

# ANNUAL REPORT 2003

OTTAWA



OTTAWA MACDONALD-CARTIER  
INTERNATIONAL AIRPORT AUTHORITY



**OTTAWA MACDONALD-CARTIER INTERNATIONAL AIRPORT AUTHORITY**

**TEL: (613) 248-2000**

**FAX: (613) 248-2003**

**MEDIA RELATIONS: (613) 248-2050**

**[WWW.OTTAWA-AIRPORT.CA](http://WWW.OTTAWA-AIRPORT.CA)**

# WELCOME to the new OTTAWA MACDONALD-CARTIER INTERNATIONAL AIRPORT

## **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 IMPROVEMENTS WHILE KEEPING AIRLINE CHARGES COMPETITIVE.

## **ORGANIZATIONAL VALUES:**

- TO MEET AND EXCEED THE EXPECTATIONS OF OUR STAKEHOLDERS; AND
- TO CONDUCT OUR AFFAIRS RESPONSIBLY WITH INTEGRITY AND TRANSPARENCY.



# TABLE OF CONTENTS

INTRODUCTION .....	3
CHAIRMAN'S MESSAGE .....	5
PRESIDENT'S MESSAGE .....	7
2003 AT A GLANCE .....	9
2003 FINANCIAL REVIEW .....	19
TOWARDS THE FUTURE – THE FIVE YEAR STRATEGIC PLAN .....	25
GOVERNANCE .....	27
FINANCIAL STATEMENTS .....	35

## SENIOR MANAGEMENT TEAM

(from left to right)

**PIERRE LANOIX**

Vice President,  
Operations and Construction

**IAN BELL**

Vice President,  
Terminal Services  
and Information Technology

**RICHARD LANIEL**

Vice President, Human Resources

**KRISTA KEALEY**

Director, Communications  
and Public Affairs

**JOHN SPINKS**

Vice President,  
Business Development  
and Marketing

**ANNETTE NICHOLSON**

General Counsel  
and Corporate Secretary

**LOUISE BERGEVIN**

Executive Assistant to the President

**JOHN WEERDENBURG**

Vice President and  
Chief Financial Officer

**PAUL BENOIT**

President and CEO



# INTRODUCTION

## BY THE COMMUNITY, FOR THE COMMUNITY

This term became the mantra of the Airport Authority during the Airport Expansion Program (AEP), which culminated in the opening of Ottawa's new state-of-the-art Passenger Terminal Building on October 12<sup>th</sup>, 2003. It is a term that will likely stay with each member of the Airport Authority team well into the future.

Funded entirely through the Airport Improvement Fee (AIF), with no government support whatsoever, the \$310M AEP was completed six months early and on-budget; an uncommon phenomenon in the world of major construction projects.

How did it happen? Well, with hands-on involvement from every level of the organization, by paying close attention to the details, and working with project managers and professionals who were as committed to the success of this project as the Ottawa Airport Authority.

Are we proud? You bet we are! We have offered the region a world-class facility that will meet our community's needs for decades to come.

What is our community saying about the new airport? Everyone is saying that it's about time. The nation's capital has been patiently awaiting a facility that befits a G8 country and one that welcomes the rest of the world into our fair city and region.

What does the future hold? In the absence of a crystal ball, we can say that the industry is showing signs of improvement; we saw a slight increase in passenger traffic and all economic indicators are pointing to more favourable conditions in 2004. We are ready for the passengers, and ready for the future.

As you read through this Annual Report, you will become familiar with some of the features of the new airport and you will learn why we made some design choices and what they represent. We are looking forward to hearing what you think – after all, you are part of our community.

Welcome to the new Ottawa International Airport.



Level 3 Check-in

**WE ARE READY FOR  
THE PASSENGERS, AND  
READY FOR THE FUTURE.**

## THE WATER FEATURE

WATERWAYS HAVE HISTORICALLY, GEOGRAPHICALLY AND POLITICALLY DEFINED THE NATION'S CAPITAL. IT IS BY DESIGN, NOT CHANCE, THAT OTTAWA IS SITUATED AT THE CONFLUENCE OF THE OTTAWA, RIDEAU AND GATINEAU RIVERS, AT THE BASE OF THE CHAUDIÈRE FALLS. LONG BEFORE THE AGE OF AVIATION, THESE RIVERS WERE USED TO EXPLORE, TRADE AND TRAVEL THE LAND THAT WAS TO BECOME CANADA.



Photo: James Dow

The water feature design that was incorporated into the Passenger Terminal Building is representative of the bodies of water that form the landscape of the region. On the 3<sup>rd</sup> level, the rough and rocky Chaudière Falls are represented beautifully. The vista provides a home for the Inukshuk and a place that our passengers have called soothing, with the sound of the water flowing over the rocks.

The departure lounge on the 2<sup>nd</sup> level is home to the spectacular depiction of the Rideau Falls, where the water then flows into our interpretation of the Rideau Canal, where an Algonquin birchbark canoe graces the view.

In the arrivals area on the 1<sup>st</sup> level, our visitors are greeted with what has become the signature vista of the Ottawa International Airport – a representation of the final lock in the system that joins Lake Ontario, at Kingston, with the Ottawa River.



# CHAIRMAN'S MESSAGE

## CLAUDE BENNETT

When I was invited to join the Board of Directors of the Ottawa International Airport Authority in 1995 as a Founding Member, the airport privatization exercise was only beginning to take shape. In the ensuing years, through the collective effort of the Board and the senior management team that was put in place, we accomplished what some would consider unbelievable.

In addition to taking the airport to a more positive financial position and creating a viable business, we were able to invest in the infrastructure and the operation and are now very well positioned for the future. We have become an important player on the economic landscape and a pivotal element in the region's growth.

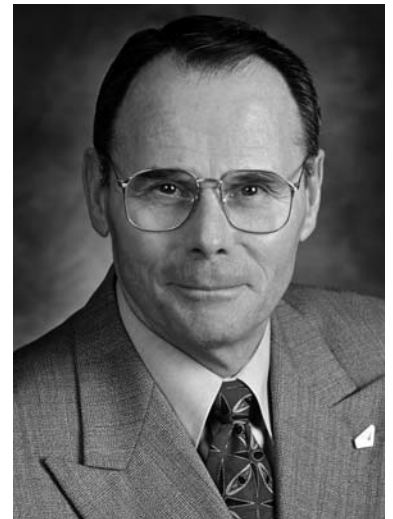
One of the first projects that we embarked upon in 1997 was the construction of a U.S. pre-clearance area. This in effect opened the region to direct travel to the U.S., negating the need for connections through Montreal and Toronto. At a time when the technology sector was in rapid growth, this project alone proved to be an important contributing factor.

Construction of the Combined Services Building was the Airport Authority's first foray into the world of major construction projects. It gave the expansion project team the confidence and foundation upon which to take the next step in the Airport Expansion Program which would see the construction of the beautiful new Passenger Terminal Building that serves our community today.

Collaboration between the stakeholders is always critical and even more so when dealing with projects of the magnitude of the Airport Expansion Program. I would like to take this opportunity to express my appreciation to the community for the sense of trust that was fostered throughout the process; you understood our vision, what it would ultimately mean to the region, and you cheered the project on to success.

Since joining the Board, I have had the privilege of working with a talented, professional group of people from various disciplines, all of whom have made a distinct difference in shaping what is now the Ottawa International Airport. I would like to thank the Board for their dedication and support.

My thanks to the AEP Overview Committee of the Board who demonstrated an unwavering commitment to the project and provided direction and counsel to the management and project teams.

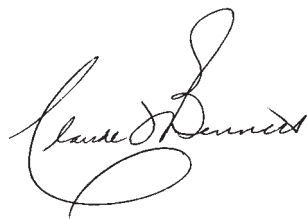


**WE HAVE BECOME AN  
IMPORTANT PLAYER ON  
THE ECONOMIC LANDSCAPE  
AND A PIVOTAL ELEMENT  
IN THE REGION'S GROWTH.**

The Airport Authority team put their heart and soul into the project. They were called on to make tough decisions and sacrificed time with family and other priorities to see this project through. I wish them well as they continue through the next phases of the project and I look forward to watching the ongoing evolution.

We said that this project was by the community, for the community and truer words could not have been spoken. When you consider the number of local trades and firms from the region that worked on this project, we can proudly call this a community airport.

My term on the Board of Directors will end in early 2004, but I will take away fond memories and a true sense of pride in what we accomplished – together.

A handwritten signature in black ink, reading "Claude Bennett". The signature is written in a cursive style with a large, stylized initial "C" and "B".

Claude Bennett



# PRESIDENT'S MESSAGE

## PAUL BENOIT

Well, we did it! We told you a year ago that we would bring the project to fruition six months early and on-budget. On October 12, 2003, we delivered the new Passenger Terminal Building to the communities of the region.

It was an ambitious project, in fact the biggest private construction project ever undertaken in the region. With it came much scrutiny and constant financial pressure. But, the tough decisions were made and we kept our stakeholders and our community up-to-date on our progress as we went through the process.

There is often confusion in the community regarding how the Airport Improvement Fee (AIF) is collected and used, and how the airport expansion is paid for. We collect \$15 per enplaned passenger and use the funds to pay only for the expansion. We use operational revenues from landing fees, parking and concessions, etc. for capital and operational expenses; the two revenues are tracked separately at all times.

Many have asked if we could afford to do this project given the state of the industry. The answer is yes. I would also ask if we could afford *not* to do the project. Clearly, the answer is no; we had what many would consider a third-world terminal serving the nation's capital. The facilities hindered growth and did not allow us to capitalize on advances in technology and equipment.

We have just completed phase one of a three-phase project that will position the Ottawa International Airport for growth for decades to come. We will take on the next phases as passenger volumes warrant, as our finances permit, and we will act as prudently as we did in the first phase.

We could not have accomplished the success we experienced in 2003 without the dedication of the employees of the Ottawa International Airport Authority. They reached beyond their areas of expertise to take on roles that they literally learned along the way. From coordinating every aspect of the move from the old terminal to the new, to facilitating trials and simulations of equipment and systems, to being volunteer ambassadors who assisted the passengers and visitors, everyone gave of their personal time to help. For that, I am eternally grateful.

I am also extremely appreciative of the quality of work that was done by the trades who worked on this project. Their attention to safe work practices was a significant contributing factor to completing the building so far ahead of schedule; we did not have a single lost-time accident during the project.

My final word of thanks is to the Board of Directors, under Chairman Claude Bennett, for supporting our team and trusting that our decisions were carefully considered. The wise counsel that every Board Member offered was very valuable and well-received.



**WE COULD NOT HAVE ACCOMPLISHED THE SUCCESS WE EXPERIENCED IN 2003 WITHOUT THE DEDICATION OF THE EMPLOYEES OF THE OTTAWA INTERNATIONAL AIRPORT AUTHORITY.**

The Airport Expansion Program aside, 2003 was fraught with challenges. Although it started strong with increased passenger volumes, the industry took several blows in the first half of the year that stopped the growth in its tracks. The war in Iraq, Severe Acute Respiratory Syndrome (SARS) and Air Canada filing for protection from its creditors are but a few of the difficulties that were encountered.

When you consider the issues, and take into account the federal government's continued inability to deal with the realities of the airline industry, you end up with a very difficult situation on your hands. Government representatives have said that the rent situation is under review, but their review has turned into "the never ending story". In 2003, the Ottawa International Airport's rent bill was \$11.3M, a figure that will continue to increase year over year, and a figure that will prevent us from lowering the fees that we charge our airline partners and customers at large, at a time when they desperately need a break.

Our passenger numbers were inching up at the end of 2003. We are looking forward to a better 2004, with consistent increases in volume and more stability in the industry. Now that the new terminal is open, we are ready for it.



Paul Benoit

# 2003 AT A GLANCE

There is no question that 2003 was an exciting year for the Airport Authority and for our community with the opening of the Passenger Terminal Building. But it was also a great year for many other reasons, not the least of which is that we survived one of the most difficult years in the industry.

Passenger volumes were just beginning to take flight again when a series of events occurred that would see the numbers fall back to 2002 levels. The first blow came with the beginning of the war in Iraq and the accompanying security threats that kept people close to home. Transborder travel was particularly affected with an overall 2.04% decline in passengers for the year.

Severe Acute Respiratory Syndrome (SARS) was the next event that had near catastrophic implications for airlines, airports and entire communities. Fear of the disease and of the unknown kept tourists out of major centres and certainly off airplanes.

In April, Air Canada filed for bankruptcy protection, thus affecting the balance sheets of airports and suppliers alike. We continued to feel the effects throughout the rest of the year, although towards the end of 2003 the future seemed to be looking brighter for the nation's largest carrier.

Throw in Bovine Spongiform Encephalopathy (BSE), better known as mad cow disease and a major power outage, and the perfect storm of 2002 quickly became the perfect tsunami of 2003.

But thanks to the Airport Authority team who kept a careful watch on the bottom line, and an unwavering commitment to the project, we succeeded in spite of the setbacks – and we have the results to show for it. Year-end passenger numbers were up by 1.41% to 3,262,597 (2,491,943 domestic, 588,088 transborder and 182,566 international).

Here's what else happened in 2003...

## WE MOVED!

On October 11<sup>th</sup>, after the last flights were processed, we shut down operations in the old terminal. With approximately five hours until the first flight was due to be processed on the morning of the 12<sup>th</sup>, the big move took place.

With months of careful, detailed planning completed, the move team worked through the night to transfer capabilities to the new passenger terminal building. There were many opportunities for failure, but the team prevailed and the move happened. By the next morning, roadways were redirected towards the new building, the parking structure was open, passengers were being processed in the new passenger terminal building and we were in business.

For the first few days we welcomed many visitors to the building; the public was curious and wanted to see what the fuss was all about. What they found when they arrived was a new, 650,000 square foot, state-of-the-art structure that spans three levels; with 3<sup>rd</sup> level check-in, 2<sup>nd</sup> level security and departures and 1<sup>st</sup> level arrivals – the three level design is a first in Canada.



### The Algonquin Birchbark Canoe

When the Algonquin nation first guided European explorers up the Ottawa River, the explorers were introduced not only to the gateway to the continent, but to the only craft that could navigate the wild Canadian rivers. Later the canoe was adapted in size to carry goods for the fur trade. At its peak, 80% of the fur trade travelled the Ottawa River in birchbark canoes directly under the future site of Parliament.

The canoe that now sits in the domestic departure lounge is an authentic Algonquin birchbark canoe built by master craftsman and Algonquin Elder Peter Maranda, of Barriere Lake, Quebec. It is one of two identical canoes he built in the summer of 1971. The Liberal Party of Canada chose the other as a fitting and symbolic wedding gift for Prime Minister Pierre Elliot Trudeau, an experienced canoeist who paddled many of Canada's great rivers.

Photo: James Dow





## THE INUKSHUK

The beautiful Inukshuk, which graces the 3<sup>rd</sup> level of the terminal, was designed and built by Peter Katorka, an Elder from Nauyasat-Repulse Bay, Nunavut and by Peter Irniq, Commissioner of Nunavut, who was born and raised in Nauyasat-Repulse Bay, Nunavut.

The rocks come from various Nunavut communities and have been assembled in a very traditional design, representing "travel" as its theme. The Inuit would look through the hole in the centre of an Inukshuk for direction, which in the case of this structure, points to the runway where the airplanes will take you to the North.

The Inukshuk was commissioned and donated by First Air, The Airline of the North.



While it sounds big and intimidating, the soaring ceilings and extensive use of glass give passengers and visitors alike excellent sight lines and visibility. The passengers have told us that the building has an intuitive flow to it, which means that we got it right.

We built the terminal with our passengers in mind, and hope that it will continue to bring our community and the rest of the world together.

### AIRSIDE OPERATIONS CHANGED

When the general public thinks about the changes at the airport, chances are they only consider the beautiful new terminal building. Are there changes to the areas where the airplanes are groomed, serviced, and filled with baggage? The answer is yes, and the changes outside are as significant as the changes inside.

The size of the apron is larger than that of the old terminal. The additional apron depth allows simultaneous two-way aircraft traffic, which was not possible at the old terminal. This means that two of the largest aircraft could potentially cross the apron at the same time. It also means that when aircraft are pushing back from the gates, other aircraft traffic can proceed without having to stop and wait. In other words, the larger apron will increase capacity and reduce delays.

Two new vehicle corridors have been built on the apron. The first was designed to take traffic in front of the aircraft, which we call “Head of Stand Road”. Smaller service vehicles and ground support equipment will use this roadway, while larger vehicles such as fuel trucks will use the corridor that runs behind the aircraft, or the “Tail of Stand Road”. This change will provide a safer and more efficient environment for the ground handlers who work on the apron.

### WE GREW THE BUSINESS

Commercial, retail and land development are the cornerstones of the airport’s ability to generate new revenue streams. And, increased development means a more comprehensive offering for our travelling public.

#### FIVE YEAR REVIEW ( \$ 000 )

	1999	2000	2001	2002	2003
Revenue	\$ 38,484	\$ 53,140	\$ 52,985	\$ 55,308	\$ 63,320
Expenses	30,560	31,669	34,770	43,867	50,915
Excess	7,924	21,471	18,215	11,441	12,405
Capital Expenditure	6,969	13,763	56,784	147,473	111,064
Net Cash (Net Debt), at Dec 31	4,064	12,369	(14,617)	(145,591)	(244,310)
ALF Revenues	3,860	14,949	14,082	13,690	20,838



Photo: Randy Harquail

#### The Panasonic Video Wall

When the Authority team first considered a jumbo video screen in the arrivals area, the sticker shock very nearly ended the video wall project. Soliciting sponsorship, however, kept the idea alive. Panasonic came on board to sponsor the hardware, and CBC enthusiastically partnered with the Authority to offer the inaugural edition of the CBC Newsworld Airport News.

The video wall not only provides the passengers with up-to-date news coverage, but a secondary screen allows our tourism partners to showcase their events and what the region has to offer our visitors. What a fitting welcome to the nation’s capital.



### Perfect Take Off

A butterfly hovers over a flower ... in transition from earth to sky. **The Perfect Take Off/Perfection entre ciel et terre.** This image and slogan convey the essence of the culmination of the AEP and the opening of the new terminal. The artwork was used for all communications surrounding the opening of the new Passenger Terminal Building to project a consistent and positive image to all of our stakeholders.

Consider that the butterfly represents the last step of a metamorphosis – growth through the many preliminary stages leading to a beautiful winged creature that takes flight, much like the construction and opening of the new terminal.

Land development was brisk in 2003. Several of the car rental companies who operate at the airport decided to build their own grooming facilities rather than continue to lease space from the Airport Authority. Hertz opened their operation early in the year, and construction commenced on Avis and Alamo/National facilities later in the year.

After tendering for master concessionaire contracts for food and retail in the new terminal, Cara and Hachette Distribution Services (HDS) were chosen as our partners and they worked diligently in the months leading up to the opening to have their new spaces ready to welcome the public.

Cara introduced some beautiful new food and beverage spaces that have taken our concession offering to a new level. With a wall of windows overlooking the airfield, Nate's Rideau Bar and Grill is not only a restaurant for travellers, but for anyone who loves to watch airplanes take off and land. Passengers who make their way through the pre-board security checkpoint will have access to several establishments including Sbarro Pizzeria and Byward Taps, a new sit-down restaurant that offers everything from a breakfast menu to finger foods to salads. The Senate Chambers offers departing transborder passengers the chance to sit down and enjoy a quick bite before take off.

And of course, Tim Hortons, Swiss Chalet, Harvey's and Second Cup provide familiar fare for our visitors and passengers.

HDS operated the Relay stores in the old terminal building, and have expanded their retail package in the new terminal. Relay moved over, with expanded locations in both pre- and post-security areas, and Bentley moved to a storefront in the domestic lounge. We welcomed Savour Ottawa, a gourmet retail outlet, the Fuzzy Wuzzy Toy Store, Discover Ottawa, the \$15 Boutique and The Great Canadian Book Company into the new terminal as well.

Perhaps one of the most exciting additions to the retail mix is the 3<sup>rd</sup> level Virgin Records store within Relay. Acquired by HDS' parent company, Lagardère, in 2001, their outlet at the Ottawa International Airport represents Virgin's first location in a Canadian airport.

We have also maintained some local flavour and are pleased that The Home Team Sports has kept its airport location, continuing to offer NHL and other sports-related merchandise. The wine store from the old terminal was reincarnated as The Ice Wine Store in the new, and has been receiving rave reviews from the public. Another local enterprise, the Rideau Business Centre opened post-security to offer private kiosk space for our business travellers who want to get some work done while they await their flight.

## WE MARKETED OTTAWA TO THE WORLD

Variety is the key to keeping business flowing through the airport. Efforts to expand the destinations available and number of flights into and out of Ottawa remained strong in 2003.

The Authority continued to meet and work with current and prospective airlines towards providing additional international, transborder and domestic routes and frequency.



Low cost domestic carriers WestJet and CanJet continued to expand their markets from Ottawa and Jetsgo added frequencies to its schedule. Winter charters to sunny destinations with Zoom, SkyService, Air Canada and Air Transat continued at the pace set in 2002. And, summer charters to the U.K. with My Travel Airways took off as planned.

While U.S. passenger traffic continued to lag behind international and domestic traffic, coincident with SARS, the war and BSE, we saw positive signs in each market. Northwest Airlines and U.S. Airways both announced a change from a combination regional jet and turbo prop service to a full regional jet service from Ottawa for early 2004. Discussion continued with several other domestic, U.S. and European airlines in an effort to increase non-stop destinations served from Ottawa.

Despite lingering and new industry problems such as bankruptcies and the impact of world events on passenger numbers, the fourth quarter showed positive signs of renewed confidence in air travel. Efforts will be stepped up in 2004 to capitalize on the growth that we have experienced to date.

## FINANCE AT A GLANCE

Completing 2003 on a solid financial footing was a true accomplishment given the uncertainties in the aviation industry throughout the year. Air Canada's financial struggles, SARS, the war and BSE all contributed to these uncertainties. Management maintained its conservative approach

### 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%
<b>2003</b>	<b>3,262,597</b>	<b>1.4%</b>	<b>69,798</b>	<b>1.9%</b>	<b>\$11,300,000</b>	<b>2.7%</b>
2004	3,360,000	3.0%	71,300	2.0%	\$11,600,000	2.7%
2005	3,462,000	3.0%	72,700	2.0%	\$13,000,000	12.1%
2006	3,566,000	3.0%	74,200	2.0%	\$13,300,000	2.3%
2007	3,673,000	3.0%	75,700	2.0%	\$13,300,000	0.0%
2008	3,783,000	3.0%	77,200	2.0%	\$13,600,000	2.3%

Note: Federal Government Net Book Value at time of transfer – \$75M  
Total rent projected 1997-2010 – \$157M



Photo: Michelle Valberg

### Media Coverage

While the media had liberal access during various stages of the project, they came out in full force to see the final product. On October 3<sup>rd</sup>, the media were invited to the official unveiling of the terminal, where the 30+ reporters and photographers were given the grand tour by our President and CEO, Paul Benoit. The ensuing coverage was outstanding. We received glowing coverage on television, over the radio airwaves, in local and national newspapers, and in many construction trade and airport-related publications around the world.



## THE LOCKS

Built as a means of allowing passage between Lake Ontario and the Ottawa River, the Rideau lock system is comprised of 49 locks. Recognized as an important element of the Ottawa waterways, the Ottawa International Airport has paid tribute to the lock system by carving the names of the locks in the limestone wall that follows the escalator that brings domestic passengers into the arrivals hall. The final lock, "The Ottawa" is beautifully depicted with water flowing over the wall from the 2<sup>nd</sup> level down to the 1<sup>st</sup>, and is a wonderful welcome to visitors in the arrivals area.

to expenditure and again proved its resilience to adverse and unfavourable conditions. Even more notably, the Authority reaffirmed its management strengths as it completed the Airport Expansion Program on budget, as well as completing it ahead of schedule. And despite the difficulties in the industry during the year, Moody's, Standard & Poors, and DBRS all reaffirmed the Authority's credit ratings of A1, A+, and A(high) respectively, each with stable outlooks. These are all testimonial to the Authority's strength.

## PEOPLE MATTER

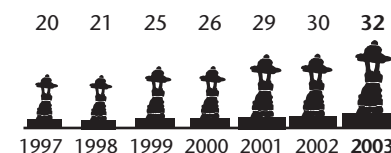
It is no secret that the Airport Authority's most precious resource is its people. That was never more clearly demonstrated than during the Airport Expansion Program. While getting their everyday jobs done, many put in long hours helping out with trials and simulations of new equipment and systems, acting as escorts for trades who required access to secure areas, and being ambassadors during the transition period, to name but a few non traditional tasks that they willingly took on.

In many cases, our staff assumed roles that were not familiar to them, they spent hours helping to familiarize our tenants and partners with the new terminal building, and they went above and beyond the call of duty to make sure that the transition was a smooth one. Without a doubt, they were a key factor in the success of the project.

## 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%
2002	2,445,770	-6.85%	600,365	-2.96%	170,751	16.18%	3,216,886	-5.14%
<b>Actual 2003</b>	<b>2,491,943</b>	<b>1.89%</b>	<b>588,088</b>	<b>-2.04%</b>	<b>182,566</b>	<b>6.92%</b>	<b>3,262,597</b>	<b>1.42%</b>
<b>Forecast 2005</b>	<b>2,644,000</b>	<b>3.00%</b>	<b>624,000</b>	<b>3.00%</b>	<b>194,000</b>	<b>3.00%</b>	<b>3,462,000</b>	<b>3.00%</b>
<b>2010</b>	<b>3,065,000</b>	<b>3.00%</b>	<b>723,000</b>	<b>3.00%</b>	<b>225,000</b>	<b>3.00%</b>	<b>4,013,000</b>	<b>3.00%</b>
<b>2015</b>	<b>3,553,000</b>	<b>2.00%</b>	<b>838,000</b>	<b>2.00%</b>	<b>261,000</b>	<b>2.00%</b>	<b>4,652,000</b>	<b>2.00%</b>
<b>2020</b>	<b>4,119,000</b>	<b>2.00%</b>	<b>971,000</b>	<b>2.00%</b>	<b>303,000</b>	<b>2.00%</b>	<b>5,393,000</b>	<b>2.00%</b>

## DIRECT DESTINATIONS



## 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
<b>2003</b>	<b>81</b>	<b>35</b>	<b>7</b>



## INFOGUIDE

The Infoguide volunteer program has been in place to assist visitors to the airport since 1989; first under the name “Travel Aid” and then in 1997, the name changed to Infoguide, which it remains today.

The new terminal is home to two Infoguide kiosks; they are located in Arrivals on the 1<sup>st</sup> level and in the 3<sup>rd</sup> level check-in area. Because we doubled the number of locations, we conducted a recruitment campaign in the summer of 2003, which resulted in more than 40 new volunteers, bringing the team to almost 100.

In order to better meet the needs of our visitors, all volunteers underwent additional customer service training prior to the big move. As the first point of contact for many visitors, the Infoguide volunteers are true ambassadors and a definite asset for the Authority and the community.

## WE MAKE A DIFFERENCE IN OUR COMMUNITY

When we first embarked on the expansion project and we consulted our community, a number of goals were identified that guided the design and confirmed our commitment to build the new terminal for the community we serve. Accessibility for all was the goal, and the community has recognized our efforts.

## ACCESSIBILITY

In December 2003, the Authority was awarded the Accessibility By Design Award by the City of Ottawa, and was recognized by the United Nations International Day of Disabled Persons at their awards dinner on December 3<sup>rd</sup>. We shared this important award with one of the project designers, Janice Liebe and our Accessibility Consultant, Betty Dion.

According to representatives from the City’s Accessibility Advisory Committee who evaluated the new facility, “The airport’s overall design creates a comfort and intuitive balance between aesthetics and functionality that does not discriminate, but rather accommodates all kinds of needs. Some of the features include tile patterns that assist people with various visual impairments, specially textured or slightly elevated flooring to alert people of an upcoming escalator, and four huge elevators that can easily facilitate wheelchairs.”

## THE OPENING

OWOW was how we described the airport family’s effort to ensure that our customers’ needs were met during the transition from the old terminal building. The Opening Weeks Orientation and Welcome team had every base covered.



Accessibility By Design Award

Members of the Board of Directors, staff, friends and family were on hand from 6:00 a.m. until 11:00 p.m. to answer questions, distribute information such as parking maps, and to organize shuttle service to airport parking lots. Dressed in vests that sported the signature image of the launch, the volunteers were a visible, helpful presence that gave passengers peace of mind during a potentially confusing period.

## TOURISM

The tourism community acknowledged the role that the Ottawa International Airport plays in the community, by recognizing the Authority as the Large Company of the Year again in 2003; the Authority also won this award in 2002. Paul Benoit, our President and CEO was also recognized for the leadership role he played in the AEP with the Tourism Leader of the Year Award.

## CUSTOMER SERVICE

Customer service remains a priority for the Authority team. In 2003, we solidified our commitment to service excellence through completion of the annual Customer Satisfaction Survey.

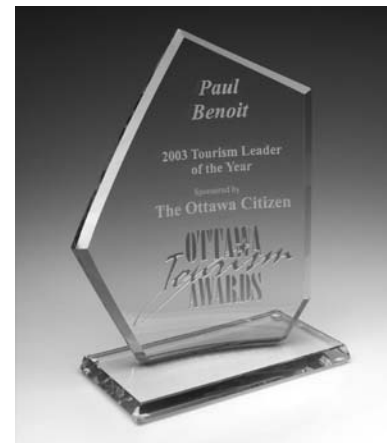
The in-terminal survey was conducted in June in an effort to establish a benchmark for future surveys in the new terminal. These surveys monitor passenger demographics and all aspects of airport performance and customer satisfaction. The Ottawa International Airport continued to receive positive results in 2003, despite the anticipation of the opening of the new terminal and the minor disruptions that continued throughout the year due to airport expansion activities.

## CUSTOMER FEEDBACK

Input from Airport users is an important consideration as we improve operations and processes. Since opening, we have been flooded with comment cards, web comments and letters from passengers and the curious who have visited the new facility. We have instituted a comprehensive tracking system for all issues, suggestions for improvement and words of praise. And, we have been responding personally to all feedback. We want everyone who takes the time to contact us to know that their input is appreciated, and that their efforts are helping us make the experience at the Ottawa International Airport a pleasant one.

## WE ARE ENVIRONMENTALLY FRIENDLY

Ottawa International Airport's commitment to the environment has been a priority since transfer in 1997. As improvements to the program are implemented, our results become more positive year over year.



Tourism Leader of the Year Award



Large Company of the Year Award



**Common Use Services:**

**Check-in**

A major change that is immediately noticeable when you enter the terminal in the 3<sup>rd</sup> level check-in area is the uniformity across the 74 check-in positions. The Authority has taken on the responsibility of providing and maintaining the counters and computer systems necessary for all airlines to check-in their passengers for departure. These new common use systems provide password protected entry to each airline’s system.

Trouble and maintenance calls are handled through the newly-established Airport Operations Response Centre (AORC), which is on call 24/7.

**FIDS/BIDS/GIDS**

The flight information display system (FIDS) is now owned and operated by the Authority. The FIDS provides bilingual, easy-to-read departure and arrival flight information. Airline data is fed either manually or electronically, depending on the airline, and is updated in the system every 10 minutes.

Common use systems also include the electronic signage at the gates (GIDS), as well as the baggage information display systems (BIDS) at the carousels.

A critical element in the AEP was the construction of a new de-icing facility, which has already paid dividends to storm water on the airport campus. In 2003, glycol concentration analysis found that compliance was achieved 99.2% of the time. This is a significant improvement of 6% over last year’s results.

After the completion of hydro geological assessments and glycol treatability studies in 2003, construction began on a glycol bioremediation system. In operation since November, the bioremediation system consists of glycol impacted storm water collection and filtration, which is enhanced with naturally occurring bacteria that consume the glycol as it enters the system. Implementation of the system will further minimize the impact that airport operations have on the environment.

**NOISE ABATEMENT**

Noise abatement programs have shown positive results on the impact that aircraft noise has on the community. We monitor noise events at the airport carefully, and work with our airlines to reduce unnecessary engine run-ups and other activities that cause complaints. We received 44 noise related complaints last year, which represents a significant improvement over 2002.

**ENVIRONMENTAL MANAGEMENT SYSTEM**

An Environmental Management System (EMS) provides a framework for managing environmental responsibilities so they become more efficient and more integrated into overall business operations.

Environmental Management Systems are based on standards which specify a process of achieving continually improved environmental performance and complying with legislation. In 2003, an analysis of the Authority’s current environmental program was completed, and environmental aspects and issues were identified and ranked. The analysis was a first step in the Authority’s efforts towards full EMS implementation, complete with measurement tools and reporting mechanisms.

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

	1999	2000	2001	2002	2003	Total
Wage Bill	\$ 7,554	\$ 7,762	\$ 8,417	\$ 9,160	\$ 10,050	\$ 42,943
Operations Costs	9,000	9,300	10,000	9,500	12,000	49,800
Capital Costs	6,300	12,400	49,000	125,000	110,000	302,700
	\$ 22,854	\$ 29,462	\$ 67,417	\$ 143,660	\$ 132,050	\$ 395,443

**Note:** Wage bill includes benefits of approx. 28% of total wages  
 Operation costs do not include Rent, PILT, Payroll, Amortization and interest expenses

# 2003 FINANCIAL REVIEW

For the year ended December 31, 2003, revenues exceeded expenses by \$12.4 million as compared to \$11.4 million for the year ended December 31, 2002.

Passenger volumes in 2003 were 1.4% higher than passenger volumes in 2002. During 2003, only the months of April and May (Q2), and August (Q3) reflected passenger volumes that did not exceed those of the comparable months in 2002. Notably, April and May marked a period of some uncertainty in aviation demand with Air Canada's financial struggles which were punctuated by its filing for bankruptcy protection under the *Companies' Creditors Arrangement Act* on April 1, 2003. In addition, the SARS (severe acute respiratory syndrome) scare during the spring of 2003 is widely believed to have impacted demand, and in particular, international and transborder traffic. August was notable for the extended power blackout which interrupted service in the entire eastern part of Canada and the U.S. By quarter, passenger volumes were as follows:

	2002	2003	% change
Q1	773,742	<b>804,757</b>	4.0%
Q2	821,930	<b>804,741</b>	-2.1%
Q3	826,826	<b>819,734</b>	-0.9%
Q4	794,388	<b>833,113</b>	4.9%
Total	3,216,866	<b>3,262,345</b>	1.4%

By sector, for each quarter of 2003 passenger volumes compared to comparable quarters in 2002 as follows:

	Domestic	United States	International
Q1	Higher by 1.2%	Higher by 4.1%	Higher by 28.7%
Q2	Higher by 0.6%	Lower by 8.3%	Lower by 22.0%
Q3	Higher by 1.4%	Lower by 7.0%	Lower by 4.6%
Q4	Higher by 4.3%	Higher by 5.9%	Higher by 11.5%

The increases in international traffic volumes during 2003 were mainly due to new international charters to sunshine destinations. Although Air Canada decreased domestic capacity during the year as its market share declined, other low cost carriers were quick to fill the void in the domestic market.

An increase in the level of Airport Improvement Fees (AIF) from \$10 to \$15 per enplaned passenger, which took effect January 1, 2003, had the most significant impact on the operating results of the Authority as airlines ramped up collection from passengers at the higher rate.







Moreover, Phase I of the Airport Expansion Program (AEP) was completed with the opening of the new terminal building on October 12, 2003. This phase of the AEP was completed six months ahead of schedule and on budget. As a result of the startup of operations in the new facilities, the Authority commenced amortization of capital costs and ceased capitalizing interest costs for accounting purposes on October 12, 2003. Accordingly, amortization and interest expense reflected in the statement of operations have increased. The Authority is proceeding with the planning and design of Phase II of the AEP, but will only commit to proceeding with construction when passenger volumes warrant.

## REVENUES

In 2003, the Authority generated \$63.3 million in total revenues, compared to \$55.3 million in 2002. The AIF accounted for \$7.1 million of the increase in revenues. AIF revenues increased by 52% from \$13.7 million in 2002 to \$20.8 million in 2003 as airlines ramped up their collection of the increased \$15 fee and as passenger volumes increased slightly over 2002. The Authority implemented the original \$10 AIF in September 1999. It is collected under an agreement with the air carriers and is included with the price of an airline ticket. During 2002, the Authority announced an increase in the AIF to \$15 effective January 1, 2003.

Aeronautical revenues represent the largest source of revenues for the Authority. At \$21.9 million in 2003, total aeronautical revenues, which include terminal fees, loading bridge charges, and landing fees charged to air carriers, were \$1.2 million higher than those of \$20.7 million in 2002. Until October 12, 2003, when the Authority started operations in its new passenger terminal building, total aeronautical revenues for the year were on par with 2002. Effective on that date, the Authority adjusted its fee structure to recover, on a cost-neutral basis to the airlines, its ongoing operating costs for common use systems implemented as part of the AEP. These systems include common use ticket counters and queuing, flight information display systems (operated by Air Canada in the old terminal building), and common use baggage handling rooms and systems. To effect the conversion to common use systems, the Authority increased its general terminal fee rates and eliminated exclusive use space rent for ticket counters and baggage handling rooms effective October 12. The increase in general terminal rates, together with an increase in the use of the existing and additional loading bridges in the new facility, resulted in higher terminal fee revenues starting October 12, 2003.

Revenues from concessions increased from \$6.2 million in 2002 to \$6.4 million in 2003. The increase occurred after October 12 when operations moved to the new passenger terminal building. Until the end of the third quarter, concession revenues had been running below 2002 levels due to reduced concession fees charged to the foreign exchange and duty free operators, because of decreased transborder and international passenger volumes in the second and third quarters of 2003. Retail, food and beverage, and car rental concessions were all re-tendered prior to commencing operations in the new passenger terminal building resulting in higher revenue guarantees by new concession agreements. Since October 12, car rental concessions, new retail

along with food and beverage concession operations in the new passenger terminal building have ramped up to provide higher revenue levels to the Authority.

Car parking revenues increased from \$5.3 million in 2002 to \$6.3 million in 2003, an increase of 18%. The Authority adjusted short-term parking rates to match market rates elsewhere in the city of Ottawa in early 2003.

Rents for exclusive use of baggage rooms, ticket counters and queuing space were blended into increased general terminal fees, starting on October 12, to accommodate the new common use format of the passenger terminal building. Offsetting this decrease, rental revenues show a small net increase over 2002 due to new building space rates which were increased by 10% in August 2002 and a further 6.6% effective October 12, 2003. Exclusive use space rental rates were adjusted in two stages in order to better recover a portion of the Authority's increased costs for ground rent payable to the Government of Canada.

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 AEP. Interest income has decreased as funds have been spent on the expansion program.

Other revenues include billings to tenants to recover their costs for electricity consumption which have decreased as a result of infrastructure improvements in mid 2002 that enabled the utility to invoice certain tenants directly.

## EXPENSES

Total expenses before amortization increased from \$40.8 million in 2002 to \$45.2 million in 2003. In addition, amortization increased from \$3.1 million in 2002 to \$5.7 million in 2003, largely due to amortization of the new terminal building and support facilities starting on October 12.

Ground rent payable to the Crown increased by 2.9% from 2002 to 2003. The Ottawa International Airport 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 2002 to 2004, and increasing thereafter to a maximum threshold of 3,300,000 passengers beyond year 20 of the lease (2017). Payment of participation rent, based on a percent of incremental revenues, will commence in 2007. For 2003, the ground rent of \$11.3 million increased from \$11.0 million in 2002 as a result of an increase in the consumer price index.

On July 16, 2003, the Minister of Transport announced short-term rent relief for airports. Under this program, the Authority is able to defer approximately 10% of its rent for the 2 year-period that started July 1, 2003 (a total of \$2,323,564). The deferral is to be repaid, interest-free, over a period of 10 years starting on January 1, 2006. Because this is a deferral and not a permanent reduction of rent, the full amount of rent applicable to 2003 has been recorded as an expense, with the deferred portion reflected as a liability.



Materials, supplies and services increased from \$10.3 million in 2002 to \$13.0 million in 2003. The increased cost of security not fully covered by CATSA, significantly increased insurance costs and rates for electricity consumption, and adjustments and costs related to the Authority's allowance for doubtful accounts accounted for \$1.8 million of the increase. Additional costs were incurred to transition from the old terminal building and to operate common use systems.

Salaries and benefits increased, mainly reflecting contracted rate increases, but also higher costs for pensions and other employee benefits. In addition, the Authority increased its payroll by 5 employees in the last half of the year to accommodate the added requirements of a much larger terminal building and common use systems.

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 paid for 2003 of \$3.5 million reflects this legislation and passenger levels in 2002.

Until October 12, 2003, the Authority capitalized interest on debt directly attributable to the cost of its AEP before the project became operational, but only to the extent that cash had been invested in the AEP. Interest expense reflected in the statement of operations increased as a result of the bond offering in May 2002, but only to the extent that cash had not yet been invested in the AEP. As the AEP neared completion, a greater portion of interest cost was capitalized in proportion to the construction costs incurred. Given the magnitude of the AEP, interest expense and amortization reflected in the statement of operations will increase significantly commencing in 2004.

## 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 2003, excluding capitalized interest, the Authority made cash payments of \$116 million for capital expenditures related to the AEP and an additional \$1.1 million for maintenance capital expenditures. The proceeds of the Authority's \$270 million bond offering in May 2002 provided resources and repaid bank indebtedness used to fund AEP expenditures until completion of the offering. During the year, Moody's, Standard & Poors, and DBRS reaffirmed the Authority's credit ratings of A1, A+, and A (high), respectively, concerning this bond offering.

The Authority commenced the construction of the most significant part of Phase I of its AEP in 2002. This phase included construction of a new passenger terminal building beside the airport's 40-year-old terminal building, a parking structure, and extensive airside and groundside infrastructure to support the new terminal and parking structures. The projected cost of Phase I was budgeted at \$310 million excluding capitalized interest. The project was completed on budget and six months ahead of schedule. 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.

As at December 31, 2003, accounts receivable had increased from December 31, 2002 by \$3.2 million. \$2.7 million of this increase is currently due from tenants, including Transport Canada and CATSA in connection with tenant fitup work done on behalf of these tenants as part of the AEP. Accounts receivable increased by \$0.8 million as a result of the increase in the AIF to \$15 from \$10 effective January 1, 2003 and this increase offsets a decrease in GST throughput credits receivable. Collections of accounts receivable from Air Canada has improved due to negotiated payment terms with the airline subsequent to April 1, 2003.

On April 1, 2003 Air Canada filed for bankruptcy protection under the *Companies' Creditors Arrangement Act*. Air Canada and its affiliates owed Ottawa International Airport Authority approximately \$2 million for landing fees and other services as at March 31, 2003, one day before the date of filing, April 1, 2003. During the year, the Authority entered into an agreement and assigned its receivables from Air Canada and Air Canada Jazz to Credit Suisse First Boston Bank in exchange for 22.25 cents on the dollar. The Authority continues to perform ongoing credit valuations of receivable balances, maintains provisions for potential credit losses and adjusts these provisions from time to time.

Cash and short-term investments of \$25.7 million as at December 31, 2003 include cash not yet disbursed in connection with the AEP and 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.





## PARKING STRUCTURE

ONE OF THE MOST ANXIOUSLY-AWAITED FEATURES OF THE AEP WAS THE FOUR-LEVEL PARKING STRUCTURE. LINKED TO THE NEW TERMINAL VIA COVERED, CLIMATE-CONTROLLED SKYWALKS, THE PARKADE IS HOME TO THE CAR RENTAL COMPANIES WHO SERVE THE AIRPORT AND OFFERS SHORT TERM, REGULAR TERM AND BIZPARK, A PREMIER PARKING OPTION FOR THE FREQUENT BUSINESS TRAVELLER.



Built with our customers in mind, particularly our business and frequent flyers, the new parking structure provides 1,400 spaces for public parking, which brings the total public parking spaces to 2,350.

For travellers who prefer an economical and long-term parking lot for extended trips, we have relocated P4 to a more convenient location within walking distance of the terminal building.

# TOWARDS THE FUTURE

## THE FIVE-YEAR STRATEGIC PLAN

Now that Phase I of the AEP is complete, our focus has turned from construction to operation, including environmental programs, adjustment to new facilities and systems, and further enhancements to our customer service programs. As such, the following points represent the Authority's key priorities for the next five years.

### IMMEDIATE – 2004

1. Develop an "Airport Services" line of business marketing the skills that the team has developed over the past five years, particularly as they relate to the expansion project; and
2. Implement the "Customer Service/Customer Care" program for all internal and external customers and to monitor its impact through Customer Satisfaction Surveys with a target of exceeding the "customer service norm" of similar North American airports.

### MID-TERM – 2005-2006

1. Complete development of the Environmental Management System for the Authority and continue to manage the operations in an environmentally responsible manner;
2. Continue to maintain and enhance our employees' commitment to the Authority's mission and objectives;
3. Develop non-stop and direct air service on a priority and proactive basis;
4. Market and pursue commercial land development on a priority basis; and
5. Continue to take a more proactive role in interfacing and involvement with the City and community on municipal issues and affairs including specifically a focus on education and advocacy vis-à-vis the airport's role in the community.

### LONGER TERM – 2005-2008

1. Evaluation of timing and extent of AEP Phases II and III.



Photo: James A. Morrison, C.D.

### Airport Watch

In 1999, the Airport Authority developed the first Airport Watch Program in Canada, in partnership with Ottawa Police Services and the RCMP. Under the program, approximately 30 aviation enthusiasts have been recruited and security checked to voluntarily provide an additional level of security around the airport. Spotters monitor general aviation procedures, the condition of fencing, wildlife activity, parking lots, suspicious behaviour and flying debris. The program has proven so successful in Ottawa; it is now being modeled at other North American airports.

# BOARD OF DIRECTORS

Claude Bennett, Chair  
Raymond Brunet  
Jeffrey Dale  
Michael Darch



Jim Durrell  
Larry Malloy  
Carmen Rodrigue  
Jean-Marie Séguin



Carol Stephenson  
Pamela Sweet  
Regis Trudel  
Whitman Tucker



Peter Vice  
Jim Wright



OUR THANKS TO THE FOLLOWING  
WHO LEFT THE BOARD OF DIRECTORS  
IN 2003 FOR THEIR GUIDANCE AND  
SUPPORT:

Hugh Blakeney  
Roger Lachapelle  
François Pichard  
Michael Robinson



# GOVERNANCE

## CORPORATE GOVERNANCE, ACCOUNTABILITY AND TRANSPARENCY

The Authority's mission is to provide affordable world-class facilities and services to meet the needs of the community and all of the airport's customers.

### THE BOARD OF DIRECTORS

The launch of the National Airports Policy in 1994 resulted in the creation of local Airport Authorities across the country. These Authorities were first created with the assembly of a community-managed Board of Directors who were tasked with overseeing the management of their local facility. The Ottawa International Airport fell within the scope of the policy, and as such, the Board of Directors was formed with the following requirements:

- includes professional representation nominated by all three levels of government and community and business organizations;
- under Transport Canada policy, directors may not be elected officials or government employees;
- each director has a fiduciary responsibility to the Airport Authority;
- meet 8 or 9 times during the year;
- views its principal responsibility as overseeing the conduct of the business and supervising management to ensure that long-term goals and strategies are met; and
- must meet Conflict of Interest Rules, adhere to the Code of Business Conduct, and the Public Accountability Principles.



Photo: Michelle Valberg

The Board of Directors handed over the key to the Passenger Terminal Building to the Airport Authority team.



Each director has filed a conflict of interest declaration for 2003, as required by the Authority's by-laws. Furthermore, all directors are in compliance with the previously-mentioned guidelines which are included in the by-laws.

## REVISED BY-LAWS

The Authority adopted Revised By-laws on April 23, 2003 to replace the original by-laws of the Authority that were established at incorporation in 1995. Under the Revised By-laws, there are significant changes to the composition of the Board of Directors and to the process for nominating members to the Board of Directors. Further, the size of the Board was reduced from 15 to 14 members, and finally, the number of Selecting Bodies who provide candidates for nomination to the Board has been expanded considerably.

Selecting Bodies	No. of Directors nominated Revised By-Laws	No. of Directors nominated Original By-laws
Minister of Transport	2	2
Government of Ontario	1	1
City of Ottawa	2	9
City of Gatineau	1	3
Air Transport Association of Canada	1	–
Greater Ottawa Chamber of Commerce	1	–
Ottawa Tourism and Convention Authority	1	–
Chambre de commerce de Gatineau	1	–
Ottawa Centre for Research and Innovation	1	–
OMCIAA (at large)	3	–
<b>TOTAL</b>	<b>14</b>	<b>15</b>

The directors' terms of office were shortened from four years to three, but the number of allowable terms was expanded from two to three, thus allowing a director to serve a maximum of nine years. Other changes include expanded director qualifications and a broader scope of authority for the Governance Committee. These particular changes were effected to ensure that the Selecting Bodies would nominate candidates who possess the skills and expertise that are necessary for the Board, as a whole, to carry out its duties.

## DIRECTORS' COMPENSATION IN 2003

<b>Fixed Annual Retainer</b>	
Chair	\$ 25,000
Vice-Chair	\$ 15,000
Committee Chairs	\$ 15,000
Other Directors	\$ 12,000

## COMMITTEES OF THE BOARD

Following is a list of Committees of the Board, including a description of their respective responsibilities;

### EXECUTIVE COMMITTEE

- conducts an annual review and assessment of the performance of the President;
- approves the annual report as prepared by the President;
- evaluates Human Resources through a bi-annual satisfaction survey of employees;
- conducts an annual review of Board governance and compensation;
- recommends Chairs of Committees; and
- recommends Directors for the Governance Committee.

### GOVERNANCE COMMITTEE

- selects appointees to fill vacancies on the Board of Directors in accordance with processes outlined in the Authority's Revised By-laws;
- oversees the application of Conflict of Interest Rules to directors and nominees;
- evaluates the performance of the Board and individual directors;
- evaluates the communications flow between the Board and management;
- reviews the governance section of the annual report; and
- studies and adopts evolving best practices in corporate governance.

### AUDIT COMMITTEE

- the external auditors report to the Audit Committee. The Audit Committee reviews matters relating to the appointment of external auditors, including fees, and recommends the appointment of the external auditors;
- reviews proposed fiscal Operating and Capital Budgets for recommendation to and approval by the Board on an annual basis;
- reviews the annual audited financial statements of the Authority for recommendation to and approval by the Board;
- reviews with the external auditors matters relating to the conduct of the annual audit, and any recommendations made by the auditors;
- reviews and approves the quarterly financial statements of the Authority; and
- reviews matters having a material financial impact on the Authority, including financing requirements and options, for recommendation to the Board.



Photo: Michelle Valberg

### The Gala

On October 3<sup>rd</sup>, the Board of Directors and the Airport Authority team welcomed guests into the new terminal for a sneak preview. A truly memorable affair, attendees were guided through the building and introduced to the highlights by none other than the building itself; beginning with cocktails on the 3<sup>rd</sup> level, guests were guided down to the 2<sup>nd</sup> level for spectacular food and drink. The "pièce de résistance" was the performance of Le Cirque Éloize, who provided a fitting end to the Gala with a spectacular descent from the vaulted ceiling on silk ribbons into the 1<sup>st</sup> level arrivals area. If the walls could talk indeed!



**IT IS NO SECRET THAT THE AIRPORT AUTHORITY'S MOST PRECIOUS RESOURCE IS ITS PEOPLE.**

**BUSINESS DEVELOPMENT & COMMUNICATIONS COMMITTEE**

- reviews major marketing initiatives before the President recommends them to the Board;
- reviews in-terminal customer survey results;
- reviews land development plans before the President recommends them to the Board; and
- reviews the overall communications strategy and major communications initiatives.

**AEP OVERVIEW COMMITTEE**

- oversees the development and progress of the Airport Expansion Program.

Other ad hoc committees may be formed from time to time that include members of the Board of Directors.

**COMPOSITION OF BOARD COMMITTEES AS OF DECEMBER 31, 2003**

**EXECUTIVE COMMITTEE**

Claude Bennett	Chair
Jim Durrell	Vice-Chair
Regis Trudel	Past-Chair
Larry Malloy	Chair, Business Development and Communications
Whitman Tucker	Chair, Audit
Carol Stephenson	(at large)

**BUSINESS DEVELOPMENT & COMMUNICATIONS COMMITTEE**

Larry Malloy	Chair
Raymond Brunet	
Michael Darch	
Jim Durrell	
Pamela Sweet	
Peter Vice	

**GOVERNANCE COMMITTEE**

Regis Trudel	Chair
Claude Bennett	
Jeffrey Dale	
Jim Durrell	
Jean-Marie Séguin	
Peter Vice	

**AEP OVERVIEW COMMITTEE**

Claude Bennett	Chair
Raymond Brunet	
Michael Darch	
Jim Durrell	
Regis Trudel	

**AUDIT COMMITTEE**

Whitman Tucker	Chair
Jeffrey Dale	
Carol Stephenson	
Regis Trudel	
Jim Wright	

**ACCOUNTABILITY**

The Authority's policy is to be both accountable to the community and transparent in its relations with business and its customers. The Authority's mandate, as set out in its Letters Patent, establishes a standard against which its performance can be measured.

The mandate of the Authority is:

- to manage, operate and develop the Ottawa International Airport, which is leased to the Authority by Transport Canada, 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;
- to undertake and promote the development of the Airport lands, for which it is responsible, for uses that are compatible with air transportation activities; and
- to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

The Authority accounts for its actions to the community in a number of ways:

- by publishing an annual report;
- by hosting an Annual Public Meeting;
- by hosting an annual meeting with Selecting Bodies;
- by establishing and/or reporting to the following consultation committees:
  - Airport Noise Committee
  - Airline Consultative Committee
  - Airport Operators Committee
  - Community Consultative Committee
  - Airside Safety Committee
- through meetings and/or consultations with local city officials;
- through extensive public consultations on the periodic renewal of the Airport's Master Plan and Land Use Plan, the latter of which requires approval by the Minister of Transport; and
- by maintaining a corporate Web site at [www.ottawa-airport.ca](http://www.ottawa-airport.ca).

In addition, a performance review must be conducted at least once every five years, in keeping with the Authority's Ground Lease with Transport Canada. This performance review was last done in early 2002.

## TRANSPARENCY

### PROCUREMENT AND CONTRACTING

The Authority ensures transparency in its procurement practices. The Public Accountability Principles for Canadian Airport Authorities and the Authority's Ground Lease require that all contracts for the procurement of goods, services and construction services with a value in excess of \$89,000 (\$75,000 in 1994 dollars adjusted for Consumer Price Index), must be awarded through a competitive public tendering process, or be disclosed in the Authority's annual report together with justification for deviation from the competitive process.



**THE AUTHORITY  
ENSURES TRANSPARENCY  
IN ITS PROCUREMENT  
PRACTICES.**



Contracts that exceeded the stipulated value, and were not awarded on the basis of a public competitive process during 2003 were:

<b>Contractor</b>	<b>Contract Description</b>	<b>Reason for Sole Source</b>
<b>Panasonic Canada</b>	\$575,000 Supply, deliver & install video wall system	Proprietary equipment available from only one supplier
<b>PCL Constructors</b>	\$4,001,948 (cost recoverable) Perform airline tenant fit-up	To ensure clear responsibility for Health and Safety requirements ("Constructor" status) on construction worksite
<b>Mitel Networks Corporation</b>	\$114,160 SX-2000 (telephone system) Replacement & transition solution implementation	To ensure integration and functionality with existing telephone system
<b>Johnson Controls L.P.</b>	\$719,953 (partially cost recoverable) Supply and install IT system components for tenants and parking structure	To ensure integration and functionality with main building systems, (which were awarded on the basis of a public competitive process)
<b>PCL Constructors</b>	\$451,733 (cost recoverable) Perform tenant fit-up – DFAIT lounge	To ensure clear responsibility for Health and Safety requirements ("Constructor" status) on construction worksite
<b>PCL Constructors</b>	\$546,641 (cost recoverable) Perform tenant fit-up – RCMP	To ensure clear responsibility for Health and Safety requirements ("Constructor" status) on construction worksite
<b>Enbridge Consumers Gas</b>	Not to exceed \$300,000 Supply, deliver natural gas to airport campus	Gas utility. Ensures continued, stable service and pricing
<b>DEW Engineering</b>	\$116,350 Covered passenger walkway relocation	Proprietary equipment available from only one supplier
<b>Ottawa Truck Centre</b>	\$196,923 Supply & deliver single axle dump truck & plow	Maintains a standard fleet of equipment to achieve operational efficiency
<b>Tenco Machinery (CDN) Ltd.</b>	\$793,528 Supply, deliver snowblower and runway sweeper	Maintains a standard fleet of equipment to achieve operational efficiency
<b>Eagle Airfield Ltd.</b>	\$114,338 Supply, deliver & install two 22-foot plow blades	Maintains a standard fleet of equipment to achieve operational efficiency
<b>United Rotary Brush Corp.</b>	Not to exceed \$150,000 Supply & deliver runway sweeper bristles and wafers as and when required	Proprietary equipment available from only one supplier
<b>SewerMatic Drain Services</b>	\$108,816 Maintenance of de-icing tank and oil water separator	Established competitively (but not by public tender) through bids from the only two qualified local firms

## EXECUTIVE MANAGEMENT SALARY RANGES

The base salary range for the President of the Authority in 2003 was from \$125,000 to \$175,000. The base salary range for each of the Vice-Presidents in 2003 was from \$85,000 to \$125,000.

## FEES AND CHARGES

The Authority provides 60-days advance-notice in local news media for all changes in user charges (excluding rent), together with a justification for the noted increase. This includes parking rates, aeronautical fees, and airport improvement fees.

While the Authority's goal is to keep the aeronautical fees it charges air carriers constant, it has been necessary to adjust these fees on a few occasions. The Authority's process for adjusting aeronautical fees and charges includes:

- consulting with air carriers, with necessary explanations and calculations showing how these fees were determined, prior to any change through the Airlines Consultative Committee;
- providing 90-days notice of the increase in fees to the airlines; and
- providing 60-days advance-notice in local print media.

The Authority publishes the explanation for any change in Airport Improvement Fees, as it last did when it increased its fee to \$15 on January 1, 2003. The purpose of the existing Airport Improvement Fee is to pay for the construction of and the debt associated with the Airport Expansion Program.

The process for adjusting the Airport Improvement Fee includes the same criteria and public notice as aeronautical fees and charges, as previously described.

## PUBLIC MEETINGS AND CONSULTATIONS WITH THE PUBLIC

The Annual Public Meeting will be held on May 5, 2004.

The most recent Community Consultative Committee meetings were held on the following dates:

- June 20, 2003
- January 23, 2004

## **PUBLIC ACCESS TO DOCUMENTS**

In accordance with Public Accountability Principles for Canadian Airport Authorities, the Ottawa Airport Authority makes available the following documents for examination, at no charge, during its usual business hours:

- the current Airport Master Plan;
- a summary of the Authority's current Business Plan;
- the most recent and the previous annual financial statements of the Authority, with the accompanying auditors reports (included in each year's annual report);
- its five most recent annual reports, each of which includes a general summary of the Authority's affairs during the previous fiscal year;
- summaries of the Authority's five most recent Business Plans;
- the Authority's Articles of Incorporation (its Letters Patent) and By-Laws, including any amendments;
- all signed airport transfer agreements; and
- a summary of the Authority's 5-year performance review document.

## **CONTACTING THE AUTHORITY**

There are a number of methods available to the public for contacting and providing input to the Authority:

- submit questions, comments or concerns through the Authority's website [www.ottawa-airport.ca](http://www.ottawa-airport.ca);
- complete a customer comment card which are available at both of the Airport's Infoguide kiosks;
- call the general inquiries lines at (613) 248-2125 or 248-2141;
- call the noise information line at (613) 248-2023;
- call or write to individual Authority departments at the following address: Suite 2500, 1000 Airport Parkway Private, Ottawa, ON Canada K1V 9B4; and
- fax questions, comments or concerns to (613) 248-2068.

In addition, the Authority conducts customer satisfaction surveys on an annual basis in the Passenger Terminal Building.

The Authority's policy is to respond to questions, comments and concerns as expeditiously as possible.

# FINANCIAL STATEMENTS

## OTTAWA MACDONALD-CARTIER INTERNATIONAL AIRPORT AUTHORITY

DECEMBER 31, 2003

### 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 public 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, 2003 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 at December 31, 2003 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.

*Deloitte + Touche LLP*

Chartered Accountants

Ottawa, Ontario

January 30, 2004

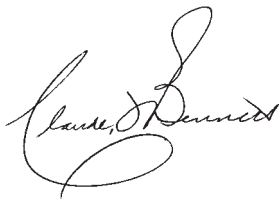
# BALANCE SHEET

AS AT DECEMBER 31, 2003

(in thousands of dollars)

	2003	2002
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and short-term investments	\$ 25,690	\$ 124,409
Accounts receivable	9,436	6,212
Consumable supplies	429	360
Prepaid expenses and advances	877	928
	<u>36,432</u>	<u>131,909</u>
DEBT SERVICE RESERVE FUND (Note 6(a))	8,647	8,761
DEFERRED FINANCING COSTS (Notes 2 and 6(g))	3,694	4,084
CAPITAL ASSETS (Note 3)	329,844	224,554
OTHER ASSETS (Note 4)	2,930	2,930
	<u>\$ 381,547</u>	<u>\$ 372,238</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts payable & accrued liabilities	\$ 27,993	\$ 31,604
Current portion of long-term debt	368	273
	<u>28,361</u>	<u>31,877</u>
SECURITY DEPOSITS	620	511
LONG-TERM DEBT (Note 6)	273,830	273,519
	<u>302,811</u>	<u>305,907</u>
COMMITMENTS (Note 10)		
NET ASSETS (Note 7)	78,736	66,331
	<u>\$ 381,547</u>	<u>\$ 372,238</u>

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, 2003

(in thousands of dollars)

	2003	2002
<b>REVENUES</b>		
Airport improvement fees (Note 7)	\$ 20,838	\$ 13,690
Terminal fees and loading bridge charges	12,151	11,017
Landing fees	9,770	9,725
Concessions	6,405	6,208
Car parking	6,296	5,331
Land and space rentals	3,817	3,763
Interest income	2,649	3,686
Other revenue	1,394	1,888
	<b>63,320</b>	<b>55,308</b>
<b>EXPENSES</b>		
Ground rent (Note 10)	11,329	11,005
Materials, supplies and services (Note 11)	12,999	10,341
Salaries and benefits	10,066	9,160
Payments in lieu of municipal taxes	3,466	3,654
Interest expense (Note 6(e))	7,331	6,617
	<b>45,191</b>	<b>40,777</b>
Excess of Revenue over Expenses Before Amortization	<b>18,129</b>	14,531
Amortization	5,724	3,090
	<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>11,441</b>
	<b>12,405</b>	11,441
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>66,331</b>	54,890
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 78,736</b>	<b>\$ 66,331</b>

(See accompanying notes to the financial statements)

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2003

(in thousands of dollars)

	2003	2002
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATIONS:</b>		
Excess of revenues over expenses	\$ 12,405	\$ 11,441
Add non-cash items:		
Amortization	5,724	3,090
Amortization of deferred financing costs	390	243
Loss (gain) on disposal of capital assets	50	(31)
Interest on long-term debt	112	106
Deferred rent (Note 6)	566	-
Changes in non-cash working capital related to operations:		
Accounts receivable	(3,224)	(1,683)
Prepays and consumable supplies	(18)	(464)
Accounts payable and accrued liabilities	2,831	113
Increase in Security deposits	109	175
<b>Total operations</b>	<b>18,945</b>	<b>12,990</b>
<b>FINANCING ACTIVITIES:</b>		
Issue of long-term debt (Note 6)	-	270,000
Deferred financing costs (Note 6(g))	-	(4,327)
Debt service reserve fund (Note 6(a))	114	(8,761)
Repayment of long-term debt	(273)	(257)
<b>Total financing activities</b>	<b>(159)</b>	<b>256,655</b>
<b>INVESTING ACTIVITIES:</b>		
Capital asset expenditures	(111,064)	(147,473)
Proceeds from disposal of capital assets	-	52
Increase (decrease) in accounts payable and accrued liabilities related to investing activities	(6,441)	16,802
<b>Total investing activities</b>	<b>(117,505)</b>	<b>(130,619)</b>
<b>Increase (decrease) in cash and short-term investments</b>	<b>(98,719)</b>	<b>139,026</b>
<b>Cash and short-term investments (bank indebtedness), beginning of year</b>	<b>124,409</b>	<b>(14,617)</b>
<b>Cash and short-term investments, end of year</b>	<b>\$ 25,690</b>	<b>\$ 124,409</b>
<b>Cash and short-term investments consists of:</b>		
Cash in bank	\$ 7,717	\$ 9,315
Short-term investments	17,973	115,094
	<b>\$ 25,690</b>	<b>\$ 124,409</b>

(See accompanying notes to the financial statements)

AN IMPRESSIVE VIEW OF THE DESIGN AND STRUCTURE OF THE PASSENGER  
TERMINAL BUILDING FROM THE 3<sup>RD</sup> LEVEL AT THE SOUTH END.





# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2003

## 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 support facilities	10 – 40 years
Runways, roadways and other paved surfaces	10 – 40 years
Land improvements	5 – 40 years
Furniture and equipment	5 – 20 years
Computer equipment and systems	2 – 10 years
Vehicles	7 – 15 years
Leasehold improvements	3 – 10 years

Construction in progress includes costs associated with the Airport Expansion Program. Construction in progress is recorded at cost and is transferred to buildings and support facilities and other asset categories as appropriate when the project is complete and the asset is placed in service.

### 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)

	2003	2002
Cost:		
Buildings and support facilities		
Buildings and building improvements	\$ 236,475	\$ 7,288
De-icing facility	6,998	6,998
Pedestrian bridges	6,457	-
Utilities infrastructure	5,394	2,997
	<u>255,324</u>	<u>17,283</u>
Runways, roadways and other paved surfaces	28,069	6,095
Land improvements	19,965	271
Furniture and equipment	18,255	2,103
Computer equipment and systems	12,639	1,073
Vehicles	6,638	6,443
Leasehold improvements	1,782	5,943
Construction in progress	-	197,429
	<u>342,672</u>	<u>236,640</u>
Less accumulated amortization:		
Buildings and support facilities		
Buildings and building improvements	2,347	754
De-icing facility	608	329
Pedestrian bridges	72	-
Utilities infrastructure	241	96
	<u>3,268</u>	<u>1,179</u>
Runways, roadways and other paved surfaces	2,818	2,103
Land improvements	291	123
Furniture and equipment	1,562	1,228
Computer equipment and systems	1,305	762
Vehicles	2,886	2,375
Leasehold improvements	698	4,316
	<u>12,828</u>	<u>12,086</u>
	<u>\$ 329,844</u>	<u>\$ 224,554</u>

**4. OTHER ASSETS**

(in thousands of dollars)

	2003	2002
Interest in future proceeds from 4160 Riverside Drive, at cost	<u>\$ 2,930</u>	<u>\$ 2,930</u>

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 two 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 general corporate purposes and 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, 2004, and will be reduced with any new debt issuance. They are available by way of overdraft, Prime Rate Loans, or Banker's Acceptances. As at December 31, 2003, \$4.9 million of these revolving facilities had been designated to the Operating and Maintenance Reserve Fund (see Note 6). These credit facilities remained undrawn throughout 2003.

**6. LONG-TERM DEBT**

(tabular amounts in thousands of dollars)

	2003	2002
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	\$ 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	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	1,637	1,909
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	1,995	1,883
Deferred rent repayable to the Minister of Transport, without interest in equal monthly instalments over a ten year period commencing in 2006	566	-
	<u>274,198</u>	<u>273,792</u>
Less: current portion	368	273
	<u>\$ 273,830</u>	<u>\$ 273,519</u>

(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 *pasi 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 \$4.9 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.

(D) On July 16, 2003, the Minister of Transport announced short-term rent relief for airports. Under this program, the Ottawa International Airport Authority is able to defer approximately 10% of its rent for the 2 year-period that started July 1, 2003 (a total of \$2.3 million). The deferral is to be repaid, interest-free, over a period of 10 years starting on January 1, 2006. Because this is a deferral and not a permanent reduction of rent, the full amounts of rent are being recorded as a liability in the accounts.

(E) INTEREST EXPENSE

	2003	2002
Bond interest	\$17,227	\$ 10,431
Interest expense – Other	719	878
	<u>17,946</u>	<u>11,309</u>
Less: Capitalized interest	(10,615)	(4,692)
	<u>\$ 7,331</u>	<u>\$ 6,617</u>

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

2004	\$ 368
2005	551
2006	982
2007	121,619
2008	1,746
Total thereafter	148,932

The Authority plans to refinance obligations under the 5.64% Revenue Bonds Series A due in 2007 during 2007.

(G) DEFERRED FINANCING COSTS

	2003	2002
Deferred financing costs	\$ 4,327	\$ 4,327
Less: Accumulated amortization	(633)	(243)
	<u>\$ 3,694</u>	<u>\$ 4,084</u>

## 7. AIRPORT IMPROVEMENT FEES (AIF)

(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 was increased to \$15 effective

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 the 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.

	2003	Cumulative to date
Airport Expansion Program Expenditures:		
Passenger terminal building, parking garage, airside and landside infrastructure and other expenditures	\$ 99,755	\$ 306,832
Interest capitalized	10,615	15,461
Interest expensed	7,331	13,727
	<u>117,701</u>	<u>336,020</u>
AIF cash receipts:		
AIF revenue – net of collection fees	20,838	67,419
Interest on surplus funds	1,312	4,322
	<u>22,150</u>	<u>71,741</u>
Increase in Accounts Receivable	(809)	(2,211)
AIF revenue – net cash received	21,341	69,530
Excess of expenditures over AIF receipts	<u>\$ 96,360</u>	<u>\$ 266,490</u>

Net assets of the Authority as at December 31, 2003 are as follows:

	2003	2002
Net assets provided by Airport Improvement Fees:		
Accumulated Airport Improvement Fees and interest on surplus funds	\$ 71,741	\$ 49,591
Less: Accumulated amortization of AEP assets	3,955	1,083
Interest and other expenditures	14,183	6,396
	<u>53,603</u>	<u>42,112</u>
Net assets provided by other operations:		
Accumulated, end of year	25,133	24,219
	<u>\$ 78,736</u>	<u>\$ 66,331</u>



**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 the most recent actuarial determination of pension plan benefits completed as at December 31, 2002 and extrapolated to December 31, 2003, the status of pension plan is as follows:

	<u>2003</u>	<u>2002</u>
Fair value of pension plan assets	\$ 18,237	\$ 15,160
Accrued pension benefit obligation	19,569	15,534
Funded Status – plan (deficit)	\$ (1,332)	\$ (374)
Accrued benefit asset	\$ 357	\$ 374

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:

	<u>2003</u>	<u>2002</u>
Accrued benefit obligation	\$ 2,204	\$ 1,704
Accrued benefit liability	\$ 1,180	\$ 753

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:

	<u>2003</u>	<u>2002</u>
Discount rate	6.5%	6.5%
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 decreasing gradually to increase starting after 2013 at	9.0%	9.0%
	4.0%	6.0%

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

	<u>2003</u>	<u>2002</u>
Defined benefit pension plan component	\$ 612	\$ 442
Defined contribution pension plan component	\$ 152	\$ 134
Other post retirement and employment benefits	\$ 426	\$ 345

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

	<u>2003</u>	<u>2002</u>
Employer contributions	\$ 596	\$ 567
Employees’ contributions	\$ 224	\$ 233
Benefits paid	\$ 283	\$ 345

**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. As at December 31, 2003, the fair value of the long-term bonds was \$125.7 million and \$160.6 million for

the Series A and Series B Revenue bonds respectively. Fair values of other 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 RISK

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.

The Authority's exposure to interest-rate risk relates to its future anticipated borrowings and refinancing.

#### 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 62% of its landing fees and terminal revenue from one airline. However, management believes that the Authority's long term exposure to any single airline is mitigated by the fact that approximately 90% of the passenger traffic through the airport is origin and destination traffic, and therefore other carriers are likely to absorb the traffic of any carrier that ceases 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 the 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.

Minimum estimated lease payments under the ground lease for the next five years excluding participation rent are as follows:

2004	\$ 11.6 million
2005	\$ 13.0 million
2006	\$ 13.3 million
2007	\$ 13.3 million
2008	\$ 13.6 million

In addition to the above, at December 31, 2003, the Authority had operating commitments in the ordinary course of business of approximately \$6.4 million per year extending for various periods up to 5 years in duration. The Authority also has open commitments outstanding relating to the purchase of maintenance capital assets amounting to approximately \$1.0 million.

### 11. CONTRIBUTION AGREEMENTS

In 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 \$1,000,000 (2002 – \$750,000) and recorded these as a reduction of related operating costs included in the statement of operations.

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 in 2002 received under this program. These amounts were recorded as a reduction of related operating costs included in the statement of operations.

## **12. COMPARATIVE FIGURES**

Certain of the 2002 comparative figures, primarily those on the statement of operations, have been reclassified to conform to the financial statement presentation adopted in 2003.