization of investment property (Note 10)	**7,200**	4,091
	1,028,086	948,462
Earnings before interest and financing costs, net	**443,642**	439,224
Interest income	**8,021**	8,106
Interest expense on debt instruments and other financing costs	**(306,576)**	(335,177)
Early retirement of debt charge	**(28,698)**	–
Loss on cash flow hedge	**(2,686)**	–
Interest and financing costs, net (Note 11)	**(329,939)**	(327,071)
Net Income	**113,703**	112,153
Items that may be reclassified subsequently to Net Income:		
Amortization of terminated hedges and interest rate swap	**2,454**	1,985
Loss on cash flow hedge	**(12,047)**	–
Items that may not be reclassified subsequently to Net Income:		
Pension remeasurements (Note 13)	**(12,314)**	6,711
Other Comprehensive (Loss) Income	**(21,907)**	8,696
Total Comprehensive Income	**91,796**	120,849

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 (Loss) Income

Year Ended December 31, 2018 (in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive (Loss) Income**	**Total**
	$	**$**	**$**
Balance, January 1, 2018	**(450,579)**	**(14,727)**	**(465,306)**
Net Income	**113,703**	**–**	**113,703**
Amortization of terminated hedges and interest rate swap	**–**	**2,454**	**2,454**
Loss on cash flow hedge	**–**	**(12,047)**	**(12,047)**
Pension remeasurements	**(12,314)**	**–**	**(12,314)**
Total Comprehensive Income (Loss) for the year	**101,389**	**(9,593)**	**91,796**
Balance, December 31, 2018	**(349,190)**	**(24,320)**	**(373,510)**

Year Ended December 31, 2017 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive (Loss) Income	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)

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)	2018	2017
	$	$
Cash Flows from (used in) Operating Activities		
Net Income	113,703	112,153
Adjustments for:		
Amortization of property and equipment	268,548	259,861
Amortization of investment property	7,200	4,091
Amortization of intangibles and other assets	6,322	5,862
Net loss on disposal of property and equipment and intangible assets	355	129
Post-employment benefit plans	(121)	(1,774)
Interest and financing costs, net	329,939	327,071
Amortization of deferred credit	(2,202)	(2,203)
Changes in working capital:		
Restricted cash	–	5,911
Accounts receivable	(17,861)	(1,054)
Prepaids	782	(2,579)
Inventory	(1,918)	(2)
Accounts payable and accrued liabilities	20,621	21,981
Security deposits and deferred revenue	5,224	(4,975)
	730,592	724,472
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	(319,399)	(279,356)
Acquisition of investment property	(178,352)	(286,528)
Proceeds on disposal of property and equipment	66	77
Decrease in restricted funds	66,237	22,015
	(431,448)	(543,792)
Cash Flows from (used in) Financing Activities		
Issuance of medium term notes and long-term debt	496,267	–
Repayment of medium term notes and long-term debt	(1,000,052)	(431,983)
(Repayment) Draw on credit facility	(25,000)	25,000
Issuance of other current borrowings	597,424	498,981
Interest paid and other financing costs, net	(314,009)	(334,272)
Payment of early retirement of debt charge	(28,698)	–
Payment on termination of cash flow hedge	(14,733)	–
	(288,801)	(242,274)
Net Cash Inflow (Outflow)	10,343	(61,594)
Cash, beginning of year	12,187	73,781
Cash, end of year	22,530	12,187

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

As at December 31, 2018, cash consisted of cash of $23.7 million (December 31, 2017 – $13.8 million) less outstanding cheques of $1.2 million (December 31, 2017 – $1.6 million).

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

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017
(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 – Lester B. 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, the GTAA shall transfer title of such land to the Landlord and that such land shall become part of the Ground Lease.

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.

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.

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 20, 2019.

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.

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 and manage 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 operating segment does not meet the quantitative thresholds to be considered a reportable segment 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.

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

(i) Amortized cost: A financial asset shall be measured at amortized cost if both of the following conditions are met:

  (a) the financial asset is held in order to collect contractual cash flows; and

  (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Fair value through other comprehensive income: A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

  (a) the financial asset is held to collect contractual cash flows and selling financial assets; and

  (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount.

(iii) Fair value through profit or loss: A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

(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 discounts/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.

At initial recognition, the GTAA measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of the financial assets carried at FVPL are expensed in profit and loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest. Subsequent measurement of financial instruments depends on the GTAA's business model for managing the asset and the cash flow characteristics of the asset.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive (loss) income. The gain or loss relating to the ineffective portion is recognized immediately in profit and loss.

As at December 31, 2018, 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 asset to a working condition for its 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 one to 60 years
Bridges and approach systems ("Terminal and Airside assets")	Straight-line over five 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 two 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 two 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*. The properties held by Airway Centre Inc. are not subject to PILT, and Airway Centre Inc. and its tenants pay municipal real property taxes in the ordinary course.

Revenue Recognition

The GTAA recognizes revenue when it transfers control over a product or service to a customer and revenue is measured at the transaction price agreed under the contract. The GTAA does not currently have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

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 (loss) income 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 which are recognized in the period in which they occur) 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.

4. CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

The GTAA has adopted the following new and revised standards effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

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

This standard was amended to clarify that to transfer to, or from, investment property, there must be a change in use of assets supported by evidence. The adoption of the amendment did not have an impact on the consolidated financial statements.

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

The GTAA adopted IFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018. In accordance with the transitional provisions set out in the standard, the GTAA has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. As a result of the adoption of the standard, the GTAA is now reporting the administration fee charged on AIF in goods and services expense rather than netted off against AIF revenue. For 2018, this reallocation resulted in an increase in revenue of $18.4 million (December 31, 2017 – $17.4 million) and a corresponding increase in goods and services expense of $18.4 million (December 2017 – $17.4 million). This reallocation did not have an impact on net income. No other areas including cash flow were significantly impacted by the adoption of the new standard.

There were no significant impacts to the GTAA's revenue recognition policies as a result of adopting IFRS 15.

c) IFRS 9, *Financial Instruments*:

The GTAA adopted IFRS 9, *Financial Instruments* ("IFRS 9"), effective January 1, 2018. In accordance with the transitional provisions set out in the standard, the GTAA has adopted the new rules without restating prior year comparative information. This standard replaces the provisions of IAS 39, *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 did not have a financial impact on the consolidated financial statements. It did, however, result in changes in accounting policies as set out below.

Effective January 1, 2018, the GTAA classifies its financial assets in the measurement categories outlined in Note 3, Significant Accounting Policies.

Impact on Adoption

(a) Reclassification of Assets – On January 1, 2018, management has assessed which business models apply to the financial asset held by the GTAA and has classified its financial instruments into the appropriate IFRS 9 categories. Cash and accounts receivable were reclassified from the loans and receivable category under IAS 39 to the amortized cost category under IFRS 9. Restricted funds were reclassified from the available-for-sale category under IAS 39 to the amortized cost category under IFRS 9. There were no reclassifications of financial liabilities. These reclassifications did not have an impact on the consolidated financial statements.

(b) Impairment of Financial Assets – Effective January 1, 2018, the GTAA assesses on a forward-looking basis the expected credit losses associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The GTAA uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the GTAA's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

The GTAA has three types of financial assets that are subject to IFRS 9's new expected credit loss model: cash, accounts receivable and restricted funds. The GTAA was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. For trade receivables, the GTAA applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition on the receivables. Applying the expected credit risk model to cash, accounts receivable and restricted funds did not have a significant impact on the consolidated financial statements upon adoption of IFRS 9.

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

The GTAA has adopted the standard and has reflected the significant required disclosures in the consolidated financial statements.

Accounting Standards Issued But Not Yet Applied

a) 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. The accounting for lessors will not significantly change. 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 has also evaluated the impact of this standard with respect to other leases and subleases and has concluded that the standard would require that the full value of certain subleases flow through the statement of operations and comprehensive income in the year in which the contract is executed. The GTAA is in the final stages of assessing subleases.

b) Amendments to IAS 19, *Employee Benefits*:

This standard was amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments will not have an impact on the consolidated financial statements at this time.

c) Amendments to IAS 23, *Borrowing Costs*:

These amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. These amendments should be applied prospectively for borrowing costs incurred on or after the beginning of annual periods beginning on or after January 1, 2019. The adoption of these amendments will not have an impact on the consolidated financial statements.

d) Amendments to IFRS 9, *Financial Instruments*:

This standard is amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, which include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most such modifications will result in immediate recognition of a gain or loss. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments will not have an impact on the consolidated financial statements.

e) Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*:

These standards were amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

f) Amendments to IFRS 3, *Business Combinations*:

This standard was amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The GTAA has not yet assessed the impact of the amendments 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.

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") dated December 2, 1997, as supplemented or amended from time to time, 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	**2018**	2017
	$	$
Debt Service Fund		
Principal	**7,629**	14,141
Interest	**52,979**	58,552
	60,608	72,693
Debt Service Reserve Funds		
Revenue Bonds		
Series 1997–3 due December 3, 2027	**36,943**	36,953
Series 1999–1 due July 30, 2029	**40,204**	40,211
Medium-Term Notes		
Series 2000–1 due June 12, 2030	**38,649**	38,631
Series 2001–1 due June 4, 2031	**35,139**	35,146
Series 2002–3 due October 15, 2032	**38,742**	38,345
Series 2004–1 due February 2, 2034	**38,912**	39,171
Series 2008–1 due April 17, 2018	**–**	26,428
Series 2009–1 due November 20, 2019	**–**	35,985
Series 2010–1 due June 7, 2040	**22,598**	22,613
Series 2011–1 due February 25, 2041	**31,944**	32,188
Series 2011–2 due December 2, 2041	**18,178**	18,257
Series 2012–1 due September 21, 2022	**12,146**	12,208
Series 2016–1 due February 16, 2021	**2,293**	2,285
Series 2018–1 due June 1, 2037	**8,181**	–
Security for Bank Indebtedness		
Series 1997–B Pledged Bond	**–**	3,859
Series 1997–C Pledged Bond	**4,199**	–
	328,128	382,280
	388,736	454,973
Less: Current portion	**(60,608)**	(99,121)
	328,128	355,852

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

	2018	2017
	$	$
Cash	**69,098**	345,638
Guaranteed Investment Certificates	**319,638**	109,335
	388,736	454,973

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 Facilities 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 2018, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of December 31, 2018 was $7.6 million (December 31, 2017 – $14.1 million).

During 2018, principal of $27.6 million (December 31, 2017 – $26.0 million) was paid from the Principal Account of the Debt Service Fund, and $21.1 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999–1 and MTNs (December 31, 2017 – $27.6 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, 2018 was $53.0 million (December 31, 2017 – $58.6 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 $1.9 billion pledged bond (Series 1997–C) securing the credit facilities (see Note 11, Credit Facilities and Long-Term Debt).

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, 2018, this fund was secured by a letter of credit of $93.0 million (December 31, 2017 – $76.0 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, 2017 – $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	**2018**	2017
	$	$
Trade accounts receivable	**76,639**	56,435
Less: Allowance for doubtful accounts	**(589)**	(422)
Trade accounts receivable, net	**76,050**	56,013
Other receivables	**11,161**	13,337
Total accounts receivable	**87,211**	69,350

Included in trade accounts receivable and other receivables is $19.2 million due from Canadian Air Transportation Security Authority (December 31, 2017 – $11.8 million) which is a related party. No provision has been made against these receivables.

8. INTANGIBLES AND OTHER ASSETS

			December 31, 2018
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Land acquisition costs	**50,763**	**(10,270)**	**40,493**
Computer software	**23,931**	**(7,778)**	**16,153**
Clean Energy Supply contract ("CES Contract")	**44,655**	**(16,116)**	**28,539**
	119,349	**(34,164)**	**85,185**

			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

The aggregate amortization expense with respect to deferred leasehold inducements for 2018 was $nil (2017 – $0.1 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 2018 was $1.1 million (2017 – $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, 2018	**41,560**	**4,081**	**45,641**
Additions	**–**	**13,298**	**13,298**
Amortization expense	**(1,067)**	**(1,226)**	**(2,293)**
Balance, December 31, 2018	**40,493**	**16,153**	**56,646**
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

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 2018 was $4.0 million (2017 – $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, 2018 was $15.6 million (December 31, 2017 – $17.8 million). During 2018, the reduction of the unamortized liability of $2.2 million (December 31, 2017 – $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, 2018
	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	**6,465,969**	**375,159**	**9,480**	**519,113**	**703,057**	**183,364**	**8,256,142**
Additions	**460**	**–**	**–**	**–**	**–**	**390,023**	**390,483**
Disposals	**(378)**	**–**	**–**	**–**	**(1,892)**	**–**	**(2,270)**
Transfers	**92,797**	**21,648**	**–**	**18,685**	**52,712**	**(185,842)**	**–**
Balance, end of year	**6,558,848**	**396,807**	**9,480**	**537,798**	**753,877**	**387,545**	**8,644,355**
Accumulated amortization							
Balance, beginning of year	**2,313,999**	**185,674**	**3,326**	**193,726**	**371,654**	**–**	**3,068,379**
Amortization expense	**176,546**	**14,348**	**158**	**19,100**	**58,396**	**–**	**268,548**
Disposals	**–**	**–**	**–**	**–**	**(1,850)**	**–**	**(1,850)**
Transfers	**251**	**–**	**–**	**–**	**(251)**	**–**	**–**
Balance, end of year	**2,490,796**	**200,022**	**3,484**	**212,826**	**427,949**	**–**	**3,335,077**
Net book value, end of year	**4,068,052**	**196,785**	**5,996**	**324,972**	**325,928**	**387,545**	**5,309,278**

							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

As at December 31, 2018, $387.5 million (December 31, 2017 – $183.4 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $6.5 million (December 31, 2017 – $3.2 million) of capitalized interest. During the year, borrowing costs were capitalized at the rate of 5.0 per cent, which represents the weighted-average rate of the GTAA's general borrowings (2017 – 5.6 per cent).

10. INVESTMENT PROPERTY

As at December 31	**2018**	2017
	$	$
Cost		
Balance, beginning of year	**314,968**	26,085
Additions	**178,352**	288,883
Balance, end of year	**493,320**	314,968
Accumulated amortization		
Balance, beginning of year	**10,419**	6,328
Amortization expense	**7,200**	4,091
Balance, end of year	**17,619**	10,419
Net book value, end of year	**475,701**	304,549

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 property acquisitions and office space and building improvements by Airway Centre Inc. during the year were $178.4 million (December 31, 2017 – $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, 2018. 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, 2018. An independent valuation was done for the properties acquired in 2017. The total fair value of all commercial properties was $486.6 million as at December 31, 2018. 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, 2018, the commercial properties generated $26.2 million (December 31, 2017 – $11.0 million) in rental revenue and incurred $18.0 million (December 31, 2017 – $8.0 million) in direct operating expenses.

11. CREDIT FACILITIES AND LONG-TERM DEBT

As at December 31, 2018, net book value of long-term debt and other borrowings, including accrued interest, net of unamortized discounts and premiums, consisted of:

Series	**Coupon Rate**	**Maturity Date**	**Principal Amount**	**2018**	2017
Revenue Bonds			$	**$**	$
1997–3	6.45%	December 3, 2027	321,500	**320,239**	320,025
1999–1	6.45%	July 30, 2029	279,920	**286,009**	303,426
Medium-Term Notes					
2000–1	7.05%	June 12, 2030	526,550	**527,195**	527,151
2001–1	7.10%	June 4, 2031	492,150	**491,189**	491,040
2002–3	6.98%	October 15, 2032	468,960	**475,464**	475,477
2004–1	6.47%	February 2, 2034	567,428	**577,503**	577,344
2008–1	5.26%	April 17, 2018	460,900	**–**	465,790
2009–1	5.96%	November 20, 2019	522,000	**–**	531,678
2010–1	5.63%	June 7, 2040	400,000	**398,845**	398,799
2011–1	5.30%	February 25, 2041	600,000	**607,476**	607,417
2011–2	4.53%	December 2, 2041	400,000	**398,595**	398,539
2012–1	3.04%	September 21, 2022	388,000	**390,321**	390,097
2016–1	1.51%	February 16, 2021	300,000	**300,922**	300,581
2018–1	3.26%	June 1, 2037	500,000	**497,704**	–
			6,227,408	**5,271,462**	5,787,364
Credit Facility				**–**	25,000
Other current borrowings (Commercial Paper)			1,100,000	**1,098,793**	499,450
				6,370,255	6,311,814
Less: Current portion (including accrued interest)				**(1,173,246)**	(1,066,208)
				5,197,009	5,245,606

As at December 31, 2018, accrued interest included in the current portion of the long-term debt was $56.2 million (December 31, 2017 – $58.8 million).

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 "Redemption Date"). 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, was calculated on March 26, 2018. The redemption price, which included a $28.7 million early retirement of debt charge, together with accrued interest, was paid on the Redemption Date. To partially refinance the redemption of the Series 2009-1 MTNs, on March 29, 2018, the GTAA issued $500.0 million Series 2018-1 MTNs for net proceeds of $497.2 million.

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 bond maturing on June 1, 2037 as its reference bond. The derivative agreements were settled on the Redemption Date, to coincide with the issuance of the Series 2018-1 MTNs, resulting in the GTAA making a cash payment of $14.7 million. In accordance with IFRS 9, the ineffective portion of the change in the fair value of the interest rate lock contract of $2.7 million was recognized in interest and financing costs on the consolidated statement of operations and comprehensive income. The effective portion of $12.0 million was recognized in other comprehensive (loss) income and is being amortized over the remaining term of the hedged debt (19.2 years).

The GTAA refinanced the maturity of the $460.9 million Series 2008-1 MTNs on April 17, 2018 through the issuance of commercial paper ("CP"). To facilitate the issuance, the GTAA had previously increased its CP program by $500.0 million to $1.0 billion on March 23, 2018. In connection with the increase, the GTAA increased the aggregate availability under its revolving operating credit facility from $900.0 million to $1.4 billion to provide credit facility support for borrowings under the CP program. On October 5, 2018, the GTAA further increased the CP program by $400.0 million to $1.4 billion. As part of the CP program, any CP outstanding at any given time is fully backstopped by the revolving operating credit facilities. As at December 31, 2018, the GTAA had $301.2 million available for general corporate purposes and $1.1 billion available to backstop the outstanding CP under its revolving operating credit facility. On March 23, 2018, the GTAA also increased its letter of credit facilities from $100.0 million to $150.0 million and its pledged bond from $1.35 billion to $1.9 billion.

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

	2018	2017
	$	$
Interest income	**8,021**	8,106
Interest expense on debt instruments	**(307,999)**	(336,773)
Capitalized interest	**7,708**	6,375
Early retirement of debt charge	**(28,698)**	–
Loss on cash flow hedge	**(2,686)**	–
Amortization of terminated hedges and interest rate swap	**(2,454)**	(1,985)
Other financing fees	**(3,831)**	(2,794)
	(337,960)	(335,177)
Interest and financing costs, net	**(329,939)**	(327,071)

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 will 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.

		2018		2017
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**5,271,462**	**6,438,438**	5,787,364	7,338,144

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, 2018	**Cash Flows**	**Non-cash Change**	**December 31, 2018**
	$	**$**	**$**	**$**
Long-term debt	**5,787,364**	**(808,084)**	**292,182**	**5,271,462**
Credit facility	**25,000**	**(25,411)**	**411**	**–**
Other borrowings	**499,450**	**583,935**	**15,408**	**1,098,793**
Total Liabilities from Financing Activities	**6,311,814**	**(249,560)**	**308,001**	**6,370,255**

	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 Facilities

As part of its liquidity management program, the GTAA maintains the following credit facilities: a revolving operating credit facility in an amount of $1.4 billion, a letter of credit facility in the amount of $150.0 million and an interest rate and foreign exchange hedging facility in the amount of $150.0 million. These credit facilities are secured by a $1.9 billion pledged bond (Series 1997–C) issued pursuant to the Trust Indenture. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the Trust Indenture. The $1.4 billion revolving operating credit facility matures on May 21, 2021 and the $150.0 million letter of credit facility matures on May 22, 2019. Each of the credit facilities can be extended annually for one additional year with the lender's consent.

As at December 31, 2018, no amounts were utilized on the $1.4 billion revolving operating credit facility (December 31, 2017 – $25.0 million). 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 2.15 per cent to 3.95 per cent (2017 – 1.49 per cent to 3.20 per cent).

As at December 31, 2018, $99.2 million was utilized on the $150.0 million letter of credit facility (December 31, 2017 – $81.8 million).

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 2018 was $164.2 million (2017 – $155.9 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 2018 was $62.0 million (2017 – $57.4 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, 2018	**163,666**	**408,890**	**204,655**	**777,211**
December 31, 2017	161,547	439,053	231,096	831,696

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, 2018, and the next required valuation will be as of January 1, 2019.

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 13.7 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 58.0 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 any surplus and/or increase any 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:

	2018	2017
	$	$
Present value of funded obligation	**(183,190)**	(186,682)
Fair value of plan assets	**235,901**	250,817
Funded status – surplus	**52,711**	64,135
Net Defined benefit asset	**52,711**	64,135

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

	2018	2017
	$	$
Accrued Benefit Obligation		
Balance, beginning of year	**186,682**	177,418
Current service cost	**2,503**	2,522
Interest cost	**6,557**	6,750
Benefits paid	**(6,758)**	(6,866)
Employee contributions	**420**	503
Remeasurements:		
(Gain) Loss from changes in financial assumptions	**(5,068)**	7,471
Experience gain	**(1,146)**	(1,116)
Balance, end of year	**183,190**	186,682
Plan Assets		
Fair value, beginning of year	**250,817**	232,567
Interest income	**8,914**	8,963
Return on plan assets, excluding amounts included in interest income	**(18,602)**	12,958
Employer contributions	**1,378**	3,107
Employee contributions	**420**	503
Benefits paid	**(6,758)**	(6,866)
Administrative expenses paid from plan assets	**(268)**	(415)
Fair value, end of year	**235,901**	250,817
Funded status – surplus	**52,711**	64,135

As at December 31, 2018, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of $51.2 million (2017 – $62.4 million), with an accrued obligation of $167.0 million (2017 – $169.6 million) and a fair value of plan assets of $218.2 million (2017 – $232.0 million). The other plan was in a surplus position of $1.5 million (2017 – $1.7 million), with an accrued obligation of $16.2 million (2017 – $17.1 million) and a fair value of plan assets of $17.7 million (2017 – $18.8 million).

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

	2018	2017
	$	$
Current service cost	**2,503**	2,522
Interest cost	**6,557**	6,750
Interest income	**(8,914)**	(8,963)
Administrative expenses	**342**	341
Defined benefit pension plan expense recognized in Net Income	**488**	650
Amounts recognized in Other comprehensive (loss) income:		
(Gain) Loss from changes in financial assumptions	**(5,068)**	7,471
Experience gain	**(1,146)**	(1,116)
Return on plan assets	**18,528**	(12,884)
Total Remeasurements recognized in Accumulated other comprehensive loss (income)	**12,314**	(6,529)

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

	2018	2017
	$	$
Net Defined benefit asset, beginning of year	64,135	55,149
Defined benefit cost included in Net Income	(488)	(650)
Total remeasurements included in Other comprehensive (loss) income	(12,314)	6,529
Employer contributions	1,378	3,107
Net Defined benefit asset, end of year	52,711	64,135

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

	2018	2017
	$	$
Active members	59,095	68,544
Vested deferreds	6,694	6,323
Retirees	117,401	111,815
Accrued benefit obligation	183,190	186,682

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

	Fair Value of Plan Assets	
Asset Category	2018	2017
	%	%
Equity securities	58	59
Fixed income	42	41

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):

	2018	2017
	%	%
Discount rate	3.79	3.58
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, 2018 would be as follows:

	Change in Assumption	Increase in Assumption	Decrease in Assumption
		$	$
Discount rate	1.00%	(21,760)	26,820
Rate of price inflation	1.00%	23,530	(20,178)
Mortality	1 year	6,370	(6,499)

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, 2018, the registered defined benefit plan had a funding valuation solvency surplus of $13.6 million. The supplementary defined benefit plan also had a solvency surplus of $0.2 million as at January 1, 2018.

Expected contributions, benefit payments and administrative expenses for both defined benefit pension plans for the year ended December 31, 2019 are $1.0 million, $7.8 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 2018 was $4.6 million (2017 – $6.4 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, 2018 of $2.0 million (December 31, 2017 – $1.8 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, 2018, the balance of the accrued benefit obligation was $2.4 million (2017 – $2.2 million), the post-employment benefit expense recognized in net income for the year ended December 31, 2018 was $0.2 million (2017 – $0.2 million) and the pension remeasurements gain recognized in other comprehensive (loss) income was $0.05 million (2017 – $0.2 million).

Other Employee Future Benefits

Certain employees are provided with paid-up life insurance at the time of retirement. At December 31, 2018, the estimated obligation for this payment is $2.7 million (December 31, 2017 – $2.4 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 and Directors

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, only 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.

	2018	2017
	$	$
Salaries, fees and short-term benefits	**8,319**	7,319
Post-employment benefits	**781**	654
Other long-term benefits	**25**	15
Total (included in salaries, wages and benefits)	**9,125**	7,988

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, 2018 and subsequent to the year-end of approximately $327.8 million, as compared to $196.3 million at December 31, 2017.

Letters of Credit

A number of letters of credit for $99.2 million in total were outstanding as at December 31, 2018 (see Note 11, Credit Facilities 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. These policies provide coverage for exclusions under the primary liability and property insurance policies following the events of September 11, 2001. The GTAA is in compliance with the insurance terms set out in the Ground Lease with Transport Canada.

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 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 Facilities 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. 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 Facilities and Long-Term Debt. As at December 31, 2018, all of the GTAA's MTNs are fixed-rate carried liabilities 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 facilities will fluctuate in accordance with changes in interest rate.

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 Facilities and Long-Term Debt). As at December 31, 2018, $319.6 million of the GTAA's short-term investment holdings carried various terms to maturity from one to 365 days. 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 is adjusted annually on March 23, 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	**2018**	2017
	$	$
Cash		
AA	**22,530**	12,187
Restricted funds		
AA	**281,336**	439,445
AA low	**107,400**	15,528
	388,736	454,973

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. The Trust Indenture requires that the GTAA invest its restricted funds with financial institutions with investment grade rates of AA. Due to a credit rating upgrade of several Canadian banks in 2018, the GTAA's investment options in its restricted funds were increased to six 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 47.3 per cent (2017 – 48.9 per cent) of total revenue, and 20.3 per cent (2017 – 26.6 per cent) of the accounts receivable balance, excluding prepayments and/or deposits on hand, at December 31, 2018.

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 credit facilities and a CP program and executes a Capital Markets Platform to meet cash needs as debt maturities occur (see Note 11, Credit Facilities and Long-Term Debt, and Note 20, Capital Risk Management). The GTAA mitigates risk related to liquidity in the CP program via the credit facilities available under its lines of credit.

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, 2018
	Less Than 1 Month	**1 Month to 12 Months**	**1 Year to 5 Years**	**Thereafter**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**74,395**	**258,859**	**–**	**–**
Commercial paper	**599,570**	**499,223**	**–**	**–**
Long-term debt	**9,027**	**294,598**	**2,166,683**	**6,947,848**
	682,992	**1,052,680**	**2,166,683**	**6,947,848**

				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

Additional disclosure about the GTAA's credit facilities and long-term debt can be found in Note 11, Credit Facilities 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, 2018 and 2017, 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, 2018, no recognized financial instruments are offset in the consolidated statements of financial position.

			December 31, 2018
	Gross Amount Presented in the Consolidated Statements of Financial Position	**Related Accounts Not Set Off in the Consolidated Statements of Financial Position**	**Net Amount**
	$	**$**	**$**
Financial assets			
Accounts receivable	**87,211**	**(33,644)**	**53,567**
Restricted funds	**388,736**	**(384,537)**	**4,199**
	475,947	**(418,181)**	**57,766**
Financial liabilities			
Security deposits	**(33,644)**	**33,644**	**–**
Long-term debt	**(5,271,462)**	**384,537**	**(4,886,925)**
	(5,305,106)	**418,181**	**(4,886,925)**

			December 31, 2017
	Gross Amount Presented in the Consolidated Statements of Financial Position	Related Accounts Not Set Off in the Consolidated Statements 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)

17. REVENUE

During the period, the GTAA recognized $1.2 billion (2017 – $1.2 billion) from contracts with customers and $226.2 million (2017 – $199.0 million) of revenue was recognized under IAS 17, *Leases*.

18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
	$	$
Trade payables	**65,182**	45,605
Accrued expenses	**247,778**	170,261
Commodity sales tax payable	**5,134**	7,576
Provisions	**8,218**	7,985
Other liabilities	**6,942**	4,533
	333,254	235,960

19. GOODS AND SERVICES EXPENSE BY NATURE

	2018	2017
	$	$
Property and equipment maintenance and repairs	**108,536**	96,996
Outsourcing and professional services	**127,404**	110,839
Utilities	**17,315**	16,738
Policing and security	**37,942**	36,005
AIF administration fee	**18,399**	17,445
Other	**46,560**	36,859
	356,156	314,882

20. CAPITAL RISK MANAGEMENT

The GTAA defines its capital as current and long-term portions of debt, borrowings under the CP program, borrowings, if any, under the GTAA's credit facilities (see Note 11, Credit Facilities and Long-Term Debt), cash and restricted funds (see Note 6, Restricted Funds).

The GTAA's objectives when managing capital are to:

a) 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;

b) Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments; and

c) 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

The GTAA's ongoing capital requirements, as noted above, are financed through the issuances of debt. The GTAA maintains 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, which establishes common security and a set of common covenants by the GTAA for the benefit of all its lenders. The security is comprised of: 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 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 125.0 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 135.9 per cent in 2018, which is above the minimum requirement of 100.0 per cent under the Trust Indenture. The GTAA's debt service covenant ratio was 148.5 per cent in 2018, which is above the minimum requirement of 125.0 per cent under the Trust Indenture.

Disclosure Requirements of the Ground Lease

Subsection 9.01.07, Paragraphs (a) to (g) of the Ground Lease requires the Greater Toronto Airports Authority ("GTAA" or "Corporation") to publish in its Annual Report the following:

a) Audited Financial Statements

The auditors' report and the audited financial statements are found on pages F21 to F53 and the summary of affairs (Management's Discussion and Analysis or "MD&A") is found on pages F1 to F20 of the Annual Report.

b) Report on the Business Plan and Objectives for 2018

The projected cash flows in any year constitute the business plan for that year. The business plan for 2018 is the 2018 summary of projected cash flows, which is found below in Paragraph (c) (the "2018 Business Plan"). A report on the GTAA's performance relating to the 2018 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 2018 Business Plan

The following table provides a comparison between the 2018 actual results and the 2018 Business Plan.

(in millions, unaudited)			**2018**
	Actual	**Business Plan**	**Favourable/ (Unfavourable)**
	$	$	$
Revenues	1,471.7	1,472.9	(1.2)
Operating expenses	(751.1)	(758.5)	7.4
Earnings before interest and amortization, net	**720.6**	**714.4**	**6.2**
Amortization	(277.0)	(274.5)	(2.5)
Interest expense and financing costs, net[(1)]	(329.9)	(315.0)	(14.9)
Consolidated net income/(loss)	**113.7**	**124.9**	**(11.2)**
Add: Amortization	277.0	274.5	2.5
Add: Interest expense and financing costs, net[(1)]	329.9	–	329.9
Add: Other non-cash items	3.2	–	3.2
Add: Changes in working capital	6.8	–	6.8
Cash flow from operations	**730.6**	**399.3**	**331.3**
Less: Acquisition & construction of property, expenditures, and intangible assets	(319.4)	(406.0)	86.6
Less: Acquisition of investment property	(178.4)	–	(178.4)
Less: Interest paid and other financing costs, net	(314.0)	–	(314.0)
Less: Payment of early debt retirement charge	(28.7)	–	(28.7)
Less: Payment on termination of cash flow hedge	(14.7)	–	(14.7)
Cash source/(use) before capital sources	**(124.6)**	**(6.7)**	**(117.9)**

(1) Includes unbudgeted costs associated with early retirement of debt charges ($28.7 million), and related ineffective portion of terminated interest rate hedge ($2.7 million), offset partially by interest income ($8.0 million).

For a more complete discussion of the 2018 financial results and capital projects, see the MD&A and the Annual Information Form for the year ended December 31, 2018, 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.

For the year ended 2018, Consolidated Net Income for the GTAA was $11.2 million unfavourable to the 2018 Business Plan primarily as a result of the early retirement of debt and related interest rate hedge.

For the year ended 2018, revenues were $1.2 million unfavourable to the 2018 Business Plan primarily due to shortfalls in Aeronautical revenue and Air Improvement Fees being partially offset by higher than planned commercial revenues as well as rental income from property acquisitions during the year. Rental income from in-year property acquisitions were not included in the 2018 Business Plan.

For the year ended 2018, operating expenses were $7.4 million favourable to the 2018 Business Plan primarily due to lower than planned spend in several areas including consulting, professional and contractual services, buildings and property maintenance, and energy, partially offset by higher than budgeted spends in snow removal, policing and security, and unbudgeted spends from properties acquired during the year.

For the year ended 2018, amortization expenses were $2.5 million unfavourable to the 2018 Business Plan primarily due to the timing and mix of new capital projects, and unplanned property acquisitions during the year.

For the year ended 2018, interest expenses, net of interest income, were $14.9 million unfavourable to the 2018 Business Plan primarily due to the incurrence of an early retirement of debt charge totaling $28.7 million. The early retirement of debt with an interest rate of 5.6 percent and simultaneous issuance of new debt with an interest rate of 3.26 percent over the next 19 years results in interest savings of approximately $12.0 million annually.

The Corporation has been rapidly increasing investments to support passenger and baggage flow. For the year ended 2018, the GTAA spent approximately $319.4 million as compared to the 2018 Business Plan of $406 million. Spend primarily related to ongoing projects such as Terminal 1 – Pier G expansion, Terminal 3 improvement projects, and baggage handling improvements. A further discussion of key projects can be found in the "Capital Projects and Acquisitions" section of the MD&A.

Additionally, the GTAA's wholly-owned subsidiary, Airway Centre Inc., acquired 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 the GTAA. During the year, total spend on acquisitions and building improvements amounted to approximately $178.4 million.

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 2018 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 (2019 to 2023) 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, currently forecasted to increase by 13.5 million passengers over the next five years, 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, which will ultimately dictate the quantum of capital spend and funds dedicated to corporate initiatives which are ancillary to airport operations. 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 2019 to 2023 for passengers, seats, and Maximum Takeoff Weight are 4.9, 4.4, and 4.2 per cent, respectively.

2019 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 (subject to approved capital projects) and advertising/sponsorship initiatives, as well as enhanced marketing and business development initiatives to increase parking and ground transportation revenues. Additionally, the Corporation will continue its strategic imperative to opportunistically acquire lands at reasonable prices to support its mega hub aspirations. A corollary of this strategy is incremental rental income from commercial and industrial properties, which contributes to the growth of commercial revenues. Over the term of the Business Plan, growth rates for commercial 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.

Cash flows generated from operations used to fund capital expenditures are expected to average over $450 million per year over the next five years, subject to continued robust aviation activity growth.

The key aviation revenue generation assumptions used to develop the 2019 Business Plan are as follows:

- 52.3 million total passengers;
- Landed Maximum Takeoff Weight of 19.1 million tonnes; and
- Landed seats of 31.1 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.torontopearson.com.

e) Remuneration to Board and Salary of Senior Officers

For 2018, the Chair of the Board of Directors received remuneration in the amount of $180,000, while the other Directors earned remuneration ranging from $26,167 to $106,500. For 2018, salaries for the Corporation's senior officers ranged from $111,076 to $699,751. 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 has 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 $110,000 Not Tendered

The Ground Lease stipulates that any contracts in excess of $110,000 (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 2018. 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
$110,000 to $500,000	PSG Leadership Inc.	Management recruitment services	A
	Patlon Group	PCA rental	C
	Bruel & Kjaer EMS Inc.	Complaint processing systems support	B
	Danatec Education Services Limited	Safety training services for new policy and program	A
	Spencer Stuart	Specialized search services for staffing	A
	Argentus	Recruitment services	B
	Gazzola Paving	Pipe and expansion joint work	A
	SEW-EURODRIVE Company of Canada	Inspection and maintenance of mechanical drives	B
	AST Canada	General system tuning and support	A
	Health & Happy Life Inc.	Airport activity analytical and ASDM solution product support	A
	OC Special Commodity Carriers	Emergency offsite transport and disposal of spent glycol	A
	ET Group	Audio visual equipment, installation and support	C
	Tyco/JCI	Safety systems programming	B
	Bridgecon Construction Ltd.	Installation of Viscount pedestrian bridge inspection port	B
	Level 5 Strategy Group	Strategic and branding advice	B
	Cognascent Inc.	Leadership program	A
	Metroland	Requirement for occasional advertising in local community newspapers	B
	Torcon Ltd.	Installation of primary inspection kiosks in Terminal 3	C
	Canyon Consulting	Audit response assistance	A
	Torcon Ltd.	Installation of primary inspection kiosks in Terminal 3	C
	Pristine Condition International	Manual handling training for airport employees	B
	Mercer Canada Limited	Pension advice	A
	TekMonks	IBM API Connect Management Services	A
	NORR	Concept and design for flight information displays in Terminal 1 and 3	A
	Patlon Group	Electrical repairs and preventative maintenance on power units	B
	MRF Geosystem Corporation	Development application tool	B
	4S Consulting Services Inc.	Consulting services for FESTI	A
	NORR	Mechanical consulting and additional contract administration services	A
	Tailor Made Systems Limited	Mobile airfield lighting management system and training for field electricals	A

Contract Value	Contractor	Description of Contract	Reason for Award Without Public Tender
$110,000 to $500,000	Vitra Inc.	Terminal 1 international arrivals seating	B
	Smiths Detection Montreal Inc.	X-ray scanning system hardware, training and installation	B
	Artic Combustion Ltd.	Installation of boiler	A
	L3 Technologies MacDonald Humfrey Automation	Supply and installation of cladding	C
	Ernst & Young LLP	HR Technology Phase 3	A
$500,000 to $1,000,000	Microsoft	IT upgrades and implementation	A
	Gildepath Systems	Terminal 1 and 3 additional baggage support	C
	Vision-Box	Purchase of additional E-gates	A
	KPMG	Service contract	A
	Inland Technologies	Lease tanks for CDF operations	A
	Bensimon Byrne	Media purchase and advertisement buy	A
	Amadeus Airport IT Americas Inc.	IT application for billing data reconciliation	C
	Vanderlande Industries Canada Inc.	Baggage system messaging	B
	Plan Group	Surveillance enhancements	A
	Materna Information and Communications Norway AS	X-ray scanning system hardware, training and installation	B
	Kingmont Consulting Services Ltd.	Real property assessment and taxation consulting	A
$1,000,000 to $2,000,000	Access Planning Ltd.	Planning and project management services for specific project	B
	Webleton Inc.	IT integration services for enterprise asset management system enhancements	B
	ARC	Consulting services for implementation of software	C
	Strategy Corp Inc.	Strategic advisory services for stakeholder engagement and facilitation	B
	Fleetcom Inc.	Addition of channels to Land Mobile Radio System	B
	PASSUR	Software solution for aircraft and passenger flow decisions	B
	Royalty General Construction	Terminal 1 construction work	A
	Bell	Internet service upgrade	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.

E. Where a competitive sourcing process was undertaken, and a contract entered into pursuant to which the GTAA receives revenue, then any associated acquisition of goods and services is not deemed to be a Sole Source contract.

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.

2018 Corporate Information

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Executive Team

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IAN L.T. CLARKE
Chief Financial Officer

SCOTT COLLIER
Vice President, Customer and Terminal Services

HOWARD ENG
President and Chief Executive Officer

KATHERINE HAMMOND
Vice President, General Counsel, Corporate Safety and Security

MARY MADIGAN-LEE*
Vice President, Human Resources and Corporate Services

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
Tuesday, May 7, 2019, at 1:30 p.m. at
The International Centre.

Public Information

Requests for general information should be directed to:
Customer Service
T: 416-776-9892
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Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario

Lead Bank

Canadian Imperial Bank of Commerce
Toronto, Ontario

Principal Legal Counsel

Osler, Hoskin & Harcourt LLP
Toronto, Ontario

* Effective January 2019, Valerie Duffey (Vice President, Human Resources and Corporate Services) resigned from the GTAA.

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:

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Toronto Pearson International Airport
P.O. Box 6031
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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/ar2018/downloads/Sustainability_Management_Approach_and_GRI_Index.pdf**

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