

For Immediate Release
04-071

September 17, 2004

BC FERRIES' BOARD APPROVES \$325 MILLION IN CONTRACTS
Flensburger Shipyard of Germany wins bid to build three Super C vessels

VICTORIA – Following the completion of an extensive competitive bidding process, BC Ferries has selected Flensburger Schiffbau - Gesellschaft (FSG) of Germany to build three Super C-class vessels. The contracts, with a total value of €206.4 million Euros or approximately \$325 million Canadian (based on current exchange rates), were approved today by BC Ferries' Board of Directors. The Board also approved a total project budget of \$542 million which includes Canadian taxes, financing and project management costs that would have been incurred regardless of where the vessels were built. This also includes a contingency for federal duty.

On behalf of the Board of Directors, Board Chair Elizabeth J. Harrison issued the following statement: "We are extremely pleased with the excellent terms negotiated with Flensburger Shipyard. We believe the terms and conditions that BC Ferries achieved in these new contracts are second to none in the industry. In selecting the best overall bid, we have put our customers first and significantly enhanced our ability to keep fares as low as possible in the years ahead."

"These are design-build, fixed-price contracts that provide BC Ferries with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality construction," said David Hahn, BC Ferries' President and CEO. "We have also been able to negotiate extremely favourable payment terms with 80 per cent of the contract price due only upon completion of each vessel."

Key highlights of the contract include:

- FSG assumes all design, construction and delivery risk
- Guarantees are in place for vessel completion dates
- Favourable payment terms with 80 per cent payment upon vessel completion
- Fixed-price contracts with potential savings for steel price decreases
- Vessel performance guarantees related to speed, carrying capacity, manoeuvrability and fuel consumption
- Warranties above industry standard
- Penalties for late delivery

"Flensburger scored first overall on the criteria we and our independent consultants defined at the outset of this process," said EVP, Business Development, Mike Corrigan, who was the company's lead negotiator. "With respect to price, this contract is approximately 40 per cent or about \$130 million less than the Canadian price we received during the early phase of the bidding process. In addition, the excellent Flensburger payment schedule saves BC Ferries another \$30 million in interest payments. Even assuming the additional \$81 million in duty, there is still an \$80 million advantage with the chosen contractor," he said.

The new vessels are currently planned to be financed by borrowing in the capital markets and by reinvesting BC Ferries' earnings.

FSG is one of the world's leading shipyards with state-of-the-art design and production facilities. FSG has extensive experience building large, complex vessels, having built 724 ships in total, including 17 passenger/vehicle ferries since 1999. Flensburger has not delivered a vessel late in over twenty years.

FSG was short listed along with two other shipyards following a competitive bidding process. Three Canadian shipyards and 11 international shipyards were invited to bid in the process. Criteria for selection included the design and construction plan, recent experience building large ferries, customer satisfaction (references from other customers), delivery schedule, price and payment terms, financial stability and ability to provide guarantees.

The short listing and selection process involved extensive reviews by BC Ferries, as well as independent reviews by a leading naval architectural firm. The BC Ferry Commissioner Martin Crilly also reviewed the process for selection.

BC Ferries' specifications for the new Super C-class vessels, which are planned to operate on BC Ferries' Horseshoe Bay-Departure Bay and Swartz Bay-Tsawwassen routes, are for 160 metre vessels that can accommodate 370 vehicles and 1,650 passengers. For comparison, the existing C-class vessels that operate on the Horseshoe Bay-Nanaimo route are 139.5 metres and can accommodate 330 vehicles and 1,466 passengers.

The first new Super C-class vessel is scheduled to arrive in British Columbia in December 2007, with the second scheduled to arrive in March 2008 and the third in June 2008. Flensburger is responsible for delivering the vessels to Victoria.

The new Super C-class vessels are among the first of BC Ferries' Newbuild program, which will see an additional 19 vessels built over the next decade and a half. The vast majority of these vessels will be small or intermediate open car deck ferries.

BC Ferries is an independent marine transportation company that provides frequent year-round services on 25 routes, supported by 35 vessels and 47 terminals in and around British Columbia's coastal waters. BC Ferries became an independent self-financing company in April 2003. The company is governed by an independent Board of Directors appointed by the B.C. Ferry Authority, which owns the single voting common share of BC Ferries. The Province of British Columbia owns cumulative preferred shares of BC Ferries, but has no voting interest in either the B.C. Ferry Authority or BC Ferries. To learn more about BC Ferries, visit www.bcferries.com.

- 30 -

Attachment

Contact:
BC Ferries, Communications
Tel: (250) 978-1267

CONTRACT TERMS

Delivery of the Vessel

Flensburger Schiffbau - Gesellschaft (FSG) is responsible for delivering the vessels to Victoria. Title transfer will occur in B.C. Guaranteed production milestones and delivery dates are specified in the contracts.

Design and Construction

FSG assumes full design and construction risk associated with each vessel.

Regulatory Requirements

FSG is responsible for building vessels that comply with all Transport Canada regulations, as well as classification (international shipbuilding standards) and environmental regulations.

Payment Terms

The total cost of the three vessels is €206.4 million Euros or approximately \$325 million Canadian (based on current exchange rates). Four payments of 5 per cent per vessel are payable during the construction period, with the remaining 80 per cent payable upon completion of each vessel.

Delivery Dates to Victoria

Vessel #1 - December 2007

Vessel #2 - March 2008

Vessel #3 - June 2008

AAA Bank Guarantee

An AAA bank refund guarantee will be in place to provide security in the event the shipyard does not meet its production or delivery dates, or performance specification.

FSG guarantees the delivery and the performance of the vessels; specifically speed, fuel consumption, weight and freight capacity, acceleration time and rate of turn. Increasing financial penalties, up to the point of contract cancellation with a full refund, will be levied if the performance of the vessel does not meet the contract specifications.

For example, if the vessels are late for delivery, a penalty of approximately \$40,000 Canadian (€25,000 Euros) per day will be levied after the first 30 days to a maximum of approximately \$6 million Canadian (€3.75 million Euros). After 180 days, BC Ferries can rescind the contract for a full refund.

Another example is speed. If the vessels are more than 1/10 of a knot below specification, a penalty of approximately \$160,000 Canadian (€100,000 Euros) will be levied for each

1/10 of a knot up to 1 knot. If the vessels are more than 1 knot less than the guaranteed speed, BC Ferries can rescind the contract for a full refund.

Corporate Guarantee

FSG will also provide a corporate guarantee from its parent company, Egon Oldendorff oHG, as security for the performance of all of FSG's obligations under the contracts.

Builder's Warranty

An extended builder's warranty of 24 months from delivery will apply to materials, construction, design and workmanship. This is 12 months longer than the standard terms of warranty for the shipbuilding industry. In addition, the contract terms specify a 10-year warranty on all engines.

Steel De-escalator

In the event of steel price decreases, 75 per cent of the cost savings will be paid to BC Ferries. The shipyard cannot increase the cost of the ships in the event of steel price increases.

Noise and Vibration

Flensburger guarantees that the vessels will be built to the highest shipbuilding standards for noise and vibration. If they are not, BC Ferries has the right to reject the vessels for a full refund.

Title to Design, Plans and Drawings

BC Ferries will acquire the title to the vessels' design, plans and drawings upon delivery at no additional cost to BC Ferries. This will be a unique benefit for BC Ferries. BC Ferries doesn't own the design, plans or drawings for the Spirit-class vessels.

“We recommend that BC Ferries be given authority to purchase standard vessels with a proven operating history in B.C. waters from the lowest cost provider that can accept 100 per cent of the design and construction risk”

– Wright report (2001)

“BC Ferries has undertaken a competitive bid process, verified by independent technical experts, to determine capital cost estimates for the three vessels ... BC Ferries has structured the procurement process to be credible and create competition among high quality international bidders.”

– Martin Crilly, BC Ferry Commissioner

EVALUATION CRITERIA

Design and construction plan
Recent experience building large ferries
Customer satisfaction (references from other customers)

Delivery schedule
Price and payment terms
Financial stability and ability to provide guarantees

• PROJECT INITIATION – MARCH 2003 TO SEPTEMBER 2003

- Project needs assessed
- Build strategy & procurement strategy developed

• REQUEST FOR PRE-QUALIFICATION BID – OCTOBER 2003 TO JANUARY 2004

- RFPQ Package developed:
 - Statement of Requirements
 - Technical Statement of Requirements
 - Drawings and Legal framework
- Request for Prequalification bid issued – November 2003
- RFPQ bid submissions received from 9 shipyards in Canada, Korea, Finland, Japan, Germany and Norway
- Of the 9 bid submissions, 5 assessed as compliant and evaluated further including Canadian bid
- Short-list evaluation process and decision
 - internal experts
 - international naval architect firm

• REQUEST FOR PROPOSALS PHASE – FEBRUARY 2004 TO MAY 2004

- RFP issued to 3 international shipyards (short-listed in February 2004)
- Bidders’ conference - week of March 8, 2004.

• EVALUATION PROCESS:

- Independent technical analysis to assess lifecycle costs and technical risk
- Comparison against the requirements in the RFP document
- Class review of the proposals
- A review of regulatory compliance on the designs by naval architects
- Assessment of the adherence to the draft contract terms by legal counsel
- Assessment of the proposed build strategy and schedule
- Evaluation of crewing
- Pricing comparison and analysis
- Computer simulation and tank testing

• CONTRACT NEGOTIATIONS

- 3 rounds of negotiations - June through September

• CONTRACT APPROVAL

- BC Ferries Board of Directors - September 2004

• DETAILED DESIGN & CONSTRUCTION STAGES

- Detailed design expected to begin Fall 2004
- Construction expected to begin September 2006

- Established 1872
- Owner: Oldendorff Carriers, L beck
- Number of ships built 724
- 17 roll on/roll off ships built since 1999
- Size yard area 125,000m²
- Staff 680
- Vessels up to 220m length/
80,000 tdw (deadweight in tons)
- Steel throughput:
23,000 tons per year





PRELIMINARY SPECIFICATIONS:

160 metre vessels that can accommodate 370 vehicles and 1,650 passengers (For comparison, the C Class vessels that operate on the Horseshoe Bay-Nanaimo route are 139.5 metres and can accommodate 330 vehicles and 1,466 passengers)