

# Business Plan

Fiscal Year Ending March 31, 2011



 **BC Ferries**



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## **FORWARD LOOKING STATEMENTS**

This Business Plan contains certain “forward looking statements”. These statements relate to future events or future performance and reflect management’s expectations regarding our growth, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management’s current internal projections, expectations or beliefs and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the local economy, turbulent financial markets, demographics, import duties remission, GST reduction, and the requirements of the Coastal Ferry Services Contract.

Forward looking statements included in this document include statements with respect to our:

- expectations regarding our safety, operational, employee and environmental initiatives;
- asset renewal programs for vessels and terminals;
- service strategy;
- expectations regarding our performance measures;
- expectations regarding the impacts of Bill 20;
- vessel maintenance plans;
- estimates of future customer demand; and
- budget projections.

In some cases, forward looking statements can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other comparable terminology.

A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with traffic volume and tariff revenue risk, safety and security, asset risk, accident risk, tax risk, environmental risk, regulatory risk, labour disruption risk, risk of default under material contracts and aboriginal land claims.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this Business Plan are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this Business Plan, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

# A Message from the President & CEO

Last year was particularly challenging for many businesses in Canada and abroad. Uncertain economic conditions, exchange rate volatility and uncertain gasoline prices caused people to think twice about travel. As a result, even though we experienced some recovery of traffic versus fiscal 2009, we have yet to see a full recovery of passenger and vehicle traffic. Nevertheless, difficult market conditions are a fact of life and BC Ferries responded in fiscal 2010 by becoming more efficient while remaining focussed on key business priorities including safety and customer satisfaction. I am pleased to report that BC Ferries employees achieved positive results last year on all fronts and, most importantly, that our customer satisfaction rating was higher than it has ever been at 91%.

As always, safety continues to be our number one priority. Last year we achieved our goals under the SailSafe program including an 8% reduction in overall employee injuries, a 20% reduction in time-loss injuries and a 27% reduction in days lost. We also integrated incident management and service recovery into our new Operations & Security Centre, completed lifesaving appliance upgrades and entered into an agreement with BCIT Marine Campus to participate in their simulator renewal initiative, an important step towards a new partnership with BCIT for regulatory and BC Ferries specific training.

Fiscal year 2010 was another active year for BC Ferries. We are one of the largest marine transportation companies in the world and we strive to keep our 36 ships and 47 terminals operating smoothly at all times. We completed terminal improvements including work at Swartz Bay and Departure Bay, maintained the fleet to high standards, introduced the *Northern Expedition* into service and invested in customer service and financial systems and technology. The Commercial Services Division was established ahead of schedule and delivered incremental revenue growth during the year. Planning and implementation was finalized for the BC Ferries Vacation Centre that officially opened on May 11, 2010 in downtown Vancouver and we developed relationships within the tourism industry in British Columbia and abroad.

BC Ferries continued cost containment efforts initiated during the previous year. For example, we realigned call centre hours to better match customer's needs, removed under-utilized sailings on the major routes during the off-peak season, managed our fuel consumption and reduced overtime by 13% versus fiscal 2009.

I am extremely proud of the work our employees do and it is encouraging that our customer satisfaction score reflects their efforts. I am also very proud of the fact that since inception in April, 2003 BC Ferries has repaid to the people of British Columbia, approximately \$500 million through dividends, debt repayment and interest. Join us this year as we celebrate our 50<sup>th</sup> anniversary of providing service to British Columbians.

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.

## 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 before interest, taxes and amortization (\$ millions)
4. Employee Safety (employee injury frequency rate X severity rate divided by 1000)
5. Passenger Safety (number of passenger injuries per one million passengers)
6. Reliability (actual round trips divided by scheduled round trips)

# 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 protect our customers and employees by continuously improving 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 protect our customers and employees by continuously improving the safety of our operations, inclusive of vessels, terminals and facilities.



## Safety - 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 2011, we will:

- Implement Phase II of the SailSafe program and continue towards our shared goal of safety improvement in partnership with the Union;
- Continue to maintain high safety standards and deliver quality safety training programs to new hires and existing staff;
- Build on our success in reducing time-loss injuries and days lost through better awareness and early intervention when injuries occur;
- Reduce controllable passenger injuries and maintain high standards for food safety throughout the fleet;
- Improve learning event reporting through additional ALERT (All Learning Events Reported Today) handbook training;
- Further embed the principles of Hazard Identification and Risk Management into BC Ferries Operations;
- Continue proactive service recovery planning through the Operations & Security Centre.

Measure	Fiscal Year	2007	2008	2009	2010	2011
Employee Safety (employee injury frequency rates times the severity rate divided by 1000) *	Target	2.27	2.20	3.42	2.50	1.56
	Actual	3.69	3.40	2.48	1.54	
Passenger Safety (# passenger injury incidents/1 million passengers) **	Target	N/A	N/A	22.80	21.50	21.50
	Actual	N/A	N/A	22.54	20.16	

\* From 2009 forward, the Employee Safety measure is 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. Values for 2007 and 2008 have been adjusted for consistency.

\*\* 2009 Actual Passenger Safety measure was reported last year as 13.17. The introduction of the Operations & Security Centre has enabled a more comprehensive passenger injury reporting system resulting in increased reported injuries versus previous years. From 2009 forward the Passenger Safety Index definition was revised to include only those injuries caused by internal (i.e. BC Ferries related) factors. Passenger Safety Indices reported in the past for years prior to 2009 are not comparable to the new reporting standards and have been deleted from this report.

## 2 Operational Reliability

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



## Operational Reliability - Strategies and Tactics

**We will continue to invest in our assets to improve overall system reliability. Our total capital investment budget in fiscal 2011 is approximately \$204 million.**

- Vessel and terminal capital expenditures of \$123.6 million will be made in fiscal 2011 , including:
  - Life extension of the *Queen of Chilliwack*;
  - Life extension of the *Quadra Queen II*;
  - Sewage pump ashore and waste water treatment projects at eight terminals;
  - Tsawwassen Berth 4 replacement;
  - Replace/upgrade marine structures at Swartz Bay.
- Systems and other capital expenditures of \$80.2 million will be made in fiscal 2011 to support business requirements and improve infrastructure reliability and service delivery.
- Training and operating procedures will be further improved this year through a comprehensive review of documentation and practices.
- We will develop a service continuity plan for Tsawwassen Berth 4 construction to ensure minimal customer impacts from this major project.
- Round trip cancellations due to engineering incidents will be reduced to 0.3% or less.
- Call forecasting and employee scheduling in the Customer Service Centre will be enhanced.
- Final enhancements to our new Operations & Security Centre will be completed to improve incident tracking and data reporting capabilities.

Measure	Fiscal Year	2007	2008	2009	2010	2011
Reliability Index (scheduled # of round trips less cancelled sailings / scheduled # of round trips)	Target	99.60	99.40 – 99.59	99.40 – 99.59	99.40 – 99.59	99.40 – 99.59
	Actual	99.66	99.63	99.67	99.60	

### 3 Continuous Improvement

To be better at everything we do.



## Continuous Improvement - Strategies and Tactics

### **We strive to improve our productivity to better serve our customers**

- Productivity improvements will be achieved through reduced absenteeism, increased flexibility and the creation of a more adaptable workforce.
- Work is guided by clear business objectives and performance planning.
- Employee improvement goals will be supported through efficient training programs (including a new partnership with the BCIT Marine Campus); education cost reimbursement and career planning.

### **We will work with Community, Stakeholder and First Nations groups on issues that are important to them**

- We will continue long-term planning for improvements at our terminals and ensure that all stakeholders are involved in the process.
- Ongoing work with Ferry Advisory Committees and the provincial government will continue to evaluate whether service alternatives exist that may reduce fares for customers – this may include an innovative minor/intermediate vessel replacement strategy that will begin implementation during the next performance term (2012 to 2016).

### **We will minimize our impact on the environment**

- Fuel consumption will be optimized through fully utilizing new vessel capabilities, improved on-time performance and reducing in-port turnaround efficiencies.
- The sewage pump ashore and waste water treatment projects to be implemented this year at eight terminals will enable us to reduce sewage discharge from our fleet.
- We introduced the use of B5 biodiesel on the *Queen of Alberni* as a pilot project in September 2009. Now all vessels burn a B5 fuel blend in service areas where the product is available.
- BC Ferries has introduced the Watt Now! Program to identify and reduce hydro consumption in fiscal 2011 by 5% in our offices, at our terminals and onboard our vessels.

*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.



## Value for Money - Strategies and Tactics

**We are continuing to find ways to provide better value and service to our customers. In fiscal 2011, we will:**

- Align ticket agent staffing with anticipated high volume periods to reduce customer wait times;
- Expand availability of self-serve kiosks to provide customers with ticketing options;
- Increase menu innovation and expand new product introduction;
- Expand popular customer services like sailing reservations to additional routes;
- Implement energy conservation and fuel efficiency initiatives;
- Use our ongoing fuel hedging program, if appropriate, to help stabilize fuel costs and the cost of travel;
- Introduce more cost-effective vessel maintenance approaches including aligning annual refits with periodic dry-docking to reduce out-of-service time;
- Introduce more cost-effective call handling methods at our terminals and Customer Call Centre.
- Maintain our focus on the cleanliness of our terminals and make improvements to customer announcements;

**We will access funding through provincial and federal programs wherever possible to offset costs**

- On September 24, 2009, the provincial government announced that, as part of the federal government's Infrastructure Stimulus Fund program, BC Ferries will qualify for partial reimbursements of eligible costs of eight sewage pump-ashore and waste water treatment projects, as well as other terminal projects. The net funding expected is \$7.5 million.
- Under the federal Structured Financing Facility (SFF) Program, we received approval for *MV Quinsam* project funding of \$1.0 million for which we will be submitting claims in fiscal 2011. In addition, an SFF application has recently been approved for the *Quadra Queen II* life extension project amounting to funding of up to \$1.8 million.

Measure	Fiscal year	2007	2008	2009	2010	2011
Overall Customer Rating (out of 5)	Target	4.1	4.1	4.1	4.2	4.2
	Actual	4.2	4.1	4.1	4.3	
Cost per passenger (total operation cost – ancillary revenue)/ total passengers	Target	N/A	\$17.96	\$20.34	\$20.67	\$21.66
	Actual	\$17.07	\$18.35	\$20.69	\$20.96	

## 5 Financial Integrity

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



## Financial Integrity - 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.*

In fiscal 2011, 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;
- Maintain strong relationships with the British Columbia Ferries Commissioner and Ministry of Transportation and Infrastructure;
- Pursue new business initiatives that may enable us to reduce fares – for example:
  - Our marketing programs (e.g. CoastSavers) will encourage ridership and generate non-fare revenues that will ultimately offset ferry fares;
  - Our BC Ferries Vacations Centre opened in May providing a strong presence in downtown Vancouver and an effective platform to launch our BC Ferries Vacations products. This will increase ferry utilization and revenues;
  - The Commercial Drop Trailer business will continue to 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.

The company acknowledges that, as in fiscal 2010, 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. Should forecast traffic levels not materialize, we may consider our options as provided for in the *Coastal Ferry Act*.

Measure	Fiscal Year	2007	2008	2009	2010	2011
EBITDA * (\$ millions)	Target	134	135	162	189	196**
	Actual	124	137	152	186	

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

\*\* This target does not take into account incremental costs associated with the changes to the *Coastal Ferry Act* contained in Bill 20 - Miscellaneous Statutes Amendment Act (No. 3), 2010 which will reduce the Company's EBITDA and net income.

# Financial Plan

Our financial plan supports the strategies and tactics within the business plan. It contains detailed information on our fiscal 2011 operating and capital budgets.



## Operating Budget

For fiscal 2011, we are forecasting net income of \$12.0 million, which includes a \$9.3 million gain on the sale of our current head office. This is based on revenues of \$768.4 million, offset by total expenditures of \$756.4 million. Net earnings continue to be reduced as a result of increased interest and amortization costs associated with our capital expansion program and the current economic downturn.

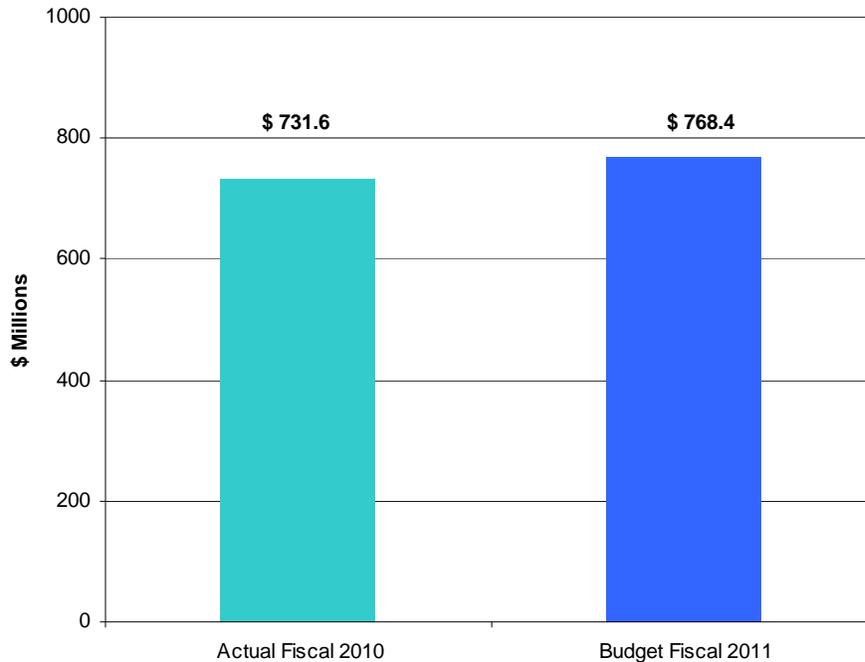
As noted in last year's Business Plan, the significant economic slowdown has delayed increases to Net Earnings that were originally forecast for fiscal 2011. Lower-than-historic levels of ferry travel are likely to continue through fiscal 2011, and possibly into fiscal 2012.

Operating Budget (\$ millions)	Fiscal 2010 Actual	Fiscal 2011 Budget
<b>Revenues</b>		
Total Tariffs including Social Program Fees	472.6	506.1
Catering & Other Revenues	104.7	108.3
Federal – Provincial Subsidy Agreement	26.9	26.9
Ferry Transportation Fees	127.4	127.1
<b>Total Revenue</b>	<b>731.6</b>	<b>768.4</b>
<b>Expenses</b>		
Operating Expenses	545.5	574.6
Net Financing Expense	67.8	73.3
Amortization	115.2	119.6
Loss (Gain) on disposal and impairment of fixed assets	1.4	(9.3)
(Gain) Loss on Subsidiaries	(1.7)	(1.8)
<b>Total Expenses</b>	<b>728.2</b>	<b>756.4</b>
<b>Net Earnings</b>	<b>3.4</b>	<b>12.0*</b>

\* This budget does not take into account incremental costs associated with the changes to the *Coastal Ferry Act* contained in Bill 20 - Miscellaneous Statutes Amendment Act (No. 3), 2010 which will reduce the Company's EBITDA and net income.

## Revenues

**Our revenues are projected to increase by 5.03% in fiscal 2011.**



**Total Revenues will be affected by the following:**

### Total Tariffs including Social Program Fees

Tariff revenue is driven by our tariff rates and traffic volume and is expected to increase by 7.1% over fiscal 2010. In fiscal 2011, passenger traffic is expected to grow 2.3% and vehicle traffic is expected to grow 2.7% from fiscal 2010 levels, representing a partial recovery of traffic levels that existed prior to the economic downturn. The Commissioner has established price cap increases of 2.68% on the major routes and 5.68% 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 2011, revenue from this source is anticipated to be \$26.9 million.

### 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. Ministry of Health 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 for designated routes will decrease in fiscal 2011 to reflect the reduction in service fees payable per round trip on Northern routes 10/11. This reduction reflects the declining net book value of the new assets being deployed on these routes.

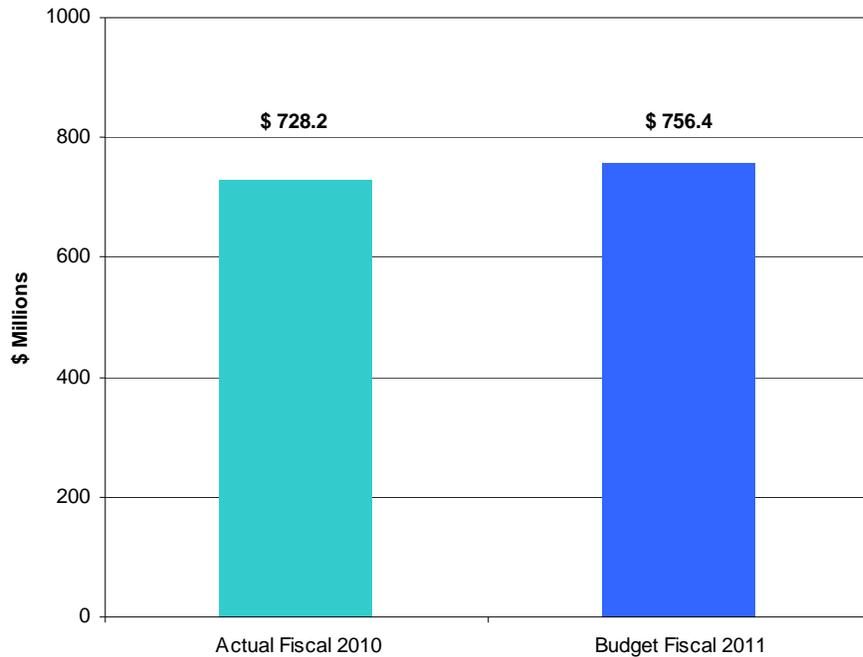
Funding for non-regulated routes will remain at \$1.9 million in fiscal 2011.

### Other Revenues

For fiscal 2011, other revenues are expected to increase by 3.4%. Catering and retail revenues make up the largest component of this revenue category.

## Expenses

Our expenses are projected to increase by 3.9% in fiscal 2011, due primarily to increases in bargaining unit wage rate increases, implementation of the Harmonized Sales tax, increase in fuel prices and amortization and financing costs as a result of significant investments in new vessels and terminals. These increases will be partially offset by the gain on sale of the Company's head office building.



### Operating Expenses

For fiscal 2011, operating expenses are expected to increase by 5.3% or \$29.1 million. This increase is attributable to many factors including increases in bargaining unit wage rate increases, implementation of the Harmonized Sales tax, increased credit card fees, insurance costs and cost of goods sold.

### Amortization

For fiscal 2011, amortization costs are expected to increase by 3.8% as a result of the following: full year capital expenditures related to the addition of new vessels and the upgrade of existing assets; and additional projects related to information system upgrades and relocation of our head office.

### Net Financing

For fiscal 2011, our net financing expense is expected to increase by 8.1% mainly due to higher interest expense associated with lease costs for our new corporate head office, lower interest during construction and lower interest support from the federal government under the Structured Financing Program.

## Capital Budget

**We plan to invest \$204 million in fiscal 2011.**

As of June 1, 2010, 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 2011 include:

### Vessels:

- *Quadra Queen II* Life Extension
- *Queen of Chilliwack* Life Extension
- Sewage Treatment Program for various vessels

### Terminals:

- Tsawwassen Berth 4 Rebuild
- Sewage Pump Ashore and Waste Water Treatment Projects for various terminals
- Swartz Bay Berth 4/5 Marine Works

### Information Systems:

- Customer Service System (Reservations and Point of Sale)
- Payroll System Replacement

### Other Projects:

- New Corporate Head Office
- Deas Pacific Life Extend Marine Structures
- Corporate Operations Security Centre

The following table details the actual capital expenditures for fiscal 2010 and the planned expenditures for fiscal 2011 by asset type, including interest during construction and net of expected proceeds from Infrastructure Stimulus Funding.

Asset Type (\$ millions)	Fiscal 2010 Actual	Fiscal 2011 Budget
Vessel Projects	\$ 29.1	\$ 48.2
Terminal Projects	\$ 29.8	\$ 75.4
Information Systems and Other projects	\$ 22.5	\$ 80.2
<b>Net Capital Expenditures</b>	<b>\$ 81.4</b>	<b>\$203.9</b>



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