



 **BC Ferries**

BUSINESS PLAN 2004/05

British Columbia Ferry Services Inc.

Preface

On April 2, 2003, BC Ferries officially became an independent, regulated company. On that day, the 43-year old organization was given the opportunity to build on a proud marine history within a new business model.

At the new BC Ferries, we have a clear vision to become a world-class marine transportation system. One that is both highly customer-focused and financially viable.

During our first year, we have made big strides towards our vision and we are excited about our future. We are building on our strengths and we are creating new business opportunities...

One sailing at a time.



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Introduction

This BC Ferries Business Plan highlights our planned activities for the fiscal year from April 1, 2004 to March 31, 2005. This plan also tracks our progress against our Strategic Plan, which was developed in 2003 to chart our course over the next 20 years.

This Business Plan reflects both our Vision and Mission statements.

Vision

To become a world-class marine transportation system that is customer-focused and financially viable.

Mission

To provide a safe, reliable and efficient ferry service which consistently exceeds the expectations of our customers and communities, and creates value for the shareholder.

Core Values

Safety. Ensure that the safety and security of our customers and staff is a primary concern in all aspects of doing business.

Quality. Be motivated by customer expectations in providing quality facilities and services.

Integrity. Be accountable for all our actions and ensure we demonstrate integrity in our business relations, utilization of resources, treatment of our customers and staff, and in the general conduct of our business.

Partnerships. Work openly and constructively with our various business and community stakeholders to exceed the expectations of our customers and advance each other's interests.

Environment. Ensure that environmental standards are maintained.

Overview

We operate one of the largest and most complex ferry systems in the world, with a fleet of 35 vessels, 25 routes, and 47 terminals. Our vessels sail in waters that provide breathtaking views of the Province of British Columbia from the Queen Charlotte Islands to Victoria. We provide a truly spectacular coastal experience in every sailing.

The business model now governing BC Ferries gives us operational certainty and the flexibility to grow and improve customer service and our financial stability. Most importantly, it provides a long-term ferry service guarantee to British Columbia's coastal communities.

On April 2, 2003, the process of transforming BC Ferries from a Crown Corporation to an independent, regulated company was successfully implemented. However, like most companies going through a major transformation, there were accomplishments and challenges in our first year.

2003/04 Accomplishments

We completed our first year of operations on March 31, 2004. During this year, we achieved many accomplishments that demonstrated our capability and determination to operate a world-class ferry system, including:

Customer Service

- Safely transported over 21 million passengers and 8 million vehicles.
- Improved communication with our customers through enhanced signage and public announcements.
- Expanded partnerships with third-party providers to enhance service delivery while improving financial results. Examples include expanded food offerings with Villages Pizza, Bread Garden and Starbucks.
- Launched a number of pricing initiatives to both stimulate travel and direct our customers to less congested sailings.
- Introduced reservations on the Horseshoe Bay–Langdale route and new travel packages like SailPass to stimulate travel throughout the system.
- Conducted a comprehensive customer satisfaction survey to obtain a better understanding of our customers. The survey reported that over 82 percent of our passengers were satisfied with their BC Ferries travel experience.

Improving Terminals and Vessels

- Completed the first C-class vessel mid-life upgrade of the *Queen of Coquitlam*. Customers on the Nanaimo–Horseshoe Bay route now experience improved seating and décor in the passenger lounges, and enjoy a new and improved standard in service and selection in the food and retail outlets.
- Initiated passenger facility upgrades at several of our terminals.
- Performed upgrades to various vessels to ensure ongoing safe and reliable service. These included installing new engines in the *North Island Princess*, which services the Texada Island–Powell River route, and starting a major renovation to the *Queen of Prince Rupert*, which services the Northern Routes.
- Developed a fleet renewal program for the upgrade or replacement of our vessels.

Building a New Company

- Completed the conversion from a Crown Corporation to an independent, regulated company.
- Developed a 20-year strategic plan.
- Conducted employee forums throughout the fleet to present the new legal structure and business model of the new company.
- Introduced a new corporate identity to raise public awareness of the changes at BC Ferries.
- Established new Aboriginal Relations and expanded Community Relations programs.
- Achieved a commercial credit rating of A⁻ and A (low) by Standard and Poors and Dominion Bond rating services, respectively.
- Created a subsidiary company, Deas Pacific Marine Inc., to provide ship repair services to BC Ferries and third-party operators.
- Established a partnership with SNC-Lavalin to provide engineering and project management for construction and maintenance of all our terminals and marine structures.

2003/04 Challenges

We faced some major challenges in 2003/04 including:

- Maintaining our older vessels to provide an ongoing reliable level of service to the travelling public.
- The unfortunate labour dispute that resulted in a strike in December 2003, disrupting service to ferry-dependent coastal communities and businesses. To resolve the dispute and resume service, BC Ferries and the BC Ferry & Marine Workers' Union agreed to binding arbitration. The decision of the arbitrator is expected in 2004.

2004/05 Business Initiatives

This Business Plan reflects on the achievements of 2003/04 and outlines our priorities, targets, and financial projections for 2004/05. The Business Plan will help ensure we achieve both our customer service and commercial goals in the long run.

The Business Plan builds off the six objectives identified in the Strategic Plan. For each objective, specific initiatives have been identified and targets established.

The Queen of Coquitlam
sets the new standard for
passenger facilities.



Ensure a safe, secure and environmentally responsive marine transportation system

At BC Ferries, passenger and crew safety is our number one priority. BC Ferries has long been recognized for its strong safety record. To ensure that BC Ferries maintains this strong record, we will continue to work closely with the various regulatory agencies (including Transport Canada and Workers' Compensation Board) to ensure that we comply with all safety standards and regulations. Further, we will continue to invest in our voluntary Safety Management Systems that meet the higher international safety standards.

Meeting and exceeding environmental standards are also important to BC Ferries. For example, of our 35 vessels, 11 vessels have received new treatment plants as part of a fleet-wide sewage handling program.

For 2004/05, we have identified a number of initiatives that will allow us to build on our strong safety and environmental records:

- Conduct a comprehensive fleet-wide emergency evacuation analysis.
- Train approximately 200 employees for Bridge Watchman certification.
- Hold monthly meetings between our senior executives and Transport Canada.
- Develop comprehensive fleet-wide maintenance standards which will be practical and auditable. These standards will ensure safe, efficient and high- quality assets.
- Develop a strategy for reducing emissions and improving fuel efficiency to position BC Ferries for compliance with rapidly evolving environmental standards.
- Expand the sewage handling program on four vessels, bringing the total to 15 vessels with new treatment plants.
- Initiate a fleet-wide management program to enhance the quality of potable water at terminals and on vessels.
- Expand the “green building” and “green purchasing” programs to reduce the corporate environmental footprint.
- Expand Occupational Safety and Health training to reduce injury claims.

Performance Targets

	2003/04 Actual	2004/05 Target
Vessel and terminal incidents requiring investigations	36	33
Number of passenger injury claims/million customers	0.7	0.6

All of our vessels are equipped with Transport Canada certified lifesaving appliances.



Establish a company-wide commitment to customer service

Achieving a company-wide commitment to customer service will require further improvements to our reliability and dependability, our choice of activities and food, and the overall appearance of our vessels and terminals. In addition, if we are to improve our customers' overall experience, we need to better understand our customers, who include the residents of ferry-dependent communities and the many businesses, industries and visitors that have a direct interest in our service. In the past year, comprehensive customer surveys were initiated. While the results of the surveys were positive, there are a number of areas where we will continue to focus and improve.

For 2004/05, we have identified the following initiatives that will allow us to further our commitment to customer service:

- Revitalize our ferry fleet:
 - Sign contracts for the construction of up to three new major vessels and a new Intermediate-class vessel.
 - Complete C-class mid-life upgrade of the *Queen of Cowichan* and commence the upgrade of the *Queen of Oak Bay*.
 - Upgrade the passenger areas on the *Spirit of British Columbia*.
 - Introduce an expanded retail facility on the *Spirit of Vancouver Island*.
 - Complete the passenger facility upgrades of the *Queen of Prince Rupert*.
- Develop a performance plan to improve customer service during peak travel periods.
- Upgrade the passenger facilities at Tsawwassen and Swartz Bay terminals.
- Replace or renovate the passenger amenities building at Tsawwassen to expand customer service offerings.
- Complete highway modifications at Horseshoe Bay to re-configure the traffic area leading to the ticket booths, and initiate highway modifications on the approach to Swartz Bay.
- Improve communication with our customers through enhanced signage and upgraded public announcement systems.
- Redesign and enhance our company website to assist travel planning and pursue partnerships with companies such as Expedia.

Performance Targets		
	2003/04 Actual	2004/05 Target
On-time performance compared to scheduled departure	84%	90%
Overall Customer Satisfaction	4.0 (out of 5)	4.1



The gift shop expansion is one component of an overall plan to improve customer service and convenience.



Foster a highly motivated, committed and flexible workforce

Our employees continue to be the most important ambassadors for the many passengers welcomed at our terminals and onboard our vessels each day. Accordingly, their support and commitment is fundamental to our company's growth and success.

To achieve this objective, we must create a competitive people advantage through the development of a highly-skilled, productive and engaged workforce. Over the past year, 8,500 days of training were delivered to our employees and over 2,500 Transport Canada Safety Certificates were earned. We are also committed to establishing effective employee relations and have undertaken extensive employee communications with respect to the New Business Model and the new direction of BC Ferries.

We look forward to having a new collective agreement in place based on the decision of the arbitrator in 2004. This agreement will provide a foundation on which to build a stronger relationship with our employees so that together we can focus on the long-term sustainability of our business.

For 2004/05, we have identified a number of initiatives that will enable front line managers and employees to better support our goals:

- Introduce a new Operations Business Model that will fundamentally change the way that Operations and the rest of our business divisions work together.
- Introduce a new Human Resource delivery system based on a progressive human resource structure, approach, and integrated set of practices.
- Work with employees to help them fully understand how they fit into the new BC Ferries business model.
- Provide employee training programs through local "training centres of expertise" to allow better planning and utilization of trainers and facilities.
- Implement the CHARTS (Crewing, Human Resource and Time System) and ACCESS programs to improve employee information management, time collection and crew scheduling.

Performance Targets

	2003/04 Actual	2004/05 Target
Workforce Productivity (Company Revenue / Company FTE)	\$180,000	\$196,000
HR Efficiency (HR Staff FTE / 100 Employees)	1.4	1.0
Voluntary Turnover Rate	1.4%	<1.0%



Our highly skilled and dedicated workforce is committed to providing professional service.



Establish pro-active and constructive relationships with communities and governments

We will continue to devote substantial time and effort to the development of our relationships with major stakeholders including municipalities, regional districts, First Nations, federal and provincial governments, chambers of commerce, commercial trucking associations, and tourism interests. Building these relationships is critical to our success.

In addition, we will maintain an active community consultation program through our Ferry Advisory Committees, which meet a minimum of twice each year. Through these local committees, terminal and service issues will be discussed and input gathered.

The Aboriginal communities along the coast of British Columbia represent a key relationship for us. To this end, our Aboriginal Relationship Manager is working to promote a positive relationship with coastal First Nations.

For 2004/05, we have identified a number of initiatives that will enhance our relationships with stakeholders:

- Consult with northern British Columbia communities and stakeholders using our Northern Routes¹ for the purpose of developing a long-term service strategy.
- Work with the British Columbia Ferries Commissioner to ensure the requirements of the *Coastal Ferry Act* and *Coastal Ferry Services Contract* are met to his satisfaction.
- Initiate long-term master plans for Tsawwassen, Swartz Bay, Quathiaski Cove, Alert Bay, Westview, Crofton and Snug Cove.
- Expand and further develop First Nations consultation:
 - Seek employment and/or business opportunities with First Nation partners.
 - Increase cross-cultural education for employees.

¹ Route 10 (Port Hardy–Prince Rupert); Route 11 (Prince Rupert–Queen Charlotte Islands); Route 40 (Port Hardy–Mid Coast)



Building positive relationships with coastal First Nations and local communities is critical to our success.



Respond to and develop market demand to increase revenue

Although the focus of the first year was on improving the delivery of our existing services, BC Ferries was able to introduce a number of new products and services. These introductions enabled us to develop the market and increase revenues. New products included expanded food offerings from Starbucks, Bread Garden, Villages Pizza, and Salt Spring Coffee Co. Other products included off peak discounted vehicle fares of 25 to 50 percent, which attracted new customers and shifted demand from peak periods.

For 2004/05, we have identified the following initiatives:

- Expand pricing options and other travel programs (e.g. SailPass).
- Enhance the delivery of food and retail offerings at our terminals and on our vessels.
- Introduce new onboard services for our customers, such as internet access.
- Broaden distribution channels with potential strategic partners, such as Expedia, BCAA, and tourism associations.
- Maximize advertising revenue opportunities at our terminals and onboard the vessels.
- Develop third-party market opportunities for terminal and vessel maintenance.

Performance Targets		
	2003/04 Actual	2004/05 Target
TRAFFIC:		
Passengers (Annual Growth)	-1.2%	2.1%
Vehicles (Annual Growth)	-0.4%	2.2%
Commercial (Market Share)	46.2%	48.0%
REVENUE:		
Tariff (Per Annum)	\$323.0M	\$343.8M
Ancillary (PerAnnum)	\$79.5M	\$87.6M

Planned upgrades to the passenger facilities at Tsawwassen include new seating, improved lighting and signage, and washroom renovations, as well as new and expanded retail offerings.



Maximize shareholder value

One of the primary objectives of the new BC Ferries business model is to remove the substantial burden of replacing our aged fleet from British Columbia taxpayers. To achieve this, we will need to use the profits generated from operating our business as well as debt funding raised from third parties.

Achieving long-term financial viability will require us to maintain our primary revenue sources, secure new sources of revenue, and reduce our overall cost structure. An integral component of the new business model is that our customers receive quality, safe and reliable service at the most attractive financial terms.

For 2004/05, we have identified a number of initiatives which will enable our company to grow and maximize shareholder value:

- Secure the financing platform to support the more than \$2 billion in capital expenditures required over the next 15 years to modernize the fleet and terminals.
- Complete our first bond offering and establish a credit facility.
- Further reduce administrative costs.
- Assess alternative service delivery opportunities as required by the *Coastal Ferry Act*.
- Develop a Supply Chain Management plan to reduce the total cost for external goods and services.

Performance Targets

	2003/04 Actual	2004/05 Target
Return on Invested Capital	5.3%	6.0%
Debt to Equity Ratio	81:19	80:20
Net Income	\$28.0M	\$39.6M



Providing quality, safe, reliable and efficient service are integral components of our business model.



2004/05 Financial Plan

The initiatives outlined in the Business Plan are reflected in our 2004/05 financial plan. Our financial plan includes an annual Operating Budget and an annual Capital Budget.

Operating Budget

The Operating Budget includes the impacts of significant organizational changes started in 2003/04 as well as new initiatives to be implemented in 2004/05:

- Initiation of the “Shipboard Management Strategy” which delegates responsibility and accountability to the Senior Masters and their vessel management teams.
- Restructuring of the Human Resources Department.
- Creation of a maintenance subsidiary, Deas Pacific Marine Inc.
- Changes in the management of terminal assets including contracting with SNC-Lavalin to provide management expertise.
- Enhanced use of technology.

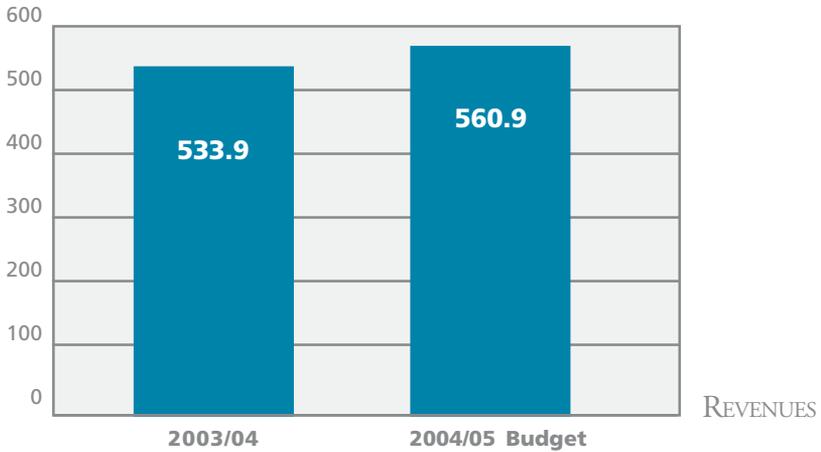
Additional organizational changes are anticipated in 2004/05, primarily within the administrative functions, to further improve efficiencies, achieve the benefits from our information systems investments, and reduce the overhead costs of the company.

We are developing strategies to ensure that we achieve maximum lifecycle value of all assets.



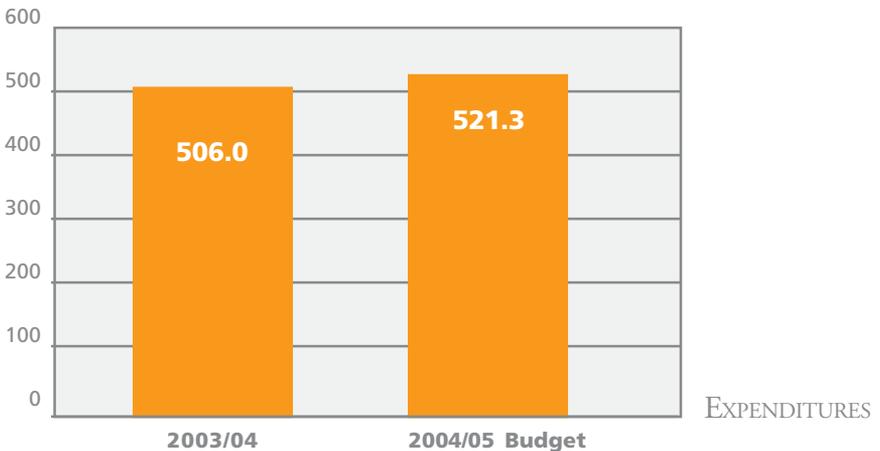
For 2004/05, our revenues are expected to increase to \$560.9 million, up \$27.0 million or 5.1 percent from 2003/04 revenues of \$533.9 million.

(\$M)



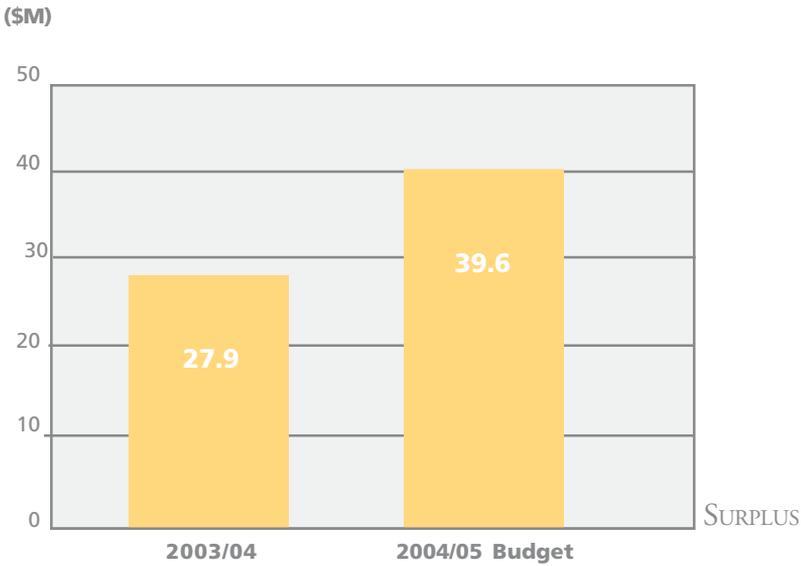
Expenditures for 2004/05 are projected to increase to \$521.3 million, up \$15.4 million or 3 percent from 2003/04 expenditures of \$505.9 million. The 2004/05 budget incorporates a significant one-time initiative to improve BC Ferries' adherence to Transport Canada requirements, which is expected to have a one-time cost of \$6.6 million.

(\$M)



We therefore forecast a 2004/05 net operating surplus of \$39.6 million, which is \$11.6 million or 41 percent more than the 2003/04 surplus of \$28.0 million.

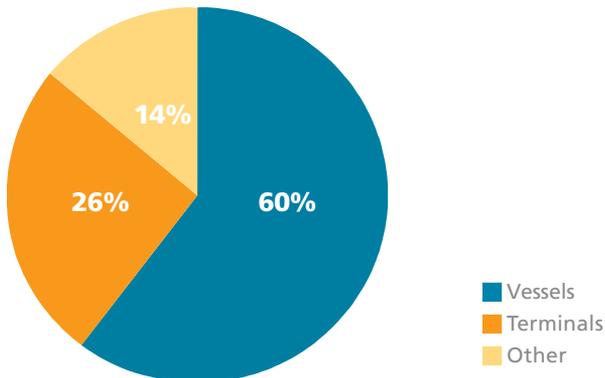
All surpluses earned by BC Ferries, after payment of the \$6 million dividend to the preferred shareholder, will be reinvested to finance the replacement of our aging infrastructure.



Capital Budget

Our 2004/05 capital expenditures are estimated at \$199.65 million (plus interest during construction). This includes projects started in previous years as well as new projects identified for 2004/05.

The majority of our expenditures will be invested in our fleet renewal program and to upgrade terminal infrastructure.



The major projects that will commence in 2004/05 include:

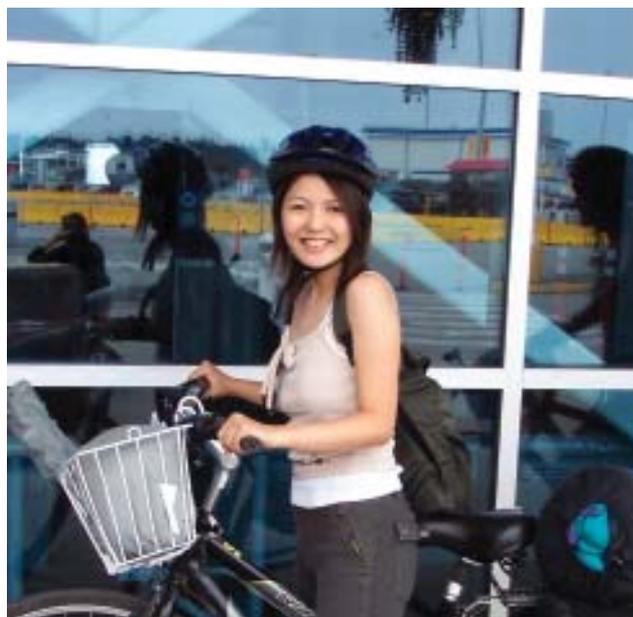
- Contracting for the purchase of up to three new major vessels to replace aging V-class ferries.
- Contracting for the purchase of a new Intermediate-class vessel.
- Mid-life upgrades of the *Queen of Cowichan* and the *Queen of Oak Bay*.
- Upgrading the *Spirit of British Columbia*.
- Replacing Berth 2 marine structures at Tsawwassen.
- Upgrading the Foot Passenger areas at Tsawwassen, Swartz Bay, Departure Bay and Horseshoe Bay.
- Reconfiguring the Horseshoe Bay pre-ticket traffic flow area to reduce the need for traffic management on the Upper Levels Highway.
- Upgrading Highway 17 on the approach to Swartz Bay terminal.
- Upgrading the Reservations and Point of Sale systems.

Conclusion

This 2004/05 Business Plan highlights new areas and initiatives that build on the successes of our first year.

While we are in the early stages of our corporate evolution, the first year has seen the successful achievement of a number of key initiatives.

We are on course to realizing our vision of becoming a financially viable, world-class marine transportation system with improved customer service and a renewed fleet of vessels.





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