



**BUSINESS PLAN** FISCAL YEAR ENDING  
MARCH 31, 2010



# BC Ferries Business Plan for Fiscal Year Ending March 31, 2010 (Fiscal 2010)

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This Business Plan contains historical information and may contain certain forward-looking statements that relate to future events or future performance. These forward-looking statements are based upon management's current expectations and assumptions as to a number of factors, including the risks, uncertainties and other factors as described in BC Ferries' Management's Discussion and Analysis for the fiscal year ended March 31, 2009 and certain of the other BC Ferries' documents available at [www.sedar.com](http://www.sedar.com). These forward-looking statements are made as of today's date and are based upon information currently available to management. BC Ferries assumes no obligation to update or revise them to reflect new events or circumstances. If management's expectations and assumptions prove to be incorrect, or factors change, then actual results could differ materially from the forward-looking information contained in this Business Plan.

## A Message from the President & CEO

BC Ferries has just completed another exciting year that included the introduction into service of the *Coastal Inspiration* and *Coastal Celebration* on our Major Routes, the *Island Sky* on the Sunshine Coast and the arrival of the *Northern Expedition*, a ship that began providing unprecedented service starting in spring 2009 on our Northern Routes. With the arrival of these ships, the company has now completed the first phase of its major vessel replacement program that added seven new vessels to the fleet over a period of approximately 30 months. A great accomplishment!

Last year also saw the completion of significant improvements to existing vessels and terminals to ensure that our high standards for safety and customer service are maintained. Our SailSafe program has made substantial progress and we are already seeing results with 74 (20%) fewer time-loss injuries last year versus the previous year, which prevented the loss of over 1,000 work days. I commend our employees for their engagement and focus on our primary objective: the safety of our customers and employees.

As is the case for all businesses in Canada and abroad, the key issue in the coming year for BC Ferries will be the economy and how we adapt to the new set of challenges that we are all facing.

Our passenger and vehicle traffic declined in fiscal 2009 compared to the previous year and this resulted in lower than expected revenues. We expect reduced traffic versus historical levels to continue through fiscal 2010 and we have implemented cost management measures, where appropriate. For example, in January we implemented a company restructuring to reduce operating costs while maintaining our ongoing focus on safety and reliability.

Cost pressures have also increased due to heightened security requirements and Transport Canada's decision to reset crew levels for our vessels based on the new Safe Manning initiative. These cost items will have long-term impacts and will be considered in more detail as we plan for the next period of price cap adjustments for the Performance Term that begins in April 2012.

Although fuel prices reached historic high levels early in the year, prices moderated later in the year and we were able to implement fuel rebates on some of our routes.

As we enter fiscal 2010, it is important to keep our immediate financial challenges in perspective and ensure that we stay on course to achieve the company's long term goals. BC Ferries will continue to strive for exceptional safety and customer service.

In closing, I extend my sincere thanks to all of our customers and employees for another great year.



David L. Hahn  
President & Chief Executive Officer

# Our Vision, Mission and Definition of Success

## Our Vision

To provide a continuously improving west coast travel experience that consistently exceeds customer expectations and reflects the innovation and pride of our employees.

## Our Mission

To provide safe, reliable and efficient marine transportation services which consistently exceed the expectations of our customers, employees and communities, while creating enterprise value.

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## Definition of Success

Our definition of success is to provide to our customers integrated marine transportation services that are safe, reliable and continuously improving, while delivering best value for money and operating in a manner that preserves our financial integrity.

## Measuring Success

In support of our Vision, Mission, and Definition of Success, the Board of Directors and management of BC Ferries have implemented comprehensive long-term performance measures to gauge the progress of the business and its ongoing commitment to continuous improvement.

1. Customer Satisfaction Rating (out of 5)
2. Cost per passenger (total operation cost–ancillary revenue)/total passengers
3. Earnings per FTE (\$ thousands)
4. Earnings before interest, taxes and amortization (\$ millions)
5. Employee Safety (employee injury frequency rate X severity rate divided by 1000)
6. Passenger Safety (number of passenger injuries per one million passengers)
7. Reliability (actual round trips divided by scheduled round trips)
8. Asset reinvestment (average age of vessels weighted by gross registered tonnes)

## Business Plan Goals

Our strategies are structured around five key goals that are critical to our success. Of these, no goal is more important than safety.

The following sections define the supporting strategies and tactics for each of the five goals.

### 1. Safety

To continuously improve the safety of our operations inclusive of vessels, terminals and facilities.

### 2. Operational Reliability

To continuously improve the operational reliability of vessels, terminals and facilities.

### 3. Continuous Improvement

To be better at everything we do.

### 4. Value For Money

To continuously improve value to our customers at every point along the customer experience chain.

### 5. Financial Integrity

To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.

# 1

## Safety

To continuously improve the safety of our operations inclusive of vessels, terminals and facilities.



## Strategies and Tactics

### We will meet or exceed all safety regulations

At BC Ferries, the safety of our customers and employees is our top priority. In fiscal 2010, we will:

- Continue to maintain high safety standards;
- Build on our fiscal 2009 success in reducing time-loss injuries and days lost;
- Complete Phase I implementation of SailSafe and continue our ongoing program of safety improvement; and
- Improve the Safety Management System audit program.

### We will meet our regulatory obligations efficiently

- BC Ferries will manage the new crew levels set by Transport Canada to ensure a safe and efficient service.
- Last year, BC Ferries was approved for \$3.8 million in federal funding to support certain security enhancements at our terminals such as perimeter fencing, security cameras, employee training and access control. We will utilize a further \$5.5 million in approved federal funding in fiscal 2010 to complete additional security enhancements at our major terminals.

Measure / Fiscal Year	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Target
Employee Safety (employee injury frequency rate times the severity rate divided by 1000)*	3.25	2.42	3.69	3.40	2.51	2.50
Passenger Safety (# passenger injury incidents / 1 million passengers)	13.67	13.58	11.31	11.93	13.17**	13.15

\* Employee Safety measure is now calculated based on 2,000 hours per full time equivalent per year instead of 1,827 hours per year. This has been done to align with industry standards. Previous year values have been adjusted for consistency.

\*\* Increase from previous years for Passenger Safety is attributable to the more comprehensive incident reporting criteria introduced as part of the SailSafe initiative.

# 2

## Operational Reliability

To continuously improve the operational reliability of vessels, terminals and facilities.



## Strategies and Tactics

### We will continue to invest in our assets to improve overall system reliability

- The *Northern Expedition*, our newest major vessel, entered service on our Inside Passage route in May 2009.
- Vessel and terminal capital expenditures will be made in fiscal 2010 of \$76 million, including:
  - Bow thruster replacement on the *Spirit of British Columbia*;
  - Sewage treatment upgrades on various vessels; and
  - Replace/upgrade marine structures at Quathiaski Cove, Long Harbour and Langdale.
- Systems and other capital expenditures of \$32 million will be made in fiscal 2010 to support business requirements and improve infrastructure reliability and service delivery.

### Our new Operations & Security Centre will improve customer service

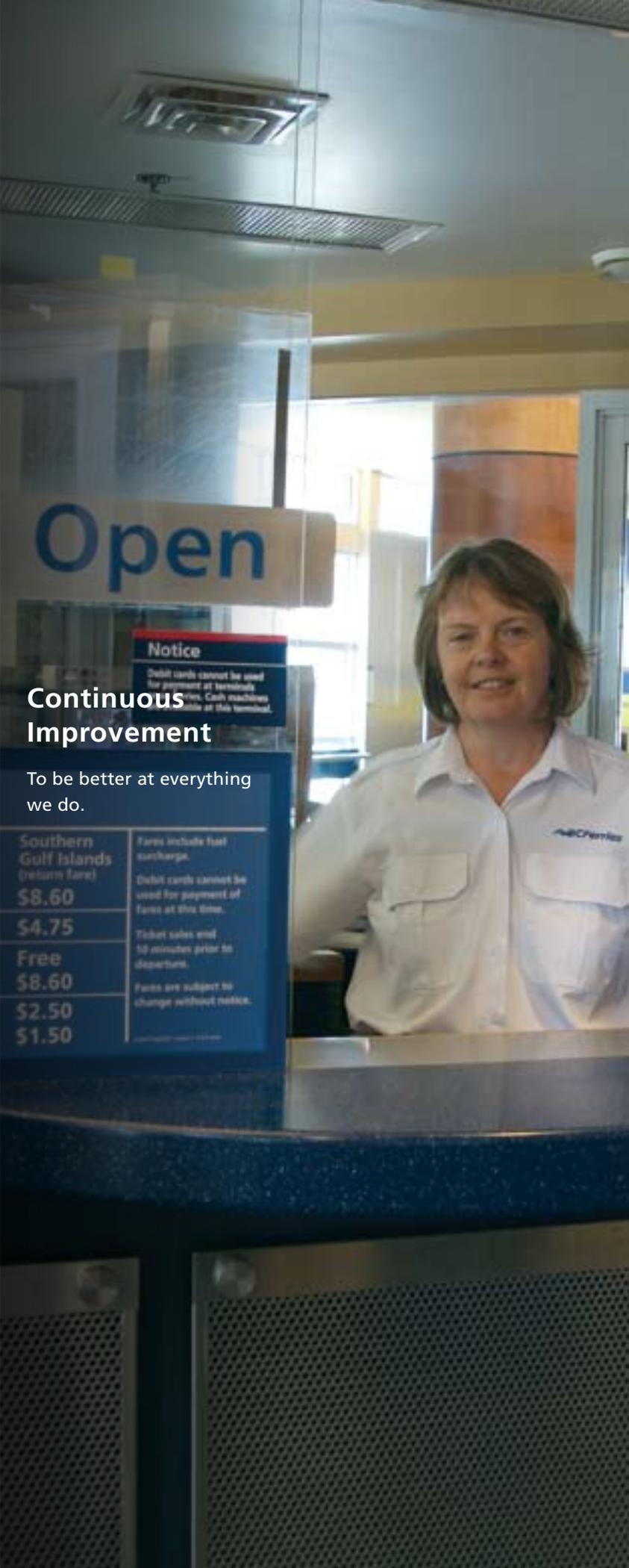
BC Ferries opened a permanent Operations & Security Centre in May 2009 to enable increased coordination of responses to service disruptions and provide clear and concise documentation of events.

Measure / Fiscal Year	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Target
Reliability Index (scheduled # of round trips less cancelled sailings/scheduled # of round trips)	99.69	99.48	99.66	99.63	99.67	99.40 to 99.59
Asset Reinvestment (average age of vessels weighted by gross registered tonnes)	28.9	29.5	25.4	23.8	20.6	18.0

# 3

## Continuous Improvement

To be better at everything we do.



Southern  
Gulf Islands  
(return fare)

\$8.60

\$4.75

Free

\$8.60

\$2.50

\$1.50

### Notice

Debit cards cannot be used for payment at terminals. Cash machines available at this terminal.

Fares include fuel surcharge.

Debit cards cannot be used for payment of fares at this time.

Ticket sales end 10 minutes prior to departure.

Fares are subject to change without notice.

## Strategies and Tactics

### Our people are our key strength

Our people will meet the challenges ahead. We will continue to:

- Ensure optimum workforce composition through hiring, training, and succession planning;
- Give our people the tools they need to reduce costs, improve efficiency and increase effectiveness (e.g. clear business objectives, performance planning); and
- Continue regular Union-Management meetings at all locations including regular executive level meetings.

### We will enhance relations with Community, Stakeholder and First Nations groups

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- Continue long-term planning for improvements at our terminals and ensure that all stakeholders are involved in the process.
- Work with Ferry Advisory Committees to explore options for balancing service levels against cost of delivery.

### We will continue striving to minimize our impact on the environment

- Reducing fuel consumption:
  - We will work diligently to implement on-time departure procedures that enhance safety and enable vessels to operate at speeds that conserve fuel, while arriving at their destination on time;
  - Use of shore power for vessels, when appropriate, to avoid running onboard generators; and
  - Implement energy conservation programs to reduce utility expenditures, including metering of electrical and water consumption to gain a better understanding of peak loads.
- Sewage treatment upgrades.

*Performance Measures for Continuous Improvement are addressed through the specific performance targets for each of the metrics identified under Safety, Operational Reliability, Value for Money and Financial Integrity.*

# 4

## Value For Money

To continuously improve value to our customers at every point along the customer experience chain.



## Strategies and Tactics

### We are continuing to find ways to provide better value and service to customers

- Improvements to catering services with new menu items and the introduction of Green Table environmental initiatives;
- Continued focus on improving cleanliness of terminals;
- Website enhancements for ease of use; and
- Continued use of our fuel purchase hedging program in fiscal 2010 will help to stabilize fuel costs and the cost of travel.

### We are exploring new business initiatives that may enable us to reduce fares

- Our Travel Centre will establish a strong presence in downtown Vancouver, our largest market area, so that we can increase ferry utilization; and
- The Commercial Drop Trailer business will increase our market share in both the roll-on/roll-off and drop trailer market segments by offering our commercial customers more choice. It will also enable better asset utilization by moving trailers on existing BC Ferries sailings using currently open deck space.

### We will continue to engage with our customers in long-term planning in fiscal 2010

- We will work with Ferry Advisory Committees and the provincial government to evaluate whether service alternatives exist that may reduce fares for customers;
- We will develop a minor/intermediate vessel replacement strategy that extends through the next performance term (through March 2016); and
- As part of our ongoing planning process, we will assess the potential for vessel life extension to mitigate vessel replacement expenditures.

Measure / Fiscal Year	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Target
Overall Customer Rating (out of 5)	4.1	4.1	4.2	4.1	4.1	4.2
Cost per passenger (total operation cost – ancillary revenue) / total passengers	\$ 17.56	\$ 16.45	\$ 17.07	\$ 18.35	\$ 20.69	\$ 20.67
Earnings per FTE (EBITDA / Total FTEs)	\$ 32.53	\$ 36.94	\$ 37.54	\$ 37.84	\$ 43.67	\$ 49.57

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## Financial Integrity

To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.



## Strategies and Tactics

### Our Commitment

*Management will ensure the company's continued financial integrity during this period of uncertain economic conditions while providing safe, efficient service for customers.*

Our strategy has been successful to date and, in fiscal 2010, we will continue to:

- Actively manage long-term capital and operating plans;
- Use best practices in supply chain management and risk/insurance coverage to manage costs; and
- Maintain strong relationships with the British Columbia Ferries Commissioner and Ministry of Transportation and Infrastructure.

The company acknowledges that during these uncertain and economically challenging times it may not be possible to earn the rate of return approved by the British Columbia Ferries Commissioner, and we will continue to monitor our costs. Should forecast traffic levels not materialize, we may consider our options as provided for in the Coastal Ferry Act.

Measure / Fiscal Year	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Target
EBITDA (\$ millions)	\$ 112	\$ 128	\$ 124	\$ 137	\$ 152	\$ 189

*EBITDA = earnings, before interest, taxes, depreciation, and amortization*

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## Financial Plan

Our financial plan supports the strategies and tactics within this business plan. It contains detailed information on our fiscal 2010 operating and capital budgets.



## Operating Budget

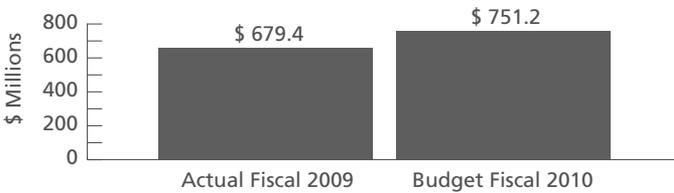
For fiscal 2010, we are forecasting net income of \$3 million. This is based on revenues of \$751 million, offset by total expenditures of \$748 million. The net earnings reduction in fiscal 2010 is the result of increased interest and amortization associated with our capital expansion program and the current economic downturn.

As noted in last year's Business Plan, a decline in Net Earnings at this time was anticipated in the company's long-term financial plan. While a recovery in Net Earnings would have been expected in fiscal 2010 under normal circumstances, the significant economic slowdown will delay increases to Net Earnings until fiscal 2011.

Operating Budget (\$ millions)	Fiscal 2009 Actual	Fiscal 2010 Budget
<b>Revenues</b>		
Fares	\$ 429.1	\$ 465.4
Social Program Fees	\$ 19.2	\$ 23.8
Catering & Other Revenues	\$ 99.6	\$ 107.0
Federal – Provincial Subsidy Agreement	\$ 26.3	\$ 27.0
Ferry Transportation Fees	\$ 105.2	\$ 128.0
<b>Total Revenue</b>	<b>\$ 679.4</b>	<b>\$ 751.2</b>
<b>Expenditures</b>		
Operating Expenditures	\$ 528.4	\$ 564.0
Net Financing Expense	\$ 48.9	\$ 68.0
Amortization	\$ 93.1	\$ 117.3
(Gain) Loss on Disposal of Fixed Assets	\$ (1.2)	\$ 0.3
Loss (Gain) on Subsidiaries	\$ 1.2	\$ (1.4)
<b>Total Expenditure</b>	<b>\$ 670.4</b>	<b>\$ 748.1</b>
<b>Net Earnings</b>	<b>\$ 9.0</b>	<b>\$ 3.0</b>

## Revenues

Our revenues are projected to increase by 10.5% in fiscal 2010.



Total Revenues will be affected by the following:

### Fare Revenue

Fare revenue is driven by our tariff rates and traffic volume and is expected to increase by 8.5% over fiscal 2009. In fiscal 2010, passenger traffic is expected to grow 3.7% and vehicle traffic is expected to grow 4.2% from fiscal 2009 levels, representing a partial recovery of traffic levels that existed prior to the economic downturn. The Commissioner has established price cap increases of 3.74% on the major routes and 7.25% on all other routes.

### Federal-Provincial Subsidy Agreement

Under the terms of the Coastal Ferry Services Contract, we receive an annual amount from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. The amount of this payment is adjusted annually based on the Vancouver Consumer Price Index. The Coastal Ferry Services Contract between the provincial government and BC Ferries provides that the provincial government will make available to BC Ferries the full proceeds of this agreement from the federal government. For fiscal 2010, revenue from this source is anticipated to grow by 2.7%.

### Provincial Fees

The Coastal Ferry Services Contract between BC Ferries and the Province of British Columbia has three components. The primary component is for the provision of services on designated routes. The second includes reimbursement from the Province for fares associated with social program areas (e.g. medical travel assistance program, children travelling for school and B.C. seniors travelling Monday to Thursday). The final component is funding provided by the provincial government to BC Ferries to oversee service provided by independent operators on eight non-regulated routes.

The Ferry Transportation Fees will increase by \$22.8 million in fiscal 2010 to reflect the increased support from the Province for the new *Northern Expedition* vessel.

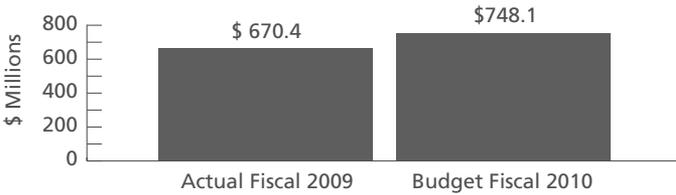
### Other Revenues

For fiscal 2010, other revenues are expected to increase by 7.5%. Catering and retail revenues make up the largest component of this revenue category.

## Expenses

Our expenses are projected to increase by 11.6% in fiscal 2010, due primarily to increases in amortization and financing costs as a result of significant investments in new vessels and terminals, and the implementation of the enhanced safety and security initiatives begun in fiscal 2009.

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### Operating Expenditures

For fiscal 2010, operating expenditures are expected to increase by 6.8% or \$35.7 million. This increase is attributable to many factors including higher wages for our bargaining unit employees, higher scheduled vessel refit and maintenance costs, and increased credit card fees, insurance costs and cost of goods sold.

### Amortization

For fiscal 2010, amortization costs are expected to increase by 26.0% as a result of the following: the new *Northern Expedition* vessel entering service; full year capital expenditures related to the addition of new vessels and upgrading of existing assets; and additional projects related to information system upgrades and the new Operations & Security Centre.

### Net Financing

For fiscal 2010 our net financing expense is expected to increase by 39.1%. This reflects increased borrowing associated with our significant capital expenditures during the last few years as seven new vessels were introduced to the fleet and significant upgrades were made to our terminals and other vessels in the fleet.

## Capital Budget

We plan to invest \$108.2 million in fiscal 2010. This represents a significant decrease from fiscal 2009 and aligns with completion of the first phase of our major vessel replacement program.

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As of June 1, 2009, our ferry services are supported by 36 vessels, 47 terminals, four maintenance yards, one refit complex and a head office. Investments in infrastructure are required to replace or upgrade aged assets, improve service to our customers and meet regulatory requirements. Our major capital projects for fiscal 2010 include:

### Vessels

- Final expenditures associated with the introduction of the Super C-class Vessels and the *Northern Expedition*.
- Completion of upgrades to the *Quinsam* and a bow thruster replacement on the *Spirit of British Columbia*.
- Sewage treatment/handling upgrades on various vessels.

### Terminals

- Security upgrades at various terminals.
- Upgrades to terminal facilities at Departure Bay.
- Replacement or upgrades of marine structures at a number of terminals, including Quathiaski Cove, Long Harbour and Langdale.

### Information Systems

- Investments in critical projects, such as the upgrade of our financial system and the replacement of our reservations system.
- Upgrades to our Corporate Information Technology applications and hardware.

### Other Projects

- Completion of an Operations and Security Centre.
- Investments associated with a new Drop Trailer service.
- Travel Centre in Vancouver.

The following table details the actual capital expenditures for fiscal 2009 and the planned expenditures for fiscal 2010 by asset type, including interest during construction and net of expected proceeds from the Federal Marine Security Contribution Program.

Asset Type (\$ millions)	Fiscal 2009 Actual	Fiscal 2010 Budget
Vessel Projects	\$ 422.7	\$ 40.1
Terminal Projects	\$ 44.4	\$ 36.4
Information Systems and Other Projects	\$ 21.7	\$ 31.7
<b>Net Capital Expenditures</b>	<b>\$ 488.8</b>	<b>\$ 108.2</b>

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# **BC Ferries**

*Experience the difference™*

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[www.bcferries.com](http://www.bcferries.com)



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