



# Greater Toronto Airports Authority

**Five-Year Performance Review Summary**

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November 26, 2021



## **A. SUMMARY FINDINGS**

1. Pursuant to the Ground Lease between the Greater Toronto Airports Authority (“**GTAA**” or the “**Authority**”) and Transport Canada, KPMG Corporate Finance Inc. (“**KPMG**”) conducted a performance review (“**Review**”) for the period July 1, 2016 – June 30, 2021 (the “**Review Period**”) based on information and data collected from the GTAA, SEDAR, and public sources.
2. While this report covers the Review Period, the GTAA’s performance and its response to the impact of COVID-19 on operations is an important focus of this Review:
  - a. SARS-CoV-2, more commonly known as “COVID-19”, was declared a pandemic by the World Health Organization on March 11, 2020. COVID-19 has had a material adverse impact on the economy and is posing widespread business challenges for many organizations. COVID-19 resulted in unprecedented government restrictions on public activity, including travel, in Canada and across the world.
  - b. Toronto - Lester B. Pearson International Airport (the “**Airport**” or “**Toronto Pearson**”) has experienced material declines in passenger and flight activity since March 2020, as compared to the same periods in 2019. Due to the pandemic and the resultant travel restrictions including border closures, severe financial impacts and economic contraction, there have been multiple flight and route cancellations by air carriers.
  - c. Management continues to analyze the extent of the financial impact of COVID-19, which is and continues to be material. While the full duration and scope of the COVID-19 pandemic cannot be known at this time, the GTAA believes that the pandemic will not have a material impact on the Airport or on the long-term financial sustainability of the GTAA.

### **Safe and Efficient Service to The Public**

3. Management has remained committed to maintaining operations and the health and safety of the Airport throughout the Review Period. This commitment has been supported through the continued pursuit of Zero injuries under the Toronto Pearson Safety Program (“**TPSP**”) for employees who work at, passengers who fly through, or guests who visit Toronto Pearson. Safety is considered the collective responsibility of all individuals employed at the Airport
4. The GTAA continued to evaluate and implement available enhancements to improve the efficiency of Airport operations and service to the public in the face of increasingly complex and time-consuming processing requirements mandated by the Public Health Agency of Canada (“**PHAC**”) and implemented by both the Canada Border Services Agency (“**CBSA**”) and the U.S. Customs and Border Protection (“**CBP**”). The introduction of several new technologies and additional pre-screening technologies are intended to offset increased processing times with the potential to expand overall capacity at the Airport. The GTAA also continues to work closely with Metrolinx for the expansion of GO services and LRTs that will improve access to the Airport for the public.
5. Throughout the pandemic, passenger and employee health have remained a top priority. Management has implemented safety measures with guidance from the GTAA’s new Chief Medical Officer and public health agencies to reduce the spread of COVID-19. The GTAA has also rolled out its “Healthy Airport” commitment, a comprehensive program outlining steps and consistent standards for passenger and airport worker health protection that the Airport and its partners have implemented to restore confidence in the safety of air travel given new realities.

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6. On March 1, 2021, Toronto Pearson was awarded “Best hygiene measures by region” in North America by Airports Council International. This new award is largely the result of the GTAA’s Healthy Airport commitment which included measures such as mask wearing and limited terminal access, innovative solutions such as UV-C light disinfection and air quality monitoring, and a commitment to advancing scientific knowledge through various testing trials.
7. Since the beginning of the pandemic, both the provincial and federal governments have implemented various measures to address COVID-19 in the context of achieving safe air travel. The GTAA has cooperated with government to help protect the safety of all passengers and workers. From March 2021 to July 2021, with a financial contribution from the National Research Council of Canada’s Industrial Research Assistance Program (“**NRC-IRAP**”), a branch of the Government of Canada, the GTAA initiated a research study enabling COVID-19 testing, free of charge, for both Airport employees and passengers departing Canada from the Airport that require proof of a negative test result for their destination entry requirements. On July 12, 2021, Switch Health, in collaboration with the GTAA, commenced offering new COVID-19 testing services to departing Toronto Pearson passengers, as well as community members and Airport employees looking for convenient access to tests.
8. Benchmarking within the industry, in the 2020 Airport Service Quality (“**ASQ**”) satisfaction survey conducted by the Airports Council International, Toronto Pearson was named the Best Large Airport in North America for the fourth year in a row.

### **An Efficiently Run Undertaking in Accordance With Business Plans and Approved Objects**

9. Management is responsible for the preparation and presentation of the information contained in its financial statements. As set out under “Management’s Responsibility for Financial Reporting” in its Annual Report, “the GTAA 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.”
10. The Board of Directors (the “**Board**”) is responsible for the overall stewardship of the GTAA, including overseeing governance and strategic direction and supervising Management. The Board participates in regular Directors’ education sessions, which are held in conjunction with Committee and Board meetings.
11. In the face of disruption due to the pandemic, the GTAA reset its strategic plan. The 2021–2023 strategic plan charts a course for navigating the economic recovery and returning of its business to stability and planning for future growth. The plan reflects the GTAA’s need to remain flexible in the face of continuing uncertainty, and to test strategic options in multiple scenarios.
12. The 2021-2023 strategic plan sets out four goals:
  - a. Driving financial strength and cost competitiveness
  - b. Delivering operational effectiveness and a healthy airport experience
  - c. Growing revenue through business diversification
  - d. Empowering employees to thrive in a new work environment.

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13. The three-year plan is designed to make the GTAA more agile and innovative, inspiring collaboration around its shared purpose. It is aligned with current fiscal realities and focused on the activities which are most critical to its future success.

#### **Safeguarding and Controlling Of Assets**

14. The GTAA is required under National Instrument NI 52-109 to certify annually regarding the design and operating effectiveness of their internal controls over financial reporting and disclosure controls. The CEO and CFO have provided certification over Internal Controls over Financial Reporting and disclosure controls in each of the Review Period years with no material weaknesses or significant deficiencies reported.
15. The GTAA manages risk through a Business Continuity Management (“**BCM**”) Program. Each business department is responsible for its plans and procedures that roll up to the corporate-wide Business Continuity (“**BC**”) Plan. The Program is reviewed annually against the company's risk management priorities and updated as required. Each department maintains the performance of its critical functions through its current plans, ongoing education, and testing throughout the year. In addition, a disaster recovery (“**DR**”) Plan for each department is rolled up into the Corporate DR Plan.
16. The GTAA mitigates physical event risk from climate change to its business and its assets through the proactive Threat Hazard Identification Risk Assessment (“**T/HIRA**”) to evaluate risk and implement mitigations prior to an event. Liability and asset insurance program also protects in the event of loss. Management monitors transitional risks related to climate change and develops and implements plans to mitigate such risks.

#### **Economical and Efficient Management of Resources**

17. During the Review Period up to March 2020, the GTAA made investments in existing and new facilities at the Airport commensurate with traffic growth relating to operational and passenger processing improvements, repairs and maintenance, and initiatives to generate additional commercial revenues, as well as investments to meet regulatory requirements. During this period (up to March 2020), the GTAA enhanced its financial sustainability through delivering consistent net income and reducing debt per enplaned passenger.
18. As a result of the pandemic, the GTAA has taken key steps to maintain and strengthen liquidity including:
  - a. A review of the capital program and reduction of \$265 million in planned capital spending for 2020.
  - b. A hiring freeze, as well as temporarily reduced salaries for executives and Board members.
  - c. Applying for the federal government's Canada Emergency Wage Subsidy (“**CEWS**”).
  - d. Obtaining temporary relief in its Ground Lease by way of waiver of rent from March through December 2020, and a subsequent deferral of 2021 rent (to be paid back over 10 years beginning in 2024).
  - e. Raising, for the first time in over a decade, standard aeronautical charges to carriers, which include landing fees, general terminal charges and apron fees due to reduced flight activity.

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- f. Increasing the Airport Improvement Fee (“**AIF**”) added to passenger fares, aligning rates with those charged by other major Canadian airports.
- g. Negotiating an agreement with the bondholders for temporarily relief from the rate covenant established for 2020 and 2021. Subsequent to the Review Period, the GTAA negotiated extended relief from the rate covenant for 2022.
- h. Seeking additional support from federal government stimulus spending programs, including for investments in health and safety, security and public transit infrastructure.

### Effective Operations

- 19. GTAA remains focused on strong talent management practices to attract and retain the best human resources. Oversight of the GTAA’s human resources strategy, including talent management and recruitment, is overseen by the Human Resources and Compensation Committee. Effective succession planning practices for senior level positions have remained a priority for Management and the Board.
- 20. The Airport focuses on capital programs and projects which improve passenger, baggage, and aircraft processing and flow, comply with regulatory requirements, and enhance the customer experience. The life cycle cost approach informs capital planning and ensures all costs associated with an asset are considered at the purchasing stage.
- 21. Management seeks to minimize potential adverse effects on the GTAA’s financial performance in the normal course of business. Prior to the onset of the global pandemic, annual passengers grew at a compounded annual growth rate (“**CAGR**”) of 6.5% from 2016 – 2019 with net income growing at a CAGR of 17.8% over the same period.
- 22. Though the GTAA has experienced a material cash outflow in 2020 and 2021 due to lower passenger volume, given the availability of its credit facilities, its restricted fund balances, the potential ability to access the debt capital markets, reductions to its operational and capital expenditures, government assistance and its cash-on-hand, the GTAA does not anticipate any funding shortfalls and expects to meet its payment obligations as they come due. Each of the GTAA’s credit ratings from its three credit rating agencies have been maintained and affirmed throughout the Review Period.



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