



PORT METRO  
**vancouver**

2010 Management Discussion and  
Analysis

*June 2011*

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*The following comments should be read in conjunction with the [Port Metro Vancouver 2010 Annual Report](#).*

## About Port Metro Vancouver

Port Metro Vancouver (legally named the Vancouver Fraser Port Authority) is responsible for managing federal real property and related port activities in Burrard Inlet, a portion of the Fraser River and at Roberts Bank, all located in the Metro Vancouver area of British Columbia. This jurisdiction is referred to throughout this document as the Port of Metro Vancouver (the Port). The Port has 28 major marine cargo terminals: 2 auto, 3 breakbulk, 20 bulk, 4 container and 2 cruise. Most of these terminals are privately owned and operate on land and/or waterlots leased from Port Metro Vancouver. In addition, the Port also has a number of smaller marinas and facilities capable of handling domestic and regional cargo.

As Canada's major Pacific Gateway (the Gateway) for international trade, the Port serves as an economic generator for the nation and is the busiest and most diverse port in Canada. The Port customers trade \$75 billion in goods annually with more than 160 trading economies. The business generates an estimated 129,500 jobs across Canada, pays \$6 billion in wages, and contributes \$10 billion in GDP.

The Port, including Port Metro Vancouver, has excellent resources that reinforce its competitive position. These resources include significant land and water assets, excellent and well established facilities, and a full range of marine services, including shipyards, chandlers, freight forwarders and shipping agents.

## Regulatory and Political Environment

### *Government of Canada*

Port Metro Vancouver is a non-share capital, financially self sufficient entity established by the Government of Canada pursuant to the *Canada Marine Act* (CMA) on January 1, 2008. This legislation is "an Act for making the system of Canadian ports competitive, efficient, and commercially oriented." The objectives of the act also include implementing "a national marine policy that provides Canada with the marine infrastructure it needs and that offers effective support for the achievement of national, social, and economic objectives and will promote and safeguard Canada's competitiveness and trade objectives." It is Port Metro Vancouver's statutory mandate to ensure these objectives are accomplished within its jurisdiction (the Port).

Major Gateway infrastructure investments over the last few years have benefited from government programs such as the Asia Pacific Gateway and Corridor Initiative and the Infrastructure Stimulus Fund. Port Metro Vancouver will continue to work with the Government of Canada on a number of policy issues including labour, rail service, land supply and a national transportation strategy to guide investment and policy making with respect to the Gateway.

### **Mission**

To lead the efficient and reliable movement of cargo and passengers in a manner that supports Canadian growth and prosperity, now and in the future.

### **Vision**

Port Metro Vancouver will be valued by customers, embraced as a member of the community and recognized globally as a leader in port sustainability.

### ***Province of British Columbia***

Port Metro Vancouver continues to have a strong and collaborative relationship with the Government of British Columbia. Together, British Columbia and Port Metro Vancouver are working to strengthen the Gateway with significant investments in critical infrastructure that supports increased jobs and economic activity.

The Province owns the bed and foreshore of the North and Middle arms of the Fraser River, and a portion of the bed and foreshore of the main arm. Port Metro Vancouver has two separate head leases from the Province that will expire in 2011. Terms for a new lease have been negotiated and consultation with First Nations is in progress.

### ***Municipal Governments***

Port Metro Vancouver's relationships with its surrounding municipalities are very much issues-dependent. As a federal undertaking and an agent of the federal Crown, Port Metro Vancouver is typically not subject to municipal regulations. However, it works with the local and regional governments in the Lower Mainland to ensure that planning, construction and operations are done in consultation with municipalities to be consistent with local zoning and land use. Together, the Port and municipal governments work to promote economic viability, the protection of the environment, and the maintenance of sustainable communities.

Port Metro Vancouver is currently working with the BC Assessment Authority to ensure that Port Metro Vancouver's land inventory data is accurately reflected in BC Assessment's records. The parties are also sharing their respective valuation methodologies. This effort will facilitate the fair and equitable application of Payment in Lieu of Taxes (PILT) payments made by Port Metro Vancouver to municipalities.

The Port is also collaborating with regional partners on Gateway infrastructure projects, such as the Lynn Creek Bridge and Brooksbank Avenue Underpass, as well as supporting delivery of the North Shore Trade Area, South Shore Trade Area and Roberts Bank Rail Corridor projects. Port Metro Vancouver will collaborate with Transport Canada, the BC Ministry of Transportation and Infrastructure and regional partners in identification of these regional priorities.

### ***First Nations***

Port Metro Vancouver is committed to establishing relationships with First Nations through dialogue and the identification of mutually beneficial opportunities to enhance the Gateway. The Port is currently building relationships with those Nations who share an interest in the lands and waters managed by Port Metro Vancouver. Relationship building is the first step in working together to advance common goals, potentially leading to partnerships or joint ventures in the future. Port Metro Vancouver looks forward to strengthening and broadening its relationships with First Nations that share an interest in the lands and waters managed by the Port.

## **Business Environment**

Port Metro Vancouver provides services and facilities to a broad range of companies and organizations. Major customer groups include marine carriers, major shippers, terminal operators and tenants.

Port Metro Vancouver competes with major ports on the West Coast, each of which operates in the same sectors and markets to varying degrees. East Coast ports including Montreal and Halifax also compete with the Port in certain sectors, but to a lesser extent. To the north, the Port of Prince Rupert competes with Port Metro Vancouver in primarily the coal, grain and container sectors.

## **Business Sectors**

### ***Automobiles***

The Port's two auto terminals in the Fraser River are currently the sole entry point for Asian auto manufacturers' overseas imports into the Canadian market. There are various auto terminals in Washington, Oregon, and California but they exclusively serve the US market. On the East Coast, European auto manufacturers use the Port of Halifax when importing autos into Canada. Volumes of Canadian automobile imports from Asia were impacted by the economic downturn in 2009. Reduced volumes continued in 2010 as domestic brands and light trucks have become more popular in Canada.

### ***Breakbulk***

Foreign breakbulk volumes continued to rise in 2010. There was steady decline in past years as traditional breakbulk products like woodpulp, lumber and metals have increasingly been transported in containers. While the increase is based primarily on demand from Asia, the lack of availability of westbound container shipping capacity had a positive impact on the volume of breakbulk forest product exports.

Port Metro Vancouver handles the majority of Canadian west coast foreign breakbulk traffic. However, Squamish and other smaller ports on the BC Coast, and to a limited extent some US ports, compete with Port Metro Vancouver. Domestic breakbulk volumes at terminals located on the Fraser River now account for the majority of breakbulk volumes at Port Metro Vancouver. The Port's terminal capacity is sufficient to handle current and projected volumes.

### ***Bulk***

Port Metro Vancouver is the leading Gateway for Canadian bulk exports. Primary competition comes from Prince Rupert in the coal and grain markets and Portland, Oregon in the potash market.

To avoid losing market share, Port Metro Vancouver is focusing on maintaining a smooth and reliable Gateway for Canadian bulk producers and supporting expansion plans of its own terminals. Westshore Terminals has already invested \$50 million for expansion. Both Westshore Terminals and Neptune Bulk Terminals have indicated plans for future investment. Despite increased competition from other bulk terminal alternatives, Port Metro Vancouver will retain its position as the number one port on the West Coast of North America for foreign bulk exports into the foreseeable future. Most of the potential competition is still in its initial stages of planning.

## **Containers**

Port Metro Vancouver remains the leader in container traffic in the Pacific Northwest. Container traffic at Port Metro Vancouver in 2010 set an all-time record at 2.5 million TEUs (twenty-foot equivalent units), up 17 per cent as strong demand for imported consumer goods continued and containers were returned to Asia with forest products and special crops.

Port Metro Vancouver's overall market share was essentially unchanged in 2010, holding a 92 per cent share of its core Canadian market business for the entire West Coast. Since the opening of its 500,000 TEU terminal in October 2007, growth at Prince Rupert has been well below expectations even with the respectable increases during the recession. At the same time, its capacity is a constraint and expansion through a 1.0-1.5 million TEU phase two will not be available until 2015 at the earliest. This expansion is not yet committed.

Development at both Prince Rupert and the Panama Canal is still driven by the growth outlook of US import business, particularly for the landlocked US Midwest. These developments will raise the competitive pressure on all North American ports to gain or maintain their share of this business. There is less concern to Port Metro Vancouver about the direct impact of the Panama Canal opening since US market business is secondary to Port Metro Vancouver. Still, the Port is mindful of possible responses from US West Coast ports such as Seattle and Tacoma because of their heavier dependence on inland business. Port Metro Vancouver also pays attention to the use of the Suez Canal route to connect South Asia to Eastern Canada, especially if industrial development in Asia begins to shift in favour of the Southeast Asia and Indian subcontinent region.

Container traffic through BC's west coast is expected to double over the next 10 to 15 years and nearly triple by 2030. This projected increase in Canadian international trade necessitates planning now to meet future demand. Based on population and economic growth, it is projected that over 4 million TEUs of additional capacity will be needed to meet future west coast container demand by 2030. In order to meet this future demand and ensure sufficient capacity, Port Metro Vancouver has launched the Container Capacity Improvement Program (CCIP). The CCIP will identify opportunities to increase operational efficiencies at the Port's existing container facilities, with an emphasis on investment and infrastructure improvements at Roberts Bank in Delta.

## **Cruise**

The Port's cruise business includes round-trip, open-jaw (one-way cruise trips, typically with the other way by air), and in-transit segments. Port Metro Vancouver is the only homeport in the open-jaw segment, but Seattle competes in the round-trip cruise segment. Seattle has approximately 70 per cent and Vancouver has approximately 30 per cent of the round-trip market share. Alaska cruises originating in Seattle must make an in-transit call at a port in BC during their journey. Port Metro Vancouver and the ports of Victoria (primarily), Nanaimo and Prince Rupert receive these in-transit calls.

## **Supply Chain**

Cargo and passenger traffic are connected to Port Metro Vancouver by a broad network of railways, roads, seaways, pipelines and air corridors that link businesses in local and international markets. The ongoing operation and development of this network is vital in making the Port a smooth, efficient and reliable Gateway. Consistencies and harmonies in the supply chain and workforce not only reduce costs and uncertainty to its participants, but also improve the Port's international reputation, competitive position, and ability to respond to market opportunities.

### ***Rail***

Port Metro Vancouver's railway network is responsible for handling at least three quarters of the Port's foreign cargo tonnage to and from its terminals on the land side. Canadian National (CN), Canadian Pacific (CP) and Burlington Northern Santa Fe (BNSF) railways, whose networks reach across the continent, have access rights into the Port. Southern Railway of BC (SRY) also serves the Port, providing short-line service in the Lower Mainland. BNSF has the capacity to connect US cargo with Vancouver or divert Canadian cargo to other US ports.

The Federal Government undertook a national Rail Freight Service Review (RFSR) early in 2010, and a final report was completed in January 2011. Port Metro Vancouver is supporting adoption by government of the report's key recommendations.

CN and Port Metro Vancouver entered into a supply chain collaboration agreement in 2010 to drive further efficiencies at the port and recognize the importance of balanced accountability.

CP and Port Metro Vancouver entered into a collaboration agreement in February 2011 to improve productivity and performance. Forty per cent of all the freight traffic moved by CP passes through Port Metro Vancouver.

### ***Trucking***

Trucking companies that service the Port provide pick-up and delivery services in Canada and the US primarily for the container sector. Port Metro Vancouver continues to administer and enforce a mandatory Truck Licensing System (TLS) for container trucks and operators that requires them to meet tough safety and environmental standards to be permitted to operate on port roads and marine container facilities.

### ***Asia Pacific Gateway & Corridor Initiative (APGCI)***

The APGCI is an integrated set of federal government investment and policy measures focused on increasing trade and enhance Canada's global economic competitiveness by establishing the Asia-Pacific Gateway as a primary link between North America and Asia. It includes the Roberts Bank Rail Corridor Improvement Program and the Lower Mainland Rail Network Assessment. The federal government pledged a total of over \$1 billion to the APGCI, of which approximately \$800 million is being spent on strategic infrastructure projects within BC. Port Metro Vancouver committed \$168 million to Gateway Infrastructure Programs, on behalf of industry stakeholders, most of which are underway. A Gateway Infrastructure Fee, effective January 1, 2011, will recover 90 per cent of Port Metro Vancouver's \$168 million contribution. Overall, this work will lead to a long-term strategy for the entire Lower Mainland and help position the Port to continue to meet its growth, efficiency and reliability objectives.

In 2010, a busy year for Canada's Pacific Gateway, Port Metro Vancouver achieved record-breaking volumes in key sectors and a total tonnage increase of 16 per cent, delivering 118.4 million tonnes overall on the year. Container traffic in 2010 set an all-time record in total containers handled. Overall export volumes were further strengthened by record setting coal and grain volumes. Total foreign tonnage increased 18 per cent, to 93.3 million tonnes, with increased foreign exports to growing Asian economies continuing to lead the way.

## **Strategy**

Port Metro Vancouver has adopted six strategic priorities within the context of the critical business issues the Port is facing today. They support Port Metro Vancouver's goal of achieving a vision of being valued by customers, embraced as a member of the community and recognized globally as a leader in port sustainability. In 2010 Port Metro Vancouver launched the Port 2050 long range planning process. The purpose of Port 2050 is to create a shared strategic vision that explores what is considered good growth for the Gateway and its stakeholders as well as possible scenarios of what the Port will look like in 20 to 40 years.

The strategic priorities noted below are medium term. Going forward, the outcomes of the Port 2050 initiative will be incorporated into Port Metro Vancouver's strategic plan as appropriate.

### **Strategic Priorities**

**Operational Efficiency, Capacity and Customer Value Enhancement: Improve the reliability and expand throughput capacity of the supply chain to meet customer needs and enhance value to our customers.**

**Rationale:** Port Metro Vancouver will continue to look beyond its waterfront operations to ensure that the Gateway maintains optimal efficiency, effectiveness, and capacity. Areas to continue focusing on, in addition to ensuring there is adequate terminal capacity, include rail, labour and truck supply/reliability. Focusing on these areas will complement and enhance the reputation of this port as a competitive North American Gateway.

**Land Asset Strategy: Ensure there is sufficient land, appropriately utilized, to meet long term requirements of the Port.**

**Rationale:** The Port will dramatically increase the economic benefits it brings to Canadians if it can increase the amount of industrial land in the region devoted to transportation and logistics. This expansion will enable the Port to expand and capitalize on the continued growth of Asian economies.

**Engage Community & Government: Engage community and government to ensure alignment of community support and government decision-making with the needs of the Port.**

**Rationale:** Aligning government decision making with the needs of the Port is an essential part of ensuring that Port Metro Vancouver's long-term strategic vision is realized. Port Metro Vancouver's relationships with key interest groups and stakeholders should be leveraged if the organization is to make the most of its involvement in government policy development. The Port also needs to be aware of governments' legislative calendars so that

it can target priority areas for policy reform and develop appropriate advocacy efforts that are supported by persuasive policy positions in order to enhance governments' support for port-related initiatives.

**Organizational Excellence: Engaged Employees, Effective Processes and Appropriate Technologies: Ensure that we have engaged people, effective processes and appropriate technologies.**

**Rationale:** Port Metro Vancouver can enhance its ability to help its customers achieve long-term success by developing employees that are dedicated to doing the very best job possible and willingly exert their discretionary efforts to contribute to the organization's business success. Port Metro Vancouver can also become more efficient by deploying technologies that help employees perform to their best abilities.

**Corporate Social Responsibility: As part of its long term sustainability strategy Port Metro Vancouver will deliver material progress on the most relevant corporate social responsibility initiatives.**

**Rationale:** Port Metro Vancouver will continuously monitor and understand the impacts Port operations have on communities and the environment. The Port will make all reasonable efforts to reduce these impacts and be transparent about the impacts its corporate social responsibility initiatives are making. The above actions will help ensure the long term future viability of the Port.

**Strategy and Long Range Planning: Develop and deliver a Port Metro Vancouver planning process that successfully engages stakeholders and creates a strategy and long term plan for Port Metro Vancouver that guides decision making in the short, medium and long term.**

**Rationale:** A long range planning process will help Port Metro Vancouver engage its stakeholders and build support with them for Port Metro Vancouver's future initiatives. A long range planning process will also provide a scenario based framework within which Port Metro Vancouver can develop and pursue business strategies for the long term. It will help Port Metro Vancouver focus its resources and guide its decision making over timeframes that are similar to expected lives of the investments that it often makes.

## Capital planning

Capital spending in 2010 was \$55 million compared with \$171 million in 2009. The majority of the decrease between 2010 and 2009 capital spending related to land acquisitions in 2009 totaling \$109 million as well as near completion of the Deltaport 3 berth expansion program in 2009. The 2010 spending can be broken down by significant capital projects as follows:

Strategic Priority	Project	2010 Spending
Operational Efficiency, Capacity and Customer Value Enhancement	Federal Infrastructure Stimulus Supported Projects	\$18.6
	Deltaport Third Berth Project	\$13.0
	North Shore Trade Area	\$7.5
	Container Capacity Improvement Program (CCIP)	\$2.7
	Richmond Logistics Hub Area V	\$3.4
	Land Acquisitions	\$1.0
Land Asset Strategy	Other	\$8.8
	<b>Total</b>	<b>\$55.0</b>

Port Metro Vancouver has established a 2011-15 Capital Plan to support the achievement of Port Metro Vancouver’s mission and vision.

Port Metro Vancouver’s Capital Plan outlines spending of \$944 million between 2011 and 2015. In all, the majority of these capital expenditures directly support four of Port Metro Vancouver’s six strategic priorities, as outlined below:

Strategic Priority	Capital Plan Funds Allocation (2011-2015)	Funds Allocated (\$MM)
Operational Efficiency, Capacity and Customer Value Enhancement	Gateway Infrastructure Initiatives	\$167
	Container Terminals Expansion	\$176
	Burrard Inlet Dredging	\$43
	Transportation Logistics Program	\$2
	Terminal Dock Development	\$6
Organizational Excellence	Information Services	\$8
Land Asset Strategy	Property Acquisitions	\$212
	Richmond Logistics Hub	\$39
	Fraser River Land Reclamation Project	\$161
Engaged Community and Government	Highway 91/Nelson Interchange	\$7
	Tsawwassen First Nation Settlement	\$5
	Other Capital Projects	\$118
<b>Total</b>		<b>\$944</b>

The majority of capital spending in 2010 is related to Federal Infrastructure Stimulus Fund projects. On September 23, 2009, the Government of Canada announced infrastructure stimulus funding for Port Metro Vancouver. The Government of Canada agreed to provide Port Metro Vancouver with nearly \$21 million from the Infrastructure Stimulus Fund to make important upgrades to the Port's infrastructure, matching Port Metro Vancouver's eligible expenditures on the approved projects. The projects covered under this initiative are diverse, ranging from the installation of waterlines to service the Richmond Logistics Hub, to upgrading seismic capacity of three buildings at Lynnterm Terminal, to upgrading water and storm sewers systems on the south shore of Burrard Inlet to enhance emergency preparedness for south shore terminals in the event of a fire, spill or similar event, to the creation of a centralized operations centre to manage the Port's operations and communications to ensure safe, secure and sustainable operations. Substantial completion of the approved projects by the program deadline (October 31, 2011) has been or is expected to be met.

The Deltaport Third Berth Project was substantially completed in 2009, with the exception of some remaining environmental mitigation work at Roberts Bank including the East Causeway Habitat. On January 18, 2010 Global Container Terminals and Port Metro Vancouver, along with government officials, officially opened the new \$400 million third berth at Deltaport container terminal.

Spending for the North Shore Trade Area relates to a number of projects that will further improve the flow of port-related rail and truck activity while also mitigating or reducing the impact of these operations on neighbouring communities. Two of the major projects are the

Lynn Creek Bridge and Brooksbank Avenue Underpass projects that will improve rail access to and from the Port's Lynnterm Terminal and Neptune Bulk Terminals in North Vancouver.

The Richmond Logistics Hub is a 700-acre industrial land development that began in 2001. The project is planned to facilitate a combination of marine terminal, short-sea shipping, trans-shipment, and distribution facilities in support of Port operations. Expenses incurred in 2010 related to the Richmond Logistics Hub Area V related to the completion of a development plan for this area that includes logistics facilities with the plan to lease this space out in 2011.

## **Capability to Deliver Results**

In 2009, Port Metro Vancouver drew down debt financing totaling an additional \$99 million from its National Bank facility to finance \$171 million of capital expenditures. The difference was funded by cash on hand and operating cash flow. In 2010, operating cash flows were sufficient to fund capital expenditures occurring in that year. In order to secure sufficient funding to facilitate the execution of its five year business plan, in 2010 Port Metro Vancouver issued a \$100 million private placement bond. Port Metro Vancouver is restricted by the *Canada Marine Act* from raising equity financing so it must look to debt markets to raise any financing necessary to execute its plans.

## **Financing Plans**

Port Metro Vancouver has the human and financial resources required to execute its business plans, achieve its strategic priorities and create value for its customers. Details on financial resources in place are outlined below.

### ***National Bank of Canada Loan***

In December 2007, Port Metro Vancouver signed a \$175 million financing agreement with National Bank of Canada (NBC). This credit facility allows borrowing by way of Banker's Acceptance at the Canadian Deposit Offered Rate plus a stamping fee and also allows for the issuance of Letters of Credit. The facility will expire on December 12, 2012. To support ongoing borrowing requirements beyond 2012, Port Metro Vancouver anticipates renewing or replacing this facility.

### ***Private Bond Placement***

On April 19, 2010, Port Metro Vancouver successfully issued a \$100 million private placement bond, the first of its kind for any Canadian port. The bonds were supported by a AA credit rating provided by Standard & Poor's and were issued as senior unsecured debentures for a 10 year term at 4.63 per cent, and incorporated a 0.85 per cent spread over Government of Canada bonds. Port Metro Vancouver's bond is non-amortizing and requires interest to be paid semi-annually with principal repaid in full at maturity in 2020.

### ***New Financing Requirements***

Port Metro Vancouver will need new credit facilities to fund its capital requirements over the five year plan period. Port Metro Vancouver's financing strategy is currently to raise funds using a combination of additional rated private placement bond issues and floating rate bank debt. This approach will reduce refinancing risk in the future, minimize interest rate and renewal risk, and diversify Port Metro Vancouver's funding sources. This strategy will also ensure Port Metro Vancouver maintains sufficient liquidity as outlined in Port Metro

Vancouver's Liquidity Management Policy. Under its capital and operating plan, Port Metro Vancouver's borrowing is estimated to peak at \$509 million in 2015. Port Metro Vancouver's Letters Patent cap the amount of debt that the organization can hold at \$510 million. Given Port Metro Vancouver's planned debt levels, this debt cap is not expected to impact Port Metro Vancouver's plans. Current cash flow projections show that Port Metro Vancouver has the ability to fully repay all existing and planned loans.

## **2010 Financial Results**

### ***Revenue***

Port Metro Vancouver earns a significant amount of its revenue from rents. The main fees collected in 2010 were harbour dues, berthage and wharfage fees from vessels using the port. Harbour dues are based on the number of harbour calls a vessel makes at the Port. These dues are intended to recover investments and costs associated with harbour operations, as well as harbour safety, security, cleanliness and some common user infrastructure. Berthage fees are calculated based on the size of a vessel and the duration of its stay at a Port Metro Vancouver owned berth. Berthage fees are intended to help Port Metro Vancouver recover investments and costs associated with the wharf apron, berth dredging and maintenance. Wharfage fees are assessed based on the weight or measurement of cargo handled on Port Metro Vancouver property and fees vary by cargo type and commodity. Wharfage fees are intended to recover investments and costs associated with the provision of port infrastructure and services to handle cargo.

Port Metro Vancouver decreased the base rate on harbour dues by 3 per cent in 2010. Berthage rates for Burrard Inlet, Roberts Bank, or the Fraser River in 2010 remained the same. Container wharfage rates at Fraser Surrey Docks increased in 2010 by 5.9 per cent for import containers and 8.3 per cent for export containers. Wharfage rebates that applied in the Inlet and at Robert's Bank were eliminated in 2010, as part of a program announced in 2005. Overall revenue collected in 2010 for harbour dues, berthage and wharfage was \$47 million compared with \$38 million in 2009, representing a 23 per cent increase<sup>1</sup>.

Port Metro Vancouver earned \$114 million in rental revenue in 2010 compared with \$90 million in 2009<sup>1</sup>. This change represents a 27 per cent increase and is largely attributed to revenue generated from the new third berth at Deltaport opening in early 2010, new leases in the Richmond properties coming into force and rent from new properties purchased as part of Port Metro Vancouver's Land Acquisition Program.

Cruise revenues decreased slightly in 2010 to \$10 million versus \$12 million in 2009<sup>1</sup>. Port Metro Vancouver saw 300,000 fewer cruise passengers in 2010 than the year before. Cruise call numbers experienced an anticipated decrease from 256 calls in 2009 to 177 calls in 2010. The cruise industry plans their vessel calls one to two years in advance of the actual call dates; therefore, the decline in cruise passengers in 2010 can be primarily attributed to the Alaska head tax, the 2008/2009 economic recession and competition from Seattle. The majority of Port Metro Vancouver's cruise revenue comes from passenger fees, thus decline in passengers had a significant impact on cruise revenues. This decrease was partially offset by additional cruise revenue earned during the Vancouver 2010 Olympic and Paralympics Winter Games period when Port Metro Vancouver welcomed cruise ships as they provided accommodation for security forces during the Olympics.

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<sup>1</sup> Based on Port Metro Vancouver's unconsolidated revenue figures for 2009 and 2010.

## ***Expenses***

Port Metro Vancouver's operating expenses remained relatively constant between 2009 and 2010 at approximately \$97 million<sup>2</sup>. Increases in other operating and administrative expenses and PILT were offset by decreases in dredging and professional fees and consulting services. Other non-operating expenses also remained relatively constant between 2009 and 2010 at approximately \$10 million. An increase in interest expense in 2010 attributable to the 2010 private bond issuance was offset by a decrease in writedowns of fixed assets.

## ***Net Income***

Port Metro Vancouver's 2010 net income of \$73 million was \$34 million higher than 2009's net income of \$39 million<sup>2</sup>. The increase in net income was primarily due to a net increase in operating revenues of approximately \$34 million resulting from increased rental and wharfage revenues. This increase in revenues in 2010 with the relatively constant expenses resulted in an increase in net income of \$34 million over 2009.

## **Risk**

Port Metro Vancouver assesses enterprise risks and associated controls internally on a regular basis throughout each year. Port Metro Vancouver's external system is the mandated five-year risk assessment pursuant to the Port Authorities Management Regulations. The most recent of these studies was completed in May 2008.

Nine risks are identified as the most important risks facing Port Metro Vancouver today and are outlined below.

### ***Supply Chain Capacity Imbalances***

**Description:** Capacity imbalances lead to lost business opportunities and underperforming capital investments, diminishing Port Metro Vancouver's reputation with the shipping industry and potentially raising community opposition to landside freight operations and improvement programs.

**Mitigation Plan:** Port Metro Vancouver encourages its supply chain partners to act in the best interests of the Gateway. This is accomplished by monitoring and measuring performance, conducting studies, mediating conflicts and entering into collaboration agreements.

### ***Inadequate Project Cost Estimates***

**Description:** Project or program planning results in inadequate cost estimates, leading to unexpected financial expenditures, decreased returns on investment, decreased capacity for future projects, underutilized financial capacity or missed revenue opportunities.

**Mitigation Plan:** Port Metro Vancouver uses third party budget and cost estimator consultants for larger projects. During construction, Port Metro Vancouver controls scope with Change Orders and pre-determined quantities and unit costs. Port Metro Vancouver has

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<sup>2</sup> Based on Port Metro Vancouver's consolidated expenses from 2010 annual audited financial statements.

developed a project management framework requiring detailed planning for large projects including internal resources and budget. Large projects require monthly status reporting including schedule, cost at completion and risks. Port Metro Vancouver also has a major capital projects committee of the Board that provides oversight.

### ***Strike or Similar Disruptive Action***

**Description:** A general strike (or similar disruptive) action in the logistics chain leads to a shutdown of the port, causing reduced revenue and diminished reputation.

**Mitigation Plan:** Government of Canada historically implements return to work and cooling off period legislation in this situation. Port Metro Vancouver has public, customer and government relations departments that can work with external parties to assist in resolving these conflicts. Port Metro Vancouver is looking to play a leadership role in advocating for improvements in the relationship between employers and labour and encouraging policy changes where required. In the event of lost revenues due to a disruption, Port Metro Vancouver can undertake various cost-cutting measures.

### ***Terrorist Attack***

**Description:** Terrorist attack or cruise ship hijacking at Canada Place injures employees, cruise passengers, and other pedestrians and convention goers, causing damage to Port Metro Vancouver property and cruise vessels.

**Mitigation Plan:** Vulnerability analyses have been conducted and are reviewed regularly. Security arrangements for Port Metro Vancouver's segments of the property are reviewed regularly. Additional security measures are implemented to monitor cruise traffic and increased threat levels (MARSEC II or MARSEC III). Participation with VANOC in the 2010 Winter Games security planning resulted in a security plan for Canada Place that remains useful for Port Metro Vancouver. Port Metro Vancouver has acquired terrorism insurance.

### ***Loss of Community Acceptance***

**Description:** Local communities oppose a Port Metro Vancouver land use or capacity expansion project, causing significant increased expenses or lost revenue opportunities.

**Mitigation Plan:** Port Metro Vancouver incorporates extensive public consultation in its land use planning and expansion projects. Port Metro Vancouver dedicates resources to engaging with its bordering communities, including community relations initiatives and a Community Investment Program. Port Metro Vancouver contributes resources to various public causes and to municipalities. Port Metro Vancouver also participates on various community liaison committees and dedicates resources to engaging with local First Nations groups.

### *Environmental Impact on Neighbours*

**Description:** Operations at a terminal lead to dust or noise or odours interfering with the enjoyment of neighbouring properties diminishing Port Metro Vancouver's reputation.

**Mitigation Plan:** Port Metro Vancouver imposes environmental requirements as part of its environmental review and leases, including dust suppression and noise abatement efforts. Port Metro Vancouver's Environmental Programs Department is working with Metro Vancouver to share information and work collaboratively on solutions to minimize port impacts on surrounding communities. A Port Metro Vancouver noise committee has been struck to track and manage responses to noise complaints. Port Metro Vancouver also collaborated with other partners to build shore power capability at its Canada Place cruise terminals.

### *Land not Available to Purchase*

**Description:** A future shortage of industrial land in the Lower Mainland may increase real estate prices making expansion opportunities unprofitable and causing lost revenue opportunities.

**Mitigation Plan:** Port Metro Vancouver has a land acquisition strategy to identify and secure land for future development requirements. Port Metro Vancouver is also developing a Land Reclamation Capital Program to make the best possible use of river dredgeate.

### *Climate Change*

**Description:** Accelerated climate change causes more severe storms, more debris in the Fraser River, heightened sea levels leading to damage to Port Metro Vancouver assets and downtime at terminals. This leads to reduced revenues and increasing capital and operating expenses.

**Mitigation Plan:** Port Metro Vancouver has property insurance that covers storm damage and requires the same of tenants. This insurance includes compensation for business interruptions and some contingent business interruptions. Port Metro Vancouver monitors the International Panel of Climate Change Scientists for information on an annual basis and incorporates this information into its planning process. Air emission inventory is done and is feeding into Port Metro Vancouver's climate change action strategy.

### *Inheritance of Environmental Issues*

**Description:** Port Metro Vancouver discovers some of its land has unknown contamination that may cause Port Metro Vancouver to incur significant unexpected costs.

**Mitigation Plan:** Port Metro Vancouver is prioritizing its portfolio of land holdings to address environmental uncertainty and is proceeding with site risk assessments. Port Metro Vancouver is risk managing contamination to save on clean-up costs.

## **Outlook**

### ***Financial outlook***

Consistent with prior years, fee-based revenues are expected to continue to grow over the next few years in line with inflationary and traffic increases.

The significant growth seen in rental revenue in 2010 is expected to level out in 2011. Beginning in 2011, rental revenue increases are expected to be much more moderate and in line with ongoing increases in values of industrial properties in the Gateway.

A Gateway Infrastructure Fee (GIF) has been implemented to recover the approximate \$167 million industry contribution to the Trade Area and Corridor projects prefunded by Port Metro Vancouver. This GIF went into effect on January 1, 2011 to recover the prefunded amount over the 30 year life of the projects. Marginal increases in overall revenues are expected in 2011 and future years as a result of this fee.

Salaries and employee benefits represent 28 per cent of Port Metro Vancouver's operating expenses in 2010 and are expected to increase in line with general inflation levels over the next 5 years.

Net dredging expenses represented 10 per cent of operating expenses in 2009 and decreased to 7 per cent of operating expenses in 2010. Dredging expenses are currently projected to remain at 7 per cent of annual operating expenses. Risk exists with this item as Port Metro Vancouver must apply annually to government for ocean dumping permits for sand and required dredging volumes. As well, volumes of offsetting dredge sand sales can vary year to year. Work on the development of a 10 year dredging program that is environmentally, socially and financially sustainable, as well as a process to secure a new dredging contract, will continue in 2011.

A slight decrease in amortization expense was seen in 2010 over 2009. Overall, depreciation as a percentage of Port Metro Vancouver's expense budget is projected to increase as various capital projects, such as the Deltaport Third Berth Project are completed and enter operational phases. Depreciation increases will also be driven by terminal, corridor and trade area expansions.

Purchased services, energy & utilities, and other operating & administrative expenses are expected to increase at the rate of inflation over the next five years.

Driven by the above factors, net income is predicted to increase going forward as volumes improve and investments in property and facilities begin to earn income. While maintaining its strong financial position, Port Metro Vancouver will strategically position itself to take advantage of emerging opportunities as trade volumes return and surpass pre-recessionary levels.

### ***International Financial Reporting Standards***

On February 13, 2008 the Canadian Accounting Standards Board (AcSB) announced that accounting standards in Canada are to converge with International Financial Reporting standards (IFRS) for publicly accountable enterprises in Canada. This transition to IFRS is effective for annual financial statements for fiscal years beginning on or after January 1, 2011. Port Metro Vancouver is classified as a publicly accountable enterprise and will be required to begin reporting with comparative data under IFRS for financial statements beginning January 1, 2011, with comparatives for 2010. Port Metro Vancouver's date of transition to IFRS will be January 1, 2010.

The transition from Canadian GAAP to IFRS may impact the disclosure of Port Metro Vancouver's financial position and results of operations. Port Metro Vancouver is communicating the changes required by IFRS to the relevant personnel in the organization and other affected stakeholders. Port Metro Vancouver has evaluated the impact of the conversion on its accounting system and has developed detailed plans on how the system will be updated for the periods affected. Port Metro Vancouver has also assessed the impacts of adopting IFRS on its debt covenants and other contractual arrangements, and has not identified any material compliance issues.

Port Metro Vancouver is finalizing the adoption of IFRS on its 2010 financial results which are included as part of the 2011 audited financial statements. Port Metro Vancouver has reviewed the significant areas of its financial statements to assess the impact of IFRS on each of these items. In 2011, Port Metro Vancouver continues to actively monitor the latest developments surrounding IFRS and the impact it has on its financial statements.