



July 26 ,2011

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

This performance analysis covers the period from July 1, 2006 to June 30, 2011.

Independence

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

Approach and Methodology

In agreement with the GTAA, we have addressed the objectives of the analysis by relying upon available materials and published reports, supplemented by interviews with various executives, employees and selected stakeholders (i.e. airlines and concessionaires) to corroborate initial findings and conclusions. The scope of work was not designed to conduct a detailed operations review of the GTAA nor does it include the initiation of any exhaustive, new independent research.

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

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

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

Use of the report

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

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Operating Context and Key Accomplishments

Operating Context

The GTAA operates Canada's largest and busiest Airport. As such, the GTAA is faced with many different challenges and opportunities. The ability of the GTAA to respond effectively to challenges between July 1, 2006 and June 30 2011, was determined both by the size of the Airport as well as management's approach to these challenges.

The aviation industry as a whole was subject to significant events over the five-year period. These include:

- Impact of the economic downturn;
- The heightening and subsequent easing of security restrictions;
- The impact of Eyjafjallajokull volcano in Iceland;
- Skyservice Airlines Inc. ("Skyservice") being placed in receivership; and
- Settlement of the class-action lawsuit involving GTAA resulting from the August 2005 incident when an Air France aircraft overshot the runway while attempting to land at the Airport.

Key Accomplishments

Capital Program

The Airport Development Program (ADP) was completed in January 2007 at a total cost of \$4.4 billion. Subsequently \$439.7 million has been budgeted for improvements (post ADP) due to continued long-term growth in passenger demand. These improvements are either completed or underway at total cost of \$ 272.5 million incurred to date. The Pier G development remains under review and its construction is contingent on demand.

Improvements to baggage handling systems and passenger processing areas in Terminal 3 were completed in December 2010 at a total cost of \$358.9 million (budget \$355.3 million).

The Terminal 3 Master Plan was approved in 2008 however, the majority of this work has been deferred and remains under review. Many other smaller capital projects have been completed.

Strategic Direction

Following the completion of the ADP, the GTAA has focussed on improving operational efficiency. This has been the cornerstone of its transformation strategy with tangible deliverables such as reduced costs for airlines and improved passenger experience. In 2010, Toronto Pearson Airport was awarded the IATA Eagle award for the Most Improved Airport from International Air Transportation Association.

A significant element of the transformation was an agreement to outsource a significant portion of GTAA's information technology services to a third party service provider starting July 2010.

The GTAA established a new strategic plan including its vision and mission statements in 2010 and these are underpinned by 5 areas of focus:

- Achieving long-term sustainability;



- Achieving operational excellence;
- Empowering employees to deliver value to GTAA’s customers and other stakeholders;
- Growing through innovation and leveraging assets; and
- Developing an air and ground mobility hub.

Rates

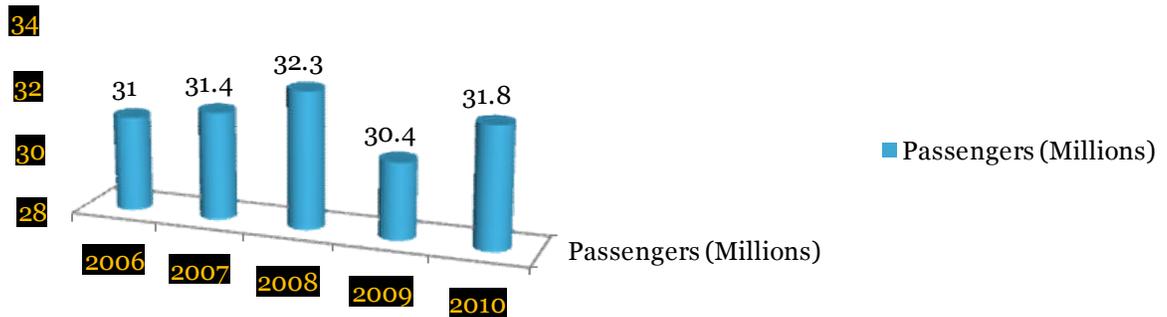
In 2010, the GTAA implemented a new aeronautical rate structure designed to improve transparency and increase choice in service selection by the airlines. These replace portions of the landing fee and terminal charge which were reduced by 7.9% and 9.5% respectively. The Airport Improvement Fee (AIF) was reduced by 50% to \$ 4 for passengers connecting through Toronto Pearson.

The GTAA has made progress in increasing its non-aeronautical revenues (NAR) and this has supplemented the reduction in aeronautical revenues in order to increase the ‘hub’ strategy.

Passenger numbers

The 2008 financial downturn posed a significant challenge to the GTAA with regard to passenger traffic. The graphic below shows the passenger numbers over the review period.

Passengers (Millions)



There was a significant reduction in passengers in 2009 and this had a direct impact on GTAA’s revenue.



Financing

Since the completion of the ADP, the GTAA has seen a significant reduction in borrowing from the capital markets. A total of \$3.5 billion (at par value) was borrowed between July 1, 2006 and June 30, 2011 and the debt at June 30, 2011 was \$ 7.2 billion (at par value). The proceeds from the debt issuance were used to fund certain reserves, finance capital projects and repay debt as it matured. Repayments have been made on a regular basis as debt has matured.

Sustainability

The GTAA publishes a sustainability report every year and the Internal Audit department has audited the process for preparing the report. The report is also reviewed by the Global Reporting Initiative (GRI) and the last report was given a level C rating.

The GTAA has maintained its ISO 14001 certificate and has continued to work on environmental initiatives. In 2009, a Greenhouse Gas Management Program was initiated to reduce greenhouse gases by 20% by 2020 from 2006 levels.

Findings and Conclusion

Our findings and conclusion with respect to GTAA management's performance and the Airport's operational and financial performance between July 1, 2006 and June 30, 2011 are provided below. The findings and conclusion are based on the methodology and approach and scope of work in our proposal for services dated February 3, 2011.

Safe and Efficient Service to the public

The GTAA's management practices at the Airport were aligned with the objective of ensuring a safe and secure service to the public during the review period. The GTAA has worked to determine that all necessary procedures are in place and emergency teams are kept in a state of readiness. While the Airport policy is to make everyone responsible for safety, the GTAA's safety and security program hinges on qualified and equipped staff, continuous training, detailed emergency procedures and regular exercises. GTAA's safety management system includes identifying significant aspects of safety management, setting targets, monitoring progress, investigating incidents and introducing corrective procedures. The purpose of the system is to determine that anybody who has a direct responsibility towards safety is tracking and reporting events through a single line of responsibility.

Between July 1, 2006 and Jun 30, 2011, the GTAA has maintained Airport's certification under the requirements of the *Aeronautics Act* and associated regulations, thereby meeting standards set by the international aviation community and federal regulators. Both Transport Canada and the International Civil Aviation Organization conduct regular safety audits of the Airport's safety management system and both organizations acknowledged the security programs in place at the Airport.

Effective Planning and Implementation

The GTAA conducted planning procedures and operates in accordance with its stipulated plans and objectives. The GTAA has implemented a structured approach to preparing its planning documents, managing operations against those plans and evaluating and reviewing actual performance against plans. Our analysis and discussions with the management team found that broad goals are translated into specific objectives to which management is held accountable. The Board is also regularly involved in setting goals and plans of the GTAA and monitoring performance.



The current approach to implementation allows the GTAA to monitor initiatives in order to understand its performance in achieving its stipulated objectives. Management reporting and controls act as means of relaying performance information to managers and the Board in order to monitor the GTAA's progress with respect to its established plans and forecasts. The GTAA monitors on a monthly basis on time and costs expended in relation to budgets and forecasts established. The continuous reporting framework acts as a means of keeping the Board up to date and assists in performance monitoring.

Management Control Practices and Systems

Financial and management controls, information systems and related practices at the Airport were maintained by the GTAA. While information and control systems are implemented by management, they are monitored by the Board of Directors Audit Committee and are further evaluated by both internal and external auditors. The external audit reports presented to the GTAA outlined no differences in opinion with management over the financial statements and did not identify any significant issues of concern during the review period. Internal audits of the GTAA between July 1, 2006 and June 30, 2011 concluded that the GTAA had adequate processes and controls in place to mitigate its exposure to certain risks.

Assets Safeguarded and Controlled

The Finance Department maintains an internal control system, and regularly uses internal and external audits to verify and test controls in place at the Airport. The GTAA has also complied with requirements under its safety and security standards and has a comprehensive risk management and insurance program in place to further protect its assets and facilities.

Economical and Efficient Management of Resources

The GTAA has policies, processes and management infrastructure in place during the analysis period to address the challenges and opportunities set out under its planning context and presented by the aviation environment.

Efficient Operations of the GTAA

Over the analysis period, the GTAA has addressed its mandate to operate an Airports in the south central region of Ontario on a commercial basis, set fees for their use and develop and improve facilities. During the analysis period, the GTAA focussed on growing and then maintaining the throughput of passengers and cargo at the Airport following the economic downturn in 2008 by making strategic capital investments and reducing costs on airlines and passengers. The GTAA has operating practices in place to obtain ongoing input from passengers, air carriers, tenants and other relevant stakeholders.

Other Matters

The Ground Lease requires us to indicate whether there are "other matters, concerns or qualifications or relevant information" that should be reported. Based on our analysis, we believe there are no other significant matters, concerns or qualifications or relevant information that need to be reported under the Terms of Reference which are not already in the public domain.



Appendix

The following criteria are to be considered, either in whole, or in part, when conducting the analysis. Each of the sub-points is to be considered or addressed in discussions with GTAA personnel during the analysis.

I. Safe and Efficient Service to the Public

Financial & Management Controls / Governance

Procedures

Inquire as to any innovations that the GTAA has implemented during the period to improve the safety and service to the public.

Inquire as any major security breaches during the period and the GTAA's response to such breaches.

Management Function

Procedures

Review and understand the GTAA's relationship with key security partners (i.e. RCMP, CATSA, Peel Region Police, etc) and inquire as to how the GTAA manages the various security groups and how issues are communicated and shared among these groups.

Understand the various public committees and forums that the GTAA is involved with to liaise with the community.

Understand the various external publications distributed by the GTAA to the community to communicate the GTAA's activities and practices.

Operational

Procedures

Inquire and understand the GTAA's Safety Management System (SMS) and any other safety initiatives implemented over the review period.

Inquire and understand the GTAA's Security Management System (SeMS) and any other security initiatives implemented over the review period.

Financial Performance

Procedures

Inquire and understand the policies in place to ensure that sufficient funds are maintained to retire public debt.

Obtain all Annual Reports during the review period and ensure that these are published and communicated to the public.



II. Efficiently run undertaking in accordance with the GTAA's business plans and approved objectives

Financial & Management Controls / Governance

Procedures

Ensure that the composition of the Board of Directors is in accordance with the GTAA's By-Laws.

Ensure that the Board is involved in the development of the Master Plan & Strategic Plan and that these plans have been approved by the Board.

Inquire as to the various Board Committees and ensure that these Committees meet regularly and report to the overall Board on a regular basis.

Inquire and understand how the Board monitors and evaluates the GTAA's performance against its objectives noted within the Master Plan and Strategic Plan.

Understand whether the Master Plan or Strategic Plan are reviewed and revised for changes in business activity and external circumstances if necessary.

Management Function

Procedures

Inquire and understand the GTAA's compensation plan and structure and how this aligns with the Company's business plans and objectives.

Inquire and understand how management monitors and tracks performance of the GTAA against the Master & Strategic Plans.

Understand the capital planning and budgeting process and whether capital plans are determined to be in line with the overall Strategic and Master Plans of the GTAA.

Operational

Procedures

Ensure that facilities management and maintenance projects are in line with the approved Strategic & Business Plans.

Financial Performance

Procedures

Understand the applicable debt covenant requirements and inquire as to whether the GTAA has been in compliance during the review period.



III. The assets of the GTAA have been safeguarded and controlled

Financial & Management Controls / Governance

Procedures

Ensure that the Board approves all capital programs and budget estimates.

Ensure that the status of capital projects is communicated to the Board on a regular basis.

Management Function

Procedures

Understand the competitive bidding process for capital projects.

Understand the processes involved in a non-public tendering and ensure that contracts awarded are communicated to the Board.

Understand how Management monitors the progress of capital projects in terms of time and cost.

Inquire and understand the GTAA's Preventative Maintenance Program.

Inquire and understand the access controls in place at the GTAA for Airport personnel and external contractors accessing the Airport facilities.

Operational

Procedures

Obtain an understanding of the Operating, Maintenance and Replacement Capital (OM&R) Plan and how projects are approved and reviewed.

Inquire and understand the security surrounding IT assets and how access to such assets is maintained and controlled.

Inquire as to whether there is an effective Disaster Recovery Plan in place and understand who oversees and communicates this plan.

Financial Performance

Procedures

Inquire and understand the financial reporting controls in place to safeguard financial reporting assets and ensure that the control environment was operating effectively during the review period.



IV. Financial, Human and Physical Resources of the GTAA have been managed Economically and Efficiently

Financial & Management Controls / Governance

Procedures

Inquire and understand whether the GTAA has been in compliance with statutory and regulatory requirements during the review period.

Understand the level of insurance coverage the GTAA has in place to mitigate risk.

Understand the role of the Audit Committee and ensure that financial statements are reviewed by the Committee on a quarterly basis.

Understand the role of the Human Resources and Compensation Committee in overseeing the human resources and compensation structure employed at the GTAA.

Management Function

Procedures

Ensure that management reviews the Strategic Plan annually as part of the process for preparing annual goals, operating plans, and budgets.

Inquire and understand the GTAA's life cycle cost approach and assessment to ensure that all capital costs including subsequent maintenance costs are reviewed and managed.

Inquire as to the level and trend of employee disputes and grievances during the period.

Inquire and understand the GTAA's hiring and recruitment process.

Inquire as to the processes in place for reporting and investigating health and safety incidents.

Operational

Procedures

Inquire and understand the GTAA's Quality Review Program.

Obtain an understanding of the GTAA's emergency response plan.

Inquire and understand the GTAA's Environmental Management policy and the processes in place to monitor environmental issues and procedures and plans in place to mitigate any environmental risks.

Inquire and understand any recent changes to the IT function and management of IT systems.

Financial Performance

Procedures

Inquire and understand the GTAA's debt structure and how funds raised from debt issuances are used for the operations of the company.

Understand the various reserve funds held by the GTAA and ensure that these funds were in compliance with the various requirements during the review period.



V. The Operations of the GTAA have been carried out Effectively

Financial & Management Controls / Governance

Procedures

Understand the role of Internal Audit within the GTAA.

Ensure whether the process for developing the Master Plan & Strategic Plan includes input from both Management and the Board of Directors and that the Board has approved these plans.

Inquire as to any changes in the Board Structure and composition and if any new Board Committees were formed during the review period.

Inquire as to how the effectiveness of the Board is assessed.

Ensure that the annual budget that is prepared by management is approved by the Board of Directors.

Inquire about the effectiveness of risk management policies and procedures and how the GTAA manages risks and uncertainties.

Discuss with the Chair of the Environment, Safety, Security & Stakeholder Relations Committee, the oversight role with respect to health, safety and the environment.

Management Function

Procedures

Ensure that the Strategic Plan has been communicated to all employees.

Inquire and understand the relationship with union groups and changes in union representation and union agreements during the review period.

Obtain and review customer satisfaction survey results conducted by the GTAA over the review period to determine the trend in customer service levels.

Obtain and review employee satisfaction survey results conducted by the GTAA over the review period.

Inquire with air carriers as to the level of service provided by the GTAA during the review period.

Operational

Procedures

Obtain and review the GTAA's IT objectives, policies and procedures and obtain an understanding of how these policies are monitored and reviewed.

Financial Performance

Procedures

Review the financial performance of the GTAA during the review period.

Inquire and review the GTAA's rate setting methodology.

Obtain and review the Annual Reports and audited financial statements during the period and ensure that



an unqualified opinion was provided for each of the review years.

Inquire as to any changes in the collection of AIF and Aeronautical Fees from the airlines during the review period.

Inquire and understand any changes to the rates and charges charged to airlines during the review period.