Minutes from the Airport

MINUTES FROM THE AIRPORT GREATER TORONTO AIRPORTS AUTHORITY 2008 ANNUAL REPORT

Greater Toronto Airports Authority
2008 Annual Report

GTAA

Incorporated in 1993, the Greater Toronto Airports Authority (GTAA) is responsible for operating, managing and developing Toronto Pearson International Airport under terms set out in our December 1996 lease with the Canadian federal government. We are authorized to operate on a commercial basis, to set fees, and to develop and improve facilities.

Speaking directly to the challenges and opportunities that lie ahead, the GTAA's vision for the organization is to be "a leading airport company championing sustainable global access for the Greater Toronto Area." To achieve this vision, we have mapped out a five-year strategic plan focusing on global competitiveness, corporate sustainability and gateway traffic development.

Minutes from the airport. It's the quickest way to say you're plugged in to the wider world. At Toronto Pearson, that sense of connectedness extends deep into the community we're here to support – and beyond that to countless points across the region, the country, indeed the entire planet. Every minute of every day, remarkable events unfold that could never have happened if we hadn't provided the vital links. A deal clinched. A precious shipment delivered. A relationship forged. A family reunited. A life saved.

All minutes from the airport…

3:28 p.m.

As soon as the plane from London lands, a Customs officer goes on board to check the VIP's passport. Then he's escorted into the arrivals area, given water and placed in a stall. And after a health check, his handlers whisk him away by van to get ready for Saturday's big race.

But for now he's safely across the finish line.

At Toronto Pearson, we know what it takes to transport thoroughbreds by air, with minimal stress for both horses and humans. It's the same for prized cattle, polar bears – any live cargo that requires sensitive handling, seamless liaison with inspection agencies and proven expertise in meeting animals' special needs. We work closely with vets and trainers, entertainment venues and key players in the vital tourism industry. And yet, as experienced as we are, we're always excited to see a champion in one of our stalls. But we're even happier to see him quickly past the gate.


PASSPORT

9:21 A.M.

At sunrise on the Peruvian coast, farm workers pick a fresh crop of asparagus. By evening it's been packaged, trucked to Lima and loaded onto a plane to Canada. In the frigid dawn at Toronto Pearson, expert handlers take charge of the delicate cargo. And within hours, it's in Ontario grocery stores...

...or flying on to hit the sauce in Paris.

Whether it's Caribbean avocados or Colombian cut flowers, at Toronto Pearson we handle perishable cargo with just-in-time precision. In temperatures ranging from sub-zero to summer heat wave, we can cut the "tug time" between aircraft and warehouse to a few seconds. And as both a national hub and a global export gateway, we support a wide array of local businesses specializing in the distribution of time-sensitive goods. That impact extends nationwide as we help ensure fresh items reach Canadian store shelves – and dinner tables – quickly and cost-effectively.


YYZ
08

10:15 A.M.

The wedding is two days from now at a temple in Mississauga. The bride's aunt and uncle are in Janakpuri, waiting for the airport taxi. Their first trip to Canada will be an adventure, starting with the cab ride. But by this time tomorrow they'll be 12,000KM away, seeing loved ones after far too long.

And catching up on some serious gossip.

Each year some 10 million international travellers pass through Toronto Pearson from points around the globe. Those who fly here to reunite with family have a huge economic impact, whether they're shopping and visiting attractions in the region or heading on to other Canadian destinations. As a highly efficient gateway, we make overseas routes viable while creating business opportunities in our own backyard. And by providing fast, affordable links to Canadians' countries of origin, we strengthen the rich multicultural fabric of our local communities.

8:33 P.M.

Tuesday morning, fly to head office in Montreal. One carry-on bag, an online boarding pass. Like clockwork. Wednesday, on to Halifax for meetings. Thursday, back into Toronto Pearson and then straight on to the cottage – a flight to Thunder Bay, by small plane to Kenora and down on the dock with a cold beer in time to catch the sunset.

Like clockwork.

A week in the life of one frequent flyer – an executive with a Canadian multinational – sums up the experience of countless business travellers who use the airport to make connections across the country and around the globe. In an era of virtual networking, it's still crucial to meet face to face if you want to build a relationship, resolve an issue or clinch a deal. Our job is to help make it all happen smoothly and cost-effectively. And to recognize that in most hectic lives, business and leisure travel are totally intertwined – even if your cottage is reasonably close to home.

2:17 P.M.

Please print your boarding pass at a kiosk and proceed through the terminal. Feel free to browse the shops and restaurants. Take note if signs are readable, announcements are clear, washrooms are clean. And at the gate we'll ask a few questions, then give you a new script – this time for an arriving passenger.

Thanks for almost flying with us today.

Recruiting volunteers to test out a new terminal: it's one more way we share the GTAA's unique expertise with airports around the world. We consult on all aspects of launching a new facility, including training, planning and readiness trials. We also provide guidance on safety management, snow removal and other areas where we're seen to excel. From one of the world's largest terminals in Dubai to the latest expansion of JFK in New York, we're exporting our innovative best practices – helping establish new revenue streams while cementing our reputation as an industry leader.

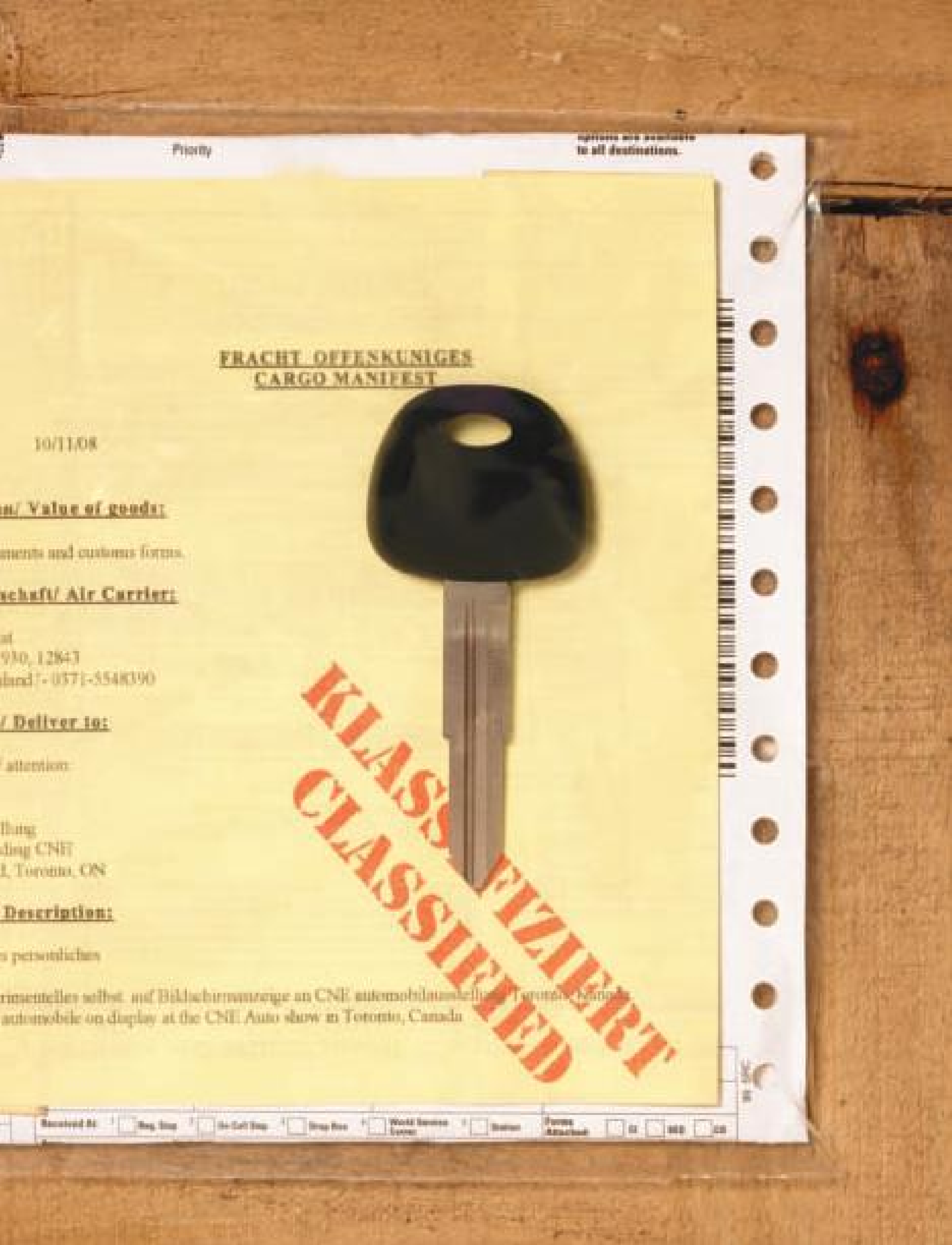

PLEASE
TAKE A
DESTINATION
LAX

8:35 A.M.

The concept car arrives on an overnight flight from Frankfurt and absolutely must be downtown at the Toronto auto show by morning. A loader swings the multimillion-dollar payload onto the flatbed of a specialty carrier. The temporary import bond is approved. And that's it – green light.

Maybe the fastest this car will ever move without getting a ticket.

The auto show is just one of many high-profile events that depend on Toronto's airport for success. Year-round, exhibitors and attendees converge on the city by air, along with last-minute shipments of products, equipment and displays. The Customs team at Toronto Pearson even includes exhibition specialists who can clear everything from show booths to Egyptian mummies. For the network of logistics companies around the airport, of course, it's all business as usual – whether a flight from overseas is carrying parts for an Ontario auto plant or a prototype for the car of the future.



Priority
to all destinations.
FRACHT OFFENKUNIGES
CARGO MANIFEST
10/11/08
n/ Value of goods:
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schaft/ Air Carrier:
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Description:
KLASSIFIZIERT
CLASSIFIED
automobile on display at the CNE Auto show in Toronto, Canada

3:12 A.M.

After two years of hoping, there's a suitable heart in Sudbury. The donor's blood is quickly flown to Toronto for testing. Another plane jets a surgical team up to perform the organ recovery. The heart is packed in a cooler, raced to the aircraft, given priority to land at Toronto Pearson, then run across the apron to a waiting ambulance.

All without skipping a beat.

An organ being rushed to a transplant team is a particularly dramatic example of the kind of life-saving shipments that are expedited every day through Toronto Pearson. We can handle the most demanding medical cargo, from vaccines and other time- and temperature-sensitive products to blood supplies for disaster-relief flights. All require flawless coordination with the many specialized carriers and logistics companies that have sprung up around the airport. Plus a natural pride in nailing every detail when individual lives – and the health of entire communities – are at stake.


FRAGILE
FRAGILE

12:10 P.M.

Folks are flying up from St. Kitts. Then there's the New York cousins. And our son in Calgary, we call him the oil tycoon. We've got people staying here, at hotels, at the girls' place downtown. Everybody doing their thing, seeing the shows. But all getting together for the Caribana parade.

A million people, man.
Now that's a celebration.

Caribana is the largest cultural festival in North America and one of Canada's premier tourist draws, generating an estimated $350 million in economic activity. It's a highlight in the annual cycle of events, from Pride Week to the Toronto International Film Festival, that shape the city's cultural identity. The airport plays a key role in helping such events take root and flourish. By ensuring easy access from global destinations, we strengthen Toronto's ties with the rest of the world while encouraging visitors to come here – with or without costumes.

BUSINESS OPERATIONS

The GTAA's strategic plan, focusing on global competitiveness, sustainability and gateway development, guided all initiatives we undertook in 2008 and ensured we began the new fiscal year well positioned to tackle the challenges ahead. As always, we've gauged our successes by their positive impact on the community we're in business to serve – just minutes from the airport.

Sharing Cost Savings

In order to improve our competitiveness, in 2008 the GTAA continued the commitment we made in the previous year to reduce landing fees and terminal charges at Toronto Pearson. In addition, we announced a 25 per cent reduction in all-cargo landing fees. Through these efforts, we are working hard to ensure the surrounding community becomes more competitive as well.

Generating Revenue

Over the past year, again responding to demand from the community we serve, Toronto Pearson attracted new carriers and worked with our existing airline partners to expand services. In the spring Icelandair commenced non-stop service to Reykjavik. And in September LAN Airlines, South America's premier carrier and a new GTAA customer, began offering five flights a week from Toronto (via New York) to Santiago, Chile. In addition to these new passenger services, we welcomed Lufthansa cargo operations to Toronto Pearson in the third quarter. With twice-weekly service from Frankfurt using MD-11 freighters, Lufthansa offers the Canadian market approximately 90 tonnes of airfreight capacity per flight.

In 2008, the GTAA partnered with HSBC Bank Canada and Clear Channel Outdoor on one of the most extensive advertising campaigns ever undertaken at an airport – which in turn yielded significant non-aeronautical revenue. Another milestone was the unveiling of the Toronto Pearson Lounge. Developed in partnership with Plaza Premium Lounge Management Ltd., the new 3,000 ft^2 facility opened its doors in November, enhancing the travel experience of passengers on all airlines flying through Toronto Pearson. Additional lounges are slated to open in early 2009.

The GTAA also pursued new business opportunities by sharing our specialized expertise. A team of employees with unique experience in opening terminals has travelled the world consulting to airports that are launching new facilities, including London Heathrow Airport, Dubai International Airport and John F. Kennedy International Airport in New York. GTAA consultants are also assisting with the opening of new terminals in Edmonton and Winnipeg.

Acting Responsibly

In our commitment to corporate social responsibility, the GTAA looks for returns that go far beyond financial gain. Over the past year, we coordinated or took part in dozens of initiatives supporting the communities we serve and helping raise awareness of cultural activities in the surrounding region.

On a Saturday morning in June, a runway was closed – for the first time in Toronto Pearson's history – so that runners and walkers could raise funds for the William Osler Health Centre at Etobicoke General Hospital. The Runway Run netted more than $60,000. Meanwhile, our annual United Way campaign was the most successful yet, raising more than $132,000 – nearly 264 per cent beyond target. Our employees' caring spirit was equally evident in the efforts of the Facilities group, which raised donations to help the Salvation Army provide food and gifts for needy families over the holiday season.

The GTAA was also proud to support many cultural events throughout the year. Performers from Toronto's North by Northeast music festival, for instance, entertained passengers in Terminal 1, as did steel bands from the city's midsummer Caribana celebration. And airport visitors were intrigued by a dinosaur exhibit mounted in association with the Royal Ontario Museum.

Ensuring Sustainability

Another priority of our strategic plan is to consider the environmental impact of all GTAA activities. The launch this year of our groundbreaking eco-business zone, Partners in Project Green, signalled our strong commitment to environmental stewardship. In partnership with the Toronto and Region Conservation Authority, we are helping companies reduce resource costs, uncover new business opportunities and address everyday operational challenges with "greener" and more cost-effective solutions.

Toronto Pearson was the first airport in North America to register for Earth Hour, a worldwide effort to reduce energy consumption. Our collective ideas yielded a 10 per cent reduction in electricity use, and the lessons learned have since been applied to save energy year-round. The GTAA also signed the international declaration on climate change at the Aviation & Environment Summit in Geneva, committing to the introduction of new technologies to reduce the environmental impact of all airport operations.

Continuous Improvement

The GTAA's new quality management initiative, QPlus, takes a fresh look at processes across our business that may have been taken for granted, seeking opportunities to boost efficiency, reduce costs and improve customer satisfaction. Some efficiencies achieved in 2008 were immediately welcomed by passengers, while others were implemented effectively behind the scenes.

Making access to the airport simpler and more environmentally responsible has long been a priority of the GTAA. This year we announced our support for Metrolinx, an agency of the Province of Ontario whose regional transportation plan maps out $50 billion in new projects over 25 years and proposes nearly 100 measures to improve current services and build additional infrastructure. Several new transit connections are envisioned for Toronto Pearson: from downtown by a rail link, from the east along Eglinton Avenue and from the north via Finch Avenue. Convenient, reliable and cost-effective transportation will benefit air travellers and many of the 35,000-plus people who work at the airport.

The large-scale construction associated with the GTAA's Airport Development Program is now complete. However, 2008 saw several significant landmarks in the ongoing development of Toronto Pearson – notably the demolition of Terminal 2, the creation of Gate 193 at Terminal 1 and the reconstruction of 1.4 million ft^2 of apron surface.

In the past year, we continued striving to ensure we are working effectively and communicating transparently with our airline partners. At the same time, to better understand the needs of customers, we launched a formal research study in May 2008. At special "research cafés" in Terminals 1 and 3, passengers were invited to provide feedback on the quality of airport services and to exchange views with other travellers on a regular research panel.

To complement these consultations, we also initiated a text message feedback program to deepen our understanding of how Toronto Pearson is perceived by the public. Customers now have the ability to immediately share their thoughts and offer suggestions for improvements – and can expect a timely response from airport staff. It's one more way the GTAA is working to provide smart, efficient, quality-conscious service to the community that keeps us in business.

A MESSAGE FROM THE CHAIR

It is an honour, after serving for several years on the GTAA Board of Directors, to deliver this annual message to stakeholders as the newly elected Chair.

The Board of the GTAA differs from most corporate boards in the degree to which it reflects the community it serves. Our members, drawn from various constituencies across the Greater Toronto Area, are acutely aware of their responsibility to represent the best interests of the corporation as well as its diverse stakeholders. As the Board has evolved, we've placed increasing emphasis on the need for highly skilled members who bring vital industry, management and other specialized expertise to the oversight of our leading international airport.

Our ability to balance those twin goals is a cornerstone of our corporate governance and the yardstick by which we measure our success. In everything we do, we're guided by the purpose that serves as the theme for this year's annual report: to further the economic prosperity and social well-being of the multicultural, multi-dimensional community that lies just minutes from the airport.

A Vital Plan for the Future

The past year closed with unforeseen challenges and significant uncertainty as the world economy plunged into recession. What has enabled the GTAA to continue meeting the needs of our customers and stakeholders while maintaining the confidence of the investment community is the strength of our strategic plan. That plan is robust and relevant to the economic situation we face today. Within its framework, the Board remains vigilant with regard to the current fiscal challenges and, if necessary, will take whatever measures may be required to ensure our continued vitality.

In 2008, we continued pursuing a key strategic objective, improving our global competitiveness, by fast-tracking a range of revenue enhancement initiatives, notably new incentives to attract carriers to Toronto Pearson. We believe our proactive moves will protect us from the recession's worst effects and position us to resume our broader long-term strategy all the sooner as better times return. Another key element of our plan is gateway development. Here again the fact that many initiatives were already in motion has helped us maintain momentum even in the current economic climate. Our surrounding community benefits from any growth in the volume of connecting passengers travelling through Toronto Pearson; the increase in traffic boosts revenues, strengthens marginal routes and results in more frequent flights to a wider range of destinations.

The final pillar of our plan is sustainability. Economically, we're clearly committed to fostering future growth on a sound financial footing. Our environmental leadership extends from minimizing the impact of aircraft traffic to developing our groundbreaking eco-business zone, Partners in Project Green. And in the realm of social responsibility, we're helping create a more vibrant community through everything from fundraising for regional charities to showcasing cultural attractions.

Dedicated to Our Community

In a time of change, the Board has been changing as well. We're very pleased to welcome Poonam Puri as a Director; her keen mind, fresh ideas and strong connections in the Toronto community bring a dynamic new perspective to the GTAA. We also want to acknowledge the contribution of departing Director Bruce McKelvey, whose business acumen and experience heightened our sensitivity to the importance of measuring performance and delivering superior customer service.

This year the GTAA said farewell and thanks to one of its visionary founders – Steve Shaw, who retired as Vice President, Marketing & Business Development, in January 2009. From the earliest negotiations establishing a not-for-profit airport authority, to the crafting of our corporate structure and policies, and on through 16 years of leadership in strategic planning, public affairs and business development, Steve played a crucial role in shaping the GTAA and ensuring its success.

Lastly, I wish to salute my predecessor as Chair, Warren Hurren, who led this Board with insight and integrity as we achieved many milestones, including the completion of Terminal 1, the transition to a new CEO and the launch of our strategic plan. Warren also helped us set new standards for oversight and accountability – efforts recognized by the Corporate Governance Award presented recently to the GTAA by the Mississauga Board of Trade. We're fortunate to still have Warren's wise counsel at the Board table as we tackle the challenges ahead.

These are indeed challenging times, but I'm confident that the talent and dedication of GTAA management and staff, the cooperative engagement of our stakeholders and, above all, the resilience and ingenuity of our community will see us through. By pulling together as we always have, we will accelerate the cycle of recovery and emerge from this downturn stronger than ever.

Marilynne E. Day-Linton
Chair

CORPORATE GOVERNANCE

The GTAA management team reports to a Board of Directors that is uniquely representative of the surrounding community. Directors are chosen for their ability to speak on behalf of their constituencies, as well as for the special skills they bring to overseeing a complex, industry-leading enterprise with significant social and economic impact.

The GTAA was incorporated in 1993 as a non-share capital corporation pursuant to Part II of the Canada Corporations Act.

The GTAA is governed by a 15-Member Board. Five Directors are appointed from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto is entitled to provide, on a rotating basis, the names of three candidates, and the Board will appoint the most appropriate and qualified candidate for each available position as a Director, taking into account the skill set and make-up required for the full Board. In addition, four Directors are appointed by the Board on a cyclical basis from candidates nominated by a pool of nominators comprised of the Law Society of Upper Canada, the Association of Professional Engineers of Ontario, the Institute of Chartered Accountants of Ontario, the Toronto Board of Trade and the Boards of Trade and Chambers of Commerce in the Regional Municipality of York, the Regional Municipality of Halton, the Regional Municipality of Durham and the Regional Municipality of Peel. Three Directors are appointed by the Board on a cyclical basis from candidates solicited by the Board itself. Finally, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively. Each Director is an independent Director within the meaning of Multilateral Instrument 52-110. The GTAA's Bylaws provide that nominees are to be appointed by the Board for a three-year term. No Director may serve in such a capacity for more than nine years.

The GTAA's Board meets on a regular basis and views its principal responsibility as overseeing the conduct of the business of the GTAA and setting the strategic direction for the Corporation. The Board ensures that long-term goals and the strategies necessary to achieve them are established and are consistent with the GTAA's vision.

The GTAA developed a new strategic plan for the Corporation in 2007 centred on a renewed commitment to making the Corporation and the airport it operates more competitive. Based on the vision for the GTAA – "to be a leading airport company championing sustainable global access for the Greater Toronto Area" – the GTAA focuses on three key strategic themes:

- Making the GTAA more globally competitive;
- Enhancing the Airport's role as a gateway; and
- Ensuring the long-term sustainability of the Corporation.

The five-year strategic plan provides the structure to achieve higher non-aeronautical and aeronautical revenues and improve efficiencies. In addition, the GTAA has placed a priority on aligning products and services with customer needs.

The Board also ensures that the necessary systems are in place to manage the risks associated with the GTAA's business and to monitor and measure management's performance in carrying out the Corporation's objectives.

There are four standing committees of the Board: the Audit Committee, the Corporate Governance and Compensation Committee, the Environment, Health and Safety Committee, and the Planning and Development Committee. The mandates of each Committee of the Board are as follows:

Audit Committee

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

In addition, the Committee reviews the risk management and insurance programs to minimize risk and exposure and ensure compliance with the insurance requirements under the Ground Lease and the Trust Indenture. The Committee also reviews the "CARE Line" which permits the confidential and anonymous reporting of employees' concerns regarding questionable or inappropriate behaviour. Finally, the Committee monitors and assesses the performance of pension fund asset managers.

A written copy of the Charter of the Audit Committee is attached to the Corporation's Annual Information Form which may be accessed at www.sedar.com.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee is charged with the development, implementation and assessment of effective corporate governance principles. The Committee is also responsible for developing and reviewing the roles and responsibilities of the Board, the Chair of the Board and the President and Chief Executive Officer, overseeing the nomination process, recommending candidates for appointment as Directors, establishing an orientation program for new Directors, reviewing the terms of reference of Board committees, reviewing management succession policies, assessing the effectiveness of the Board and the Committees of the Board and ensuring compliance with corporate governance requirements. In addition, the Committee is responsible for reviewing executive compensation arrangements.

Environment, Health and Safety Committee

The Environment, Health and Safety Committee oversees the GTAA's environment, health and safety, employee occupational health and safety, public safety, emergency preparedness and security to ensure compliance with legislative and regulatory requirements and industry standards. The Committee also ensures that the GTAA maintains management systems to implement such policies.

Planning and Development Committee

The Planning and Development Committee's mandate is to ensure that the GTAA has appropriate facility development plans, including an accurate, up-to-date and approved master plan, and that the GTAA has in place the management systems necessary to deliver needed facilities efficiently and economically.

A MESSAGE FROM THE PRESIDENT

The success of the GTAA is inextricably linked to the economic prosperity of the community we serve. At the end of last year, that community, and indeed communities around the globe, were hit hard by an economic downturn of unprecedented magnitude. It is therefore more vital than ever that we focus not on the achievements of the past but on our readiness to navigate the challenges ahead. While our performance in 2008 yielded clear indicators of success, including record airport traffic levels and strong financial returns, we recognize that a key concern for our stakeholders is that this forward momentum will continue.

We believe our progress is indeed sustainable – because we have the right plan in place. When we unveiled our new vision in 2007, no one could have foreseen the severity of the economic tests we would subsequently face. But the strategy we set in motion, with its emphasis on containing costs, improving service and building long-term sustainability, has ideally positioned the GTAA to weather the current recession. At the same time, we remain keenly aware – as evidenced by the theme of this report – of our crucial relationship with the dynamic, multi-faceted community that lies just minutes from the airport. We owe our livelihoods to our airline partners and other key airport tenants, to the millions of travellers who pass through our gates each year, and to the businesses whose shipments we expedite around the globe. By doing our job well and helping our community thrive, we ensure our own success.

The Plan is Working

One of the fundamentals of the GTAA's strategic plan is our commitment to increased global competitiveness. To that end, in the past year we launched a comprehensive quality improvement program, conducting rigorous reviews of all business processes. We also introduced leadership training designed to hone managers' decision-making skills as they adapt to changing issues and seek the most effective solutions. We've already seen tangible results. To take just one example on the operations side, improvements in process management and cost containment have resulted in a reduction of nearly 40 per cent in snow clearing costs – despite heavier snowfalls in 2008. As for the quality of our passenger services, the overwhelmingly positive response to the opening of Terminal 1 has only grown as we've added further service enhancements across our facilities. Toronto Pearson has made significant improvements in satisfaction surveys ranking the world's airports.

This positive feedback confirms our success in making the airport work better for business and leisure travellers while raising our profile as an international gateway – again, with the resulting business and employment opportunities accruing to the benefit of our community. Of course the economic slowdown has necessitated that the GTAA take decisive steps, within the framework of our strategic plan, to cut costs and increase revenues. A top priority has been the search for further reductions in operating costs across the company, as well as cuts in all but the most critical capital expenditures. However, merely cutting costs will not be sufficient to address the challenges we face. We therefore have announced an increase in the Airport Improvement Fee from $20 to $25 and introduced an incentive program to attract new traffic.

A Clear Message for the Future

Two principles guide all initiatives at the GTAA. First is the need for clear, open communications. A personal highlight of the past year was a series of face-to-face meetings in which I shared details of our plan with employees while gaining their valued input on how we can make this great organization even better. It's enormously gratifying to see the dedication, creativity and pride our people bring to their jobs every day.

Our other guiding principle is a devotion to sustainability in its many dimensions – economic, environmental and social. Even in this difficult period, we remain focused on meeting the longer-term challenges of an increasingly competitive global marketplace. While the downturn has inevitably prompted a rethinking of priorities, the GTAA's industry-leading innovations will continue, evolving in step with the anticipated economic recovery.

We've faced tough situations before and emerged stronger from the experience. We'll do so again by directing all of our efforts toward promoting a vibrant, prosperous and successful community – thereby driving our own future success.

Dr. Lloyd A. McCoomb
President and Chief Executive Officer

MD&A

FOR THE YEAR ENDED DECEMBER 31, 2008
DATED MARCH 11, 2009

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 for the Greater Toronto Airports Authority ("GTAA" or the "Corporation") for the year ended December 31, 2008, and should be read in conjunction with the Financial Statements of the GTAA for the years ended December 31, 2008, and 2007, and the Annual Information Form for the year ended December 31, 2008. These documents provide additional information on certain matters which may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.GTAA.com.

CORPORATE PROFILE

The GTAA was incorporated in March 1993 as a corporation without share capital, and recognized as a Canadian Airport Authority by the federal government in November 1994. The GTAA is authorized to operate airports within the Greater Toronto Area ("GTA") on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA currently manages and operates Toronto Pearson International Airport (the "Airport" or "Toronto Pearson").

The responsibilities of the GTAA for the operation, management and development of Toronto Pearson are set out in the 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 GTAA's priorities are to operate a safe, secure and efficient Airport and to ensure that the facilities provide the necessary services, amenities, and capacity for current and future air travel requirements for the GTA.

BUSINESS STRATEGY

The GTAA is focused on providing quality aviation facilities at Toronto Pearson, recognizing that the region's demand for air travel is expected to continue to grow. To meet this anticipated demand the GTAA undertook the Airport Development Program ("ADP"), substantially completed in January 2007, as well as the redevelopment of Terminal 3 and continues to plan for additional future development.

Throughout 2008 the GTAA continued to implement its five-year (2007-2011) strategic plan. Based on the vision for the GTAA – "to be a leading airport company championing sustainable global access for the Greater Toronto Area" – the strategic plan focuses on three key strategic themes:

- Making Toronto Pearson more globally competitive;
- Enhancing the Airport's role as a gateway; and
- Ensuring the long-term sustainability of the Corporation.

Guided by the strategic plan, initiatives undertaken in 2008 included process reviews to reduce operating expenses and generate efficiencies for the GTAA and its partners and customers, continued development of non-aeronautical revenues and staff development and training.

The GTAA is a non-share capital corporation and therefore has established a program to access the debt capital markets on an ongoing basis to fund its various capital programs. The criteria, covenants and restrictions for financing by the GTAA are set out in the master trust indenture (the "Trust Indenture") and are described in the section on Liquidity and Capital Resources. The Airport now has sufficient capacity to meet projected air travel demands for several years and accordingly it is anticipated that over the next several years any additional indebtedness will be used to fund expenditures related to the repair and maintenance of existing facilities and smaller-scale new capital investments to improve operations at the Airport or to generate additional non-aeronautical revenue, as described in the section on Capital Projects. In December 2007, the GTAA published an Airport Master Plan outlining the expected growth in air travel demand over the 2008 to 2030 period and the development activities required at the Airport and in the region to meet that demand. Significant new capital expenditures and financing activities will be required by the GTAA over the term of the plan to meet the air travel needs of the region. However, in the near term there are no significant capital expenditures planned as current capacity is sufficient to meet demand.

SIGNIFICANT EVENTS

A number of significant events transpired in 2008 which had an impact on the GTAA's operations or its financial results or which may affect future results. In addition to the events discussed in this section, certain construction projects were completed which are discussed in the section on Capital Projects, and certain events transpired with respect to the restructuring of Asset Backed Commercial Paper ("ABCP") held by the GTAA which are discussed in the section on Asset Backed Commercial Paper.

On February 11, 2008, the GTAA executed an amendment to the Ground Lease. The amendment changes the way that ground rent is calculated, replacing the previous calculation that was largely based on passenger traffic with one based on revenue. The new formula will be phased in so that in 2008 and 2009 ground rent will be $141.5 million and $138.7 million, respectively. Beginning in 2010 ground rent will be calculated as a percentage of annual revenue using the following formula:

0% of the first $5.0 million of revenue;
1% of the next $5.0 million of revenue;
5% of the next $15.0 million of revenue;
8% of the next $75.0 million of revenue;
10% of the next $150.0 million of revenue; and
12% of any revenue in excess of $250.0 million.

The GTAA will continue to be required to pay ground rent deferred in the 2003 to 2005 period. The payment is approximately $4.2 million per year and continues until the end of 2015.

On February 13, 2008, the GTAA filed a shelf prospectus qualifying the issuance of up to $2.0 billion of debt over a 25-month term for the purpose of funding capital expenditures and reserve funds, repaying existing debt or for other approved uses.

On February 28 and 29, 2008, the employees of the GTAA represented by Public Service Alliance of Canada Locals 00004 and 00005 and the Canadian Auto Workers Local 2002 voted on the consolidation of the three bargaining units into one bargaining unit. On March 3, 2008, the results of the vote were announced and the Canadian Auto Workers (the "CAW") was given the mandate to represent the unionized employees of the Corporation with the exception of those employees represented by the Pearson Airport Professional Firefighters Association. During 2008 the GTAA and the CAW met to negotiate the consolidation of the three collective agreements affected by the bargaining unit consolidation. The parties were unable to agree on the terms of a consolidated collective agreement and the matter has been referred to the Canadian Industrial Relations Board (the "CIRB"). The CIRB hearing on this matter is scheduled to take place in May 2009.

On April 17, 2008, the GTAA issued $500.0 million of Series 2008-1 Medium Term Notes ("MTNs") with a term of ten years and a coupon of 5.26%. The proceeds of the issue were used to repay existing debt, to fund required reserve funds and to fund ongoing capital projects.

On June 2, 2008, the $375.0 million Series 2003-1 MTNs matured and were repaid with a combination of funds raised through the Series 2008-1 MTN issue and reserve funds.

On June 19, 2008, the GTAA announced that beginning January 1, 2009, the landing fee charged to all-cargo flights would be 25% less than the landing fee charged to passenger flights.

On August 28, 2008, Zoom Airlines ceased operations and filed for bankruptcy protection. At the time of the bankruptcy, the GTAA was owed approximately $2.0 million in aeronautical charges and Airport Improvement Fees ("AIF"). As a result of the GTAA obtaining a court order to seize and detain two of Zoom's aircraft, the full amount owing to the GTAA was paid by Zoom's aircraft lessors.

On October 10, 2008, the GTAA announced its aeronautical rates and charges for 2009. Effective January 1, 2009, landing fees were reduced by $0.15 per tonne of the aircraft's maximum takeoff weight ("MTOW") to $33.87 per tonne and general terminal charges were reduced by $0.05 per seat to $7.47 and $9.34 per seat for domestic and international flights respectively. In addition, the 2009 landing fee for all-cargo flights was reduced to $25.47 per tonne from the 2008 rate of $32.02 per tonne.

On October 24, 2008, the $350.0 million Series 2006-2 MTNs matured and were repaid using a combination of cash and investments and a draw on the GTAA's syndicated bank credit facility.

On December 8, 2008, the GTAA issued $325.0 million of Series 2008-2 MTNs with a term of five years and a coupon of 5.89%. The proceeds of the issue were used to repay existing debt, to fund required reserve funds and to fund ongoing capital projects.

Subsequent to December 31, 2008, on February 4, 2009, the GTAA repaid the $250.0 million Series 2004-2 MTNs using a combination of cash and reserve funds.

On February 13, 2009, the GTAA announced that, effective June 1, 2009, the AIF for originating passengers would be increased by five dollars to $25.00. The connecting passenger AIF remains unchanged at $8.00.

OPERATING ACTIVITY

The GTAA monitors passenger activity levels and aircraft movements, including the type and size of aircraft, as both passenger and aircraft activity have a direct impact on financial results.

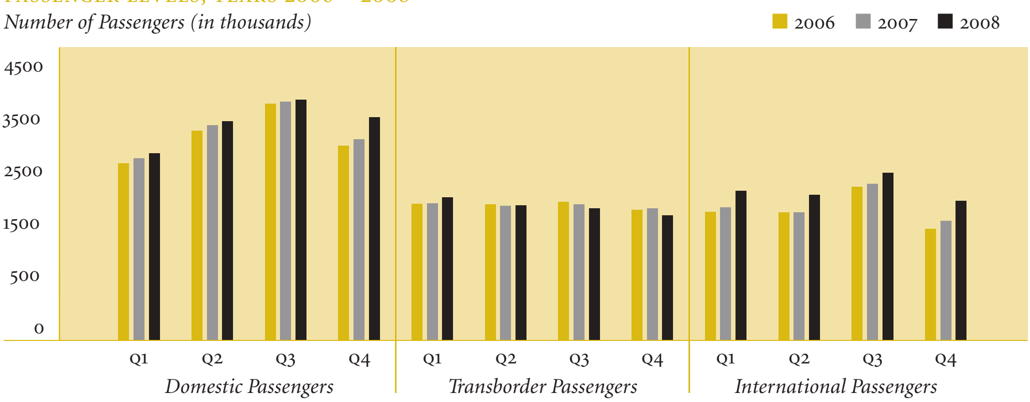
Total passenger traffic at the Airport in 2008 was 32.3 million passengers, an increase of 2.8% from the 2007 level of 31.4 million passengers. Passenger traffic at the Airport is generally categorized as belonging to one of three sectors: domestic, or passengers travelling within Canada; transborder, or passengers travelling between Canada and the United States; and international, or passengers travelling between Canada and destinations outside Canada and the United States. Domestic passenger traffic in 2008 was 13.9 million passengers, a 1.1% increase over 2007. Transborder traffic was 8.8 million passengers, a 0.7% decrease from 2007, and international passengers numbered 9.6 million, a 9.1% increase over 2007.

Total passengers in each sector for 2008 and 2007 respectively were:

Passengers in millions	**2008**	2007
Domestic	**13.9**	13.7
Transborder	**8.8**	8.9
International	**9.6**	8.8
Total	**32.3**	31.4

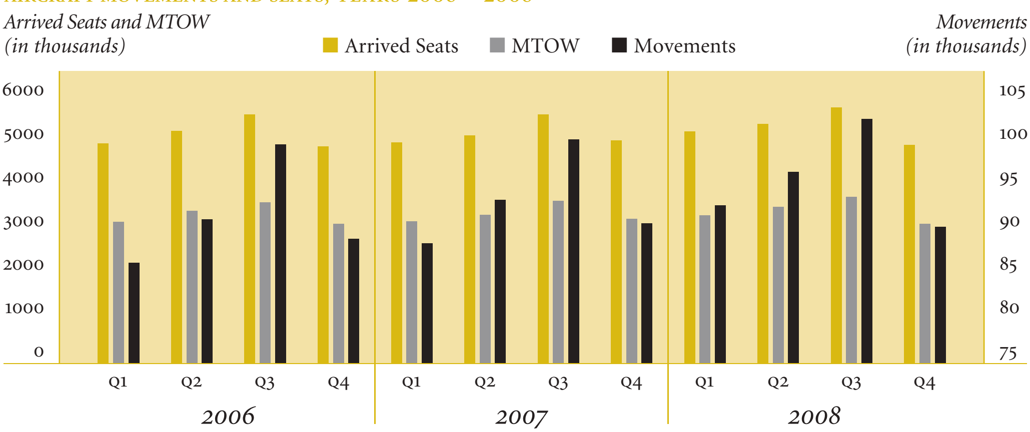
While passenger activity fluctuates from year to year there is also some seasonal fluctuation in travel patterns including increased activity during the summer months and holiday periods. The following graph illustrates the quarterly passenger levels (in thousands), by sector, for the past three years:

PASSENGER LEVELS, YEARS 2006 – 2008



Flight activity is measured by aircraft movements. The type and size of aircraft using the Airport determines the MTOW and the number of seats. These measures are used to calculate airline charges for each flight. Total movements in 2008 increased by 1.2%, from 425,500 in 2007 to 430,588. MTOW for 2008 was 13.4 million tonnes, as compared to 13.2 million tonnes in 2007, an increase of 2.1%. Total arrived seats increased 2.7% from 20.3 million in 2007 to 20.8 million in 2008. During the past several years airlines have been adjusting their fleet mixes and flight schedules in order to improve their financial performance, resulting in airline load factors, or the ratio of passengers to seats, steadily increasing. Reduced air travel demand in the latter part of 2008 and as projected for 2009 as a result of the slowing economy has caused many airlines to reduce capacity through reduced schedules and changes in aircraft type utilized on certain routes. This is expected to keep airline load factors high despite the anticipated slowing in demand which will have a negative effect on MTOW and arrived seats. It is expected that air carriers will continue to engage in these capacity management techniques for the foreseeable future. The following graph illustrates the arrived seats, MTOW and movements (in thousands) for the past three years, by quarter:

AIRCRAFT MOVEMENTS AND SEATS, YEARS 2006 – 2008



In November 2006, the Government of Canada announced its "Blue Sky" policy whereby the federal government intends to proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation. Since that time a number of agreements have been put into place, including an agreement with the European Union. This policy initiative is expected to provide increased opportunities for passenger and cargo service to be added at Toronto Pearson as market demand warrants, although some legacy agreements continue to restrict open access to Toronto Pearson.

RESULTS OF OPERATIONS

The following section discusses the GTAA's approach in setting its aeronautical rates and charges together with its financial results. In reviewing the financial results, it is important to note that the GTAA is a non-share capital corporation. Accordingly, the GTAA's financial model is based on the premise that all funds, whether generated through revenue or debt, will be used for Airport operations, ancillary aviation-related activities, construction, repairs and maintenance, debt payments, reserve funds, and other activities within the GTAA's mandate.

Rate Setting Approach

The objective of the GTAA's rate setting approach is to break even on a modified cash basis after including the reserve and debt requirements as set out in the Trust Indenture. Aeronautical rates and charges are set by the GTAA annually to cover the projected operating costs on a break-even cash basis for each year. To calculate the rates and charges for a given year, projections are developed for measures of Airport operating activity such as passengers, MTOW and arrived seats, non-aeronautical revenue and operating costs. Operating costs include debt service for those assets that are operational, but do not include non-cash items such as amortization of capital assets. Capital costs, including interest for projects under construction, are funded through debt and are not included in the calculation of the aeronautical rates and charges. However, a notional amortization of debt, based on a 30-year amortization period, which is not included in the operating results, is included in the rate setting calculation.

The two components of the aeronautical rates and charges are the landing fee and the general terminal charge. Landing fees are set as a rate per tonne of MTOW to cover the projected operating costs associated with the airfield and groundside areas of the Airport, plus ground rent, payments-in-lieu of property taxes ("PILT") and specific debt service costs, offset by the projected non-aeronautical revenue and a specified amount of AIF revenue. Beginning January 1, 2009, all-cargo flights are charged a landing fee equal to 75% of the fee charged to passenger flights, reflecting the reduced use of facilities and resources by these flights. General terminal charges are set to cover the operating costs for the common areas in the passenger terminals as a rate per landed seat, regardless of whether the seat is occupied by a passenger. There is a premium on the general terminal charge for non-domestic flights to cover the additional costs, such as security and providing space and services to government inspection agencies, incurred by the GTAA in handling these flights. The common areas include holdrooms, check-in counters, passenger processing areas and arrival halls, but exclude space that is exclusively leased to airlines or other tenants.

Net Operating Results

The GTAA's net operating results for the three years ended December 31, 2008, 2007 and 2006, are summarized in the following table:

(in thousands)	**2008**	2007	2006
	$	$	$
Revenues	**1,172,555**	1,162,858	1,062,303
Operating expenses	**555,238**	552,026	560,120
Revenues over expenses[1]	**617,317**	610,832	502,183
Interest and financing costs, net	**452,501**	427,652	355,027
Amortization	**210,730**	227,130	225,934
Revenues under expenses	**(45,914)**	(43,950)	(78,778)

Note 1: Revenues over expenses before interest and financing costs and amortization of capital assets

Revenues over expenses before interest and financing costs and amortization increased from $610.8 million for the year ended December 31, 2007, to $617.3 million for the year ended December 31, 2008. This increase reflects a $9.7 million increase in revenues driven by increased non-aeronautical revenues, offset by a decrease in aeronautical revenues due to reduced aeronautical rates introduced in 2008. The revenue increase was offset by an increase in goods and services expense when compared to 2007. Interest and financing costs were $452.5 million for 2008 as compared to $427.6 million for 2007, reflecting reduced interest expense, offset by lower interest earnings and an additional provision taken as a result of a reduction in the estimated fair value of ABCP held by the Corporation. The above table demonstrates that for each year, the revenues generated by the GTAA were more than sufficient to cover operating expenses and interest and financing costs.

The financial results reported by the GTAA include certain non-cash items such as amortization of capital assets, which are not included in the calculation of the aeronautical rates and charges. In accordance with its rate setting approach, the GTAA expects that revenues and reserve funds will continue to be sufficient to cover operating expenses and interest and financing costs, including notional principal. Consistent with many infrastructure developments, the GTAA's net revenues may not be sufficient to cover amortization of capital assets for a period of several years, which will result in total cash and non-cash expenses exceeding revenues.

Revenues

Revenues are derived from aeronautical charges (landing fees and general terminal charges), AIF, and non-aeronautical sources such as car parking and ground transportation, concessions, rentals, electricity sales and other sources. The primary drivers for revenue are aircraft movements and passenger activity. Landing fees are based on the MTOW and general terminal charges are based on the number of seats of an arriving aircraft. The AIF is charged per passenger and a significant portion of non-aeronautical revenues is highly correlated to passenger activity. The relationship between these revenue sources and expenses was discussed in the section on Rate Setting Approach.

The following table summarizes the GTAA's revenues for the years ended December 31, 2008, 2007 and 2006:

(in thousands)	**2008**	2007	2006
	$	$	$
Landing fees	**447,062**	451,183	440,807
General terminal charges	**180,674**	185,027	172,453
Airport improvement fees, net	**255,727**	257,495	183,500
Car parking and ground transportation	**126,450**	114,250	102,283
Concessions and rentals	**136,242**	127,346	118,141
Other	**26,400**	27,557	45,119
	1,172,555	1,162,858	1,062,303

Total aeronautical revenue for the year ended December 31, 2008, was $627.7 million, as compared to $636.2 million for the year ended December 31, 2007. The decrease reflects the lowering of aeronautical rates in 2008 as compared to 2007, which more than offset the increase in activity between the two years.

AIF revenue, which is net of the commission paid to the air carriers for the collection of the AIF, decreased from $257.5 million in 2007 to $255.7 million in 2008. In 2007, the GTAA collected $16.2 million in AIF related to a reconciliation of passenger volumes. Adjusted for this payment, 2008 AIF revenues increased relative to 2007 due to passenger growth in 2008.

Under the terms of the AIF agreements with the air carriers, the GTAA has committed that AIF revenue will be used primarily for capital programs at Toronto Pearson, including associated debt service (interest and principal) and reserve funds. Historically the GTAA has used AIF revenue to fund debt service, but it retains the option of funding capital projects directly with AIF revenue. Recognizing that capital expenditures or the payment of debt service and the receipt of AIF revenue may not occur in the same period, AIF revenue earned and collected, but not used in any given period, is invested in the AIF Reserve Fund for future capital or debt service payments. In 2008, $255.7 million of AIF revenue was earned and $219.5 million was used for capital projects or debt service resulting in an increase in the AIF Reserve Fund. This compares to $257.5 million earned and $270.0 million used during 2007, with the difference in that year funded through a reduction in the AIF Reserve Fund.

The GTAA also receives fees or rental payments from car parking and ground transportation, concessions, space rental and other rental properties. In total, these categories generated $262.7 million in revenue in 2008 as compared to $241.6 million in revenue in 2007. This increase of 8.7% is attributable to the higher passenger volumes, which result in greater demand for parking and ground transportation services and higher sales at the various retail outlets at the Airport, as well as increased revenues from new advertising and other revenue generating initiatives. The GTAA increased vehicle parking rates in November 2007, which also affects the comparative revenues.

Other revenues decreased $1.2 million for the year ended December 31, 2008, as compared to the same period in 2007. Other revenues primarily include revenues from the GTAA's 117 megawatt Cogeneration Plant, which were largely unchanged in 2008 from 2007. In 2008, the GTAA changed the way it accounts for interest income. Previously certain interest income was included in other revenues. All interest income is now recorded as an offset to interest and financing costs. The 2007 results have been restated to reflect this change. However, the 2006 results included in this report have not been restated.

Operating Expenses

The GTAA's operating expenses include the cost of operating and maintaining the Airport, together with interest and financing costs, and the amortization of capital assets. As noted previously, the operating expenses that are reported in the financial statements are determined according to Canadian generally accepted accounting principles and are not entirely consistent with the expenses used in the calculation of aeronautical rates and charges. Specifically, amortization is not recovered in the landing fee, while the principal component of debt service, which is not an operating expense on the financial statements, is included in the landing fee calculation.

The following table summarizes the GTAA's operating expenses for the years ended December 31, 2008, 2007 and 2006:

(in thousands)	**2008**	2007	2006
	$	$	$
Ground rent	**140,622**	149,474	147,635
Goods and services	**282,188**	272,722	285,894
Salaries, wages and benefits	**108,571**	107,139	105,090
Real property taxes and PILT	**23,857**	22,691	21,501
	555,238	552,026	560,120
Interest and financing costs, net	**452,501**	427,652	355,027
Amortization of capital costs	**210,730**	227,130	225,934
	1,218,469	1,206,808	1,141,081

The Ground Lease sets out the calculation of the annual ground rent payable by the GTAA to the federal government. In 2008 and 2009, the ground rent payable is fixed at $141.5 million and $138.7 million respectively. Thereafter, ground rent payable will be calculated as a percentage of the GTAA's revenues. Prior to 2008, ground rent payable was calculated based on the number of passengers using the Airport. Under Canadian generally accepted accounting principles, the ground rent expense for each of 2008 and 2009 will be recorded as the average of the fixed payments for the two years: $140.6 million. The $8.9 million decrease in ground rent in 2008 as compared to 2007 is a result of the new ground rent formula being used. In July 2003, the Minister of Transport announced a 24-month ground rent deferral program which had the effect of reducing the ground rent paid by $10.0 million in 2003, $21.0 million in 2004 and $10.5 million in 2005. The full ground rent expense was recorded for each period, with an offsetting liability recorded on the balance sheet. However, from 2006 to 2015, as the deferred amount is paid, the amount of ground rent actually paid to the federal government will be $4.2 million greater than the amount recorded as an expense in the financial statements with the liability reduced accordingly. The deferred amount paid each year is included in the calculation of landing fees in each year.

Goods and services, which comprise the general operating expenses for the Airport, were $282.2 million and $272.7 million for 2008 and 2007, respectively. In 2007, the GTAA recovered $13.1 million of bad debts relating to Jetsgo and Canada 3000, both of which had declared bankruptcy in previous years. This amount was recorded as an offset to goods and services in 2007. When adjusted for this recovery, 2008 goods and services expense decreased by $3.6 million as compared to 2007. Areas where goods and services expense decreased in 2008 include a reduction in computer equipment maintenance expense, reduced expense associated with the logistics centre and the Airport Customer Assistance Program, and a reduction in bussing expense, all as a result of changes to contracts and adjustments to service levels, and a gain on the valuation of a derivative contract with the Ontario Power Authority related to the Cogeneration Plant. Offsetting these savings were increased expense for snow removal related to the number of severe weather events in 2008, and increased expense for natural gas and policing.

The GTAA has both union and non-union employees and both groups are compensated with salaries and benefits, including pension plans, medical and life insurance benefits and certain other benefits. Salaries, wages and benefits increased from $107.1 million in 2007 to $108.6 million for 2008. The modest increase reflects salary increases for GTAA employees and an increase in pension expense, offset by a reduction in overtime expense.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead pays to each of the cities of Toronto and Mississauga an amount prescribed by regulation under the Assessment Act as PILT. The amounts due are based on passenger activity for a specified prior year. PILT paid in 2007 was $22.7 million, based on passenger activity for 2004, and PILT for 2008 was $23.9 million based on passenger activity in 2005. Ongoing growth in passenger activity since 2005 will be reflected in higher PILT payments in future years.

The year-over-year increase in interest and financing costs is the result of the additional provision taken with respect to the fair value of ABCP held by the GTAA and lower interest income earned on reserve funds due to lower interest rates in 2008 when compared to 2007. These increases in expense were partially offset by lower bond and bank facility interest expense.

Amortization of capital assets decreased in 2008 to $210.7 million from $227.1 million in 2007. The GTAA uses the declining balance method to calculate depreciation of capital assets. This methodology will result in declining amortization of capital assets on a year-over-year basis absent any significant changes in the asset base.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the period from January 1, 2007, through December 31, 2008, is set out in the following table:

(in millions)	2008				2007			
Quarter ended	**Dec**	**Sept**	**June**	**Mar**	Dec	Sept	June	Mar
	$	$	$	$	$	$	$	$
Revenues	**274**	**316**	**294**	**289**	283	330	281	269
Operating expenses	**142**	**131**	**130**	**152**	147	132	127	146
Revenues over expenses[1]	**132**	**185**	**164**	**137**	136	198	154	123
Interest and financing, net	**128**	**108**	**104**	**112**	120	114	101	93
Amortization	**55**	**52**	**52**	**52**	57	55	56	59
Revenues over/(under) expenses	**(51)**	**25**	**8**	**(27)**	(41)	29	(3)	(29)

Note 1: Revenues over expenses before interest and financing costs and amortization

The GTAA's quarterly results are influenced by passenger activity and aircraft movements, which vary with travel demand associated with holiday periods and other factors such as weather and economic conditions. Due to these external factors the historic quarterly results cannot be relied upon for future trends. The opening of additional areas in Terminal 1 and other facilities during 2007 and in the future will impact revenues and expenses. In the fourth quarter of 2008, the GTAA increased its provision relating to its holding of ABCP from $60.8 million to $89.9 million. There were no other exceptional events during the fourth quarter of 2008 which had a significant impact on traffic, revenues or operating expenses.

CAPITAL PROJECTS

After the GTAA assumed responsibility for the Airport, it initiated an extensive redevelopment program to improve and redevelop the facilities to meet current and future demand. The ADP included the construction of terminal facilities, roadways, cargo facilities, airside improvements such as runways and taxiways, ancillary services and utilities infrastructure. The ADP was designed as a demand-driven program that would be undertaken while the Airport continued to operate and would provide the GTAA with some flexibility on the timing of certain stages. On January 30, 2007, with the opening of Pier F at Terminal 1, the ADP was essentially completed. On that date all Terminal 2 operations were transferred to Terminal 1, and Terminal 2 was removed from the inventory of active facilities at the Airport. The total cost of the ADP, which was completed on time and on budget, was $4.4 billion.

Continued long-term growth in passenger demand will necessitate further expansion of Terminal 1. In order to facilitate this eventuality, the GTAA has developed a work plan, entitled the Post-ADP Program, which includes: the demolition of Terminal 2 and the Terminal 2 parking garage; apron construction in the area that Terminal 2 once occupied; replacing the Terminal 2 parking capacity and increasing the overall parking capacity at the Airport with the construction of a new parking facility in Area 6B on the east side of Airport Road; replacement of certain utilities infrastructure; and the preliminary design of Pier G at Terminal 1. This work is currently scheduled to be completed after 2012. The Post-ADP Program has an authorized budget of $439.7 million. The final design and construction timing of Pier G and other future Airport expansion is still under review, and will be dependent on demand.

The demolition of Terminal 2 and the new apron construction was completed in 2008. Construction of the Area 6B parking facility was ongoing throughout 2008 and is expected to be completed in the fall of 2009.

In addition, the GTAA has undertaken a program to expand and redevelop certain areas in Terminal 3, including the baggage handling systems and passenger processing areas as well as other improvements. Work is ongoing in the west end of the terminal where expansions to the passenger waiting areas, baggage system and security areas are scheduled to be completed in 2009.

In 2008, the GTAA approved another capital program to improve Terminal 3. This $85.0 million project, to be completed in 2015, will see improvements to the food and beverage and other retail offerings in the terminal and changes to passenger processing and security areas designed to improve passenger connections and other passenger flows through the terminal. There were no material expenditures on this program in 2008.

Other capital projects were undertaken during the year to upgrade, refurbish or replace existing facilities. During 2008, a total of $33.5 million was expended on several projects including runway and taxiway repairs and upgrades totalling $9.4 million, information technology and telecommunications-based systems totalling $7.0 million and vehicle purchases totalling $4.6 million, with the remainder being spent on a number of smaller maintenance and improvement projects.

The GTAA has historically funded, and expects to continue to fund, capital projects through borrowing in the debt capital markets.

ASSETS AND LIABILITIES

Total assets and liabilities as at December 31, 2008, 2007 and 2006 are set out below:

(in millions)	**2008**	2007	2006
	$	$	$
Total Assets	**7,302.0**	7,256.3	7,445.6
Total Liabilities	**7,700.9**	7,609.2	7,753.9

The increase in total assets between 2008 and 2007 reflects an increase in cash and cash equivalents and an increase in work in progress offset by a reduction in capital assets due to ongoing amortization of capital assets and reserve funds. The increase in total liabilities between 2007 and 2008 reflects an increase in debt-to-fund ongoing capital work. The decrease in total assets between 2006 and 2007 reflects a decrease in reserve and other funds and a reduction in capital assets and work in progress due to ongoing amortization of capital assets. The decrease in total liabilities between 2006 and 2007 reflects debt repayments carried out in 2007.

Cash and cash equivalents increased from $149.8 million in 2007 to $193.9 million in 2008 as a result of the Series 2008-2 debt issue where some of the proceeds are being held for future debt repayment and capital expenditures. Total reserves and other funds as at December 31, 2008, were $898.1 million as compared to $907.1 million at December 31, 2007. These reserves represent funds for regular payments of interest and principal, amounts set aside with the Trustee as security for specific debt issues, funds set aside in accordance with the terms of the Trust Indenture for operating and capital expenses and funds set aside by the GTAA for future principal payments and other commitments such as the AIF Reserve Fund.

The GTAA includes in its projection of cash flow for rate setting purposes the principal amortization for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. Consistent with the treatment of interest expense, principal is only included in the landing fee calculation for the debt associated with operational assets. On a quarterly basis, the GTAA funds the Notional Principal Fund with the estimated principal collected in the previous quarter. The Notional Principal Fund will be applied to the ongoing amortizing payments for Series 1999-1 revenue bonds or to repay any issue on maturity in whole or in part. On October 24, 2008, the GTAA applied the full balance of the Notional Principal Fund towards the repayment of the Series 2006-2 MTNs resulting in a zero balance in the fund at December 31, 2008, as compared to $49.9 million at December 31, 2007.

For the AIF Reserve Fund, the GTAA accumulates AIF revenue as it is collected and uses the funds primarily for ongoing debt service payments. During 2008, the GTAA used $219.5 million of AIF, which is the amount anticipated when setting the rates and charges for 2008. The result is that the AIF Reserve Fund increased from $106.4 million at the end of 2007 to $142.1 million at the end of 2008.

The primary component of total liabilities is debt, which as at December 31, 2008, totalled $7.51 billion of current and long-term debt obligations, as compared to $7.42 billion as at December 31, 2007. The increase represents funding for capital expenditures in 2008 and to a certain extent pre-funding of 2009 capital expenditures and debt repayments, net of 2008 debt repayments made using the Notional Principal Fund.

During 2008, the GTAA issued $825.0 million of new debt. The 2008 MTN issues are set out in the following table:

MTN Series	Issue Date	Maturity Date	Principal	Coupon
2008-1	April 17, 2008	April 17, 2018	$500.0 million	5.26%
2008-2	December 8, 2008	December 6, 2013	$325.0 million	5.89%

Two debt issues were repaid in 2008: the $375.0 million Series 2003-1 revenue bonds and the $350.0 million Series 2006-2 floating rate MTNs.

The net deficiency reported on the balance sheet is a combination of the reserve funds which have been funded through operating revenue and cumulative revenues over or under expenses. Since revenues after operating expenses and interest and financing costs have not been sufficient to cover amortization for several operating periods, the GTAA has recorded revenues under expenses. This has resulted in a cumulative net deficiency of $398.9 million as at December 31, 2008, as compared to a net deficiency of $352.9 million as at December 31, 2007. The principal component included in the aeronautical charges is based on a 30-year amortization and will therefore be lower in early years and increase over time, similar to the principal payments of a mortgage. The amortization of the GTAA's most significant assets is reported on a declining balance basis, which is higher in the early years of the asset life and decreases over time. This differential contributes to the GTAA's current net deficiency. It is anticipated that when the principal component in the landing fee increases to a level where it is equal to or exceeds the reducing amount of amortization of assets, revenue will exceed all expenses, including amortization, providing a potential improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a non-share corporation and accordingly is funded through operating revenue, AIF revenue, reserve funds, the debt capital markets and its syndicated bank credit facility. As noted previously, aeronautical charges are set each year to cover the projected operating costs, including debt service and reserve requirements, after consideration of the projected air traffic and passenger activity and non-aeronautical revenues. Consistent with its residual approach, any funds generated by the GTAA are used to cover costs within its mandate.

An overall Capital Markets Platform was established by the GTAA with the Trust Indenture setting out the terms of all debt, including bank facilities, revenue bonds and MTNs. The program has been used to fund all capital programs and the GTAA will continue to access the debt markets to fund capital programs and to refinance some or all of its maturing debt. At December 31, 2008, there was a total of $7.49 billion of outstanding debt issued under the Capital Markets Platform, excluding the bank facility. Any proceeds received from debt issues and not immediately required are invested in short-term investment grade debt instruments until they are required.

On February 13, 2008, the GTAA filed a new shelf prospectus qualifying up to $2.0 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved uses through the 25-month period covered by the shelf prospectus.

The GTAA has a $500.0 million credit facility and a $50.0 million facility for interest rate and foreign exchange hedging activities, both with the same banking syndicate. These facilities mature on November 22, 2010, and can be extended annually for an additional year with the lenders' consent. Due to prevailing market conditions at the time, in 2008 the GTAA elected not to request an extension of the maturity date of the credit facilities. There was, and continues to be, no indication that the banking syndicate would not have consented to the extension had it been requested. The banking facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets in the future. This facility ranks *pari passu* with all other debt of the GTAA. As at December 31, 2008, $2.3 million was drawn on the $500.0 million facility by way of a letter of credit. No amounts were drawn against the $50.0 million facility.

At December 31, 2008, the GTAA had reserve and other funds totalling $898.1 million, which include reserve funds held by the Trustee as required by the Trust Indenture and certain funds held by the GTAA for specific or future requirements. AIF revenue collected and not used in any given year is retained in the AIF Reserve Fund for future years. The Notional Principal Fund will increase with the principal component collected in the landing fee until it is used for the repayment of debt. The other reserve funds provide additional security for the debt program.

At December 31, 2008, the GTAA held $193.9 million of cash and cash equivalents and $27.0 million of non-current other investments in addition to reserves and other funds.

Principal payments for the next five fiscal years include the amortizing payments for MTN Series 1999-1, and the maturity of MTN Series 2004-2, Series 2000-2, Series 2006-1, Series 2007-2, Series 2002-1, Series 2002-2 and Series 2008-2. The GTAA has also entered into certain capital leases for equipment, but the annual payments are not significant.

The next table analyzes the GTAA's financial liabilities by maturity for the next ten years based on the remaining period from December 31, 2008, to the contractual maturity date. 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 as applicable.

(in thousands)	Less than 1 month	1 month to 12 months	1 year to 5 years	6 years to 10 years
	$	$	$	$
Accounts payable and accrued liabilities	43,269	41,315	–	–
Province of Ontario	–	–	14,400	9,600
Long-term debt	50,400	643,873	4,294,739	2,909,181
	93,669	685,188	4,309,139	2,918,781

Accounts payable and accrued liabilities will be funded through operations while the Province of Ontario and long-term debt obligations are expected to be funded through a combination of reserve funds and debt.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2008, of approximately $159.8 million, primarily related to construction contracts.

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 maximize the flexibility in accessing the capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given recent MTN issues, the credit facility, reserves and the projected operating revenues and costs, the GTAA does not anticipate any funding shortfalls in the near term. However, there may be events outside the control of the GTAA, including future impacts of the current dislocation in the credit markets, which could negatively impact its liquidity by affecting the availability and/or the cost of future borrowing.

Asset Backed Commercial Paper

As at December 31, 2008, the GTAA held $182.2 million, face value, of non-bank sponsored ABCP. Of this amount, $130.2 million was held in reserve and other funds, and $52.0 million, which was originally held in cash and cash equivalents, was previously reclassified to non-current other investments on the balance sheet.

At the time of purchase, all of the trusts in which the GTAA's investments in ABCP were held were rated R-1 (high) by DBRS Limited ("DBRS"), which is the highest possible rating for commercial paper and a permitted investment under the terms of the GTAA's Trust Indenture which governs the GTAA's reserve funds. The maturity dates of the ABCP held in these and other funds ranged from August 28, 2007, to September 25, 2007; however, none were redeemed at maturity.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Asset Backed Commercial Paper (the "Committee") announced an agreement in principle to restructure the ABCP issued by 20 trusts, including all of the issuing trusts which issued ABCP held by the GTAA.

On March 17, 2008, the Committee filed an application in the Ontario Superior Court of Justice (the "Court") under the Companies' Creditors Arrangement Act ("CCAA") asking the Court to call a meeting of ABCP noteholders to vote on a plan of restructuring broadly in-line with the December 23, 2007, plan proposed by the Committee.

As a result of the CCAA application, on March 19, 2008, DBRS withdrew its ratings on all of the affected ABCP. As a result, the ABCP held by the GTAA no longer met the definition of qualified investments in the Trust Indenture, and as a result the GTAA was not in compliance with the requirement in the Trust Indenture that all money held in any account, fund or reserve fund established under the Trust Indenture be held in cash or invested in qualified investments. The notes that the GTAA received in January 2009 under the restructuring plan do not meet the definition of a qualified investment under the Trust Indenture by virtue of their credit rating and term to maturity. The GTAA is of the view that the non-compliance is not of a nature which would give rise to an event of default for purposes of the Trust Indenture, which requires, among other things, that any non-compliance must materially adversely affect bondholders. As of the date of this report, no event of default has occurred.

On March 20, 2008, the Committee issued an information statement containing details about the proposed restructuring. The restructuring plan was voted on and approved by the noteholders on April 25, 2008. The Court approved the restructuring on June 5, 2008. However, several noteholders appealed the Court ruling. The Ontario Court of Appeal heard this appeal on June 25 and 26, 2008, and subsequently released its ruling upholding the original Court ruling. As a result of this ruling, a group of noteholders sought leave to appeal the ruling to the Supreme Court of Canada. On September 18, 2008, the Supreme Court of Canada denied leave to appeal, resulting in the original Court approval of the restructuring remaining in place.

On December 24, 2008, the Committee reached an agreement with the governments of Canada, Quebec, Ontario and Alberta to provide an additional $4.45 billion of margin funding by way of a senior margin funding facility. At the same time, the spread loss triggers were adjusted to reduce the likelihood that margin funding would be required and an eighteen-month moratorium on collateral calls by the asset providers to the ABCP conduits was enacted.

On December 29, 2008, DBRS assigned a provisional rating of "A" to the Class A-1 and A-2 Notes to be issued under the restructuring.

Under the restructuring plan, holders of ABCP were to receive one or more type of replacement notes, depending on the underlying security of the various ABCP held:

- Traditional Asset ("TA") Tracking Notes which are long-term floating rate notes backed by traditional securitized assets;
- Ineligible Asset ("IA") Tracking Notes which are long-term floating rate notes backed by traditional securitized assets with exposure to the U.S. sub-prime mortgage market; and

- Master Asset Vehicle ("MAV") notes issued in four classes (A-1, A-2, B and C) which are long-term floating rate notes backed by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets.

Based on the restructuring plan and other public information, the GTAA estimated the fair value of its ABCP holdings as at December 31, 2008, to be $92.3 million, approximately 50.7% of the $182.2 million face value.

The valuation technique used by the GTAA to estimate the fair value of its investment in ABCP at December 31, 2008, incorporates probability-weighted discounted cash flows derived from several possible scenarios considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the information statements issued by the Committee and the risks associated with each of the long-term floating rate notes.

Assumptions regarding the interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses used in estimating the fair value include:

	Class A-1	Class A-2	Class B	Class C	TA Notes	IA Notes
Interest rate	0.98%	0.98%	0.98%	0.98%	1.91%	1.91%
Discount rate[1]	8.57%	8.82%	45%	10%	6.43%	8.82%
Approximate term	8 years	8 years	8 years	8 years	5 years	5 to 22 years
Credit loss	nil	nil	nil	nil	nil	37.5%

Note 1: For Class B and C Notes the indicated rate is the fair value as a per cent of face value and not the discount rate. For IA Notes the discount rate is applied after the credit provision.

Two benchmarks were utilized to determine the discount rates used in estimating the fair value of the Class A-1 and A-2 Notes as at December 31, 2008. One method used bankers' acceptance rates plus expected spreads for "A" rated financial institution debt with similar maturities. This benchmark was chosen as indicative of the market discount factor that would be applied to the restructured securities as financial institution credit spreads are at historically wide spreads relative to other similarly rated debt due to many of the same uncertainties that the restructured notes face, such as structured product and derivative exposure and counterparty risk. This benchmark was allocated a weighting of 25% in determining the discount rate. The second benchmark, weighted 75%, used to determine the appropriate discount rate, utilized the spread or premium paid on the CDX.NA.IG five-year index to determine the appropriate spread over seven-year government bond rates. The CDX index was chosen in addition to the financial institution spread as it is an alternate indicator of investment grade credit market conditions and provides a second measure of investor sentiment in what continue to be uncertain markets. The five-year index was utilized as it is the most liquid index and is considered to provide a more accurate indication of market levels than the less liquid seven-year index. While the restructured notes are subject to credit enhancements such as restructured and remote margin call provisions, cross-collateralization and a dedicated margin funding facility which support an investment grade credit rating, an additional 200 and 225 basis points, was added to the discount rate of the Class A-1 and Class A-2 Notes, respectively, to further reflect the uncertainties surrounding these specific instruments.

The Class B and C Notes were valued on an equity basis at 45% and 10% of face value, respectively, indicative of their subordination as to payment of both principal and interest under the restructuring proposal.

While many of the assets that will be placed in the IA Tracking Note pools continue to carry investment grade ratings, the IA Tracking Notes were given an initial credit provision of 37.5%, consistent with the default probability rates of an investment rating below "CCC". This reflects continued uncertainty surrounding the U.S. sub-prime mortgage market. Due to the substantial credit provision taken against the IA Tracking Notes, the discount rate applied in the valuation methodology was determined using the approach described above and is consistent with that applied to the Class A-2 Notes. It was not considered appropriate to apply a below investment grade credit discount rate as this would effectively double count the credit provision.

The TA Tracking Notes were discounted at a rate consistent with current market yield on highly rated asset backed term notes with a similar term to maturity.

An increase of 1% in the weighted average discount rate would reduce the estimated fair value of the GTAA's investment in ABCP by approximately $6.0 million.

One of the cash flow scenarios considered was a liquidation scenario whereby, if the restructuring was not successfully completed, recovery of the GTAA's investment would be through the liquidation of the underlying assets of the ABCP trusts. This scenario was assigned a probability of 2.0%. Notwithstanding final Court approval of the restructuring, due to the state of the credit markets there remained some risk as at December 31, 2008, that the restructuring could not be completed and a liquidation scenario would occur.

The probability weighted discounted cash flows resulted in an estimated fair value of the GTAA's ABCP of $92.3 million as at December 31, 2008. This was a decrease of $29.1 million from the September 30, 2008, estimated fair value. Therefore, the GTAA has recorded an additional impairment charge in respect of its ABCP holdings for the quarter ended December 31, 2008, of $29.1 million. The total impairment charge recognized is approximately 49.3% of the original value.

Subsequent to the end of 2008, on January 12, 2009, the Court issued the implementation order for the restructuring. The restructuring was implemented effective January 21, 2009, and the GTAA received the following restructured notes under the plan:

- $61.7 million MAV II Class A-1 Notes, rated "A" by DBRS with an expected term to maturity of approximately eight years;

- $59.1 million MAV II Class A-2 Notes, rated "A" by DBRS with an expected term to maturity of approximately eight years;
- $10.7 million MAV II Class B Notes, which are unrated and have an expected term to maturity of approximately eight years;
- $4.1 million MAV II Class C Notes, which are unrated and have an expected term to maturity of approximately eight years;
- $2.1 million Traditional Asset Tracking Notes in one class which are unrated and have an expected term to maturity of approximately five years;
- $43.1 million Ineligible Asset Tracking Notes in 4 classes which are unrated and have expected terms to maturity from five to 22 years.

The MAV II Class A-1 and A-2 Notes and the TA and IA Tracking Notes pay interest on a quarterly basis at variable interest rates. It is not expected that the MAV II Class B and C Notes will pay current interest, instead interest will accrue and to the extent possible be paid after the Class A-1 and A-2 Notes are repaid.

The market for these notes is currently characterized by a low volume of trades and wide bid/ask spreads. Lacking reliable market data to use in determining the fair value of the restructured notes, the GTAA estimated the fair value using a method consistent with the methodology described above.

As at January 21, 2009, the GTAA estimate of the fair value of the notes was not significantly different from the year-end value. On closing of the restructuring, the GTAA received $6.2 million representing interest accrued on the ABCP from August 2007 to August 2008, net of restructuring costs and reserves. An additional payment representing accrued interest for the period September 2008 to the restructuring date will be paid at a later date. Due to the high degree of uncertainty regarding payment of interest on the ABCP, the full amount of this payment was not accrued in the financial statements of the GTAA in 2007 or 2008 and, accordingly, a portion of this payment will be reflected in the 2009 financial statements.

Continuing uncertainties regarding the value of the assets which underlie the restructured notes and the amount and timing of cash flows could give rise to further material change in the fair value of the GTAA's investment in the restructured ABCP.

The GTAA has sufficient cash and other sources of liquidity available to meet its reserve requirements, and to fund its operating, capital and financing obligations, and does not expect that its operations will be materially affected by the current uncertainty over the carrying value of its restructured ABCP investments.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies adopted by the GTAA are set out in Notes 4 and 5 of the Financial Statements as at December 31, 2008, and 2007. In preparing the financial statements, management is required to make certain estimates or assumptions that affect the reported amount of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

The value of the ABCP held by the GTAA as at December 31, 2008, has been estimated using the methodology discussed in the section entitled Asset Backed Commercial Paper. As no reliable market currently exists for these securities, this valuation estimate is subject to uncertainty and may change at subsequent reporting dates.

Property and equipment for the Airport include items such as improvements to leased land, runways, terminal and other buildings, and roadways. These assets are recorded at cost (less estimated residual value) and each asset type is amortized over the lesser of the remaining term of the Ground Lease or their estimated useful lives. Amortization of assets commences when the asset is brought into operation, and for certain assets, such as the terminal buildings, the asset may be brought into or removed from operations in stages.

The timing for revenue recognition depends on the nature of the revenue and the specific agreements in place. Landing fees, general terminal charges and car parking revenues are recognized as the airport facilities are utilized. Airport Improvement Fees, net of airline administration fees, are accrued upon the enplanement of the passenger. AIF revenues are based on passenger activity as reported by individual air carriers and may be subject to later adjustment. Concessions revenue is charged 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. Revenue derived from the Cogeneration Plant included in other revenue, is recognized as electricity is delivered to customers.

The GTAA maintains both defined benefit pension plans and defined contribution pension plans for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefit method prorated on service and best estimate assumptions. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The costs of the defined benefit plans are recognized as the benefits are earned through employee service. The costs of the defined contribution pension plans are expensed as the GTAA becomes obligated to contribute to the defined contribution plans. The assumptions used to estimate the pension plan assets and liabilities are further discussed in Note 16 of the Financial Statements of the GTAA for the years ended December 31, 2008, and 2007.

Effective January 1, 2008, the Canadian Institute of Chartered Accountants ("CICA") issued accounting standard Section 3031 – *Inventories*. Section 3031, which the GTAA has adopted, provides guidance on the method of determining the cost of materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded writedowns to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 did not materially impact the GTAA's financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition date of January 1, 2011, will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

GTAA has prepared a formal conversion plan to implement IFRS which consists of three phases: scoping and diagnostic, analysis and development, and implementation and review.

Phase One has been completed which involved project planning, staffing, identification of stakeholders and documenting differences between current Canadian GAAP and IFRS. Based upon the current state of IFRS this phase has identified a small number of topics impacting the financial results of the GTAA. The International Accounting Standards Board ("IASB") has a number of activities currently underway which may change the number of topics and magnitude of the impact and as a result management will closely track the IASB's progress.

Phase Two, currently in progress, involves completion of detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; and development of required solutions to address identified issues. Through this process GTAA continues to assess the financial reporting impacts of the adoption of IFRS. At this time, the impact on future financial position and results of operations cannot be reasonably determined or estimated.

Regular reporting on the plan status will be provided to the Audit Committee of the Board of Directors of GTAA as appropriate. To assist with this conversion and new disclosure requirements, an external expert advisor has been engaged.

The GTAA anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information.

The GTAA will continue to execute its conversion plan and closely monitor pronouncements by the IASB that could impact financial reporting in anticipation of the 2011 changeover.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

In 2005, the Canadian Institute of Chartered Accountants issued three new accounting standards: Handbook Section 1530, *Comprehensive Income*, Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, and Handbook Section 3865, *Hedges*. These new standards became effective for the GTAA on January 1, 2007.

Section 1530 and the guidance report entitled *Financial Instruments – Proposed New Accounting Standards – A summary for Not-for-Profit Organizations* issued by the Accounting Standards Board introduces the concept of Unrealized Changes in Net Assets ("UCNA"). UCNA represents unrealized gains and losses on financial assets classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments. UCNA and the cumulative amount, Accumulated Unrealized Changes in Net Assets ("AUCNA") are presented as a category of Net Assets, in the Statements of Changes in Net Assets.

Section 3855 establishes standards for the recognition and measurement of financial assets, financial liabilities and non-financial derivatives ("financial instruments"). Section 3855 requires changes in the value of certain financial instruments to be recorded in the financial statements of a company. Section 3855 also requires that derivatives that are embedded in contracts be identified and accounted for as financial instruments. The Clean Energy Supply contract with the Ontario Power Authority associated with the Cogeneration Plant contains an embedded derivative and is valued each reporting period. All financial instruments will be recognized on the balance sheet and should be measured at fair value at initial inception. The GTAA has designated its reserve funds and cash balances as available-for-sale. On December 31, 2008, the GTAA fair-valued all available-for-sale securities. Unrealized gains and losses on financial instruments designated as available-for-sale will be recognized in UCNA. Other significant accounting implications arising on the adoption of Section 3855 include the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Section 3865 specifies criteria under which hedge accounting can be applied and how hedge accounting should be executed for permitted hedging strategies. As at the date of this report the GTAA is not party to any active hedges.

For the year ended December 31, 2007, the GTAA adopted new CICA standards, Section 1535 – *Capital Disclosures* and Section 3862 – *Financial Instrument Disclosure*. These standards enhance disclosure with respect to capital and financial instruments.

Reserve and other funds, other investments, accounts receivable, accounts payable and accrued liabilities and security deposits are reflected in the financial statements at values which approximate fair values because of the short-term nature of these instruments, except for ABCP which is fair-valued using the valuation technique discussed in the section entitled Asset Backed Commercial Paper.

INTERNAL CONTROLS AND PROCEDURES

GTAA management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed to satisfy the GTAA's continuous disclosure obligations is recorded, processed, summarized and reported as required by applicable Canadian securities legislation. Management has carried out an evaluation of the effectiveness as of December 31, 2008, of the design and operation of the disclosure controls and procedures, as defined in *National Instrument 52-109*, *Certification of Disclosure in Issuers' Annual and Interim Filings*, under the supervision of, and with the participation of, the President and Chief Executive Officer ("CEO"), and the Vice President and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the GTAA to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports that the GTAA files is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures. Management has determined that as at December 31, 2008, the design and operation of the disclosure controls and procedures continue to be effective.

GTAA management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. As required under *National Instrument 52-109*, the GTAA, under the supervision and with the participation of the CEO and the CFO, has carried out an evaluation of the effectiveness as at December 31, 2008, of its internal controls over financial reporting. Based on this evaluation, the GTAA's CEO and CFO concluded that the Corporation maintained effective internal control over financial reporting as at December 31, 2008. While no material weaknesses with respect to internal controls over financial reporting were identified during the assessment, such assessment may not detect all weaknesses nor prevent or detect all misstatements because of inherent limitations. Additionally, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with the Corporation's policies and procedures. There were no changes in the GTAA's internal control over financial reporting that occurred during the quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

RISKS AND UNCERTAINTIES

The GTAA experienced continued growth in total passenger volumes in 2008. However, during the fourth quarter of 2008 there was a 1.7% reduction in passenger volume compared to the fourth quarter of 2007. The risk of sudden and possibly significant impacts or volatility in air travel demand due to external sources such as economic conditions, geopolitical unrest, terrorism, government regulation, world health epidemics and the financial uncertainty in the aviation industry, continue to exist. Any of these could impact the GTAA's financial results. Due to current economic conditions the GTAA anticipates that passenger demand and aeronautical activity will decline in 2009 when compared to 2008 levels. It is expected that the decrease in 2009 passenger volumes will have a negative impact on the GTAA's revenues. The GTAA has prepared and is executing a contingency plan based on the decline in passengers and aeronautical activity. The contingency plan includes cost reduction measures, the postponement of capital projects, an increase to the Airport Improvement Fee and the implementation of an air service rebate program that offers rebates on landing fees to air carriers who introduce new routes to the Airport or increase their aircraft capacity on existing routes serving the Airport.

In 2003, Toronto experienced an outbreak of Severe Acute Respiratory Syndrome ("SARS"), and, more recently, there has been extensive commentary on the potential of a pandemic or severe outbreak of avian flu. Depending on the location, timing, and extent of an outbreak of a highly contagious illness such as SARS or avian flu, there could be significant impacts on regional or world travel. The GTAA has worked with Health Canada to understand the risks of such an event, and has developed operational contingency plans based on various scenarios.

Subsequent to the Air France incident on August 2, 2005, the GTAA, together with other parties, was named as a defendant in a class action lawsuit and other separate lawsuits commenced by certain passengers and by Air France. The GTAA's insurers are defending this action and it is the opinion of the GTAA that this is an insurable event. Consequently, it is expected that the GTAA's financial exposure, if any, will be limited to its insurance deductibles. This event also demonstrates that there are always operational risks associated with an airport. The GTAA mitigates these risks through strict compliance with safety requirements and regulations and emergency response procedures.

The financial stability of the aviation industry remains a risk for the GTAA, particularly with respect to domestic air carriers. To date the GTAA has not experienced any losses directly due to foreign air carriers filing for bankruptcy protection. However, the GTAA has incurred losses due to Canadian airlines seeking creditor protection or declaring bankruptcy. There is some risk to aviation activity and revenues from industry changes or exposure to a dominant air carrier. This risk is increased during periods of economic uncertainty. However, this risk is mitigated by the fact that approximately 75% of the passenger activity at the Airport originates or terminates at Toronto Pearson.

Although overall passenger traffic at Pearson Airport increased by 2.8% in 2008 compared to 2007, it became evident during the latter part of 2008 that passenger volumes were declining as the economic slowdown in the United States spread to Canada and the rest of the world. The airlines responded in a number of ways to reduce their aircraft and seat capacity. In some cases, less profitable routes were cancelled or reduced in frequency. Some air carriers have allocated smaller aircraft to lower volume North American routes while at the same time some air carriers have been substituting larger aircraft on high volume and long haul international routes and adjusting their frequencies to ensure high load factors. Such changes in the fleet mix and air service patterns can impact the GTAA's planning of facilities and traffic for projecting future landing fees and general terminal charges. The GTAA uses projected revenues, expenses, MTOW and arrived seats to calculate the landing fee per tonne and the general terminal charge per seat. The risks inherent in this approach are that expenses may be underestimated or non-aeronautical revenues overestimated, resulting in inadequate aeronautical revenue for the GTAA to break even on a modified cash basis or meet its debt covenants. Aeronautical revenue may also be lower than expected if there is a reduction in the number of movements or the size of aircraft as compared to projections.

While the ADP was substantially completed with the opening of Pier F in January 2007, the GTAA continues to undertake capital projects as required to maintain the Airport and meet air travel demand. Capital projects are subject to risks relating to costs, schedule and other events.

There is always risk when raising funds in the capital markets, including risks relating to fluctuations in interest rates, and the availability of funds at any point in time. External factors such as economic conditions, government policies, catastrophic events and the state of the financial markets can impact the GTAA's ability to access the capital markets. While the GTAA debt program has historically been well received by the capital markets in Canada, the current dislocation in the global capital markets could affect the GTAA's ability to meet its financing requirements. The GTAA monitors the overall debt markets and works with its financial advisors to select the timing, size and term of any debt issue to ensure continued access to the markets and to maximize opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in the future.

As part of the debt program, the Trust Indenture sets out certain covenants that the GTAA must meet, including two specific coverage tests for operating expenses and debt service payments. If revenue or expenses are substantially different than projected, there is a risk of not meeting the coverage tests. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. In meeting these tests, the AIF revenue included is the amount transferred from the AIF Reserve Fund, and may not be the same as the AIF earned. If the debt service covenant test is not met in any year, the GTAA is not in default of its obligations under the Trust Indenture so long as the test is met in the subsequent year.

Since the GTAA and CAW Local 2002 which represents the unionized employees of the GTAA (not including firefighters) were unable to agree on the terms of a consolidated collective agreement, the parties are scheduled to appear before the CIRB in May 2009. If the CIRB instructs the parties to re-engage in negotiations and the negotiations reach an impasse, then a conciliator will be appointed to assist the parties to reach a settlement. If the conciliation fails, then mandatory mediation will occur during which time, the CAW may issue a strike notice or the GTAA may issue a lockout notice. Prior to either notice being given, an Essential Services Agreement would be agreed to by the parties or imposed on the parties by the CIRB. The Essential Services Agreement would identify unionized employees who would be unable to strike or be locked out so as to ensure the health and safety of the workplace and the safeguarding of passengers. It is anticipated that the primary impact of a strike or lockout of GTAA's unionized employees would be delays in accessing the Airport due to picketing activity.

In addition, there is the possibility of a strike by the unionized employees of Air Canada, whose collective agreements will expire in June 2009. It is anticipated that a strike or lockout of Air Canada's unionized employees could result in delays in accessing the Airport due to picketing activity, and could result in a decrease in the GTAA's revenues if Air Canada's operations are materially impacted. In the event of a strike by the unionized employees of the GTAA or Air Canada, the GTAA will implement its labour contingency plans to maintain airport operations.

Due to the nature of its operations and the magnitude of the ADP and other capital projects, the GTAA is exposed to litigation risk from time to time. The GTAA manages its litigation risk primarily through its Corporate Risk and Legal Services departments, its claims settlement processes and insurance.

The litigation where GTAA is a defendant fall into three categories: those covered by insurance, construction claims, and other litigation. Litigation covered by insurance are personal injury and property damage claims, including the ten lawsuits arising from the Air France accident of August 2, 2005, where the GTAA's financial exposure is limited to its insurance deductible.

The GTAA is defending four construction claims in various stages of litigation or settlement discussions.

Other litigation includes an application by the City of Mississauga ("Mississauga") to review a decision by Public Works and Government Services Canada which determined that the GTAA was required to pay Mississauga $841,360 in payments in lieu of development charges regarding Airport development undertaken by the GTAA between 1996 and 2004. Mississauga seeks additional payments in lieu of development charges of $26.0 million.

Where appropriate, the GTAA has recorded provisions or reserves while it actively pursues its position with respect to litigation. Where it is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the GTAA's financial position, results of operations, or cash flows, no reserves have been recorded.

The availability of adequate insurance coverage is subject to the conditions of the overall insurance markets and the GTAA's claims and performance record. The GTAA has continued to be successful in placing all of its insurance needs.

CONCLUSION

While 2008 saw continued growth in Airport activity, the latter part of the year was characterized by slowing growth, and in the fourth quarter, declining passenger activity when compared to the same period in 2007. The GTAA expects 2009 to be marked by a decline in passenger volumes and aeronautical activity when compared to 2008. The GTAA is closely monitoring aviation activity in order to respond to any changes in activity beyond that which is anticipated. In 2008, continued focus on initiatives to generate non-aeronautical revenue and to control costs resulted in financial performance that exceeded the GTAA's original expectations for the year. The GTAA's five-year strategic plan is intended to further develop revenue, efficiency and customer service initiatives.

The GTAA is at a point in its development where the Airport has sufficient capacity to meet demand for several years. As a result, the demand for new capital development funds is greatly reduced from the period when the ADP was being implemented. This pause in the redevelopment of the Airport together with the management focus expressed in the strategic plan, position the GTAA well to continue to meet the developing air travel needs of the Southern Ontario region.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Words such as "believe", "expect", "plan", "intend", "estimate", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding: future demand for air travel in the GTA; budgets and expenditures relating to capital programs; future capital development at the Airport; the GTAA's annual debt capital requirements; the relationship between the GTAA's revenues and reserve funds, and its operating expenses and interest and financing costs; non-aeronautical revenues; airline load factors and fleet mixes; the GTAA's liquidity; the GTAA's ability to continue to meet the increasing air travel needs of the Southern Ontario region; the estimated fair value of the GTAA's restructured ABCP holdings; continuing uncertainties regarding the value of the assets which underlie the restructured ABCP and the amount and timing of cash flows derived from the restructured ABCP; the possibility of further material changes in the value of the GTAA's restructured ABCP holdings; and the effect of the current uncertainty regarding the GTAA's restructured ABCP investments on its liquidity and operations.

This forward-looking information is based on a variety of material factors and assumptions including, but not limited to: long-term growth in population, employment and personal income will provide the basis for long-term increased aviation demand in the GTA; the Canadian and U.S. economies will perform at expected levels in the near term; air carrier capacity will meet demand for air travel in the GTA; the growth and sustainability of low fare and other air carriers will contribute to long-term aviation demand in the GTA; economic and air travel industry factors will result in a short-term decline in air travel at the Airport; domestic, transborder and international travel will exhibit long-term growth; the commercial aviation industry will not be directly affected by terrorism; the cost of enhancing aviation security will not overly burden air carriers or the GTAA; no significant event will occur which impacts the ordinary course of business such as a natural disaster or other calamity; and the GTAA will be able to access the capital markets at competitive terms and rates. 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: levels of aviation activity; air carrier instability; aviation liability insurance; fuel prices; construction risk; geographical unrest; terrorist attacks; war; health epidemics, labour negotiations; capital market and economic conditions; changes in laws; adverse regulatory developments or proceedings; 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 the GTAA's 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 included in this MD&A whether as a result of new information, 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 auditors, 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 four directors. This Committee reviews the financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.

President and Chief Executive Officer
March 11, 2009

Vice President and Chief Financial Officer

AUDITORS' REPORT

To the Board of Directors of the Greater Toronto Airports Authority

We have audited the balance sheets of the Greater Toronto Airports Authority as at December 31, 2008 and 2007 and the statements of operations, changes in net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Greater Toronto Airports Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2008 and 2007 and the results of its operations, changes in its net assets (deficiency) and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 11, 2009

BALANCE SHEET

As at December 31 (in thousands)	**2008**	2007
	$	$
ASSETS		
Current		
Cash and cash equivalents	**193,911**	149,822
Accounts receivable *(Note 8)*	**45,677**	54,594
Prepaid expenses	**3,430**	2,864
Inventory	**8,843**	7,397
	251,861	214,677
Reserve and other funds *(Note 6)*	**898,096**	907,120
Other investments *(Note 7)*	**27,040**	28,802
Other assets *(Note 10)*	**70,387**	69,687
Property and equipment *(Note 11)*	**5,690,769**	5,847,182
Work in progress *(Note 12)*	**340,411**	176,559
Accrued benefit asset *(Note 16)*	**23,395**	12,265
	7,301,959	7,256,292
LIABILITIES		
Current		
Bank indebtedness	**1,036**	–
Accounts payable and accrued liabilities	**84,584**	77,678
Security deposits and deferred credits	**36,374**	36,363
Current portion of deferred ground rent *(Note 3)*	**4,156**	4,156
Current portion of long-term debt *(Note 13)*	**362,993**	836,228
	489,143	954,425
Deferred credit *(Note 10)*	**37,619**	39,822
Deferred ground rent *(Note 3)*	**24,938**	29,094
Long-term debt *(Note 13)*	**7,149,180**	6,585,811
	7,700,880	7,609,152
NET ASSETS (DEFICIENCY) *(Note 22)*		
Externally restricted	**72,579**	72,857
Internally restricted	**261,932**	284,728
Unrestricted	**(733,432)**	(710,445)
	(398,921)	(352,860)
	7,301,959	7,256,292

Commitments and contingent liabilities *(Notes 19 and 20)*

Signed on behalf of the Board

Marilynne E. Day-Linton, Director

Lawrence D. Worrall, Director

STATEMENT OF OPERATIONS

Years ended December 31 (in thousands)	**2008**	2007
	$	$
REVENUES		
Landing fees	**447,062**	451,183
General terminal charges	**180,674**	185,027
Airport improvement fees, net *(Note 9)*	**255,727**	257,495
Car parking and ground transportation	**126,450**	114,250
Concessions	**80,187**	72,232
Rentals	**56,055**	55,114
Other	**26,400**	27,557
	1,172,555	1,162,858
OPERATING EXPENSES		
Ground rent *(Note 3)*	**140,622**	149,474
Goods and services	**282,188**	272,722
Salaries, wages and benefits	**108,571**	107,139
Real property taxes and payments-in-lieu of real property taxes *(Note 17)*	**23,857**	22,691
	555,238	552,026
Revenues over expenses before interest and financing costs and amortization	**617,317**	610,832
Interest and financing costs, net *(Notes 6 and 15)*	**452,501**	427,652
Amortization of property and equipment	**210,730**	227,130
Revenues under expenses	**(45,914)**	(43,950)

2008

Year ended December 31 (in thousands)	Balance, Beginning, of Year	Unrealized Changes in Net Assets	Revenues Under Expenses	Transfers/ Allocations and Other	Use of Funds	Balance, End of Year
	$	$	$	$	$	$
EXTERNALLY RESTRICTED						
Operating and maintenance reserve	61,175	–	–	(10,876)	–	50,299
Renewal and replacement reserve	3,000	–	–	–	–	3,000
Debt service fund – principal	8,682	–	–	33,912	(23,314)	19,280
	72,857	–	–	23,036	(23,314)	72,579
INTERNALLY RESTRICTED						
Airport improvement fees collected, net	106,387	–	–	255,225	(219,500)	142,112
Notional principal of long-term debt	49,878	–	–	90,000	(139,878)	–
Debt service coverage requirement	128,463	–	–	(8,643)	–	119,820
	284,728	–	–	336,582	(359,378)	261,932
Total Restricted net assets	357,585	–	–	359,618	(382,692)	334,511
UNRESTRICTED						
Unrestricted net deficiency	(713,154)	–	(45,914)	23,074	–	(735,994)
Accumulated unrealized changes in net assets:						
Loss on hedge	(8,659)	922	–	–	–	(7,737)
Gain on interest rate swap	11,368	(1,069)	–	–	–	10,299
Unrestricted net deficiency	(710,445)	(147)	(45,914)	23,074	–	(733,432)
Total Net deficiency	(352,860)	(147)	(45,914)	382,692	(382,692)	(398,921)

2007

Year ended December 31 *(in thousands)*	Balance, Beginning, of Year	Unrealized Changes in Net Assets	Revenues Under Expenses	Transfers/ Allocations and Other	Use of Funds	Balance, End of Year
	$	$	$	$	$	$
EXTERNALLY RESTRICTED						
Operating and maintenance reserve	64,524	–	–	(3,349)	–	61,175
Renewal and replacement reserve	3,000	–	–	–	–	3,000
Debt service fund – principal	17,135	–	–	17,087	(25,540)	8,682
	84,659	–	–	13,738	(25,540)	72,857
INTERNALLY RESTRICTED						
Airport improvement fees collected, net	119,114	–	–	257,273	(270,000)	106,387
Notional principal of long-term debt	218,275	–	–	118,800	(287,197)	49,878
Debt service coverage requirement	85,923	–	–	42,540	–	128,463
	423,312	–	–	418,613	(557,197)	284,728
Total Restricted net assets	507,971	–	–	432,351	(582,737)	357,585
UNRESTRICTED						
Unrestricted net deficiency	(819,590)	–	(43,950)	150,386	–	(713,154)
Accumulated unrealized changes in net assets:						
Loss on hedge	(9,581)	922	–	–	–	(8,659)
Gain on interest rate swap	12,437	(1,069)	–	–	–	11,368
Unrestricted net deficiency	(816,734)	(147)	(43,950)	150,386	–	(710,445)
Total Net deficiency	(308,763)	(147)	(43,950)	582,737	(582,737)	(352,860)

STATEMENT OF CASH FLOWS

Years ended December 31 (in thousands)	**2008**	2007
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues under expenses	**(45,914)**	(43,950)
Items not affecting cash		
Amortization of property and equipment	**210,730**	227,130
Writedown of reserve and other funds and other investments *(Notes 6 and 7)*	**52,700**	37,200
Loss on disposal of property and equipment	**1,128**	3,680
Amortization of other assets	**1,210**	1,207
Excess of cash funding over pension expense	**(11,130)**	(1,788)
Change in fair value of derivative, net	**(1,910)**	409
Changes in non-cash working capital		
Decrease in accounts receivable	**8,917**	37,236
(Increase) Decrease in prepaid expenses	**(566)**	712
Increase in inventory	**(1,446)**	(1,162)
Increase in accounts payable, accrued liabilities and accrued interest	**6,147**	4,072
(Decrease) Increase in security deposits and deferred credits	**(2,192)**	26,865
	217,674	291,611
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	**(2,694)**	(6,429)
Proceeds on disposal of property and equipment	**194**	920
Work in progress *(Note 12)*	**(210,775)**	(218,973)
Land acquisition costs and other assets *(Note 10)*	**–**	(14,034)
Other investments *(Note 7)*	**(10,826)**	(37,000)
Reserve and other funds	**(31,088)**	149,504
	(255,189)	(126,012)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of medium term notes and long-term debt *(Note 13)*	**821,741**	800,849
Repayment of medium term notes and long-term debt *(Note 13)*	**(736,626)**	(895,957)
Draw on credit facility	**400,609**	–
Repayment of credit facility	**(401,000)**	–
Bank indebtedness	**1,036**	–
Decrease in deferred ground rent payable *(Note 3)*	**(4,156)**	(4,156)
	81,604	(99,264)
NET CASH INFLOW	**44,089**	66,335
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**149,822**	83,487
CASH AND CASH EQUIVALENTS, END OF YEAR	**193,911**	149,822

As at December 31, 2008, cash and cash equivalents consisted of short-term investments of $193.9 million, cash of $10.5 million less outstanding cheques of $11.5 million. At December 31, 2007, cash and cash equivalents consisted of short-term investments of $146.8 million, cash of $15.2 million less cash and outstanding cheques of $12.2 million (see Note 24, Comparative figures).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008, and 2007

1. NATIONAL AIRPORTS POLICY

In July 1994, the federal government announced its National Airports Policy whereby the management, operation and maintenance of 26 airports within the National Airport System were to be transferred through various ground lease arrangements to locally controlled Canadian Airport Authorities ("CAAs"). The National Airports Policy also prescribed the Fundamental Principles for the Creation and Operation of CAAs including the Public Accountability Principles to be adopted by each CAA.

CAAs are free to operate airports on a commercial basis and have the authority to set all fees and charges. The federal government retains regulatory control over aeronautics and as such will set safety and security standards for airports, licence airports and regulate the aviation industry as a whole.

2. CORPORATE PROFILE OF THE GREATER TORONTO AIRPORTS AUTHORITY

Greater Toronto Airports Authority ("GTAA") was incorporated on March 3, 1993, under Part II of the *Canada Corporations Act*, as a corporation without share capital. This corporate structure ensures that the excess of revenues over expenses is retained and reinvested in airports and airport operations under control of the GTAA. The Bylaws of the GTAA were amended in 1994 to conform with the requirements of the National Airports Policy. The GTAA has all the powers, obligations and duties of any private Canadian corporation. The GTAA is governed by a 15-member Board of Directors (the "Board"). Directors serve a term of three years and are eligible to be re-appointed subject to a maximum limit of nine years. Five Directors are appointed from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto are entitled to provide, on a rotating basis, the names of three candidates and the Board appoints one of the three candidates for each available position as a Director. In addition, four Directors are appointed by the Board on a cyclical basis on the basis of candidates nominated by a pool of nominators comprised of the Law Society of Upper Canada, the Association of Professional Engineers of Ontario, the Institute of Chartered Accountants of Ontario, the Toronto Board of Trade and the Boards of Trade and Chambers of Commerce in the Regional Municipality of York, the Regional Municipality of Halton, the Regional Municipality of Durham and the Regional Municipality of Peel. Finally, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively, while the Board of Directors is entitled to appoint three Directors.

The mandate of the GTAA is to operate and develop a regional network of airports in the Greater Toronto Area ("GTA"). Under the terms of a ground lease (see Note 3, Airport subject to ground lease), the first airport in this network, Toronto Pearson International Airport (the "Airport"), was transferred to the GTAA in 1996. The Airport's operations on 1,867 hectares of land include Terminals 1 and 3, airside assets including five runways, taxiways and aprons, groundside assets including bridges and parking lots, infield assets including an aircraft deicing facility and cargo buildings, and ancillary structures. Excluded are any assets owned by Nav Canada, the operator of Canada's civil air navigation system.

The GTAA is committed to the continuing development of the Airport. This includes continued redevelopment of the terminals, increasing airside capacity to six runways, increasing cargo and aircraft facilities, and reconstructing the roadway system.

3. AIRPORT SUBJECT TO GROUND LEASE

On December 2, 1996, the GTAA assumed the operation, management and control of the Airport for a period of 60 years, together with one renewal term of 20 years, by virtue of a ground lease (the "Ground Lease") between the GTAA, as tenant, and Her Majesty the Queen in Right of Canada, represented by the Minister of Transport ("Transport Canada"), as landlord. The GTAA assumed the obligations of Transport Canada under all existing agreements at the Airport.

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.

On February 11, 2008, the GTAA executed an amendment to the Ground Lease which replaces the previous calculation that was largely based on passenger traffic with one that is based on revenue. The new formula will be phased in such that in 2008 and 2009 ground rent will be at fixed amounts. Beginning in 2010, ground rent will be calculated as a percentage of revenue using an escalating percentage of Airport Revenue which has the following ranges: 0% for revenue below $5.0 million, 1% for revenue between $5.0 million and $10.0 million, 5% for revenue between $10.0 million and $25.0 million, 8% for revenue between $25.0 million and $100.0 million, 10% for revenue between $100.0 million and $250.0 million, and 12% for revenue in excess of

$250.0 million. The GTAA will continue to be required to repay ground rent deferred in the 2003 to 2005 period.

In July 2003, the Government of Canada announced a program to allow for a deferral in the ground rent for a two-year period commencing July 1, 2003, in the amount of $41.6 million. This amount is being repaid over a 10-year period, commencing in 2006, through increased annual ground rent payments of approximately $4.2 million per year. The decrease in the liability for 2008 was approximately $4.2 million, bringing the total remaining liability to $29.1 million.

4. SIGNIFICANT ACCOUNTING POLICIES

Presentation and Basis of Accounting

The GTAA's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimations and assumptions include the useful lives of property and equipment, valuation allowances and certain revenue amounts. Actual results could differ from estimates.

Ground Lease

The Ground Lease is accounted for as an operating lease.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments with an original term of 90 days 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.

Other Assets

As required under the terms of the Ground Lease, the title of any land acquired is transferred to the federal government while GTAA retains use of the land. The purchase price for acquired land is recorded as land acquisition costs and amortized on a straight-line basis over the remaining term of the Ground Lease.

Acquisitions

Assets acquired related to the development of the Airport are capitalized to work in progress or property and equipment. Costs related to projects under construction are capitalized until the construction project or replacement facilities become operational.

Property and Equipment

Property and equipment are recorded at cost. Property and equipment include items such as improvements to leased land, runways, buildings and roadways. These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease. No assets are amortized longer than the current expiry date of the Ground Lease.

The costs of property and equipment (less estimated residual values) are amortized over the lesser of the remaining term of the Ground Lease or their estimated useful lives. Property and equipment are amortized at the following annual rates:

TERMINAL ASSETS	
Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works	2.5% declining balance for terminal facilities 2.5% to 20% declining balance for non-terminal facilities
Baggage handling systems	Straight-line over 25 years
AIRSIDE ASSETS	
Improvements to leased land	Straight-line over remaining term of the Ground Lease
Runways and taxiways	2.5% declining balance 15 years straight-line for runway and taxiway surfaces
Deicing facilities	2.5% declining balance
OTHER ASSETS	
Utilities and stormwater management facilities	2.5% declining balance
Operating assets	10% to 30% declining balance
Capital leases	10% to 30% declining balance

Leases entered into by the GTAA for the use or operation of equipment are classified as capital, to the extent they meet the criteria for capitalization in accordance with generally accepted accounting principles.

Work in Progress

Work in progress is transferred to property and equipment when the asset is placed in service. Interest associated with borrowing funds for work in progress is capitalized until the work is substantially complete and assets are operational.

Revenue Recognition

Landing fees, general terminal charges and car parking revenues are recognized as the airport facilities are utilized. Airport improvement fees, net of airline administration fees, are accrued upon the enplanement of the passenger and are subject to reconciliation with the air carriers (see Note 9, Airport improvement fees). Concessions revenue is charged 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. Revenue derived from the Cogeneration Facility, included in other revenue, is recognized as electricity is delivered to customers.

Salaries, Wages and Benefits

Reimbursements from certain service organizations for salaries, wages and benefits have been included in this operating expense category. Employee benefits are accrued as earned by employees.

Employee Future Benefit Plans

The GTAA maintains both defined benefit pension plans and defined contribution pension plans for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefit method prorated on service and best estimate assumptions. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The unamortized net actuarial gain or loss exceeding 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year is deferred and amortized over the average remaining service life of active employees. The average remaining service period of the active employees covered by one of the defined benefit pension plans is eight years (2007 – eight years) and the other plan is two years (2007 – four years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment. The costs of the defined benefit plans are recognized as the benefits are earned through employee service. The costs of the defined contribution pension plans are expensed as the GTAA becomes obligated to contribute to the defined contribution plans.

Deferred Financing Costs

Deferred financing costs are included in the 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, where the amount to be recognized varies over the life of the debt based on the principal outstanding.

Derivative Financial Instruments

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

Derivative financial instruments, including interest rate swaps and foreign exchange hedges, may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates. Payments and receipts under interest rate swap agreements will be recognized as adjustments to interest and financing costs where the underlying instrument is a GTAA debt issue and as adjustments to interest income where the underlying instrument is an investment. Derivative financial instruments that are not designated by the GTAA to be in an effective hedging relationship will be carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in interest and financing costs.

Currently, the GTAA has no derivative instruments outstanding that have been designated as hedges. However, certain accumulated unrealized changes in net assets relating to discontinued cash flow hedges are being amortized into income over the term to maturity of the related hedged item.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependant on their classification as described below.

Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the GTAA's designation of such instruments.

All financial assets must be classified either as held-for-trading ("HFT"), available-for-sale ("AFS"), held-to-maturity ("HTM"), or loans and receivables. All financial liabilities must be classified as either HTM or other liabilities ("OL"). Subsequent to initial recognition, the standards require that all financial assets and financial liabilities, including all derivatives, be measured at fair value with the exception of loans and receivables, securities classified as HTM, liabilities classified as OL.

Any changes in unrealized gains or losses related to AFS securities that are considered temporary and certain unrealized gains and losses relating to cash flow hedging activities are disclosed as separate components of Accumulated unrealized changes in net assets.

Classification of Financial Instruments

The following is a summary of the accounting model the GTAA has applied to each of its significant categories of financial instruments:

Cash and cash equivalents	Available-for-sale
Accounts receivable	Loans and receivables
Reserve and other funds	Available-for-sale

Other investments	Available-for-sale
Derivative	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities
Security deposits	Other liabilities
Long-term debt	Other liabilities

Held-for-Trading
HFT financial assets are financial assets typically acquired for resale prior to maturity. They are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in the statement of operations.

Loans and Receivables
Loans and receivables are accounted for at amortized cost.

Available-for-Sale
AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments or HFT. AFS financial assets are carried at fair value with unrealized gains and losses that are considered temporary are included in unrealized changes in net assets until realized when the cumulative gain or loss is transferred to interest and financing costs or if the assets become impaired on an other than temporary basis.

Other Liabilities
OL are recorded at amortized cost and include all liabilities other than derivatives to which the fair value has been applied.

5. CHANGE IN ACCOUNTING STANDARD

Effective January 1, 2008, the Canadian Institute of Chartered Accountants ("CICA") issued accounting standard Section 3031 – *Inventories*. Section 3031 provides guidance on the method of determining the cost of materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded writedowns to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 did not materially impact the GTAA's financial statements.

6. RESERVE AND OTHER FUNDS

The Debt Service Fund and Debt Service Reserve Fund (the "Trust Funds") and Operations, Capital and Financing Funds invested in cash and other investments are as follows:

Years ended December 31 (in thousands)	**2008**	2007
	$	$
Debt Service Fund		
Interest	**99,019**	96,203
Principal	**19,280**	8,682
	118,299	104,885
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-3 due December 3, 2027	**37,840**	36,863
Series 1999-1 due July 30, 2029	**41,178**	40,001
Medium Term Notes		
Series 2000-1 due June 12, 2030	**40,000**	38,623
Series 2000-2 due July 19, 2010	**23,123**	32,037
Series 2001-1 due June 4, 2031	**36,213**	35,226
Series 2002-1 due January 30, 2012	**31,948**	31,120
Series 2002-2 due December 13, 2012	**30,402**	29,615
Series 2002-3 due October 15, 2032	**39,493**	38,270
Series 2003-1 due June 2, 2008	**–**	19,389
Series 2004-1 due February 2, 2034	**39,870**	38,790
Series 2004-2 due February 4, 2009	**11,426**	11,148
Series 2005-1 due June 1, 2015	**18,287**	17,584
Series 2005-3 due February 15, 2016	**16,881**	16,471
Series 2006-1 due February 28, 2011	**11,270**	11,000
Series 2006-2 due October 24, 2008	**–**	12,329
Series 2007-1 due June 1, 2017	**22,432**	21,848
Series 2007-2 due May 14, 2010	**8,255**	12,943
Series 2008-1 due April 17, 2018	**26,672**	–
Series 2008-2 due December 6, 2013	**19,194**	–
	454,484	443,257
Bank indebtedness secured by Series 1997 – A Bond	**10,082**	10,075
	464,566	453,332
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**50,299**	61,175
Renewal and Replacement Reserve Fund	**3,000**	3,000
Airport Improvement Fee Reserve Fund	**142,112**	106,387
Notional Principal Fund	**–**	49,878
Debt Service Coverage Fund	**119,820**	128,463
	315,231	348,903
	898,096	907,120

(a) Asset Backed Commercial Paper:
As at December 31, 2008, the GTAA held $182.2 million (2007 – $182.2 million), face value, of non-bank sponsored ABCP. Of this amount, $130.2 million (2007 – $145.2 million) was held in reserve and other funds and $52.0 million (2007 – $37.0 million) was held in other investments (see Note 7, Other investments) on the balance sheet.

At the time of purchase, all of the trusts in which the GTAA's investments in ABCP were held were rated R-1 (high) by DBRS Limited ("DBRS"), which is the highest possible rating for commercial paper and a permitted investment under the terms of the GTAA's Trust Indenture which governs the GTAA's reserve funds. The maturity dates of the ABCP held in these and other funds ranged from August 28, 2007, to September 25, 2007; however, none were redeemed at maturity.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Asset Backed Commercial Paper (the "Committee") announced an agreement in principle to restructure the ABCP issued by 20 trusts, including all of the issuing trusts which issued ABCP held by the GTAA.

On March 17, 2008, the Committee filed an application in the Ontario Superior Court of Justice (the "Court") under the Companies' Creditors Arrangement Act ("CCAA") asking the Court to call a meeting of ABCP noteholders to vote on a plan of restructuring broadly in-line with the December 23, 2007, plan proposed by the Committee.

As a result of the CCAA application, on March 19, 2008, DBRS withdrew its ratings on all of the affected ABCP. As a result, the ABCP held by the GTAA no longer met the definition of qualified investments in the Trust Indenture, and as a result the GTAA was not in compliance with the requirement in the Trust Indenture that all money held in any account, fund or reserve fund established under the Trust Indenture be held in cash or invested in qualified investments. The newly restructured notes that the GTAA received in January 2009 under the restructuring plan also do not meet the definition of a qualified investment under the Trust Indenture by virtue of their credit rating and term to maturity (see Note 23, Subsequent events). The GTAA is of the view that the non-compliance is not of a nature which would give rise to an event of default for purposes of the Trust Indenture, which requires, among other things, that any non-compliance must materially adversely affect bondholders. As of the date of this report, no event of default has occurred.

On March 20, 2008, the Committee issued an information statement containing details about the proposed restructuring. The restructuring plan was voted on and approved by the noteholders on April 25, 2008. The Court approved the restructuring on June 5, 2008; however, several noteholders appealed the Court ruling. The Ontario Court of Appeal heard this appeal on June 25 and 26, 2008, and subsequently released its ruling upholding the original Court ruling. As a result of this ruling, a group of noteholders sought leave to appeal the ruling to the Supreme Court of Canada. On September 18, 2008, the Supreme Court of Canada denied leave to appeal, resulting in the original Court approval of the restructuring remaining in place.

On December 24, 2008, the Committee reached an agreement with the governments of Canada, Quebec, Ontario and Alberta to provide an additional $4.5 billion of margin funding by way of a senior margin funding facility. At the same time, the spread loss triggers were adjusted to reduce the likelihood that margin funding would be required and an eighteen-month moratorium on collateral calls by the asset providers to the ABCP conduits was enacted.

On December 29, 2008, DBRS assigned a provisional rating of "A" to the Class A-1 and A-2 Notes to be issued under the restructuring.

Under the restructuring plan, holders of ABCP are to receive one or more types of replacement notes, depending on the underlying security of the various ABCP held:

- Traditional Asset ("TA") Tracking Notes which are long-term floating rate notes backed by traditional securitized assets;
- Ineligible Asset ("IA") Tracking Notes which are long-term floating rate notes backed by traditional securitized assets with exposure to the U.S. sub-prime mortgage market; and
- Master Asset Vehicle ("MAV") Notes issued in four classes (A-1, A-2, B and C) which are long-term floating rate notes backed by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets.

Based on the restructuring plan and other public information, the GTAA estimated the fair value of its ABCP holdings held in reserve and other funds and other investments (see Note 7, Other investments) as at December 31, 2008, to be $92.3 million (2007 – $145.0 million), approximately 50.7% (2007 – 79.6%) of the original $182.2 million face value, resulting in a cumulative impairment of $89.9 million (2007 – $37.2 million).

The valuation technique used by the GTAA to estimate the fair value of its investment in ABCP at December 31, 2008, incorporates probability weighted discounted cash flows derived from several possible scenarios considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the information statements issued by the Committee and the risks associated with each of the long-term floating rate notes. Assumptions regarding the interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses used in estimating the fair value include:

	Class A-1	Class A-2	Class B	Class C	TA Notes	IA Notes
Interest rate	0.98%	0.98%	0.98%	0.98%	1.91%	1.91%
Discount rate[1]	8.57%	8.82%	45%	10%	6.43%	8.82%
Approximate term	8 years	8 years	8 years	8 years	5 years	5 to 22 years
Credit loss	nil	nil	nil	nil	nil	37.5%

Note 1: For Class B and C Notes the indicated rate is the fair value as a per cent of face value and not the discount rate. For IA Notes the discount rate is applied after the credit provision.

Two benchmarks were utilized to determine the discount rates used in estimating the fair value of the Class A-1 and A-2 Notes as at December 31, 2008. One method used bankers' acceptance rates plus expected spreads for "A" rated financial institution debt with similar maturities. This benchmark was chosen as indicative of the market discount factor that would be applied to the restructured securities as financial institution credit spreads are at historically wide spreads relative to other similarly rated debt due to many of the same uncertainties that the restructured notes face, such as structured products and derivative exposures and counterparty risks. This benchmark was allocated a weighting of 25% in determining the discount rate. The second benchmark, weighted 75%, used to determine the appropriate discount rate utilized the spread or premium paid on the CDX.NA.IG five-year index to determine the appropriate spread over seven-year government bond rates. The CDX index was chosen in addition to the financial institution spread as it is an alternate indicator of investment grade credit market conditions and provides a second measure of investor sentiment in what continue to be uncertain markets. The five-year index was utilized as it is the most liquid index and is considered to provide a more accurate indication of market levels than the less liquid seven-year index. While the restructured notes are subject to credit enhancements such as restructured and remote margin call provisions, cross-collateralization and a dedicated margin funding facility which support an investment grade credit rating, an additional 200 and 225 basis points were added to the discount rate of the Class A-1 and Class A-2 Notes, respectively, to further reflect the uncertainties surrounding the liquidity of these instruments. The prior year financial statements did not incorporate the CDX index in the valuation methodology as disruptions in credit markets resulted in low liquidity and high levels of volatility in the index which the GTAA believes at the time, made it a poor indicator in assessing the fair value of the restructured notes.

The Class B and C Notes were valued on an equity basis at 45% and 10% of face value, respectively, indicative of their subordination as to payment of both principal and interest under the restructuring proposal.

While many of the assets that will be placed in the IA Tracking Note pools continue to carry investment grade ratings, the IA Tracking Notes were given an initial credit provision of 37.5%, consistent with the default probability rates of an investment rating below "CCC". This reflects continued uncertainty surrounding the U.S. sub-prime mortgage market. Due to the substantial credit provision taken against the IA Tracking Notes, the discount rate applied in the valuation methodology was determined using the approach described above and is consistent with that applied to the Class A-2 Notes. It was not considered appropriate to apply a below investment grade credit discount rate as this would effectively double count the credit provision.

The TA Tracking Notes were discounted at a rate consistent with current market yield on highly rated asset backed term notes with a similar term to maturity.

An increase of 1% in the weighted average discount rate would reduce the estimated fair value of the GTAA's investment in ABCP by approximately $6.0 million (2007 – $6.8 million).

One of the cash flow scenarios considered was a liquidation scenario whereby, if the restructuring was not successfully completed, recovery of the GTAA's investment would be through the liquidation of the underlying assets of the ABCP trusts. This scenario was assigned a probability of 2.0%. Notwithstanding final Court approval of the restructuring, due to the state of the credit markets there remained some risk as at December 31, 2008, that the restructuring would not be completed and a liquidation scenario would occur.

The probability weighted discounted cash flows resulted in an estimated fair value of the GTAA's ABCP of $92.3 million (2007 – $145.0 million) as at December 31, 2008. This was a decrease of $29.1 million from the September 30, 2008, estimated fair value due to the continued turmoil in the credit markets and the lack of liquidity of these investments. Therefore, the GTAA has recorded an additional impairment charge in respect of its ABCP holdings for the quarter ended December 31, 2008, of $29.1 million. The total impairment charge recognized is approximately 49.3% of the original value.

On January 12, 2009, the Court issued the implementation order for the restructuring (see Note 23, Subsequent events).

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to further material change in the fair value of the GTAA's investment in ABCP.

The GTAA has sufficient cash and other sources of liquidity available to meet its reserve requirements, and to fund its operating, capital and financing obligations, and does not expect that its operations will be materially affected by the current uncertainty over the fair value of its ABCP investments.

(b) Components of Reserve Funds:

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 13, Credit facility and long-term debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

(i) Debt Service Fund (principal and interest)

Amounts in the Debt Service Fund are allocated to either an Interest Account or a Principal Account. 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 medium term notes. Also 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. The principal requirements of the Debt Service Fund were funded from the Notional Principal Fund during 2008 and has a balance of $19.3 million at December 31, 2008 (2007 – $8.7 million). Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bondholders or noteholders and are disbursed by the Trustee to pay interest and principal as it becomes due.

Principal of $23.3 million was paid from the Debt Service Fund in 2008 (2007 – $25.5 million). During 2008, $33.9 million was deposited and/or allocated to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1999-1, Series 2003-1, Series 2006-2 and Series 2004-2 bonds (2007 – $17.1 million). The deposit to the Principal Account of the Debt Service Fund to fulfill principal requirements was funded from the Notional Principal Fund (see Operations, Capital and Financing Funds below) during the year.

(ii) Debt Service Reserve Fund

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 bonds or medium term notes. The required amount is established at the time of issue of each series of bonds or medium term notes and funded from the proceeds of each issue. Amounts held in the Debt Service Reserve Fund are held by the Trustee 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 bonds or medium term notes, funds not applied by the Trustee will be returned to the GTAA.

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 equal to one-sixth of the projected operating and maintenance expenses for the following fiscal year. As at December 31, 2008, this fund had a balance of $50.3 million (2007 – $61.2 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 of $3.0 million (2007 – $3.0 million) is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

In conjunction with the airport improvement fee agreements with participating airlines, the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at December 31, 2008, this fund had an accumulated balance of $142.1 million

(2007 – $106.4 million). During 2008, $219.5 million (2007 – $270.0 million) of accumulated Airport Improvement Fee Funds were utilized for some debt service payments.

Capital and financing funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bonds or medium term notes. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2008, had a balance of $119.8 million (2007 – $128.5 million).

7. OTHER INVESTMENTS

At December 31, 2008, the GTAA held $52.0 million (2007 – $37.0 million), face value, of ABCP investments classified as other investments. In 2008, $15.0 million, face value of ABCP investments previously held in reserve and other funds were allocated to other investments. The estimated fair value of these investments at the time of transfer was $10.8 million. In 2008, the GTAA also recognized an additional $12.6 million fair value impairment in respect of these ABCP holdings (2007 – $8.2 million) and charged that balance to interest and financing costs in the statement of operations (see Note 6, Reserve and other funds). The total impairment charge recognized is approximately 48.1 % of the original value.

8. ACCOUNTS RECEIVABLE

(in thousands)	**2008**	2007
	$	$
Trade accounts receivable	**40,762**	50,663
Less: allowance for doubtful accounts	**(701)**	(881)
Trade accounts receivable, net	**40,061**	49,782
Other receivables	**5,616**	4,812
	45,677	54,594
Less: non-current portion	**–**	–
Total accounts receivable	**45,677**	54,594

The fair values of accounts receivable approximate their book values as at December 31, 2008.

There are no balances due from related parties.

Before accepting a new customer, the GTAA uses an external credit scoring system to assess the potential customer's credit quality as well as an internal credit rating system. The GTAA performs a detailed review of accounts on a customer-by-customer basis when assessing impairments. Each account is assessed based on factors surrounding the credit risk of specific customers including historical trends, the influence of the current economic environment and other information.

New customers are subject to credit checks and, depending on their perceived credit risk, may require prepayment or a deposit in the form of cash or a letter of credit. A security deposit is required for all non-aeronautical customers. As such, the allowance for doubtful accounts is specific in nature. No amount is subject to write-off until all possible collection action has been taken by the GTAA.

Interest is charged on all overdue balances at a rate of prime plus 3% per annum unless otherwise stipulated in terms agreed upon by both parties of the contract.

As of December 31, 2008, accounts receivable of $1.1 million (2007 – $1.4 million) were considered past due but not considered impaired. These amounts relate to a number of customers with no recent history of default. The aging of these receivables past due at December 31, 2008, and 2007 are as follows:

(in thousands)	**2008**	2007
	$	$
1 to 5 days	**3**	447
6 to 15 days	**92**	300
16 to 30 days	**621**	582
31 to 60 days	**157**	39
61+ days	**261**	8
Total balance past due	**1,134**	1,376

As of December 31, 2008, total accounts receivable of $0.7 million (2007 – $1.0 million) were considered impaired and not included in the table above. A provision of $0.7 million (2007 – $0.9 million) has been made against these related impaired accounts receivable balances.

These impaired receivables mainly relate to customers where collection is uncertain or amounts are being disputed by the GTAA's customers.

Movements in the allowance for doubtful accounts are as follows:

(in thousands)	**2008**	2007
	$	$
Balance, beginning of year	**881**	17,229
Provision for new doubtful accounts	**(41)**	725
Amounts written off during the period	**(139)**	(3,982)
Amounts recovered during the period	**–**	(13,091)
Balance, end of year	**701**	881

Bad debt expense (recovery) has been included in goods and services expense in the statement of operations. Amounts included in the provision account are generally written off when there is no expectation of recovering amounts owing.

9. AIRPORT IMPROVEMENT FEES

Airport improvement fees ("AIF") reported in the statement of operations are recorded net of airline administration charges of $10.5 million during 2008 (2007 – $10.6 million).

AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. In 2007, as a result of completing the annual reconciliation process with air carriers, the GTAA recorded an increase of $16.2 million in net AIF revenue.

10. OTHER ASSETS

	December 31, 2008		
(in thousands)	**Cost**	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Deferred leasehold inducements	**6,107**	**1,908**	**4,199**
Land acquisition costs	**26,139**	**1,152**	**24,987**
	32,246	**3,060**	**29,186**
Fair value of the OPA derivative			**41,201**
			70,387

	December 31, 2007		
(in thousands)	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Deferred leasehold inducements	6,107	1,219	4,888
Land acquisition costs	26,139	631	25,508
	32,246	1,850	30,396
Fair value of the OPA derivative			39,291
			69,687

The aggregate amortization expense in respect of other assets for the year ended December 31, 2008, was $1.2 million (2007 – $1.2 million) and is included in goods and services expense. There were no additions to other assets during the year (2007 – $56.6 million).

On February 1, 2006, the GTAA entered into a Clean Energy Supply contract ("CES Contract") with the Ontario Power Authority ("OPA"), 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 contract has been determined to be a derivative to be carried at fair value and upon adoption of the new financial instrument standards in 2007, the derivative was fair valued at $39.7 million. The fair value of the derivative as at December 31, 2008, was $41.2 million. The GTAA realized an increase in the fair value of the derivative during the year of $7.0 million which was recorded in goods and services expense, and received cash proceeds of approximately $5.1 million which reduced its carrying value.

The GTAA also recorded a deferred credit of $42.0 million which is being amortized over the term of 20 years. The unamortized balance at December 31, 2008, was $37.6 million (2007 – $39.8 million).

11. PROPERTY AND EQUIPMENT

Property and equipment are comprised of:

	December 31, 2008		
(in thousands)	Cost	Accumulated Amortization	Net Book Value
	$	$	$
TERMINAL ASSETS			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	5,184,503	613,749	4,570,754
Baggage handling systems	276,466	52,903	223,563
	5,460,969	666,652	4,794,317
AIRSIDE ASSETS			
Improvements to leased land	9,480	1,889	7,591
Runways and taxiways	392,258	48,541	343,717
Deicing facilities	29,906	6,418	23,488
	431,644	56,848	374,796
OTHER ASSETS			
Utilities and stormwater management facilities	345,597	50,798	294,799
Operating Assets	614,562	389,546	225,016
Capital leases	10,001	8,160	1,841
	970,160	448,504	521,656
	6,862,773	1,172,004	5,690,769

	December 31, 2007		
(in thousands)	Cost	Accumulated Amortization	Net Book Value
	$	$	$
TERMINAL ASSETS			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	5,173,809	492,199	4,681,610
Baggage handling systems	276,053	41,827	234,226
	5,449,862	534,026	4,915,836
AIRSIDE ASSETS			
Improvements to leased land	9,480	1,731	7,749
Runways and taxiways	383,431	41,349	342,082
Deicing facilities	29,906	5,813	24,093
	422,817	48,893	373,924
OTHER ASSETS			
Utilities and stormwater management facilities	342,003	40,901	301,102
Operating Assets	589,682	336,740	252,942
Capital leases	11,329	7,951	3,378
	943,014	385,592	557,422
	6,815,693	968,511	5,847,182

12. WORK IN PROGRESS

(in thousands)	Beginning of Year	Additions/ Adjustments	Transfers to Property and Equipment	**End of Year**
	$	$	$	$
Terminal Development Project	96,388	179,340	(13,728)	**262,000**
Restoration Projects	40,502	26,402	(32,283)	**34,621**
T3 Redevelopment	39,669	13,732	(9,611)	**43,790**
	176,559	219,474	(55,622)	**340,411**

As at December 31, 2008, work in progress included capitalized interest and financing costs in the amount of $27.6 million (2007 – $16.6 million).

13. CREDIT FACILITY AND LONG-TERM DEBT

During 2008, the GTAA redeemed the 2003-1 medium term note with a face value of $375.0 million and the 2006-2 medium term note with a face value of $350.0 million for total gross repayments of

$725.0 million. In addition, during the year the GTAA issued the 2008-1 medium term note with a face value of $500.0 million and the 2008-2 medium term note with a face value of $325.0 million for total gross proceeds of $825.0 million.

As at December 31, 2008, long-term debt including accrued interest and net of unamortized discounts and premiums consists of:

(in thousands)

Series	Coupon Rate	Maturity Date	Principal Amount	**2008**	2007
			$	$	$
Revenue Bonds, *See below*					
1997-3	6.45%	December 3, 2027	375,000	**371,538**	371,404
1999-1	6.45%	July 30, 2029	455,030	**463,198**	473,363
Medium Term Notes					
2000-1	7.05%	June 12, 2030	550,000	**550,046**	550,019
2000-2	6.70%	July 19, 2010	600,000	**619,470**	619,965
2001-1	7.10%	June 4, 2031	500,000	**497,776**	497,698
2002-1	6.25%	January 30, 2012	500,000	**512,167**	511,859
2002-2	6.25%	December 13, 2012	475,000	**474,730**	474,364
2002-3	6.98%	October 15, 2032	550,000	**558,257**	558,270
2003-1	5.17%	June 2, 2008	–	**–**	375,762
2004-1	6.47%	February 2, 2034	600,000	**609,377**	609,285
2004-2	4.45%	February 4, 2009	250,000	**254,451**	253,734
2005-1	5.00%	June 1, 2015	350,000	**348,138**	347,763
2005-3	4.70%	February 15, 2016	350,000	**354,164**	353,990
2006-1	4.40%	February 28, 2011	250,000	**252,013**	251,269
2006-2, *See below*	floating	October 24, 2008	–	**–**	352,875
2007-1	4.85%	June 1, 2017	450,000	**448,902**	448,719
2007-2, *See below*	floating	May 14, 2010	350,000	**350,649**	351,178
2008-1	5.26%	April 17, 2018	500,000	**502,767**	–
2008-2	5.89%	December 6, 2013	325,000	**324,159**	–
				7,491,802	7,401,517
Capital Leases				**1,296**	2,527
Province of Ontario					
Interest-free loan, payable in five equal annual installments commencing 2011				**19,075**	17,995
				7,512,173	7,422,039
Less current portion (including accrued interest)				**362,993**	836,228
				7,149,180	6,585,811

Interest expense from the GTAA's debt instruments amounted to $426.3 million (2007 – $432.9 million) net of capitalized interest of $14.7 million (2007 – $16.6 million). Cash paid during 2008 for interest amounted to $435.1 million (2007 – $443.4 million).

For Series 2006-2 and 2007-2, interest rates are adjusted quarterly at the three-month Bankers' Acceptance rate plus 14 basis points and 11 basis points respectively. For Series 2006-2 interest rates ranged from 3.36% to 4.90% (2007 – 4.49% to 4.90%). For Series 2007-2 interest rates ranged from 2.11% to 4.82% (2007 – 4.48% to 4.96%).

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

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 December 31, 2008:

(in thousands)	**2008**		2007	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	$	$	$
Long-term debt	**7,512,173**	**7,301,950**	7,422,039	7,948,433

With the exception of Series 2007-2, interest is payable semi-annually from the Interest Payable Commencement Date, based on fixed rates. For Series 2007-2, interest is payable quarterly from the Interest Payable Commencement Date, based on floating rates.

With the exception of Series 2004-2, Series 2006-1, and Series 2007-2 medium term notes, which are not redeemable, the notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price based on yields over Government of Canada bonds with similar terms to maturity.

Credit Facility

The GTAA maintains a credit facility with a syndicate of six Canadian banks. The credit facility is secured by a $550.0 million pledge bond (Series 1997-A) issued pursuant to the Trust Indenture. Indebtedness under the credit facility ranks *pari passu* with other indebtedness issued under the Trust Indenture. Under this credit facility, the GTAA is provided with a $500.0 million facility for general corporate purposes and capital expenditures, and a $50.0 million facility for interest rate and foreign exchange hedging activities. This facility matures on November 22, 2010, and can be extended annually for an additional year with the lenders' consent.

As at December 31, 2008, $2.25 million was drawn on the $500.0 million facility by way of a letter of credit (2007 – $2.25 million) (see Note 19, Commitments and contingent liabilities). No amounts were drawn against the $50.0 million facility (2007 – nil). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate. If funds were drawn on the facility in the year, interest rates would have ranged from 1.97% to 6.00% (2007 – 4.69% to 6.25%).

14. LEASES

Capital Leases

The GTAA leases certain equipment as part of its operations. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Amounts payable under these capital leases are as follows:

(in thousands)	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2008	2007	**2008**	2007
	$	$	$	$
Within one year	**838**	1,434	**802**	1,350
In the second to fifth years, inclusive	**517**	1,235	**494**	1,177
	1,355	2,669	**1,296**	2,527
Less: future finance charges	**(59)**	(142)	**–**	–
Present value of minimum lease payments	**1,296**	2,527	**1,296**	2,527
Included in the balance sheet as:				
Current liabilities			**802**	1,350
Long-term debt			**494**	1,177
			1,296	2,527

As at December 31, 2008, the effective interest rates of the capital leases range from 0.00% to 7.81% (2007 – 0.00% to 7.93%).

Operating Leases

The future minimum lease payments under non-cancellable operating leases, excluding payments under the Ground Lease (see Note 19, Commitments and contingent liabilities) are as follows:

(in thousands)	
	$
2009	5,884
2010	740
	6,624

15. INTEREST AND FINANCING COSTS, NET

Interest and financing costs for long-term debt and bank facilities, net of interest earned on the Debt Service Reserve Fund, reserves and other funds and capitalized interest is as follows:

(in thousands)	**2008**	2007
	$	$
Interest and financing costs incurred	**495,179**	489,996
Less:		
Interest earned on the Debt Service Reserve Fund	**(15,768)**	(25,253)
Interest earned on Reserves and other funds	**(12,203)**	(20,499)
Capitalized interest	**(14,707)**	(16,592)
	452,501	427,652

Included in interest and financing costs incurred is a $52.7 million fair value impairment (2007 – $37.2 million) in respect of the GTAA's ABCP holdings (see Note 7, Other investments).

16. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

The GTAA maintains three defined benefit pension plans. One of these plans is for former Transport Canada employees who were eligible to elect to transfer their pension credits to the GTAA plan.

The GTAA measures its accrued benefit obligations and the fair value of plan assets 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, 2008, and the next required valuation will be as of January 1, 2009.

Aggregate information about the GTAA's defined benefit pension plans as at December 31 is as follows:

(in thousands)	**2008**	2007
	$	$
ACCRUED BENEFIT OBLIGATION		
Balance, beginning of year	**103,586**	97,626
Actuarial gain	**(31,331)**	(1,823)
Current service cost	**3,556**	3,330
Interest cost	**5,858**	5,279
Benefits paid	**(2,256)**	(1,794)
Employee contributions	**765**	968
Balance, end of year	**80,178**	103,586
PLAN ASSETS		
Fair value, beginning of year	**105,789**	99,991
Employee contributions	**765**	968
Employer contributions	**14,728**	4,692
Actual return on plan assets	**(16,657)**	1,932
Benefits paid	**(2,256)**	(1,794)
Fair value, end of year	**102,369**	105,789
Funded status – surplus	**22,191**	2,203
Unamortized net actuarial loss	**834**	9,400
Unamortized past service costs	**270**	543
Unamortized transitional obligation	**100**	119
ACCRUED BENEFIT ASSET	**23,395**	12,265

As at December 31, 2008, each of the GTAA's defined benefit pension plans were in a surplus position. One plan was in a surplus position of $16.3 million (2007 – $1.4 million deficit), with an accrued obligation of $69.0 million (2007 – $91.6 million) and a fair value of plan assets of $85.3 million (2007 – $90.2 million). The other plan was in a surplus position of $5.9 million (2007 – $3.6 million surplus), with an accrued obligation of $11.2 million (2007 – $12.0 million) and a fair value of plan assets of $17.1 million (2007- $15.6 million).

In 2008, the Office of the Superintendent of Financial Institutions ("OSFI") determined that the actuarial valuation reports filed by the GTAA from January 1, 2004, to January 1, 2008, which recommended an employer contribution holiday was inconsistent with the Regulations to the Pension Benefits Standards Act. Pursuant to subsequent correspondence with OSFI, the amount of an additional contribution was determined resulting in a $7.4 million contribution made by the GTAA in December 2008.

The GTAA's net defined benefit pension plan expense is as follows:

(in thousands)	**2008**	2007
	$	$
Current service cost	**3,556**	3,330
Interest cost	**5,858**	5,279
Actual return on plan assets	**16,657**	(1,932)
Actuarial gain	**(31,331)**	(1,823)
Costs arising in the period	**(5,260)**	4,854
Difference between costs arising in the period and costs recognized in respect of:		
Return on plan assets	**(23,147)**	(4,201)
Actuarial loss	**31,714**	1,963
Past service costs	**273**	273
Transitional obligations	**19**	15
Net defined benefit pension plan expense	**3,599**	2,904

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the GTAA to its funded pension plans and payments made to the defined contribution plans was $16.8 million (2007 – $6.8 million).

The GTAA's plan assets consist of:

	Percentage of Plan Assets	
Asset Category	**2008**	2007
Equity securities	**62%**	60%
Fixed income	**33%**	32%
Cash	**5%**	8%
Total	**100%**	100%

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, 2008):

	2008	2007
Discount rate	**7.50%**	5.50%
Expected long-term rate of return on plan assets	**5.96%**	6.02%
Rate of compensation increase	**3.50%**	4.00%

Defined Contribution Pension Plan Expense

The GTAA maintains three defined contribution pension plans providing pension benefits to certain of its employees. The net expense for the defined contribution pension plans is as follows:

(in thousands)	**2008**	2007
	$	$
Defined contribution pension plan expense	**2,249**	1,963

The GTAA's contribution to the defined contribution pension plans is a maximum of 6% of the employee's gross earnings. For designated employees of one plan, the GTAA's contribution equals 16% of the employee's gross earnings less amounts already contributed to the plan by the employee and the GTAA.

Other Employee Future Benefits

Certain employees are provided with paid-up life insurance at the time of retirement, the cost of which is recorded in the period in which the insurance is acquired. The estimated accumulated benefit obligation for this expected payment was $0.5 million and is included in accounts payable and accrued liabilities on the balance sheet.

17. TAXATION

The GTAA is exempt from federal and provincial income tax and Ontario capital tax.

The GTAA is exempt from real property tax under the *Assessment Act (Ontario)*. However, the GTAA is required to pay each of the cities of Toronto and Mississauga an amount as calculated in accordance with regulations under the *Assessment Act (Ontario)* as a payment-in-lieu of real property taxes.

18. RELATED PARTY TRANSACTIONS

Directors' fees expense for the year ended December 31, 2008, was $867,041 (2007 – $767,250).

19. COMMITMENTS AND CONTINGENT LIABILITIES

Ground Lease

The GTAA's commitment in respect of annual ground lease airport rent based on the amendment signed in 2008 (see Note 3, Airport subject to ground lease), including ground rent deferral repayments, is approximately $142.8 million for the year ending 2009 and has been estimated based on GTAA's current forecast of expected revenues at approximately $131.2 million for the year ending 2010, $138.3 million for the year ending 2011, $140.8 million for the year ending 2012 and $143.8 million for the year ending 2013.

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2008, of approximately $159.8 million (2007 – $262.5 million).

The GTAA would be required to pay a Deficiency Rent (see Note 3, Airport subject to ground lease) equal to any shortfall which may exist between actual eligible capital expenditures and target capital expenditure amounts established in the Ground Lease. Target capital expenditure amounts, subject to adjustments for inflation, were set at approximately $422.0 million by December 31, 2001, and $345.0 million by December 31, 2006, both of which the GTAA has met. Target capital expenditure amounts, subject to adjustments for inflation, have also been established for the five-year periods ending December 31, 2011, and 2016, at $313.0 million and $835.0 million, respectively, with total target capital expenditures aggregating $1.92 billion. The GTAA has met this capital expenditure target.

Letters of Credit

A letter of credit for $2.25 million was outstanding at December 31, 2008 (see Note 13, Credit facility and long-term debt), relating to the GTAA's Clean Energy Supply contract with the Ontario Power Authority. The letter of credit expires April 11, 2009.

Environmental

The GTAA is committed to ensuring that activities undertaken at the Airport are carried out in an environmentally responsible manner, in compliance with applicable environmental laws and regulations, and with sensitivity to community and public concerns.

The GTAA performs environmental assessments as part of its ongoing environmental management program and has achieved ISO 14001 certification.

Roadway Infrastructure

In connection with receiving a deferral for the payment of land transfer tax to the Province of Ontario until 2011 (see Note 13, Credit facility and long-term debt), the GTAA agreed to participate in the development of highway infrastructure and transit improvements related to the Airport.

The GTAA has undertaken significant transportation infrastructure work in meeting this requirement.

Boeing Lands

In July 2001, the GTAA and Boeing Canada Operations Ltd. (formerly Boeing Toronto, Ltd.) ("Boeing") signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of $30.0 million. These lands will be transferred by Boeing in stages. The first parcel representing 16.1 hectares of land was conveyed on May 29, 2006, and the remaining lands will be conveyed from time to time over a maximum period of 20 years from that date. While the GTAA retains use of the land, title to the first parcel has been transferred to the federal government as required under the terms of the Ground Lease. Deposits totalling $4.7 million, which are recorded in work in progress, have been made and will be applied to the purchase price of the future parcels.

Insurance

The Government of Canada has issued an Order in Council providing full indemnity to the Canadian aviation industry for any coverage that was lost due to the cancellation of war and terrorism insurance. The Order in Council has been approved for 2008. Official declarations of its status occur every 90 days to account for the potential of change in the insurance industry. As part of the original Order in Council of September 2001, the GTAA was required to purchase a $50.0 million primary layer of war and terrorist coverage from the commercial markets. This coverage is in place for 2009.

Cogeneration Facility

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 Facility. 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 delivery contract establishes a maximum volume of natural gas inventory that the GTAA is permitted to maintain, as of the anniversary date. 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, which arise in the normal course of business. Where appropriate, the GTAA has recorded provisions or reserves while it actively pursues its position. Where it is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the GTAA's financial position, results of operations, or cash flows, no provisions have been recorded.

Air France

Subsequent to the Air France incident on August 2, 2005, the GTAA, together with other parties, is a defendant in ten lawsuits, including a class action lawsuit involving most passengers and their family members. The GTAA's insurers are defending the lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

20. GUARANTEES

In the normal course of operations, the GTAA provides indemnification agreements to counterparties in a wide variety of transactions such as contracts for goods and services, maintenance agreements, design-build contracts, construction contracts, and information technology agreements. These indemnification agreements require the GTAA to indemnify the counterparties in respect of costs incurred as a result of certain changes in the underlying nature of the contracts (including, without limitation, changes in laws, delays caused by the GTAA, pre-existing environmental conditions) and in respect of costs incurred as a result of certain litigation claims that may result from the transaction (such as, by way of example, patent infringement or personal injury and property damage due to the GTAA's negligence). The terms of the indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents management from making a reasonable estimate of the maximum potential amount the GTAA may be required to pay to or expend on behalf of such counterparties because such limits are most commonly not set out in the said agreements and the events in question are themselves highly contingent and variable in nature. Management attempts to limit its liability in respect of the indemnifications provided to such counterparties through the purchase of liability and property insurance and the allocation of risk to other contractors.

21. FINANCIAL INSTRUMENTS

Reserve and other funds, other investments, accounts receivable, accounts payable and accrued liabilities and security deposits are reflected in the financial statements at values which approximate fair values because of the short-term nature of these instruments except for ABCP which is fair valued using a valuation technique discussed in Note 6, Reserve and other funds, as no observable market exists.

Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. The GTAA's fair values are management's estimates and are generally determined using market conditions at a specific point in time and may not reflect future fair values. The determinations are subjective in nature, involving uncertainties and the exercise of significant judgement.

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 risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the GTAA's financial performance.

The GTAA's central treasury function is responsible for the procurement of the Corporation's capital resources and for the management of financial risk. All treasury operations are conducted within policies and guidelines approved by the Board of Directors and are within the requirements set out in the Trust Indenture dated December 2, 1997. Compliance with these policies is monitored by the regular reporting of treasury activities to 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 floating rate bank indebtedness and medium term notes as described in Note 13, Credit facility and long-term debt. It should be noted that the majority of GTAA's debt is fixed rate debt and therefore changes in interest rates do not significantly impact interest payments but may impact the fair value of this debt. An increase of 100 bps in Bankers' Acceptance interest rates applied to the average floating rate bank indebtedness and medium term notes outstanding during 2008 would have increased interest expense by approximately $6.5 million. The Debt Service Reserve Fund for bank indebtedness is adjusted annually on December 2 based on the prevailing Bankers' Acceptance rate.

In addition to the floating rate debt discussed above, the GTAA also has exposure to floating rate assets through its short-term investments in reserves and other funds (see Note 6, Reserve and other funds). Movements in the reference rates for floating rate debt and assets are highly correlated. Movements in interest rates which have the effect of increasing borrowing costs will also increase interest income from the floating rate assets. To the extent that the amount of floating rate debt is similar to the amount of floating rate assets, the effect of the changes in interest rates on the GTAA would be mitigated.

(b) Commodity price risk

The GTAA's exposure to commodity price risk relates to its Clean Energy Supply Contract with the Ontario Power Authority. The impact of a 1% increase in the 2008 average price of electricity holding natural gas prices constant would result in a $1.6 million decrease in the fair value of the OPA derivative. The impact of a 1% increase in the 2008 average price of natural gas holding the price of electricity constant would result in a $1.1 million increase in the fair value of the OPA derivative.

(c) Foreign currency rate risk

The GTAA undertakes certain transactions denominated in foreign currencies, primarily the U.S. dollar. The GTAA's exposure, however, 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.

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:

(in thousands)	**2008**	2007
	$	$
Accounts receivable		
Customers with external credit rating:		
AA-	**864**	–
A+	**910**	–
BBB	**883**	739
BBB-	**892**	716
B+	–	619
B	**7,927**	10,565
B–	**1,398**	1,745
	12,874	14,384
Customers without external credit rating:		
Existing customers with no history of default	**32,803**	40,210
	45,677	54,594
Cash and cash equivalents		
AA-	**63,000**	–
A-1+	**68,000**	98,430
A-1	**62,911**	59,000
	193,911	157,430
Reserve and other funds		
AA-	**120,353**	–
A+	**68,339**	–
A-1+	**540,784**	475,910
A-1	**103,330**	315,049
ABCP *(see Note 6, Reserve and other funds)*	**65,290**	116,161
	898,096	907,120
Other investments		
ABCP *(see Note 7, Other investments)*	**27,040**	28,802
OPA derivative		
AA-	**41,201**	–
A-1	–	39,291
	41,201	39,291

None of the financial assets that are fully performing has been renegotiated during the year with the exception of ABCP which are currently being restructured (see Note 6, Reserve and other funds).

The GTAA derives a substantial portion of its operating revenues from air carriers through landing fees and general terminal charges. There is a concentration of service with two air carriers which represents approximately 57% of these fees and 33% of the accounts receivable balance at December 31, 2008.

Liquidity Risk

The GTAA manages liquidity risk by maintaining adequate cash, reserves and available credit facilities. Quarterly cash flow projections are prepared 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 Corporation is not exposed to excessive refinancing risk in any one year.

The table below analyzes the GTAA's financial liabilities by relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. 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, 2008			
(in thousands)	**Less than 1 month**	**1 month to 12 months**	**1 year to 5 years**	**Thereafter**
	$	$	$	$
Accounts payable and accrued liabilities	**43,269**	**41,315**	**–**	**–**
Province of Ontario	**–**	**–**	**14,400**	**9,600**
Long-term debt	**50,400**	**643,873**	**4,294,739**	**7,956,590**
	93,669	**685,188**	**4,309,139**	**7,966,190**

	December 31, 2007			
(in thousands)	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
	$	$	$	$
Accounts payable and accrued liabilities	40,928	36,250	–	–
Province of Ontario	–	–	14,400	9,600
Long-term debt	55,049	1,106,840	4,150,141	7,636,144
	95,977	1,143,090	4,164,541	7,645,744

Additional disclosure about the GTAA's credit facility, long-term debt, and OPA derivative can be found in Note 13, Credit facility and long-term debt and Note 10, Other assets.

22. CAPITAL RISK MANAGEMENT

The GTAA is a non-share corporation and, accordingly, is funded through operating revenues, AIF revenue, reserve funds, the debt capital markets and its syndicated bank credit facility. Aeronautical charges are set each year to cover the projected operating costs, including debt service and reserve requirements, after consideration of the projected air traffic and passenger activity and non-aeronautical revenues. Consistent with its residual approach, funds generated by the GTAA are used to cover costs within its mandate.

As at December 31, 2008, the net deficiency amounted to $398.9 million (2007 – $352.9 million). The GTAA has established, within its net assets (deficiency), funds for operational requirements and debt-related obligations. The net assets (deficiency) consist of three components: externally restricted, internally restricted and unrestricted funds.

Externally Restricted

A portion of the net assets has been allocated for operational purposes pursuant to the Operating and Maintenance Reserve Fund, the Renewal and Replacement Reserve Fund and the Debt Service Fund – Principal (see Note 6, Reserve and other funds) set out in the Trust Indenture (see Note 13, Credit facility and long-term debt).

Internally Restricted

A portion of the fees that have been collected in revenue has been allocated for capital projects and for debt-related obligations of notional principal and debt service coverage requirements (see Note 6, Reserve and other funds). In conjunction with the airport improvement fee agreement with the airlines, a portion of the fee that has been collected has been allocated to a reserve fund. The internally restricted net assets are held in separate investment accounts by the GTAA and are disbursed in accordance with its policies or commitments for these funds.

Unrestricted

Unrestricted net assets (deficiency) represents the cumulative revenue under expenses, including amortization, interest expense incurred and required to fund the Debt Service Fund – Interest, and the cumulative unrealized changes in net assets, which remains after externally and internally restricted reserve fund cash commitments described above have been made.

Capital Markets Platform

As a corporation without share capital, the GTAA's ongoing capital requirements are financed through the issuances of debt. The GTAA developed a financing program referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under the Trust Indenture dated December 2, 1997, and supplemented from time to time, which establishes common security and a set of common covenants by the GTAA for the benefit of its lenders. The security comprises an assignment of the revenues of the GTAA, a specific charge on certain funds, reserve 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 medium term note issuance (see Note 6, Reserve and other funds). The covenants that the GTAA must meet include two specific coverage tests for operating expenses and debt payments. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. At December 31, 2008, the GTAA was in compliance with the above covenants and was not in default of the Trust Indenture as defined therein.

23. SUBSEQUENT EVENTS

(a) Asset Backed Commercial Paper

On January 12, 2009, the Ontario Superior Court of Justice issued the implementation order for the restructuring of ABCP. The restructuring was implemented effective January 21, 2009, and the GTAA received the following restructured notes under the plan:

- $61.7 million MAV II Class A-1 Notes, rated "A" by DBRS with an expected term to maturity of approximately eight years;
- $59.1 million MAV II Class A-2 Notes, rated "A" by DBRS with an expected term to maturity of approximately eight years;
- $10.7 million MAV II Class B Notes, which are unrated and have an expected term to maturity of approximately eight years;
- $4.1 million MAV II Class C Notes, which are unrated and have an expected term to maturity of approximately eight years;
- $2.1 million Traditional Asset Tracking Notes in one class which are unrated and have an expected term to maturity of approximately five years;
- $43.1 million Ineligible Asset Tracking Notes in four classes which are unrated and have expected terms to maturity from five to 22 years.

The MAV II Class A-1 and A-2 Notes and the TA and IA Tracking Notes pay interest on a quarterly basis at variable interest rates. It is not expected that the MAV II Class B and C Notes will pay current interest, instead interest will accrue and to the extent possible be paid after the Class A-1 and A-2 Notes are repaid.

The market for these notes is currently characterized by a low volume of trades and wide bid/ask spreads. Lacking reliable market data to use in determining the fair value of the restructured notes, the GTAA estimated the fair value using a method consistent with the methodology described in Note 6, Reserve and other funds.

As at January 21, 2009, the GTAA estimate of the fair value of the notes was not significantly different from the year-end value. On closing of the restructuring, the GTAA received $6.2 million representing interest accrued on the ABCP from August 2007 to August 2008, net of restructuring costs and reserves. An additional payment representing accrued interest for the period September 2008 to the restructuring date will be paid at a later date. Due to the high degree of uncertainty regarding payment of interest on the ABCP, the full amount of this payment was not accrued in the financial statements of the GTAA in 2007 or 2008 and, accordingly, a portion of this payment will be reflected in the 2009 financial statements.

(b) Repayment of Medium Term Note

On February 4, 2009, the Series 2004-2 medium term note matured. The $250.0 million medium term note was repaid using a combination of cash, short-term investments and reserve funds.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

DISCLOSURE REQUIREMENTS OF THE GROUND LEASE

Subsection 9.01.07, paragraphs (a) to (g) of the Ground Lease requires the GTAA to publish an annual report that discusses the matters listed below.

A) AUDITED FINANCIAL STATEMENTS

The Auditors' Report and the audited financial statements are found on pages 61 to 100 and the summary of affairs (Management's Discussion and Analysis or "MD&A") is found on pages 30 to 59 of the Annual Report.

B) REPORT ON THE BUSINESS PLAN AND OBJECTIVES FOR 2008

The projected cash flows in any year constitute the business plan for that year. The business plan for 2008 is the 2008 summary of projected cash flows which is found below in Paragraph C (the "2008 Business Plan"). A report on the GTAA's performance relating to the 2008 Business Plan is discussed in the MD&A and in Paragraph C, below.

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 respective MD&A and Ground Lease Disclosures.

C) VARIANCES AND CORRECTIVE MEASURES WITH RESPECT TO THE REPORT ON THE 2008 BUSINESS PLAN

The following table provides a comparison between the 2008 actual operating results and the 2008 Business Plan. The results are presented on a modified cash basis consistent with the projected summary of cash flows and the GTAA's rate setting methodology. This presentation does not include certain non-cash items such as amortization, but does include other items such as the funding of reserve accounts, notional principal, and the payment of deferred ground rent to the federal government, which are not included as expenses in the statement of operations.

(millions of dollars)	2008 Actual	2008 Business Plan	Variance
	$	$	$
Revenues			
Landing fees	**447.1**	429.2	17.9
General terminal charges	**180.7**	183.9	(3.2)
Airport improvement fee	**255.7**	240.8	14.9
Car parking and ground transportation	**126.5**	120.6	5.9
Concessions, rentals and other	**162.6**	159.6	3.0
	1,172.6	1,134.1	38.5
Expenses			
Ground rent	**145.7**	146.2	0.5
Goods and services	**282.2**	285.3	3.1
Salaries, wages and benefits	**108.6**	108.2	(0.4)
PILT	**23.9**	24.0	0.1
Debt service	**572.3**	546.9	(25.4)
	1,132.7	1,110.6	(22.1)
Debt Service Coverage	**2.2**	2.2	–
Fund Deposits	**36.2**	21.3	(14.9)
Net Cash Surplus/(Deficit)	**1.5**	–	1.5

A detailed discussion of the 2008 financial results is contained in the MD&A.

Total revenues were $38.5 million over the projected cash summary. Maximum Takeoff Weight ("MTOW") and the number of arrived seats, which are the basis for the calculation of landing fees and general terminal charges respectively, were above projections as was total passenger activity. However, some ancillary revenues recorded in the general terminal charge category were below plan. Increased passenger activity, as well as a lower level of AIF exempt passengers, as compared to the Business Plan assumptions, resulted in AIF revenues exceeding the planned amount. Car parking and ground transportation revenues were $5.9 million over the 2008 Business Plan due to higher usage of the parking facilities. New non-aeronautical revenue initiatives and higher than anticipated interest income resulted in concession, rental and other revenues being above the 2008 Business Plan.

Total operating expenses, including debt service, were $22.1 million above expectations. With the exception of debt service, 2008 expenses were not materially different from the 2008 Business Plan. Debt service was $25.4 million above plan due to an unanticipated provision for the fair value of the ABCP held by the GTAA and lower interest income.

The deposits to the debt service coverage fund, and the operations and maintenance fund were largely as projected.

None of the variances to the 2008 Business Plan discussed above was of a nature that caused the GTAA to take specific corrective actions.

D) SUMMARY OF THE FIVE-YEAR BUSINESS PLAN

The five-year Business Plan (2009 to 2013) is based on assumptions underlying the GTAA's assessment of various external factors. During 2009, the GTAA will be focused on managing the expected downturn in Airport activity caused by the slowing economy. This will include a careful review of operating expenses, continued focus on maximizing non-aeronautical revenue opportunities, incentives for new airline activity and a five dollar increase in the AIF for originating passengers. The connecting passenger AIF remains unchanged. Certain capital projects have also been deferred in response to the anticipated reduction in passenger demand.

The economic and operating assumptions for 2009 include:

- Inflation as measured by the CPI index of 2.0%;
- 30.3 million total passengers;
- Landed MTOW of 11.8 million tonnes; and
- 18.9 million landed seats.

Future capital development at the Airport includes the completion of the Terminal 3 Redevelopment project, the Terminal 3 Master Plan and the Post-ADP development project. These projects have been approved by the GTAA Board of Directors. The GTAA also anticipates spending approximately $35.0 million per year on operations, maintenance and restoration capital projects in 2008 and approximately $50.0 million per year for the balance of the Business Plan period. In addition to these expenditures, the GTAA has identified a number of projects that are anticipated to be required to meet growing passenger demand. These airport development projects total $678.5 million over the forecast period. The timing and amount of these expenditures are subject to change as demand and operating conditions evolve and plans are finalized.

Over the forecast horizon, the primary drivers for the GTAA's Business Plan are the long-term growth in Airport activity and inflation. Specific revenue or cost containment initiatives carried out over this period may also impact revenues and expenses. The forecast average annual passenger growth rate from 2009 to 2013 is 2.3%. Aircraft movements and landed MTOW are expected to grow at a 4.6% and a 4.3% rate, respectively.

The projected Business Plan includes principal repayment amounts, but does not include amortization. The reader is cautioned that some assumptions used may not materialize and unanticipated events and circumstances may occur subsequent to the date that this summary was prepared. Therefore, the actual results achieved on a cash basis 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 may be accessed at www.sedar.com ("SEDAR").

Projected Business Plan

(in millions)	2009	2010	2011	2012	2013
	$	$	$	$	$
Revenues					
Aeronautical revenues	562.9	556.9	579.2	575.2	574.0
Airport improvement fees, net	268.5	287.8	306.3	315.5	325.0
Non-aeronautical revenues	285.3	283.6	301.3	316.8	333.4
	1,116.7	1,128.3	1,186.8	1,207.5	1232.4
Expenses					
Ground rent	142.9	131.2	138.3	140.8	143.8
Operating and maintenance expenses	363.5	335.4	342.1	348.9	355.9
Real property taxes and payments-in-lieu of taxes	25.1	28.8	27.2	27.6	29.5
Debt service (net of interest income)	572.5	598.9	593.4	598.3	605.5
	1,104.0	1,094.3	1,101.0	1,115.6	1,134.7
Reserve funds	12.7	34.0	85.8	91.9	97.7
Net Cash Surplus (deficit)	–	–	–	–	–

Projected Capital Expenditures

(in millions)	2009	2010	2011	2012	2013	Total
	$	$	$	$	$	$
Operating, Maintenance and Restoration Capital	35.0	50.0	51.0	52.0	53.0	241.0
T3 Redevelopment	20.4	3.4	–	–	–	23.8
T3 Master Plan	1.1	0.0	0.0	13.7	36.4	51.2
Post-ADP & Other Development	58.0	5.0	50.0	127.3	64.6	304.9
Total	114.5	58.4	101.0	193.0	154.0	620.9

E) REMUNERATION TO BOARD AND SALARY OF SENIOR OFFICERS

For 2008, the Chair of the Board of Directors received remuneration in the amount of $150,000, while the other Directors received remuneration ranging from $14,543 to $68,833. For 2008, salaries for the Corporation's Senior Officers ranged from $153,750 to $335,010. Senior Officers are also eligible for a performance-based bonus.

Additional information regarding the remuneration paid to the Directors and the Senior Officers is available in the Annual Information Form, which is available on SEDAR.

F) ETHICAL BUSINESS CONDUCT

In December 2006, the Board of Directors approved a new "Code of Business Conduct and Ethics" (the "Code"). 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 GTAA Directors, officers, employees and contracted staff. A copy of the Code may be accessed at www.sedar.com.

The Board monitors compliance with the Code and 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 to declare the reasons for the non-compliance. In addition, the Board has implemented an "Ethics Line" which permits the anonymous reporting of an employee, officer or Director's unethical behaviour.

All Directors and officers indicated that they were in compliance with the Code.

G) REPORT ON CONTRACTS OVER $75,000 NOT TENDERED

The bylaws of the GTAA, the Public Accountability Principles for Canadian Airport Authorities and the Ground Lease provide that all contracts in excess of $75,000 (as adjusted annually by CPI) must be awarded through a public tendering process, except as may be otherwise determined by the Board of Directors having regard for what may be efficient and practicable. The contracts that are not awarded through a public tendering process must be described in the GTAA's Annual Report.

Contract Value Range	Contractor	Description of Contract	Reason for Award without Public Tender
$92,000 – $174,000	Bell ExpressVu 2006274	Bulk Programming Services	A
	Era Corporation 2021665	Software Maintenance and Support Services for Noise Monitoring System	A
	Gunns Group 2022422	Risk Assessment at GTAA	A
	The Victoria Hailey Group Corporation 2023418	Quality Management System Consulting Services	A
	Johnson Controls L.P. 2026666	Modification of Elevator Hydraulic Oil Cooling (Maple Leaf Lounge Elevator Pier E)	A
	Hollen Controls Limited 2026503	Upgrade GTAA Stormwater SCADA System	C
	Medtronic of Canada Ltd. 2013021	Inspection Services for LifePak 500 Automated Defibrillators	A
	Thyssenkrupp Elevator (Canada) Limited 2025882	Supply and installation of Microprocessor Boards	C
$175,000 – $274,000	Forrester Research, Inc. 2014492	Forrester WholeView2 research package to provide a holistic perspective on technology and business demands	A
	WPS North America Inc. 2025889	Support and Maintenance of WPS Parking System – Terminal 3 (Letter of Intent)	B
	Fortbrand Services Inc. 2026648	Nine Vammas P8400 Plows	C
	The Sonic Group Inc. 2025919	Quality Management Systems Facilitation and Support	C
$275,000 – $374,000	–	–	–
$375,000 – $474,000	–	–	–

Contract Value Range	Contractor	Description of Contract	Reason for Award without Public Tender
$475,000 – $574,000	Jervis B. Webb Company of Canada, Ltd. 2023317	T1 Pier D & E – CATSA Hold Baggage Screening Stage 1 Upgrades and T1 Stage 1 & 2 General Baggage Handling System Upgrades	C
	Siemens Building Technologies Ltd. 2019402	Annual Inspection Services for T3 Fire Alarm Systems Indicating Emergency Repair Services for T3 and T1	A
	Blair Franklin Capital Partners Inc. 2025363	Finance and Treasury Advisory Services	B
	ACS Transport Solutions, Inc. 2025803	Support and Maintenance of ACS Parking Systems in Terminal 1 Parking Garage (Letter of Intent)	C
$575,000 – $774,000	–	–	–
$775,000 – $874,000	–	–	–
$875,000 – $974,000	InterVISTAS Consulting Inc. 2025952	Strategic Advocacy and Facilitation Concept Development Services 2008-2010	A
	Microsoft Licensing GP 2026338	Microsoft Enterprise Licensing	C

Reason for Award Glossary

A. Where the Corporation determines that in connection with an existing contract for the supply of goods or services which is expiring, it is most efficient and practicable to 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, or where the circumstances of the redevelopment program dictate that efficiency, time, cost or safety concerns dictate such action.

B. Where there is a limited number or just one contractor, or services supplier who can provide the required goods or services.

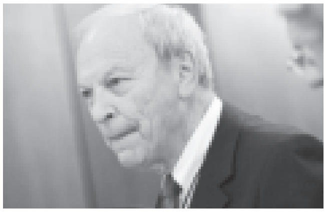
C. Where warranty, patent or copyright requirements or technical compatibility factors dictate a specific supplier.

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.

BOARD OF DIRECTORS









1. **Marilynne E. Day-Linton, *Chair***
Marilynne Day-Linton is a Chartered Accountant with a background in the travel industry.
Nominated by the Chartered Accountants of Ontario

2. **Stanley G. Archdekin**
Stanley Archdekin is the President and CEO of Centerfire Capital Management Inc., a company that specializes in the formation and distribution of creative value-added products for Canadian investors.
Nominated by the Regional Municipality of Peel

3. **Shaun C. Francis**
Shaun Francis is President and Chief Executive Officer of Medcan Health Management Inc., a leading Canadian health management company.
Appointed by the Government of Canada

4. **Dale E. Richmond**
Dale Richmond recently retired as the President and Chief Executive Officer of OMERS (Ontario Municipal Employees Retirement System) and is a former Chief Administrative Officer (CAO) for the Municipality of Metropolitan Toronto.
Nominated by the GTAA Board as a Member-at-Large

5. **Poonam Puri**
Poonam Puri is an Associate Professor at Osgoode Hall Law School, York University, Associate Director, Hennick Centre for Business and Law, and Head of Research and Policy, Capital Markets Institute, Rotman School of Management, University of Toronto. Her research expertise lies in corporate law, securities law, corporate governance, and corporate and white-collar crime.
Nominated by the City of Toronto

6. **Patrick S. Brigham**
Patrick Brigham is Chairman of Edenview Investments and is a director of several boards.
Nominated by the GTAA Board as a Member-at-Large

7. **Richard M. Soberman**
Richard Soberman is an associate of Trimap Communications Inc., and former Chair of Civil Engineering at the University of Toronto. He is a transportation specialist.
Nominated by the GTA Boards of Trade/ Chambers of Commerce and the Professional Engineers of Ontario

8. **Vijay J. Kanwar**
Vijay Kanwar is the President and Chief Financial Officer of K.M.H. Cardiology and Diagnostic Centres Inc., North America's largest provider of nuclear cardiology services.
Appointed by the Province of Ontario

1	2	3	4	5
6	7	8	9	10
11	12	13	14	15

9. Catherine J. Knipe

Catherine Knipe is the Principal of Meadow Group Consulting Inc. and has held numerous senior management positions in the healthcare field.

Nominated by the Regional Municipality of Halton

10. Scott R. Cole

Scott Cole, P.Eng., is President of Cole Engineering Group Ltd., a civil engineering company with over 60 professional and technical staff providing services in the municipal engineering, transportation, and water/wastewater areas to municipalities and the private development industry.

Nominated by the Regional Municipality of York

11. W. Douglas Armstrong

Douglas Armstrong is a retired executive and served as a Board member for a number of professional and community service committees.

Appointed by the Government of Canada

12. Warren C. Hurren

Warren Hurren is a Chartered Accountant, a founding partner of the accounting firm Hurren, Sinclair, MacIntyre, and is an active community member with the Ajax Rotary Club and the Ajax-Pickering Board of Trade.

Nominated by the GTA Boards of Trade/ Chambers of Commerce

13. B. Mac Cosburn

Mac Cosburn is President of B. McGregor Developments Limited ("BMDL"). BMDL specializes in land development, building and engineering consulting services. Mr. Cosburn is a Professional Engineer with 33 years of consulting and business experience. He is a current and past member of several professional, hospital and charitable boards.

Nominated by the GTA Boards of Trade/ Chambers of Commerce

14. Norman B. Loberg

Norman Loberg is a retired Enbridge Inc. senior executive, Chairman of the Credit Valley Board of Directors, past Chairman of Tourism Toronto and is a director of several public and private sector boards.

Nominated by the GTAA Board as a Member-at-Large

15. Lawrence D. Worrall

Lawrence Worrall is currently a director of several boards. These include Magna International Inc. and PIC Group Holdings Limited.

Nominated by the Regional Municipality of Durham

CORPORATE INFORMATION

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www.GTAA.com

EXECUTIVE TEAM

Lloyd A. McCoomb
President and Chief Executive Officer

J. Howard Bohan
Vice President, Operations and Customer Experience

Brian P. Gabel
Vice President and Chief Financial Officer

Brian R. Lackey
Vice President, Strategic Planning and Airport Development

Toby C.D. Lennox
Vice President, Corporate Affairs and Communications

Gary K. Long
Vice President and Chief Information Officer

Vito Lotito
Vice President, Human Resources and Administration

Douglas A. Love
Vice President, General Counsel and Secretary

Patrick C. Neville
Vice President, Facilities

Stephen A. Shaw
Vice President, Marketing and Business Development (retired January 6, 2009)

Pamela Griffith-Jones
Vice President, Chief Marketing and Commercial Development Officer (effective March 30, 2009)

ANNUAL PUBLIC MEETING

The GTAA's Annual Public Meeting will be held on May 6, 2009, at 1:30 p.m. at the GTAA's Fire and Emergency Services Training Institute, 2025 Courtneypark Drive East, Mississauga, Ontario

PUBLIC INFORMATION

Requests for general information should be directed to:
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Telephone: 416-776-9892
E: customer_service@GTAA.com

AUDITORS

PricewaterhouseCoopers LLP
Mississauga, Ontario

LEAD BANK

Canadian Imperial Bank of Commerce
Toronto, Ontario

PRINCIPAL LEGAL COUNSEL

Osler, Hoskin & Harcourt
Toronto, Ontario

PUBLICATIONS AVAILABLE

Newsletters

GTAA Today
Employee Newsletter

Toronto Pearson Today

Brochures and Miscellaneous Publications

Art, Architecture and the Airport – The Visual and the Visionary

Committed to Serving You Better

Customer Assistance Guide for Airport Employees

Delivering Value – Aeronautical Fees

Environmental Management

Noise Management Annual Report/Brochure

Nominators' Report

Corporate Social Responsibility Report

Transportation and Parking

The Value of Building With a Vision

Strategic Plan 2007–2011

Taking Flight
The Airport Master Plan 2008–2030

STRATEGIC DIRECTION & PRODUCTION
S.D. Corporate Communications

CONCEPT & DESIGN
Soapbox Design Communications Inc.

WRITING
Doug Dolan

PHOTOGRAPHY
Chris Thomaidis
Lorella Zanetti, *Executive Portraits*
Michael Rafelson, *Board of Directors*

TYPESETTING
IBEX

PRINTING
Somerset Graphics Co. Ltd.

The GTAA thanks a number of organizations that shared their experiences of Toronto Pearson and made this annual report possible, including: Molson, Woodbine Entertainment Group, Trillium Gift of Life Network, North American Logistics Services Inc. and Caribana.

20 trees preserved for the future

936 lb. solid waste not generated

7,291 gallons wastewater flow saved

1,756 lb. net greenhouse gases prevented

14,000,000 BTUs energy not consumed

The GTAA incorporates sustainable development practices within our corporation. This document was printed in Canada using VOC-free inks on FSC certified paper.

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