

OTTAWA INTERNATIONAL AIRPORT AUTHORITY :: VISION :: "BUILDING CONNECTIONS TO THE WORLD" :: MISSION :: WORKING WITH ITS PARTNERS, THE OTTAWA MACDONALD-CARTIER INTERNATIONAL AIRPORT AUTHORITY WILL PROVIDE AFFORDABLE WORLD-CLASS AIRPORT FACILITIES AND SERVICES TO MEET THE NEEDS OF THE COMMUNITY AND ALL AIRPORT CUSTOMERS :: STRATEGIC DIRECTIONS :: TO PROVIDE AFFORDABLE AND SAFE WORLD-CLASS FACILITIES THAT INTEGRATE PROVEN TECHNOLOGIES AND PROCESSES :: TO PROVIDE THE AIRPORT'S DIVERSE AND DYNAMIC CUSTOMER BASE WITH A HIGH LEVEL OF CUSTOMER SERVICE :: TO FOSTER AND MAINTAIN PARTNERSHIPS TO CONTRIBUTE TO THE VIABILITY OF THE AIRPORT AND THE ECONOMIC GROWTH OF THE COMMUNITY; AND :: TO OPTIMIZE EARNINGS FOR REINVESTMENT IN AIRPORT INFRASTRUCTURE WHILE KEEPING AIRLINE CHARGES CONSTANT :: ORGANIZATIONAL VALUES :: TO MEET AND EXCEED THE EXPECTATIONS OF OUR STAKEHOLDERS; AND :: TO CONDUCT OUR AFFAIRS WITH INTEGRITY AND TRANSPARENCY:: VISION :: "BUILDING CONNECTIONS TO THE WORLD" :: MISSION :: WORKING WITH ITS PARTNERS, THE OTTAWA MACDONALD-CARTIER INTERNATIONAL AIRPORT AUTHORITY WILL PROVIDE AFFORDABLE WORLD-CLASS AIRPORT FACILITIES AND SERVICES TO MEET THE NEEDS OF THE COMMUNITY AND ALL AIRPORT CUSTOMERS :: STRATEGIC DIRECTIONS :: TO PROVIDE AFFORDABLE AND SAFE WORLD-CLASS FACILITIES THAT INTEGRATE PROVEN TECHNOLOGIES AND PROCESSES :: TO PROVIDE THE AIRPORT'S DIVERSE AND DYNAMIC CUSTOMER SERVICE :: TO FOSTER AND MAINTAIN PARTNERSHIPS TO CONTRIBUTE TO THE VIABILITY OF THE AIRPORT AND THE ECONOMIC GROWTH OF THE COMMUNITY; AND :: TO OPTIMIZE EARNINGS FOR REINVESTMENT IN AIRPORT INFRASTRUCTURE WHILE KEEPING AIRLINE CHARGES CONSTANT :: ORGANIZATIONAL VALUES :: TO MEET AND EXCEED THE EXPECTATIONS OF OUR STAKEHOLDERS; AND :: TO CONDUCT OUR AFFAIRS WITH INTEGRITY AND TRANSPARENCY



The community has spoken.
We are delivering.

ANNUAL REPORT 2002



VISION

“Building connections to the world”

1

MISSION

Working with its partners, the Ottawa Macdonald-Cartier International Airport Authority will provide affordable world-class airport facilities and services to meet the needs of the community and all of the airport’s customers.

Strategic Directions

- :: **TO PROVIDE** affordable and safe world-class facilities that integrate proven technologies and processes;
- :: **TO PROVIDE** the Airport’s diverse and dynamic customer base with a high level of customer service;
- :: **TO FOSTER** and maintain partnerships to contribute to the viability of the airport and the economic growth of the community; and
- :: **TO OPTIMIZE** earnings for reinvestment in airport improvements while keeping airline charges constant.

Organizational Values

- :: **TO MEET** and exceed the expectations of our stakeholders; and
- :: **TO CONDUCT** our affairs responsibly with integrity and transparency.

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“THE CANADA AVIATION MUSEUM CONTINUES TO VALUE ITS INNOVATIVE PARTNERSHIP WITH THE OTTAWA AIRPORT AUTHORITY, AS AN IMPORTANT EXAMPLE OF MUTUALLY BENEFICIAL CO-OPERATION. AS THE MUSEUM’S EDUCATIONAL SERVICES DELIVER TOURS OF THE AIRPORT, THE COMMUNITY’S NEEDS ARE BEING RESPONDED TO BY THE AIRPORT, AND THE MUSEUM ALSO FUNCTIONS IN A WIDER SCOPE TO FOSTER A FASCINATION OF FLIGHT FOR NEW GENERATIONS.”

FRANCINE POIRIER, DIRECTOR, PUBLIC PROGRAMS, CANADA AVIATION MUSEUM



INTRODUCTION Early in 2002, the Ottawa Macdonald-Cartier International Airport Authority (OMCIAA) celebrated five years of operating the airport. Since taking over from the federal government in 1997, we've focused on listening to what the community has to say about our operations. We've incorporated their opinions and ideas into our expansion plans, and have tried to accommodate travellers and tenants alike. You'll see what some of them have to say as you read through this annual report.

Our listening has paid off; the Ottawa Airport Authority was honoured in 2002 by the Ottawa Tourism and Convention Authority with the Large Company of the Year Award. The award recognized the Authority's continuing contribution to the region's growing tourism industry and its efforts, since the transfer, to improve the quality of facilities and level of service at the airport.

We know from working with the airlines that operate out of the Ottawa International Airport that rates and charges are a significant issue. Based on that understanding, we've been working hard to maintain these rates at existing levels. As a result, our rates went from being the second-highest among larger airports when we took over in 1997, to among the lowest in 2002.

Ground rent and other federal downloading have been much-discussed topics since the implementation of the National Airports Policy. The Authority has consistently stated that the level of rent is unequally applied, and is a major cost burden to the industry. The rent that the Authority pays Transport Canada has risen 108% since 1998. During the same period, the total of OMCIAA's other expenses has increased at a rate less than that of inflation. We hope the government is listening.

Communicating with our clients and the community we serve has been a priority for the Authority. We value the input we have received, and will continue to do so in the future. So, don't hesitate to let us know what's on your mind — we're listening.

"COMPARED TO OTHER AIRPORTS, I LIKE OTTAWA. I CAN ZIP IN AND OUT, AND I CAN FIND THE GATES. I ALSO LIKE THE DIVISION BETWEEN U.S. TRAVEL AND CANADIAN TRAVEL. IT SOUNDS LIKE THE LIST OF FEATURES THAT THE NEW TERMINAL WILL OFFER WILL PROVIDE ME WITH GREAT VALUE."

DEREK BURNEY, PRESIDENT AND CEO, COREL CORPORATION

Message from Claude Bennett

Chairman of the Board of Directors

We celebrated our fifth anniversary of operating the airport in February 2002. Since 1997, we've seen a lot of changes: changes in the economy, changes in the industry, and certainly changes at the Ottawa International Airport.

On October 12, 2003, we will have completed the largest construction project that the Ottawa region has ever seen, and will welcome our first customers through the front doors. It's being funded entirely by the Airport Improvement Fee, with no government assistance whatsoever, and it will be completed early and on budget.

True success doesn't happen without scores of dedicated people who are committed to living the airport's mission, and who feel that they have a true stake in the future of the Authority. I would like to recognize these groups for their contributions.

The Authority has an extremely professional team that is as dedicated as it is efficient. From the management team to the seasonal heavy equipment operators, and everyone in between, the entire staff can be credited with getting the Authority through its first five years of operation. And, they've done so with excellent results.

The Airport Expansion Program (AEP) team has worked very hard to ensure that the construction project moves along very smoothly. The relationship with our construction partners has been outstanding, resulting in a shared commitment to a smooth activation of the new building. One sure sign of the dedication of all involved is the project safety record, which in 2002 was over one million hours without a lost-time accident.



The Board Members who sit on the AEP Overview Committee should also be commended for the attention they've given to these particular duties, and for the leadership they've consistently demonstrated on this project.

The entire Board of Directors have shown commitment to the success of the airport, and I would like to extend my sincere thanks to each and every one of them.

Having the right leadership in place is a key contributing factor to a successful operation. The Authority has, in Paul Benoit, one of the most highly regarded airport Chief Executive Officers in Canada. Members of the Canadian Airports Council view Ottawa's operation as a leading example of how an airport should be run.

I look forward to the coming year, and the exciting events that will coincide with the opening of the new terminal building. I know you will be impressed, and encourage you to let me know what you think.

Message from Paul Benoit

President and Chief Executive Officer

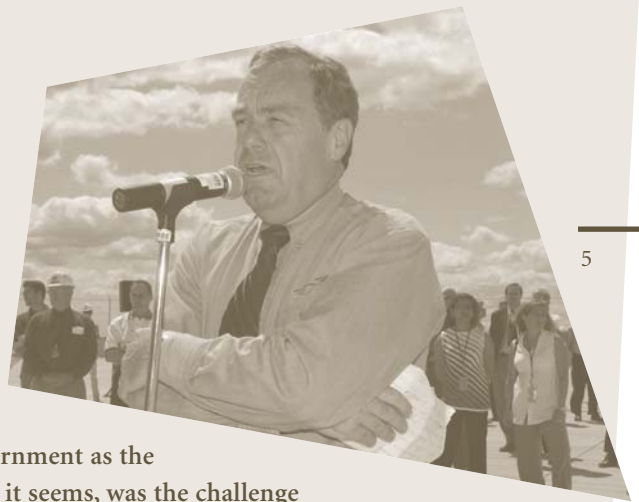
In many ways, 2002 was the year of the “perfect economic storm.” The airline industry was still attempting to recover from the aftermath of September 11, 2001, and the Ottawa International Airport was still recovering from the bankruptcy of Canada 3000 and continued downsizing in the telecommunications sector. Although employment statistics were telling a relatively good story, the shift to the federal government as the key employer in Ottawa was swift. Managing in difficult times, it seems, was the challenge for many sectors of the economy.

Given that passenger travel was down significantly, we found ourselves under enormous pressure to tighten our fiscal belts to compensate for the shortfall in revenue.

To the entire team’s credit, we ended up meeting and exceeding our 2002 budgetary commitments. At the same time, operations at the airport continued as new efficiencies were found, and capital projects went forward as planned. Airside restoration projects were completed, decommissioned hangars were demolished, and the electrical system that feeds the airport property was upgraded, to name just a few of these commitments. And, based on prudent management practices, we were well positioned to go into 2003 with no increase in rates and charges to the airlines, despite further federal downloading of costs.

Our financial partners told us in 2002 that we’ve done a great job under challenging conditions. The Authority had a very successful bond issue, due in large part to the excellent grades that we received from three credit-rating agencies. In early May, Moody’s, Standard & Poor’s and Dominion Bond Rating Service all ranked the Ottawa International Airport among the top managed airports in Canada. That’s quite a vote of confidence.

Passenger traffic, while not experiencing the growth of 2000 or pre-September 2001, began to show signs of picking up. Our records show a year-over-year decline of 5% on a prediction of -5 to -7%. December’s 6.3% increase in traffic, compared with the same period in 2001, further demonstrated that the situation is improving.



We saw the return of competition to the industry, which hadn’t been seen since early 2001. We welcomed new charter carriers, and introduced new routes. A new charter flight to the United Kingdom was introduced; new carriers brought with them flights to and from a variety of destinations including southern vacation spots; and, closer to home, a healthy number of flights to Canadian destinations were added.

The additional airlines and flights mean increased flexibility for our clients — they have been asking for more choice, and they now have access to it at the Ottawa International Airport.

We told you a bit about our new terminal building last year. Well, it’s coming along beautifully. In fact, it’s on budget, and ahead of schedule. Passengers will have the opportunity to experience the state-of-the-art facility on October 12, 2003. It’s a shining example of what can be done with input and help from the community.

As you can imagine, a lot of resources are dedicated to ensuring that every detail is perfect, and that we are fully committed to move to the new building with minimum disruption. We are determined to get it right from the moment the first customer walks through the door.

There’s no doubt, we’re in for a challenging 2003 — but we’re ready, and looking forward to welcoming our clients into our new home.

CORPORATE GOVERNANCE AND ACCOUNTABILITY

COMMITTEES OF THE BOARD AS OF DECEMBER 31, 2002

Executive

Claude Bennett (*Chair*)
Michael Darch (*Vice-Chair*)
Jim Durrell
François Pichard
Regis Trudel (*Past Chair and Secretary*)
Whitman Tucker



Claude Bennett
Chair



Michael Darch
Vice-Chair



Hugh Blakeney

Audit

Hugh Blakeney
Jeffrey Dale
Roger Lachapelle
François Pichard
Carol Stephenson
Regis Trudel
Whitman Tucker (*Chair*)



Jeffrey Dale



Jim Durrell



Roger Lachapelle

Business Development & Communications

Michael Darch
Jim Durrell (*Chair*)
Larry Malloy
Michael Robinson
Carmen Rodrigue
Pamela Sweet



Larry Malloy



François Pichard



Michael Robinson

Nominating

Claude Bennett
Michael Darch
Michael Robinson
Regis Trudel (*Chair*)



Carmen Rodrigue



Carol Stephenson



Pamela Sweet

Airport Expansion Program Overview

Claude Bennett (*Chair*)
Michael Darch
Roger Lachapelle
Regis Trudel



Regis Trudel



Whitman Tucker

Other ad hoc committees that include members of the board are formed from time to time.

DIRECTORS' COMPENSATION IN 2002**Fixed Annual Retainer**

Chair	\$ 25,000
Vice-Chair	\$ 15,000
Committee Chairs	\$ 15,000
Other Directors	\$ 12,000

EXECUTIVE MANAGEMENT SALARY RANGES

The salary range for the President of the Authority in 2002 was \$113,000 to \$169,400. The salary range for each of the Vice-Presidents in 2002 was \$85,000 to \$120,000.

REQUIRED DECLARATIONS

Each Director has filed a conflict of interest declaration for 2002, as required by the bylaws, and is in compliance with the guidelines included in the bylaws.

REQUIRED DISCLOSURES

The Public Accountability Principles for Canadian Airport Authorities and ground leases provide that all contracts in excess of \$86,000 (\$75,000 in 1994 dollars adjusted for CPI) must be awarded through a competitive public tendering process, or be disclosed in the Authority's annual report. Contracts in excess of this amount that were not awarded on the basis of a public competitive process during 2002 are as follows:

Contractor	Contract description	Reasons for sole source
Hydro Ottawa	Not to exceed \$800,000 Install infrastructure re servicing of transformers	Hydro Ottawa is the only supplier authorized to own, operate and maintain this equipment
Taylor Manufacturing	Not to exceed \$675,000 Wayfinding signage	Proprietary equipment available from only one supplier
Kemptville Truck Centre Limited	\$348,441 Two tandem dump trucks	Maintains a standard fleet of equipment to achieve operational efficiency
Arconas	\$282,280 Holdroom seating	Proprietary equipment available from only one supplier
JR Brisson Equipment Ltd.	\$184,000 Case loader	Maintains a standard fleet of equipment to achieve operational efficiency
Crystal Fountains	\$150,524 Water feature	Proprietary product available from only one supplier
Eagle Airfield Ltd.	\$135,543 Two 22-foot reversible plows and mounts	Proprietary equipment available from only one supplier





YEAR IN REVIEW The year 2002 began with passenger volumes still at depressed levels in the wake of September 11, 2001. As carriers cut capacity, January's carrier movements were down 14% when compared with the previous January, and passenger numbers were down 11% for the same period. Transborder travel was most affected, with a 21% decrease in passengers year-over-year in January. Over the course of the year, passengers did return, and we ended the year with an overall decline of 5% compared with the previous years' levels.

Efforts were made to develop alternative revenue sources to make up for the shortfall that the decline in air travel caused. Airport lands were developed, resulting in new services, and new carriers were sought to offer more destinations, all of which you will read about later.

PEOPLE

The Authority's major resource is people, and they made all the difference in 2002. They worked double duty on projects ranging from the expansion to regular operations. They consistently demonstrated a customer-first attitude, and found creative ways to do more with less.

The Authority is taking a longer-term view of the needs of the staff; extensive planning is being done to ensure that the staff is prepared for the future. A second comprehensive employee survey was done in 2002 to determine how we're doing as an employer, and the overall results were positive. Follow-up actions have been undertaken to effect further improvements.

The Authority strives to provide a positive, safe and healthy working environment for all employees. Many training sessions were held over the course of the year, covering a variety of topics related to customer service and safety, and were delivered in conjunction with a comprehensive orientation program that was developed for all new employees.

The Ottawa International Airport is fortunate to have the help of a legion of volunteers who assist visitors to our facility in many ways. From providing arrival and departure assistance to distributing tourism-related information, the Infoguide group is a very important part of the Authority's team, and a first line of customer service in the terminal building.

AIRPORT EXPANSION PROGRAM

The Airport Expansion Program (AEP) was the centre of attention in 2002 and the project progressed on budget. Most airside work was completed and the groundside work continued ahead of schedule.

"I LOVE OUR LITTLE AIRPORT — THE TIME IT TAKES ME TO GET TO MY SEAT IS VERY SHORT. AS HAPPY AS I ALREADY AM AS A CUSTOMER, IT WILL BE GREAT TO MOVE INTO A WORLD-CLASS FACILITY. AFTER ALL, WE ARE THE NATION'S CAPITAL."

MICHEL BRAZEAU, VICE-PRESIDENT GOVERNMENT SERVICES, CAP GEMINI ERNST & YOUNG



We celebrated our “Topping Off” ceremony in August, which marked the completion of the steel structure of the passenger terminal building. Over 400 tradespeople, management from the various contractors and the Authority’s staff joined in the celebration of the key construction milestone.

Upon completion and activation, the building will boast:

- ❑ a unique, three-level design featuring Check-in on level 3, Departures on level 2, and Arrivals and Baggage Claim on level 1;
- ❑ two climate-controlled passenger bridges joining the new terminal to the adjacent parking structure;
- ❑ 15 new aircraft gates;
- ❑ a beautifully designed water feature representing the canal and the three main rivers that meet in Ottawa; and
- ❑ a new four-level parking structure that will hold 1,700 vehicles and additional surface parking that will bring the number of airport parking spaces to 2,500.

BUSINESS DEVELOPMENT

Marketing, leasing and development of surplus airport land remained strong in 2002 despite a challenging economic climate. The Authority worked with a commercial broker to market airport lands through the development and circulation of land marketing materials locally, nationally and internationally.

Our clients had told us for years that an airport hotel was lacking in Ottawa, so we were pleased when the Days Inn opened its doors for business in the spring of 2002. Toward the end of the same year, Tim Hortons opened a new store beside the hotel, rounding out the offering along Hunt Club Road.

We have been negotiating with several groups for further development on the lands surrounding the airport, particularly on Hunt Club and River Roads.

There was retail business activity in the terminal as well. Long-time tenant Battery Plus wound up operations in March, but was quickly replaced in May by Home Team Sports, which added a colourful array of sports apparel and merchandise to the retail mix. Nate’s Deli, a true Ottawa institution, expanded into the airport, adding new flavours to the menu in the food court.

Tenders were issued for food and retail concession contracts for the new terminal. The successful bidders were Cara and HDS Retail, respectively, who have since been working closely with the AEP team to plan their space requirements. Visitors to the new terminal building will no doubt enjoy the expanded shopping experience and greater variety of food and drink that will be available to them.

“THE OTTAWA AIRPORT AUTHORITY HAS CLEARLY BEEN LISTENING TO THE COMMUNITY. CHANGES THAT THEY’VE IMPLEMENTED IN THE PAST, SUCH AS U.S. PRE-CLEARANCE, ARE INDICATIVE OF HOW RECEPTIVE THEY ARE TO IDEAS AND INPUT. AND, THE DESIGN OF THE NEW TERMINAL SEEMS TO CONTINUE THE THEMES THAT WERE SO SUCCESSFUL IN THE EXISTING BUILDING, SUCH AS EASY ACCESS AND USER FRIENDLINESS.”

BRONWEN HEINS, PRESIDENT, KANATA RESEARCH PARK CORPORATION

The Authority became a permanently appointed member of the Board of the Ottawa Tourism and Convention Authority in 2002. This appointment gives us the opportunity to fit the Ottawa International Airport into the city’s plans for promoting Ottawa as a tourist and convention destination, and will dovetail well with our efforts to attract more airlines and air destinations.

CARRIERS

Development and support of new and expanded air services continued as a priority during 2002. The sluggish economy and the effects of September 11, 2001 on the world’s airlines and the travelling public had a negative impact on the development and implementation of new or additional international, transborder and domestic air services in 2002. However, meetings held with several airlines were positive and should lead to new services in Ottawa as markets, economies and airlines recover from 2003 to 2007.

TAXES PAID OVER FIVE YEARS (\$ 000)

	1998	1999	2000	2001	2002	Total
Rent	\$ 5,301	\$ 5,948	\$ 6,145	\$ 8,840	\$ 11,005	\$ 37,239
PILT (Payment in lieu of taxes)	3,975	4,205	4,421	3,700	3,654	19,955
Other	1,000	1,200	1,500	600	750	5,050
	\$ 10,276	\$ 11,353	\$ 12,066	\$ 13,140	\$ 15,409	\$ 62,244

Note: Federal Government Net Book Value at time of transfer – \$75M

Total rent projected 1997 - 2010 – \$157M

SUMMARY OF AMOUNTS SPENT IN THE OTTAWA REGION (\$ 000)

	1998	1999	2000	2001	2002	Total
Wage Bill	\$ 7,465	\$ 7,554	\$ 7,762	\$ 8,417	\$ 9,160	\$ 40,358
Operations costs	9,000	9,000	9,300	10,000	9,500	46,800
Capital Costs	3,200	6,300	12,400	49,000	125,000	195,900
	\$ 19,665	\$ 22,854	\$ 29,462	\$ 67,417	\$ 143,660	\$ 283,058

Note: Wage bill includes benefits of approx 28% of total wages

Operation costs do not include Rent, PILT, Payroll, Amortization and interest expenses

“WE NEED TO BUILD INFRASTRUCTURE IN ORDER FOR OTTAWA TO GROW. THE AIRPORT IS A MAJOR COMPONENT OF THAT INFRASTRUCTURE. THE NEW TERMINAL IS A LONG-TERM INVESTMENT THAT WILL FACILITATE TREMENDOUS GROWTH.”

DAVID SCHLESINGER, PARTNER, KPMG OTTAWA

The introduction of such new carriers as Zoom Airlines spoke well of the potential in Ottawa. Launched in conjunction with Go Travel Direct, Zoom opened up 15 flights per week to Cuba, the Dominican Republic, Mexico and Florida.

Continental Airlines added to their established service to Newark, New Jersey, in December, with twice-daily flights on Continental Connection – CommutAir from Ottawa to Albany, New York. From there, travellers have easy connections to key destinations in New Hampshire, Connecticut, Rhode Island and Pennsylvania, as well as to other destinations in New York state.

Discussions have been ongoing with a variety of other airlines in the U.S. and Europe in an effort to offer flights to various popular destinations.

OUR REPORT CARD

As part of our ground lease with Transport Canada, we were required to have a performance review conducted by a third party. Pricewaterhouse Coopers (PwC) was contracted to complete the study. The Authority is very proud of the findings of this exercise.

The review was an “independent study of management, operational and financial performance” over the past five years and an assessment of “the extent to which the Authority has fulfilled its corporate purposes as set out in its instruments of incorporation.”

Examples of PwC’s assessment of the Authority’s accomplishments include:

- strong community relations;
- focus on customer satisfaction and responsiveness to customer feedback;
- good relationships with the municipalities;

PASSENGER GROWTH BY SECTOR

		Domestic	%	United States	%	International	%	Total	%
	1996	2,223,941		529,602		104,295		2,857,838	
	1997	2,435,534	9.51%	502,072	(5.20%)	108,762	4.28%	3,046,368	6.60%
	1998	2,414,355	(0.87%)	563,085	12.15%	133,108	22.38%	3,110,548	2.11%
	1999	2,426,288	0.49%	628,203	11.56%	157,116	18.04%	3,211,607	3.25%
	2000	2,562,282	5.61%	719,200	14.49%	152,863	(2.71%)	3,434,345	6.94%
	2001	2,625,630	2.47%	618,694	(13.97%)	146,971	(3.85%)	3,391,295	(1.25%)
Actual	2002	2,445,770	(6.85%)	600,365	(2.96%)	170,751	16.18%	3,216,886	(5.14%)
	2005	2,673,000	3.00%	656,000	3.00%	187,000	3.00%	3,516,000	3.00%
	2010	3,099,000	3.00%	760,000	3.00%	217,000	3.00%	4,076,000	3.00%
	2015	3,593,000	2.00%	881,000	2.00%	252,000	2.00%	4,726,000	2.00%
Forecast	2020	4,165,000	2.00%	1,021,000	2.00%	292,000	2.00%	5,478,000	2.00%

- effectiveness in communicating, implementing and monitoring vision, mission and objectives;
- successful management of capital plan;
- successful risk management strategies;
- timely corrective measures in response to environmental issues; and
- financial responsibility.

“The Authority’s overall record appears to indicate the application of a consistent priority on customer service and on the implementation of these strategies, and that customer service is reflected in all aspects of the Authority’s activities, strategic objectives and priorities,” according to PwC.

COMMITMENT TO THE ENVIRONMENT

As an important member of the community, the Ottawa International Airport has a responsibility to ensure that it protects the environment from potential harm. That includes taking measures to reduce noise and to minimize the impact that operations have on and around airport property.

A few years ago, we implemented noise abatement procedures, which are designed to minimize the exposure of residential communities to aircraft noise while still ensuring safe operations. We continue to look into all noise complaints through our 24-hour noise complaints reporting service.

A new de-icing pad facility was built in the summer of 2001. Enhancements to the facility were launched in 2002 to further protect the environment from the effects of glycol and other

contaminants. An aggressive stormwater management plan was implemented, which addressed past high glycol readings very successfully. Following these measures, subsequent stormwater samples met or were better than recommended standards during the year.

Priorities in the coming years include continued development of greening programs at the airport.

COMMITMENT TO THE COMMUNITY

Customer service is a priority for the Authority’s team. In 2002, we solidified our commitment to provide our clients with the highest level of service through:

■ Customer Satisfaction Survey

In-terminal passenger satisfaction surveys continued in 2002, including one that focused specifically on security issues following September 11, 2001. These studies monitor patron demographics and all aspects of airport operations and customer satisfaction. The Ottawa International Airport continues to receive positive feedback from its clients, despite the advanced age of the terminal and the minor disruptions caused by airport expansion.



FIVE YEAR REVIEW (\$ 000)

	1998	1999	2000	2001	2002
Revenues	\$ 33,547	\$ 38,484	\$ 53,140	\$ 52,985	\$ 55,308
Expenses	29,194	30,560	31,669	34,770	43,867
Excess	4,353	7,924	21,471	18,215	11,441
Capital Expenditure	3,643	6,969	13,763	56,784	147,230
Net Cash (Net Debt), at Dec 31	123	4,064	12,369	(14,617)	(145,591)
AIF Revenues	—	3,860	14,949	14,082	13,690

FIVE YEAR FORECAST

	Passengers	Annual Growth	Aircraft Movements	Annual Growth	Rent to Transport Canada	Annual Growth
1997	3,046,368	6.6%	67,867		\$ 3,977,000	
1998	3,110,548	2.1%	77,202	13.8%	\$ 5,301,000	33.3%
1999	3,211,607	3.3%	81,808	6.0%	\$ 5,948,000	12.2%
2000	3,434,345	6.9%	78,301	(4.2%)	\$ 6,145,000	2.6%
2001	3,391,295	(1.3%)	72,630	(7.2%)	\$ 8,840,000	43.9%
2002	3,216,886	(5.1%)	68,499	(5.7%)	\$ 11,005,000	24.5%
2003	3,313,000	3.0%	69,600	1.5%	\$ 11,300,000	2.7%
2004	3,412,000	3.0%	70,700	1.5%	\$ 11,600,000	2.7%
2005	3,516,000	3.0%	71,800	1.5%	\$ 13,000,000	12.1%
2006	3,622,000	3.0%	72,900	1.5%	\$ 13,300,000	2.3%
2007	3,731,000	3.0%	74,000	1.5%	\$ 15,600,000	17.3%

“I REALLY DO LIKE THE FACT THAT I HAVE ALWAYS BEEN ABLE TO FIND PARKING CLOSE TO THE TERMINAL BUILDING, AND AM ABLE TO GET THROUGH TO MY GATE VERY QUICKLY. I APPRECIATE THE EXISTING SERVICES SUCH AS THE SECOND CUP THAT ARE LOCATED PAST SECURITY. AND, I LOVE THE BOOKSTORE — IT’S BETTER THAN SOME OF THE MORE CENTRALLY LOCATED STORES IN OTTAWA; IT HAS A GREAT SELECTION OF BOOKS, MAGAZINES AND NEWSPAPERS. I ALWAYS MAKE IT A POINT TO VISIT WHEN I’M IN THE OTTAWA AIRPORT.”

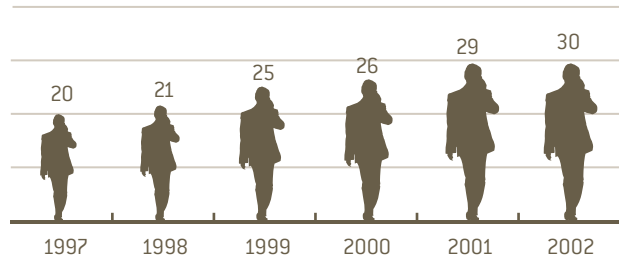
TRISH AULT, EXECUTIVE VICE-PRESIDENT, WEBER SHANDWICK WORLDWIDE

“THE LEVEL OF SERVICE THAT IS OFFERED AT THE OTTAWA AIRPORT IS ONLY LIMITED BY THE EXISTING FACILITY, AND CERTAINLY NOT BY WHAT THE STAFF ARE PREPARED TO DO. I LOOK FORWARD TO THE NEW FACILITY AND WHAT IT WILL OFFER TRAVELLERS.”

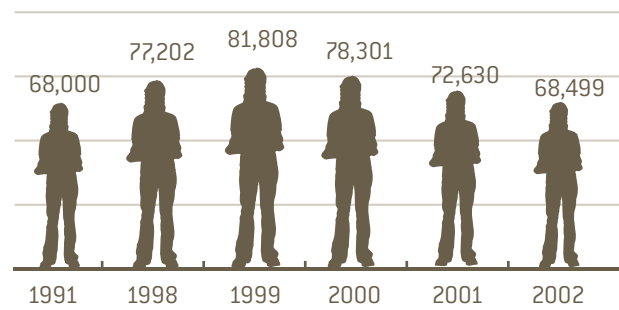
BARRIE ELLIS, VICE-PRESIDENT PROFESSIONAL SERVICES, MONTERA CORPORATION



Direct Destinations



Aircraft Movements



❖ **Community Consultative Committee**

The Committee was reconstituted in April 2002, with nominees from the Authority, the City of Ottawa, the City of Gatineau, the Province of Ontario, the Ottawa Tourism and Convention Authority, the Ottawa Centre for Research and Innovation, the Air Transport Association of Canada, the Gatineau Outaouais Convention Bureau, the Greater Ottawa Chamber of Commerce, the Chambre de commerce et d’industrie de l’Outaouais and the Union of Transportation Employees.

The Committee meets twice annually, and is chaired by the Authority’s President and Chief Executive Officer. The purpose of the Committee is to provide a forum to ensure that there is sufficient information sharing regarding events that affect all stakeholder groups.

Customer service will continue to be a priority for the Authority’s entire team in 2003, particularly with the opening of the new passenger terminal building.

“THE NEW STATE-OF-THE-ART FACILITY WILL BE AN ECONOMIC ENGINE OF GROWTH FOR THE NEW CITIES OF OTTAWA AND GATINEAU. IT WILL PROVIDE A WONDERFUL WELCOME AND SEND-OFF POINT FOR BUSINESSES AND CITIZENS OF THE WORLD. WE’RE VERY PROUD OF WHAT HAS BEEN ACCOMPLISHED SINCE THE AUTHORITY TOOK OVER OPERATION OF THE OTTAWA AIRPORT.”

JIM DURRELL, OTTAWA AIRPORT AUTHORITY BOARD OF DIRECTORS

DIRECT FLIGHTS PER DAY

	Domestic	United States	International (weekly)
1997	82	21	3
1998	88	23	6
1999	101	39	7
2000	93	43	7
2001	84	30	7
2002	80	35	8

ORIGIN AND DESTINATION

93% of Traffic

COMMITMENT TO SAFETY AND SECURITY

As a part of an ongoing commitment to safety and security, the Authority organized a major no-fault exercise called “Exercise Integration.” A number of outside agencies — including the City of Ottawa, First Air, the Red Cross, the Montfort Hospital, the Salvation Army, the Emergency Measures Radio Group, NAV Canada, the Children’s Hospital of Eastern Ontario, the Ottawa Heart Institute, the Ottawa Hospital and the

Queensway-Carleton Hospital — were invited to participate in the exercise on May 23. The objective of the exercise was to examine our collective preparedness in the event of an emergency.

The mock disaster involved an aircraft incident off airport property near the end of runway 32. The exercise gave the participants the opportunity to review their emergency procedures and to evaluate their individual effectiveness, as well as their ability to work in concert with other stakeholder groups.

We consider the exercise to have been a success; it gave every organization the opportunity to evaluate its methods and procedures with a view to correcting any deficiencies and, most importantly, to work together more effectively in the event of a real emergency.

As a further means of strengthening our security infrastructure, a new digital radio system was implemented during 2002 and connected to the City of Ottawa’s digital system. This new system offers talk group communications between the Authority and the police that cannot be intercepted by scanners, thereby providing secure communications to deal with emergencies prior to others becoming involved.





GOING FORWARD — THE FIVE-YEAR STRATEGIC PLAN

The AEP will be the primary focus of attention for 2003. The new terminal building and parking structure will be completed, along with all associated groundside and airside elements. Commissioning of equipment and systems, training of staff and transitioning all operations from the old to the new terminal represent significant tasks that will consume substantial focus and effort by all Authority employees. By October 12, 2003, the transition and activation of the new terminal and related facilities will be complete.

That said, the Authority has established three sets of priorities that will guide our actions for the next five years. They are:

Immediate — 2003

1. Complete successful and on-time activation of and transition to the new terminal, parkade and supporting infrastructures; and
2. Conclude all new tenant leases for the new terminal.

Mid-term — 2004–2005

1. Define customer base and service requirements;
2. Promote non-stop and direct air service development;
3. Market and pursue commercial land development;
4. Develop a green plan for the airport; and
5. Review communication programs and processes.

Longer term — 2005–2007

1. Achieve recognition for customer service; and
2. Evaluate the timing and extent of AEP phases II and III.

Underlying all activities will be the ongoing effort to promote the review and fair adjustment of federal government ground rents.

“CARA OPERATIONS LTD. IS TRULY PROUD TO BE ASSOCIATED WITH THE OTTAWA AIRPORT AUTHORITY AND WITH THE OTTAWA COMMUNITY. CARA IS ALSO PLEASED TO BE A PART OF AN HISTORICAL EVENT AS THE NATION’S CAPITAL WILL HAVE A TRULY MODERN AND STATE-OF-THE-ART AIRPORT. BRAVO!”

TED PALUCH, MANAGER, FOOD AND BEVERAGE, CARA OPERATIONS LTD.



2002 FINANCIAL REVIEW PLAN For the year ended December 31, 2002, revenues exceeded expenditures by \$11.4 million compared with \$18.2 million for the year ended December 31, 2001.

As a result of the \$270-million bond issue on May 24, 2002, interest costs reflected in the financial statements increased during 2002.

The events of September 11, 2001 continued to have an effect on the aviation industry worldwide through 2002. Financial pressures on airlines resulted in capacity reductions by airlines serving Ottawa. The first nine months of 2001 had seen revenue gains and record increases in passenger volumes from low-fare carriers such as WestJet and, more significantly, Canada 3000, but revenues and passenger volumes declined in 2002 as Canada 3000 declared bankruptcy and ceased operations in November 2001. Passenger volumes in 2002 were 5.1% below passenger volumes in 2001, and were at levels last achieved in 1999 before the Authority experienced record growth from low-cost carriers.

REVENUES

In 2002, the Authority generated \$55.3 million in total revenues, compared to \$53.0 million in 2001.

Aeronautical revenues represent the largest source of revenues for the Authority. At \$20.7 million in 2002, total aeronautical revenues, which include terminal

fees, loading bridge charges, and landing fees charged to air carriers, were in line with revenues of \$20.4 million in 2001. On January 1, 2002, the Authority increased its rates for certain aeronautical charges by 12% to better recover a portion of the Authority's increased costs for ground rent payable to the Government of Canada. Despite this, aeronautical revenues in 2002 were only slightly higher than in 2001. This was due to reduced commercial flight frequencies, especially transborder, in the aftermath of September 11, and the impact of the bankruptcy of Canada 3000 in November 2001 on the availability of low-cost travel in Canada.

Revenues from concessions, car parking and airport improvement fees declined in line with passenger volumes. Airport improvement fees (AIF) decreased from \$14.1 million in 2001 to \$13.7 million in 2002. The Authority's \$10 airport improvement fee was implemented in September 1999. It is collected under an agreement with the air carriers and is included with the price of an airline ticket. The Authority has announced an increase in the AIF to \$15 effective January 1, 2003.

"THE OTTAWA AIRPORT HAS CHANGED SIGNIFICANTLY SINCE IT WAS A PART OF THE NATIONAL SYSTEM AND STRUCTURE. WE ARE ABLE TO MAKE CHANGES ACCORDING TO OUR NEEDS AND AT A MUCH LOWER PRICE THAN WE COULD HAVE WITHIN THE GOVERNMENT. WE ARE MORE ENTREPRENEURIAL AND SELF-RELIANT, AND HAVE MORE CONSIDERATION FOR THE COMMUNITY."

MIKE HENDRICK, MANAGER AIRFIELD OPERATIONS, OTTAWA AIRPORT AUTHORITY

Interest income reflects the result of investing, on a short-term basis, the net proceeds from the Authority's bond offering in May 2002 not yet expended on the Airport Expansion Program (AEP).

Other revenues include billings to tenants for electricity consumption. These billings decreased as a result of infrastructure improvements that enabled the utility to invoice certain tenants directly.

EXPENSES

Total expenses increased by \$9.1 million from \$34.8 million in 2001 to \$43.9 million in 2002. Ground rent accounted for \$2.2 million of the increase and interest expense accounted for \$6.3 million of the increase. Other operating expenses increased only slightly as the Authority's cost containment measures remained in effect after September 11.

The Authority operates the airport under the terms of a ground lease with the federal government that sets out the calculation of the annual ground rent. This rent is based on a fixed charge per passenger, adjusted annually for inflation, to a maximum threshold of 3,000,000 passengers for the years 2001 to 2004, and increasing thereafter to a maximum threshold of 3,300,000 passengers beyond year 20 of the lease (2017).

In 2002, ground rent increased by 24% to \$11.0 million primarily as a result of a scheduled increase in the fixed charge per passenger.

The Authority capitalizes interest on debt directly attributable to the cost of its AEP before it becomes operational. Interest expense reflected in the statement of operations has increased as a result of the bond offering in May 2002 to the extent that cash has not yet been invested in the AEP. Given the magnitude of the AEP, interest expense and amortization reflected in the statement of operations will increase significantly when AEP assets become operational.

Strengthened expense controls in the aftermath of September 11 helped contain increases in the cost of materials, supplies and services. The Authority successfully brought these expenses in line with 2001 levels despite increased costs for insurance and employee benefits, and increased rates for utilities.

In December 2000, the Province of Ontario passed new legislation that, commencing in 2001, caused airport payments-in-lieu of municipal taxes (PILTs) to be based on the previous year's passenger throughput rather than on market value assessments. The amount of \$3.7 million paid for 2002 reflects this legislation and passenger levels in 2001.



CAPITAL RESOURCES

In accordance with the Authority's mandate, all earnings are retained and reinvested in airport operations and development, including investment in capital expenditures to meet ongoing operating requirements.

During 2002, excluding capitalized interest, the Authority made cash payments of \$122.1 million for capital expenditures related to the AEP and an additional \$3.8 million for maintenance capital expenditures. Cash from operations generated \$13.0 million to apply to these payments. The proceeds of the Authority's \$270-million bond offering in May 2002 provided remaining resources and repaid bank indebtedness used to fund AEP expenditures until completion of the offering.

The Authority commenced the construction of the most significant part of Phase I of its AEP in 2001. This phase includes construction of a new passenger terminal building along side the airport's current 40-year-old building, a parking structure, and extensive airside and groundside infrastructure to support the new terminal and parking structure. The projected cost of Phase I is \$310 million excluding capitalized interest. The project continues to track on budget and ahead of schedule, with opening now set for October 12, 2003. Phase II is

expected to be required by 2010 at an estimated cost of \$40 million, and Phase III is expected to be required by 2020 at an estimated cost of \$50 million, all in 1999 dollars. Phases II and III, which the Authority had considered advancing due to increased passenger volumes, were indefinitely postponed following September 11, 2001 until passenger volumes warrant.

Cash and short-term investments of \$124.4 million as at December 31, 2002 include proceeds from the Authority's bond offering not yet invested in the AEP. Cash has been invested in short-term investments permitted by the Master Trust Indenture, while maintaining liquidity for purposes of the AEP.

The Authority maintains access to an aggregate of \$120 million in 364-day revolving credit facilities with two Canadian banks.

The Government of Canada has extended an indemnification for third-party aviation war risk liability for all essential aviation service operators in Canada. The Government of Canada provided this indemnification in response to a decision by international insurers to withdraw third-party aviation war risk liability coverage that was available before September 11, 2001.

"THE OTTAWA AIRPORT AUTHORITY IS A MODEL OF COMMUNITY GOVERNANCE WITH BUSINESS DISCIPLINE THAT MANAGES OUR AIRPORT — A KEY PUBLIC TRUST. IT BALANCES THE INTERESTS OF COMMUNITY DEVELOPMENT AND FINANCIAL SUSTAINABILITY AT NO COST TO THE TAXPAYER."

WALTER ROBINSON, FEDERAL DIRECTOR, CANADIAN TAXPAYERS FEDERATION



SENIOR MANAGEMENT TEAM

Paul Benoit, President and CEO, **John Spinks**, Vice-President, Business Development and Marketing, **John Weerdenburg**, Vice-President and CFO, **Annette Nicholson**, General Counsel, **Pierre Lanoix**, Vice-President, Operations and Construction, **Ian Bell**, Vice-President, Terminal Services and Information Technology, **Louise Bergevin**, Executive Assistant to the President, **Nicole Lund**, Director, Security and Operational Response, **Richard Laniel**, Vice-President, Human Resources, **Krista Kealey**, Director, Communications and Public Affairs

Financial Statements

OTTAWA MACDONALD-CARTIER INTERNATIONAL AIRPORT AUTHORITY

December 31, 2002

Management's Responsibility for Financial Statements

Management of Ottawa Macdonald-Cartier International Airport Authority is responsible for the integrity of the accompanying financial statements and all other information in this Annual Report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Their preparation necessarily involves the use of management's best estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information in the Annual Report is consistent with the information and data contained in the financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and reliable preparation of financial statements.

The Board of Directors discharges its responsibilities for the financial statements primarily through its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Authority. This committee meets periodically with management and independent auditors to review performance and to discuss audit, internal control, accounting policy, and financial reporting matters. The Audit Committee reports its findings to the Board of Directors which reviews and approves annual financial statements. These financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The financial statements have been audited by Deloitte & Touche LLP, who were appointed at the annual general meeting. Their report is presented below.



Paul Benoit
President and Chief Executive Officer



John G. Weerdenburg, C.A.
Vice-President and Chief Financial Officer

Auditors' Report

*To the Directors of
Ottawa Macdonald-Cartier International Airport Authority*

We have audited the balance sheet of Ottawa Macdonald-Cartier International Airport Authority as at December 31, 2002 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Authority as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.



Chartered Accountants
Ottawa, Ontario
January 31, 2003

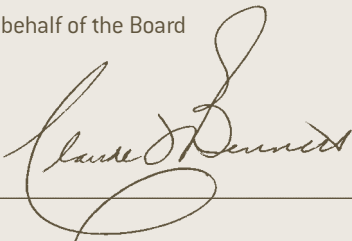
Balance Sheet

as at December 31, 2002

(in thousands of dollars)

	2002	2001
ASSETS		
Current assets		
Cash and short term investments	\$ 124,409	
Accounts receivable	6,212	\$ 4,529
Consumable supplies	360	361
Prepaid expenses and advances	928	463
	131,909	5,353
Debt Service Reserve Fund (Note 6(a))	8,761	
Deferred Financing Costs (Notes 2 and 6(f))	4,084	
Capital assets (Note 3)	224,554	80,192
Other assets (Note 4)	2,930	2,930
	\$ 372,238	\$ 88,475
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 5)	\$ -	\$ 14,617
Accounts payable & accrued liabilities	31,604	14,690
Current portion of long-term debt	273	257
	31,877	29,564
Security deposits	511	336
Long-term debt (Note 6)	273,519	3,685
	305,907	33,585
Commitments (Note 10)		
Net assets (Note 7)	66,331	54,890
	\$ 372,238	\$ 88,475

On behalf of the Board



, Director



, Director

(See accompanying notes to the financial statements)

Statement of Operations and Changes in Net Assets

year ended December 31, 2002

(in thousands of dollars)

	2002	2001
REVENUES		
Terminal fees and loading bridge charges	\$ 11,017	\$ 11,171
Landing fees	9,725	9,243
Concessions	6,208	6,430
Car parking	5,331	5,641
Airport improvement fees (Note 7)	13,690	14,082
Land and space rentals	3,763	3,558
Interest income	3,686	700
Other revenue	1,888	2,160
	55,308	52,985
EXPENSES		
Ground rent (Note 10)	11,005	8,840
Materials, supplies and services (Note 11)	10,341	10,385
Salaries and benefits	9,160	8,417
Payments in lieu of municipal taxes	3,654	3,700
Amortization	3,090	3,124
Interest expense (Note 6(d))	6,617	304
	43,867	34,770
EXCESS OF REVENUE OVER EXPENSES	11,441	18,215
NET ASSETS, BEGINNING OF YEAR	54,890	36,675
NET ASSETS, END OF YEAR	\$ 66,331	\$ 54,890

(See accompanying notes to the financial statements)

Statement of Cash Flows

year ended December 31, 2002

(in thousands of dollars)

	2002	2001
CASH PROVIDED BY (USED IN)		
Operations:		
Excess of revenues over expenses	\$ 11,441	\$ 18,215
Add non-cash items:		
Amortization	3,090	3,124
Loss (gain) on sale of capital assets	(31)	12
Interest on long-term debt	106	100
Changes in non-cash working capital related to operations:		
Accounts receivable	(1,683)	1,503
Prepays and consumable supplies	(464)	(149)
Accounts payable and accrued liabilities	113	2,656
Increase in Security deposits	175	5
Total operations	12,747	25,466
Financing activities:		
Issue of long-term debt (Note 6)	270,000	
Deferred financing costs (Note 6(f))	(4,327)	
Debt service reserve fund (Note 6(a))	(8,761)	
Repayment of long-term debt	(257)	(242)
Total financing activities	256,655	(242)
Investing activities:		
Capital asset expenditures	(147,230)	(56,784)
Proceeds from sale of capital assets	52	30
Increase in accounts payable and accrued liabilities related to investing activities	16,802	4,544
Total investing activities	(130,376)	(52,210)
Increase (decrease) in cash and short term investments	139,026	(26,986)
Cash and short term investments (bank indebtedness), beginning of year	(14,617)	12,369
Cash and short term investments (bank indebtedness), end of year	\$ 124,409	\$ (14,617)
Cash and short term investments (bank indebtedness) consists of:		
Cash in bank	\$ 9,315	\$ 2,332
Short term investments (debt)	115,094	(16,949)
	\$124,409	\$ (14,617)

(See accompanying notes to the financial statements)

Notes to the Financial Statements

year ended December 31, 2002

(in thousands of dollars)

1. DESCRIPTION OF BUSINESS

Ottawa Macdonald-Cartier International Airport Authority (the "Authority") was incorporated January 1, 1995 as a corporation without share capital under Part II of the *Canada Corporations Act*. All earnings of the Authority are retained and reinvested in airport operations and development.

The objectives of the Authority are:

- a) to manage, operate and develop the Ottawa International Airport, the premises of which are leased to the Authority by Transport Canada (see Note 10), and any other airport in the National Capital Region for which the Authority becomes responsible, in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all carriers;
- b) to undertake and promote the development of the Airport lands, for which it is responsible, for uses compatible with air transportation activities; and
- c) to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

On January 31, 1997, the Authority signed a 60 year ground lease with Transport Canada and assumed responsibility for the management, operation and development of the Ottawa International Airport.

The Authority is exempt from federal and provincial income tax, federal large corporation tax, and Ontario capital tax.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada for commercial enterprises. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, commitments and contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Examples of such estimations and assumptions include the useful lives of capital assets, valuation adjustments, and provisions for contingencies. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

Short-term investments

Short-term investments consisting of highly liquid term deposits and bankers' acceptances are valued at the lower of cost including accrued interest and net realizable value.

Consumable supplies

Inventories of consumable supplies are valued at the lower of cost, determined on a first-in, first-out basis, and estimated replacement value.

Capital assets

Capital assets are recorded at cost, net of government assistance, if any, and are amortized over their useful lives on a straight-line basis as follows:

Buildings and facilities	2.5% – 4%
Furniture and equipment	10% – 20%
Computer equipment and software	20% – 50%
Vehicles	6% – 17%
Leasehold improvements	10% – 33%
Roadways and paved surfaces	10%

Construction in progress includes costs associated with the airport expansion program. Construction in progress is recorded at cost and is transferred to buildings and facilities when the project is complete and the asset is placed in service.

Organization costs

Organization costs represent start-up expenditures incurred by the Authority in advance of the transfer of operations to the Authority from Transport Canada. Organization costs were amortized to operations on a straight line basis over 5 years.

Ground Lease

The ground lease with Transport Canada is accounted for as an operating lease.

Revenue recognition

Landing fees, terminal fees, and parking revenues are recognized as the airport facilities are utilized. Concession revenues are recognized on the accrual basis and calculated using agreed percentages of reported concessionaire sales, with specified minimum rent guarantees. Rental (and licence) revenues are recognized over the lives of respective leases, licences, and permits. Airport improvement fees ("AIF"), net of airline administrative fees, are recognized upon the enplanement of passengers.

Deferred financing costs

Costs relating to the issue of Series A and Series B bonds, including underwriting fees, professional fees, termination of interest-rate swap agreements, and bond discounts, are deferred and amortized on a straight-line basis over the term of the related debt. Amortization is included in interest expense.

3. CAPITAL ASSETS*(in thousands of dollars)*

	2002	2001
Cost:		
Buildings and facilities		
Buildings	\$ 7,288	\$ 7,288
De-icing facility	6,998	6,960
Utilities infrastructure	2,997	
	<u>17,283</u>	14,248
Furniture and equipment	2,103	2,052
Computer equipment and software	1,073	1,010
Vehicles	6,443	5,680
Leasehold improvements	6,214	6,684
Roadways and paved surfaces	6,095	5,812
Construction in progress	197,429	53,829
	<u>236,640</u>	<u>89,315</u>
Less accumulated amortization:		
Buildings and facilities		
Buildings	754	463
De-icing facility	329	46
Utilities infrastructure	96	
	<u>1,179</u>	509
Furniture and equipment	1,228	961
Computer equipment and software	762	575
Vehicles	2,375	1,997
Leasehold improvements	4,439	3,574
Roadways and paved surfaces	2,103	1,507
	<u>12,086</u>	<u>9,123</u>
	<u>\$ 224,554</u>	<u>\$ 80,192</u>

Interest costs of \$ 4,692 thousand were capitalized and included in Construction in progress in 2002 (2001 – \$154 thousand).

4. OTHER ASSETS*(in thousands of dollars)*

	2002	2001
Interest in future proceeds from 4160 Riverside Drive, at cost	\$ 2,930	\$ 2,930

In an agreement signed on May 27, 1999, the Authority agreed to assist the Regional Municipality of Ottawa-Carleton (now the City of Ottawa) in acquiring lands municipally known as 4160 Riverside Drive by contributing to the City of Ottawa 50% of the funds required for the acquisition. In return, the City agreed to place restrictions on the use of the lands to ensure the lands are used for purposes that are compatible with the operations of the Authority. In addition, the Authority will receive 50% of the net proceeds from any future sale, transfer, lease, or other conveyance of the lands.

5. CREDIT FACILITIES

The Authority maintains credit facility agreements with 2 Canadian banks. Under these credit facilities the Authority is provided with a 364-day revolving operating facility in an amount of up to \$20 million plus 364-day revolving credit facilities up to \$100 million in the aggregate for the financing of construction costs associated with the Authority's Airport Expansion Program. These facilities are secured under the Master Trust Indenture (see Note 6) are due on October 31, 2003, and will be reduced with any new debt issuance. They are available by way of overdraft, Prime Rate Loans, or Banker's Acceptances. Interest rates incurred during the year ranged from 1.75% to 2.50%. As at December 31, 2002, \$ 4.7 million of these revolving facilities had been designated to the Operating and Maintenance Reserve Fund (see Note 6).

6. LONG-TERM DEBT*(tabular amounts in thousands of dollars)*

	2002	2001
6.973% Revenue bonds, Series B, due May 25, 2032, interest payable on May 25 and November 25 of each year until maturity commencing November 25, 2002, semi-annual instalments of principal payable on each interest payment date commencing November 25, 2004	\$ 150,000	
5.64% Revenue bonds, Series A, due May 25, 2007, interest payable on May 25 and November 25 of each year until maturity commencing November 25, 2002	120,000	
Note payable to the City of Ottawa, bearing interest at 6.125%, repayable in equal annual instalments of principal and interest of \$ 390 thousand, and due on July 7, 2008	1,909	\$ 2,166
Non-interest bearing debt to the Province of Ontario, discounted at a rate of 6.0%, payable over a 5 year period commencing in 2007	1,883	1,776
	273,792	3,942
Less: current portion	273	257
	\$ 273,519	\$ 3,685

(a) Bond Issue

In May 2002, the Authority completed a \$ 270 million Revenue Bond issue with two series. The \$ 120 million Revenue bonds, Series A at 5.64% are due on May 25, 2007. The \$ 150 million Revenue bonds, Series B at 6.973% are due on May 25, 2032. The net proceeds from this offering are being used to finance the Airport Expansion Program (AEP) and for general corporate purposes. These include refinancing existing bank indebtedness incurred by the Authority in connection with the AEP and the funding of a \$ 8.6 million Debt Service Reserve Fund required by the Master Trust Indenture entered into by the Authority in connection with the offering.

The bonds are direct obligations of the Authority ranking *pari passu* with all other indebtedness issued under the Master Trust Indenture. All indebtedness, including indebtedness under bank credit facilities, are secured under the Master Trust Indenture by an assignment of revenues and related book debts, a security interest on money in reserve funds and certain accounts of the Authority, and an unregistered mortgage of the Authority's leasehold interest in the Airport.

Pursuant to the terms of the Master Trust Indenture, the Authority is required to establish and maintain with a trustee a Debt Service Reserve Fund of approximately \$8.6 million. At December 31, 2002, the Debt Service Reserve Fund included \$8.6 million in interest-bearing deposits held in trust. These trust funds are held for the benefit of the bondholders for use and application in accordance with the terms of the Master Trust Indenture. In addition, the Authority is required to maintain an Operating and Maintenance Reserve Fund of approximately \$4.7 million. The Operating and Maintenance Reserve Fund may be satisfied by cash, letters of credit, or the undrawn availability under a committed credit facility described above.

- (b) The note payable to the City of Ottawa relates to the interest in future proceeds of 4160 Riverside Drive included in other assets.
- (c) The amount payable to the Province of Ontario relates to land transfer tax resulting from the long-term lease of the Airport to the Authority in 1997.

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(d) Interest expense

	<u>2002</u>	<u>2001</u>
Bond interest	\$ 10,431	
Interest expense – Other	878	\$ 458
	11,309	458
Less: Capitalized interest	(4,692)	(154)
	\$ 6,617	\$ 304

(e) The future annual principal payments required to retire the debt are as follows:

2003	\$ 273
2004	368
2005	551
2006	750
2007	121,387
Total thereafter	150,463

(f) Deferred financing costs

	<u>2002</u>	<u>2001</u>
Deferred financing costs	\$ 4,327	
Less: Accumulated amortization	(243)	
	\$ 4,084	–

7. AIRPORT IMPROVEMENT FEES*(in thousands of dollars)*

On September 1, 1999, the Authority implemented an AIF of \$10.00 per local boarded passenger to fund the cost of major capital expenditures under the Authority's Airport Expansion Program (AEP). This fee will increase to \$15.00 in January 1, 2003. These fees are collected by air carriers under an agreement between the Authority, the Air Transport Association of Canada, and the air carriers serving Ottawa International Airport. Under the agreement, AIF revenues may only be used to pay for the capital and related financing costs of major airport infrastructure development as jointly agreed with the air carriers.

	2002	Cumulative to date
Airport Expansion Program Expenditures:		
Passenger terminal building, airside infrastructure and other program expenditures	\$ 138,909	\$ 192,616
Combined Service building and equipment	—	7,464
De-icing facility	37	6,997
Interest expensed	6,396	6,396
Interest capitalized	4,692	4,846
	150,034	218,319
AIF cash receipts:		
AIF revenue – net of collection fees	13,690	46,581
Interest on surplus funds	2,950	3,010
	16,640	49,591
Increase in Accounts Receivable	(146)	(1,402)
AIF revenue – net cash received	16,494	48,189
Excess of Airport Expansion Program expenditures over AIF receipts	\$ 133,540	\$ 170,130

Net assets of the Authority as at December 31, 2002 are as follows:

	2002	2001
Net assets provided by airport improvement fees:		
Accumulated airport improvement fees and interest on surplus funds	\$ 49,591	\$ 32,951
Less: Accumulated amortization of AEP assets	1,083	509
Interest expensed	6,396	—
	42,112	32,442
Net assets provided by other operations:		
Accumulated, end of year	24,219	22,448
	\$ 66,331	\$ 54,890

8. PENSION PLAN AND POST RETIREMENT BENEFITS*(in thousands of dollars)*

The Authority sponsors and funds a pension plan on behalf of its employees, which has defined benefit and defined contribution components. The defined benefit component is for employees who were employees of the Authority on the date of transfer including former Transport Canada employees, some of whom transferred their vested benefits from the Public Service Superannuation Plan to the Authority's pension plan. Pension plan costs are charged to operations as services are rendered.

Based on a first actuarial determination of pension plan benefits completed as at December 31, 1999 and extrapolated to December 31, 2002, the status of pension plan is as follows:

	2002	2001
Fair value of pension plan assets	\$ 15,160	\$ 15,550
Accrued pension benefit obligation	15,534	15,808
Funded Status – plan (deficit)	\$ (374)	\$ (258)
Accrued benefit asset	\$ 374	\$ 242

In addition to pension benefits, the Authority provides other post employment and retirement benefits to its employees and accrues the cost of these future benefits as employees render their services. This plan is not funded. The status of post employment and retirement benefit plans is as follows:

	2002	2001
Accrued benefit obligation	\$ 1,704	\$ 1,238
Accrued benefit liability	\$ 753	\$ 483

The costs of the defined benefit component of the pension plan and of other post employment and retirement benefits are actuarially determined using the projected benefit method prorated on services. This determination reflects management's best estimates of the rate of return on plan assets, rate of salary increases, and various other factors including mortality, termination, and retirement rates.

The significant economic assumptions used by the Authority's actuaries in measuring the Authority's accrued benefit obligations are as follows:

	2002	2001
Discount rate	6.5%	6.0%
Expected long-term rate of return on plan assets	7.3%	7.3%
Rate of compensation increases	4.0%	4.0%
Rate of increases in health care costs	9.0%	10.0%
decreasing gradually to increase starting after 2005 at	6.0%	6.0%

The net expense for the Authority's pension benefit plans is as follows:

	2002	2001
Defined benefit pension plan component	\$ 442	\$ 436
Defined contribution pension plan component	\$ 134	\$ 97
Other post retirement and employment benefits	\$ 345	\$ 238

Other information about the Authority's defined benefit plan is as follows:

	2002	2001
Employer contributions	\$ 567	\$ 568
Employees' contributions	\$ 233	\$ 234
Benefits paid	\$ 345	\$ 294

9. FINANCIAL INSTRUMENTS

Fair value

The Authority's cash, accounts receivable, accounts payable and accrued liabilities, and security deposits are reflected in the financial statements at carrying values which approximate fair values due to the immediate and short-term maturity of these financial instruments. Fair values of long-term debt are similar to their carrying values taking into account their maturity dates and current market rates for the same or similar instruments.

Interest-rate swap agreements

Prior to 2002, the Authority entered into interest-rate swap agreements with its bank to reduce the financial risk associated with future anticipated borrowings related to its expansion plans.

In May 2002, coincident with the Authority's offering of Revenue bonds, the Authority terminated all interest-rate swap agreements, resulting in an amount payable of \$1,428 thousand. This amount is included in deferred financing costs.

Credit risk

The Authority is subject to credit risk through its accounts receivable. A significant portion of the Authority's revenues, and resulting receivable balances, are derived from airlines. The Authority performs ongoing credit valuations of receivable balances and maintains provisions for potential credit losses. The Authority derives approximately 68% of its landing fees and terminal revenue from one airline. Passenger activity at the airport is approximately 93% origin and destination traffic, and although there is a concentration of service with one airline, the Authority believes that any change in the airline industry will not have a significant long-term impact on revenue or operations.

10. COMMITMENTS

On January 31, 1997, the Authority signed a 60 year ground lease with Transport Canada for the management, operation and development of Ottawa International Airport. The ground lease contains provisions for compliance with a number of requirements, including environmental standards, minimum insurance coverage, specific accounting and reporting requirements, and various other matters that have a significant effect on the day-to-day operation of the Airport. The Authority believes that it has complied with all requirements under the ground lease.

The lease contains a 20 year renewal option which may be exercised at the end of the lease term. At the end of the renewal term, unless otherwise extended, the Authority is obligated to return control of the Airport to the landlord.

Rent payable under the ground lease with Transport Canada includes base rent and participation rent and is calculated based on a formula reflecting annual passenger volumes, annual revenues, and predetermined base operating costs. Base rent is calculated on a capped passenger volume formula subject to adjustments for inflation. Participation rent is based on a measure of incremental revenues and commences in year 11 (2007) of the lease. The Authority and other Canadian Airports are currently engaged in negotiations with Transport Canada to revise the rent formula.

Estimated lease payments under the ground lease for the next five years are as follows:

2003	\$ 11.3 million
2004	11.6 million
2005	13.0 million
2006	13.3 million
2007	15.6 million

In addition to the above, at December 31, 2002, the Authority had operating commitments in the ordinary course of business of approximately \$ 3.5 million per year extending for various periods up to 5 years in duration. The Authority also has open commitments outstanding relating to construction in progress on the Authority's \$ 310 million expansion program amounting to approximately \$ 218 million of which \$ 156 million has been spent to date.

11. CONTRIBUTION AGREEMENTS

In its budget of December 10, 2001, the Government of Canada announced that it would make one-time payments for heightened policing and security at airports resulting from the September 11, 2001 terrorist attacks in the United States. This program ended on March 31, 2002. The Authority recorded \$0.5 million (2001- \$400,000) received under this program. These amounts were recorded as a reduction of related operating costs included in the statement of operations.

During 2002, the Authority entered into a policing contribution agreement with the Canadian Air Transport Security Authority ("CATSA"), an agent of the Government of Canada, for the purposes of contributions by CATSA to the costs of policing incurred by the Authority in carrying out its responsibilities. Contributions are determined annually by CATSA up to a maximum amount not to exceed the actual allowable costs incurred by the Authority in providing these services. This agreement is to be extended annually as required. In connection with this agreement, the Authority has accrued contributions of \$750,000 and recorded these as a reduction of related operating costs included in the statement of operations.

12. COMPARATIVE FIGURES

Certain of the 2001 comparative figures, primarily those on the statement of operations, have been reclassified to conform to the financial statement presentation adopted in 2002.

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