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Annual Report 2003

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## Letter to the Minister of Transport

The Honourable Tony Valeri, P.C., M.P.  
Minister of Transport, Ottawa

Dear Minister:

In accordance with the provisions of the *Financial Administration Act*, I am pleased to submit VIA Rail Canada Inc.'s annual report for the year ended December 31, 2003.



**Paul Côté**  
Interim President and  
Chief Executive Officer

## Corporate Overview

VIA operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown Corporation established in 1977, our mission is to provide Canadians with a safe, efficient and environmentally responsible passenger service. We fulfill this mission by delivering quality service to our customers; by maximizing revenues and by controlling costs; and by building on the market strengths of passenger rail — one of the safest, most reliable and environmentally sustainable modes of transportation available.

**Committed to Excellence** — Our vision is to be the Canadian leader in passenger service excellence. We are committed to reshaping passenger rail to meet the needs of a modern, growing nation, to deliver faster services, operate more trains and carry more Canadians than ever before.

**Serving Canadians Coast to Coast** — We operate more than 480 trains weekly on 14,000 kilometres of track, connecting over 450 Canadian communities. With approximately 3,000 employees, VIA carried almost 3.8 million passengers over 857 million miles in 2003.

In **Western Canada**, VIA provides year-round, all-weather intercity transportation including service to remote communities. The legendary transcontinental *Canadian*®, a train running thrice-weekly between Toronto and Vancouver, has won international recognition over the years — including being voted one of the “Best Rail Experiences of the World” by the *International Railway Traveler* in 1999. In 2003, it also received the highest possible rating from Saga Holidaymakers, a highly-respected European holiday operator, for its dining car service.

In the **Quebec City - Windsor Corridor**, VIA's trains provide intercity passengers with fast, convenient, comfortable and affordable service, downtown-to-downtown between Canada's largest business centres. *VIA 1™* service offers first-class amenities, as well as a roomy, hassle-free environment allowing business travellers to work or relax en route.

In **Atlantic Canada**, the *Ocean™* runs six times a week between Montreal and Halifax, offering its friendly *Easterly™* service. The *Chaleur™* makes three trips each week from Montreal through the Gaspé Peninsula.

In **rural and remote areas**, VIA operates services designated by the government to meet regional transportation needs.

## The Year at a Glance

The following key financial indicators and operating statistics summarize the performance of the Corporation for the year 2003 with comparative data for the years 1999 to 2002.

	2003	2002	2001	2000	1999
<b>Key financial indicators</b>					
(IN MILLIONS OF DOLLARS)					
Total revenue	<b>250.3</b>	270.8	253.8	240.7	220.6
Cash operating expenses <sup>(1)</sup>	<b>431.4</b>	424.2	416.9	410.6	390.6
Capital Expenditures	<b>77.4</b>	98.4	146.7	45.9	10.9
Government funding:					
Operating	<b>181.1</b>	153.7	163.3	170.3	170.0
Capital	<b>82.4</b>	103.4	151.7	45.9	—
Total Government funding <sup>(2)</sup>	<b>263.5</b>	257.1	315.0	216.2	170.0
<b>Key operating statistics <sup>(3)</sup></b>					
Revenue/Cash operating expenses ratio (%) <sup>(1)</sup>	<b>58.5</b>	64.5	61.5	59.5	56.7
Total passengers carried (IN THOUSANDS)	<b>3,789</b>	3,981	3,865	3,795	3,569
Total passenger-miles (IN MILLIONS)	<b>857</b>	948	921	904	885
Government operating funding per passenger-mile (IN CENTS)	<b>21.1</b>	16.2	17.7	18.8	19.2
Yield (CENTS PER PASSENGER-MILE)	<b>26.8</b>	26.6	25.3	24.0	22.6
Train-miles operated (IN THOUSANDS)	<b>6,780</b>	6,770	6,665	6,621	6,448
Car-miles operated (IN THOUSANDS)	<b>48,682</b>	48,262	46,102	45,121	43,168
Average passenger load factor (%)	<b>53</b>	57	57	56	56
Average number of passenger-miles per train-mile	<b>126</b>	140	138	137	137
Number of active employees at year-end	<b>3,051</b>	3,054	3,013	2,958	2,909
On-time performance (%)	<b>73</b>	84	85	83	84

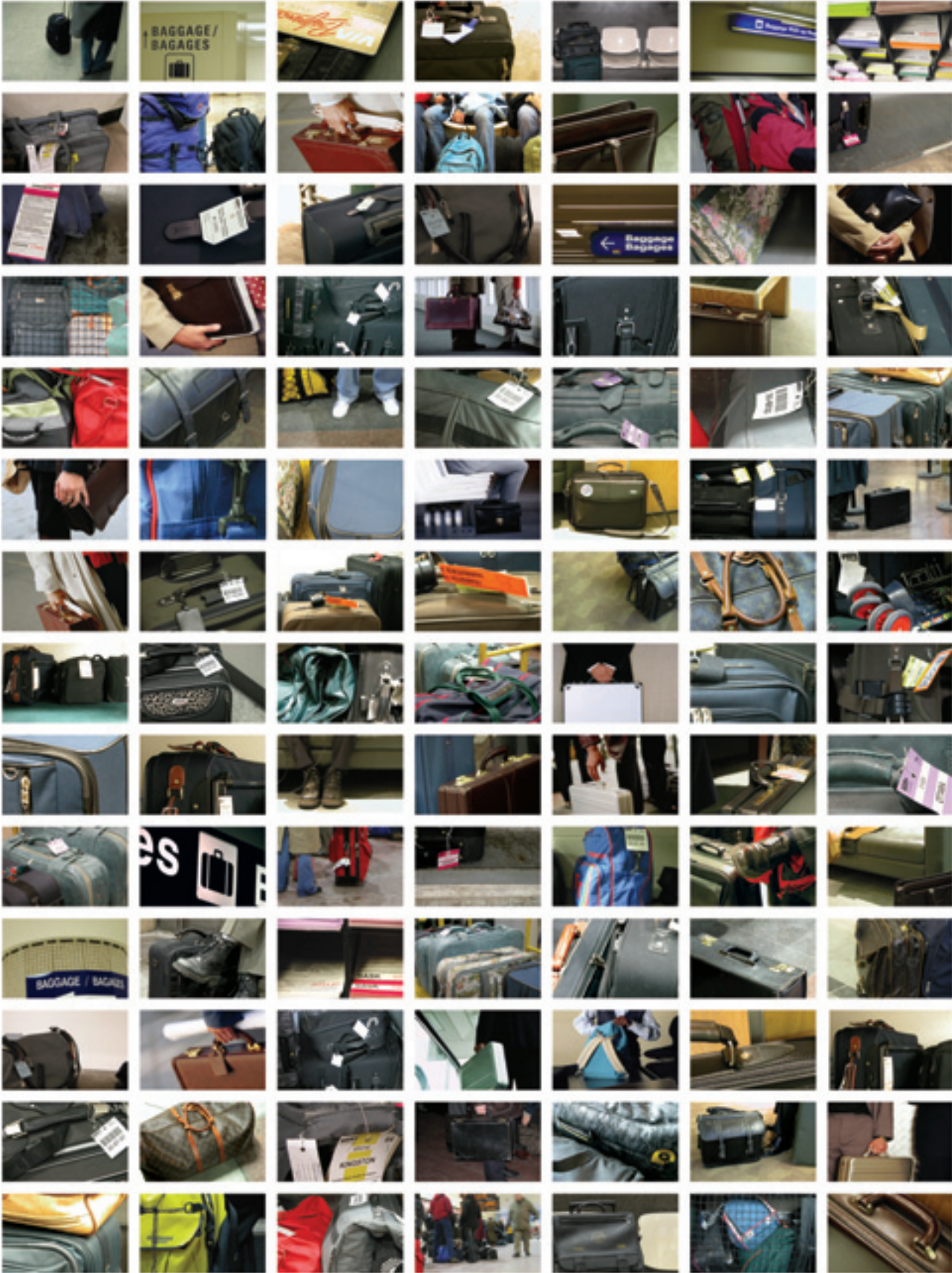
<sup>1)</sup> Cash operating expenses used in the calculation of the Revenue/Cash operating expenses ratio exclude amortization of property, plant and equipment, reorganization charges, pension and employee future benefits.

<sup>2)</sup> Excludes internal funding from the Asset Renewal Fund of \$16.5 million in 1999 and includes a capital funding contribution to the Asset Renewal Fund of \$5.0 million in 2001, 2002 and 2003.

<sup>3)</sup> Key operating statistics are unaudited.

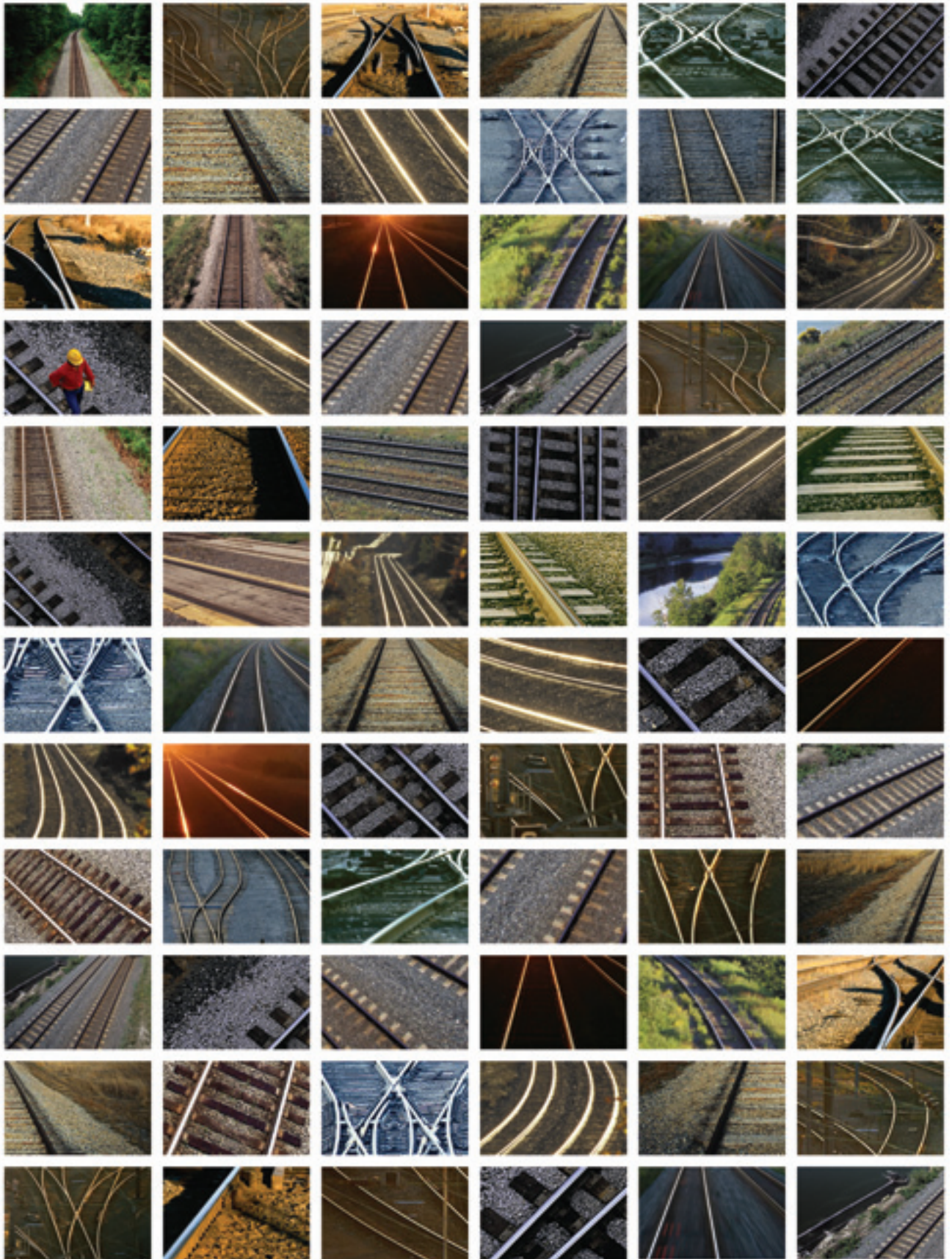


Almost 4,000,000 passengers





Operating over **14,000** kilometres of track





Over 3,000 employees





More than **480** trains per week





Serving some **450** Canadian communities





**One vision:** To be the Canadian leader  
in service excellence in passenger transportation.



## Message from the Board of Directors



As Canadians look to future challenges, it will be critical to ensure that all parts of the transportation infrastructure are used in the most effective way possible.

In a country as vast as Canada, good transportation has always been critical to the well-being and prosperity of the nation. Today, as Canada takes its place in the 21st century as an increasingly urbanized nation, with one of the world's most modern, globalized economies, our transportation system faces new challenges. Passenger rail is contributing to efforts to address those challenges.

Along some of our most congested transportation corridors, frequent travel is becoming a basic fact of life for more Canadians. And Canadians are increasingly looking to passenger rail to provide an alternative to overcrowded highways and airports; an alternative that is efficient, environmentally sustainable, and especially attractive for medium-distance travel. Even in 2003, one of the worst years on record for the travel and tourism industry, the demand for passenger rail relative to other modes of transportation was strong.

Almost every business in the transportation and tourism industry suffered declines in revenue in 2003, following a combination of market events rarely, if ever, seen before. VIA was no exception. However, in key markets, where pressures on the transportation system are greatest, VIA bucked the trend and grew both market share and revenues. For example, VIA achieved significant revenue growth for services between Montreal and Ottawa, while in the Quebec City - Windsor Corridor as a whole, VIA's share of the public mode travel market grew by more than four per cent.<sup>1</sup>

Market research confirms that Canadians see a dynamic passenger rail service as a reasonable solution to their transportation needs, improving access and choice for travel. A report prepared for VIA in 2003 showed that 92 per cent of those surveyed favour the "expansion and improvement of passenger rail services."<sup>2</sup>

Since 1990, VIA has continuously improved the quality of Canada's passenger rail service, consistently earning high ratings for customer satisfaction. At the same time, VIA has steadily lowered the cost to government of operating the service. In 2003, when market conditions produced the first year-over-year decline in revenue in more than a decade (1995 excepted) VIA was able to minimize this setback by implementing rigorous cost-cutting measures.

1 — Pollara — Continuous tracking telephone survey (Toronto, Montreal, Ottawa, Quebec City), 4th quarter 2003  
2 — Pollara — Public Opinion Survey, January 2003





If VIA is to meet the growing demand for more train services, while continuing to reduce funding costs, the corporation must stay focused on increasing revenues and investing for long-term growth. This will require not only VIA's excellent on-board service, but more frequent trains, faster trip times, and reliable on-time performance. More frequencies, higher speeds and reliable performance depend, in turn, on investing in the infrastructure capacity needed to operate modern, faster passenger trains.

At present, there is almost no capacity to improve the speed or frequency of train services in the Quebec City - Windsor Corridor. This severely limits VIA's ability to continue growing revenues and, in so doing, reduce funding costs. Even more disturbing is the fact that increasing freight traffic on this infrastructure, which is largely owned and managed by Canadian National, has started to *reduce* capacity for passenger trains, making it increasingly difficult for VIA to deliver existing services on schedule.

<b>On-Time Performance</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Quebec City - Windsor Corridor	<b>86%</b>	<b>85%</b>	<b>73%</b>
Montreal - Halifax	<b>86%</b>	<b>81%</b>	<b>69%</b>
Toronto - Vancouver	<b>71%</b>	<b>72%</b>	<b>61%</b>
<b>Total VIA system</b>	<b>85%</b>	<b>84%</b>	<b>73%</b>

A decline in on-time performance for passenger rail which started in 2001 reached alarming proportions in 2003. This decline is due largely to the growing number of longer, slower freight trains which cause frequent delays in passenger operations. Since on-time performance is critical for maintaining customer loyalty and attracting new customers, this trend will seriously undermine VIA's performance if it is not addressed quickly.

As Canadians look to future challenges in maintaining an efficient, reliable transportation system at a reasonable cost, it will be critical to ensure that all parts of the existing transportation infrastructure are used in the most effective way possible. In areas where passenger rail can contribute most to meeting those challenges, investment in appropriate infrastructure for faster, more frequent and convenient passenger rail services should be considered a wise and responsible choice.

VIA is mindful of the stewardship responsibilities it holds on behalf of the Government of Canada and Canadian taxpayers, to manage Canada's national passenger rail service. Canadians expect the corporation not only to ensure full accountability for results already achieved, but to provide leadership in shaping a service that meets future needs. To this end, the Board undertook a number of initiatives to ensure that it can provide sound guidance and strategic direction to the corporation, following a review of corporate governance practices in 2002. These initiatives are described more fully in this report. In addition, this report includes a more comprehensive discussion and analysis of VIA's operations than in previous annual reports.

It is hoped that this discussion will provide Canadians with a clear picture not only of the challenges VIA faced during the year gone by, but the opportunities for further improving their passenger rail service to meet the needs of travellers in the years ahead.

## Message from Management



Despite disastrous market conditions in 2003, our long-term strategic plan remains on track, with progress achieved towards all key objectives.

If it is true that facing adversity builds strength of character, VIA did a lot of character building in 2003. One catastrophe after another, from forest fires and a hurricane, to virus scares and power blackouts, disrupted train operations and our customers' travel plans. At times, the string of catastrophes — along with security concerns related to terrorism and the war in Iraq — threatened to bring the entire travel and tourism industry to a standstill.

By the end of the year, the impact on VIA's bottom-line results was discouraging, especially when the results are compared to previous years. It was impossible to achieve the kind of increases in ridership and revenue VIA has enjoyed year after year over the past decade.

But if we look at what we did achieve in 2003, VIA and its employees have much to be proud of. Our long-term strategic plan remains on track, with progress achieved towards all key strategic objectives.

Surrounded by events and circumstances beyond our control, we concentrated on the things we could control, and our employees did their jobs very well. VIA staff worked hard to ensure the safety of passengers, and to help them reach their destinations when disaster threw normal operations into confusion. We tightened our belts and cut costs, limiting the impact of revenue shortfalls on the corporation. We refocused marketing efforts to recover lost business and attract new customers to passenger rail, achieving a significant recovery in passenger volumes in the last quarter.

In fact, in the last quarter of 2003, recovery was well under way. VIA's trains carried more passengers in the Quebec City - Windsor Corridor than in any fourth quarter since 1990.

Through it all, VIA's people showed the kind of dedication to our customers, and to the success of passenger rail, that makes them the best in the business of passenger transportation. Despite frequent, often severe disruptions of service caused by forest fires, power blackouts, and steadily increasing freight traffic, the dedicated efforts of our employees helped keep customer satisfaction ratings high. Yield — a measure of revenues earned per passenger-mile — increased slightly. And while business was down throughout the industry, passenger rail performed better than many companies involved in travel and tourism.





Throughout the year, VIA remained committed to a long-term strategy for growth, and our vision for the future as the Canadian leader in service excellence in passenger transportation. Projects under the Renaissance investment program, including the introduction of new equipment into service and modernizing our stations, progressed on course. We continued to refine and improve products and services in all parts of the country, from Vancouver Island to Halifax. We strengthened our inter-modal partnerships to combine the strengths of different transportation modes, in ways that meet our customers' demands. For example, we reached a new agreement with WestJet which allows us to combine cross-Canada rail travel with convenient, low-cost return airfare and ground packages.

And we continued to make innovation a fundamental value of the corporation.

In 2003, VIA's innovative use of technology to streamline access for customers broke new ground. We tested wireless Internet access on board our trains, and introduced self-serve ticket kiosks at busy stations, enhanced our already successful Internet booking engine, and upgraded systems for telephone sales operations. These innovations helped earn VIA recognition from both the Ontario government and the Canadian Chamber of Commerce for excellence in business technology.

Perhaps most importantly, we continued strengthening the spirit of innovation and entrepreneurship at VIA, and reinforcing a team of professionals who are passionate about the success of passenger rail in Canada. Following comprehensive consultation with employees at all levels, we improved communications, training and development, and employee involvement in pursuing VIA's strategic goals. With a clear, well-understood management and accountability framework in place, and effective recognition of excellent performance, the people at VIA are creating one of the most highly skilled, deeply committed, capable business organizations in the country.

This is an organization that is ready and able to continue delivering, and improving, the high-quality and cost-effective service Canadians expect from their national passenger rail service.

There are many challenges ahead for passenger rail in 2004. For the travel industry as a whole, recovery from the dismal market conditions of the year gone by is forecast to be slow. But VIA has emerged from the year more determined than ever to deliver the best possible service to Canadians.

With the right tools, passenger rail will continue to grow as part of the efficient, well-coordinated, multi-modal transportation system Canada needs for the future.

## The Year in Review



### The 2003 travel market

Industry analysts have used the phrase “a perfect storm” to describe the unusual, and unpredictable, combination of events that struck Canadian travel and tourism markets in 2003. The market was already struggling throughout 2002 with the lingering aftermath of security concerns, following the terrorist attacks the previous fall in the United States. In 2003, renewed security concerns, outbreaks of contagious disease, and natural disasters combined to create an unprecedented decline in travel and related spending.

VIA, in fact, managed to resist the downward trend that started in 2001 better than most carriers. For example, in terms of passenger-miles, traffic in the Quebec City–Windsor Corridor grew four per cent overall in 2002, with even stronger growth in business travel. Some of our tourism products set new records that year, with ridership on VIA’s *Bras d’Or* excursion train to Cape Breton Island increasing by 20 per cent and cost recovery reaching 122 per cent — a remarkable 39 per cent increase for the year.

VIA had good reason to expect this positive trend for passenger rail to continue in 2003. During the first two months of the year, total revenues kept growing.

### The war and renewed security concerns

In February, however, news of the impending US war with Iraq raised new security concerns and uncertainty in the travel industry. This, along with a slow world economy and repeated terror alerts from the US in the following months, slowed travel from foreign markets. Travel to Canada from the US was especially affected by these factors, as well as by a weakening US dollar.

### Health concerns

Then in March, the first cases of Severe Acute Respiratory Syndrome (SARS) were confirmed in Toronto. Concerns about travel risks related to contagious diseases had already flared up after a brief outbreak of the Norwalk virus in Vancouver. The SARS outbreak brought these concerns to a peak, as the World Health Organization issued a warning about travel to the Toronto area in April. This travel advisory had an immediate impact; following the advisory, visitor spending in Toronto fell more than 70 per cent compared to the same period in 2002.

Soon after the onset of SARS, concerns about health risks were heightened even more when an isolated case of Creutzfeldt-Jacob (“Mad Cow”) bovine disease was confirmed. As fear mounted, the entire Canadian travel market suffered a devastating downturn. Across the country, business travel dropped, tour operators cancelled bookings, and individuals, especially international travellers, were reluctant to travel to or within Canada.

### Forest fires in Western Canada

In August and September, VIA was on alert to help evacuate residents threatened by massive forest fires in Alberta and British Columbia. Although evacuation assistance was not required, the intense fires significantly disrupted VIA operations. While no train services had to be cancelled, fires burning close to rail lines frequently forced trains to be short-turned and delayed.

The fires had a devastating effect on the region, one of the world’s top adventure and eco-tourism destinations for American and Asian travellers. Much of the tourism industry was virtually shut down, as large areas of the region were closed to hiking, camping and other tourism activities.





### Blackout in Ontario

In August, a surge in the power grid in Ohio caused a long electric blackout covering most of southern Ontario, bringing much of the transportation system to a halt. The airline industry, in particular, was paralyzed.

VIA's trains continued to operate, but services were severely disrupted as some of Canada's busiest stations were plunged into darkness. Train delays up to seven hours inconvenienced passengers; mounting frustration added a further dampening effect on an already depressed travel market.

### Hurricane in the Maritimes

In October, Hurricane Juan became the most damaging storm in modern history for the Maritimes, according to the Canadian Hurricane Centre. The storm put much of VIA's service centre and station facilities in Halifax under water, tore the roof off of VIA's former maintenance centre adjacent to the station, and shut down power for almost two weeks in some areas.

For VIA's customers, the storm meant further disruption of services and more frustration, leaving a lingering effect on market conditions in the region.

### Impact on VIA

According to research by the consulting firm KPMG, the cumulative impact of natural disasters against a background of health and security concerns helped to create one of the steepest declines in the Canadian travel market on record. Domestic travel by Canadians dropped by about eight per cent compared to 2002. Travel to Canada from the US dropped almost 14 per cent, while travel from other countries dropped 16 per cent.

The negative impact on passenger rail was significant. However, VIA was more successful in limiting this impact than many in the industry, with passenger trips falling just 4.8 per cent over the year. By year end, VIA had successfully recovered volumes in the Quebec City-Windsor Corridor, with the highest fourth-quarter volumes since 1990. In the eastern part of that corridor, VIA succeeded in expanding its market share of public mode travel. This bodes well for continued recovery in 2004.

VIA's year-end results and recovery plan are examined more closely in the *Management Discussion and Analysis* section of this report.

### VIA's people respond to disaster

As disasters struck — repeatedly — in 2003, the priority for every VIA employee was the safety and comfort of passengers.

- At the height of the SARS crisis, staff at stations and on board trains worked hard to reassure concerned customers, and implement alternate boarding and arrival procedures for those worried about travelling into Toronto. VIA also developed a new health protocol — praised highly by Health Canada — to assist passengers who had potentially contracted a contagious disease.
- Confronted with intense and potentially dangerous fires burning near rail lines in the West, train crews worked around the clock to prevent train cancellations and ensure passenger needs were met.
- During the Ontario power blackout, employees used bicycles or car-pooled to get to work, and worked long hours to ensure passenger safety in darkened stations.

Employees' efforts on behalf of passengers did not go unnoticed. In one case, during the power blackout, a 4 1/2-hour train trip turned into a harrowing 11 1/2-hour journey. Even though the train arrived seven hours late, passengers gave the locomotive engineers a standing ovation for getting them home safely.





## Strategic objectives

Unpredictable market conditions made it impossible to achieve the kind of revenue and ridership growth hoped for in 2003. But VIA's long term strategic plan for the future of passenger rail remains on track; initiatives supporting the Corporation's key objectives throughout the year were an unquestioned success.

Approved by the Board of Directors in 2002 and launched early in 2003, the current strategic plan defines the priority objectives VIA must achieve if it is to fulfill its new mission and vision for the future.

### VIA's mission

is, by working together, to deliver safe, efficient and environmentally responsible services to travellers in Canada.

### VIA's vision

is to be the Canadian leader in service excellence in passenger transportation.

The critical goals set out in the long term strategic plan are as follows:

### Growth

to be the first choice of travellers in all markets that VIA serves.

### Service

to consistently provide travellers with excellent travel experiences.

### Safety

to ensure a safe and secure work and operating environment for colleagues, customers and the general public who come in contact with VIA.

### Environment

to meet the needs of customers in an environmentally sustainable and responsible manner.

### People

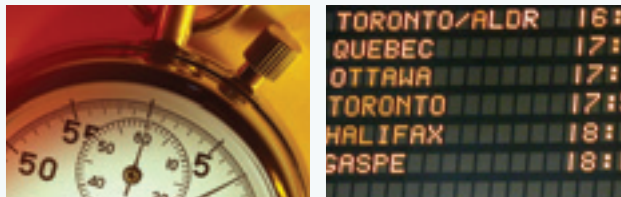
to create an environment promoting a passionate commitment to VIA's business success.

### Entrepreneurship

to move towards self-sufficiency by reducing government funding and applying savings to capital investment.

In 2003, VIA made significant progress towards each of these long-term goals.

## Growth



With revenues increasing five to ten per cent annually from 1997 to 2002, VIA has been able to significantly improve and expand passenger rail services for Canadians, while reducing the costs to government of operating these services.

Growth in revenues, ridership and services continues to be a core focus of VIA's strategic plan. While revenue growth was not achieved in 2003, VIA moved closer to the goal of becoming the first choice of travellers.<sup>1</sup>

### Expanding market share

The Quebec City - Windsor Corridor is the busiest travel market in Canada, and represents over 70 per cent of VIA's business. In 2003, passenger rail became the first choice for a greater proportion of travellers in this market.<sup>1</sup>

VIA increased its share of the public mode travel market in the Corridor every quarter of 2003, with growth reaching more than four per cent year over year. With total passenger volumes in the Corridor exceeding normal levels and setting new records in the fourth quarter of 2003, VIA is in a good position to maintain and expand these gains in 2004.

### Reducing trip times in time-sensitive markets

In 2003, VIA achieved a remarkable 20-minute reduction in the best trip time between Montreal and Ottawa, making the train a more attractive choice for travellers on this route. As a result, VIA was able to increase revenues for this service, even under poor market conditions.

The reduced trip times, and resulting revenue growth, were a direct result of investments made to improve the Montreal - Ottawa infrastructure in 2002, allowing passenger trains to operate safely at higher speeds. With additional infrastructure improvements, similar time reductions and growth can be achieved in other key Corridor markets. VIA's current investment plan, pending approval at the time of this report, addresses the need to improve infrastructure on these routes.

<sup>1</sup> — In 2003, VIA's share of the public mode travel market in the Quebec City - Windsor Corridor rose more than four per cent over the previous year. (Pollara — 4th quarter 2003)





### **New train frequencies and services**

Adding new frequencies in high potential markets — providing travellers with more convenient choices for departures and arrivals — has been critical to the growth of passenger rail over the past decade. VIA operates 20 per cent more frequencies today than in 1990. Over the same period, in the Corridor - East (Toronto to Quebec City) alone, the number of frequencies went up 37 per cent, which increased both revenues and ridership, while reducing the company's reliance on operating funding from government by 56 per cent.

In August 2003, VIA added a fourth Jasper — Prince Rupert weekly departure, which will continue to operate during peak tourism periods. Additional express services planned for the Toronto - Ottawa - Montreal triangle have been put on hold, but will be introduced if the operating capacity of the rail infrastructure shared with freight trains can be optimized to handle increased traffic.

Interest in expanding and adding new passenger rail services remains high in all parts of the country. During 2003, VIA received requests from local communities, municipalities and provincial governments to consider offering additional services in Western Canada, Ontario, New Brunswick and Nova Scotia. VIA is evaluating the feasibility of such services, to determine if, and under what conditions, they could be provided without increasing costs to government. Any decisions based on these evaluations will, of course, be made by the Government of Canada.

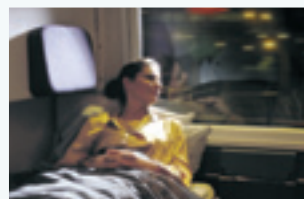
### **Expanding intermodal partnerships**

VIA has been a leader in promoting intermodal services which improve the integration of passenger rail with other modes of travel, providing more convenient travel options for customers. In 2003, VIA continued the development of intermodal facilities with the integration of bus operations at the Halifax and Miramichi train stations, and examined options for better modal integration at other stations across Canada.

In December, VIA reached an agreement with WestJet airlines in Western Canada to provide travellers with integrated, multi-modal packages to destinations served by both VIA and WestJet, allowing customers to combine rail and air travel in a seamless service.

VIA also expanded interline agreements with two bus operators, Greyhound in Western Canada and SMT in the Maritimes, building on the partnerships established in 2002.

## Service



The quality of VIA's services is legendary, top-rated internationally and consistently praised by rail passengers. High-quality service delivery has always been the foundation of VIA's competitive edge in the marketplace, and remains critical to creating and keeping loyal customers.

VIA maintained high customer ratings in 2003, with 95 per cent of customers saying that service met or exceeded their expectations.

### New service level

VIA introduced the new *Comfort* class, a redesigned and improved economy service, providing comfortable and affordable basic transportation across Canada, for travellers who do not wish to avail themselves of sleeping car accommodations. On transcontinental trains, *Comfort* class customers have access to the Skyline dome car, with its coffee shop and superb views of the countryside. In addition to complimentary pillows and blankets, snacks and reasonably priced meals are available. Travellers in *Comfort* Class may also enjoy dining car service, with the exception of the *Silver & Blue™* dining car during peak season.

### New and improved passenger cars

VIA continued to introduce its new, Renaissance passenger cars into service. First launched on the *Enterprise* overnight service between Montreal and Toronto in 2002, the new equipment is now available on all trains between Montreal and Quebec City, and on certain trains between Montreal and Ottawa and Montreal and Halifax. The initial revenue-testing phase identified several technical issues that are being addressed through a staged equipment modification program.

The self-propelled Rail Diesel Cars used for passenger services on Vancouver Island and between Sudbury and White River have been completely overhauled and are now back in service. The refurbished equipment provides customers with additional comfort, and much more reliable travel. Also in Western Canada, VIA introduced Panorama dome cars on the *Skeena™*, in conjunction with a new improved level of service, offering customers a much enhanced visual experience on their journey through the mountains and along the Skeena River.

### Upgrading stations

Over the past four years, VIA has invested in upgrading and enhancing the quality and appearance of stations, and improving passenger comfort. Important renovations and improvements were completed at 25 major passenger stations while work continued across the network, focusing on general repairs, painting, upgrading heating and cooling systems, and site repairs to parking lots and platforms.

For example, VIA completed major renovations at the Pacific Central Station in Vancouver. The renovations included the expansion of the *Silver & Blue* lounge, improved access to the departure terrace, new ticket counters and the relocation and installation of a baggage conveyor. In line with the Renaissance station development program, the work has preserved the beauty of the heritage station while giving customer facilities a more modern look and better utility.

In Halifax, VIA completed a \$2.9 million redevelopment of its heritage station, including major repairs and improved rental space to generate new revenue. The facility is now a productive intermodal station serving both passenger rail and regional bus passengers, integrating the transportation activities of Acadian Bus Lines. In addition, new tenancies have filled much of the vacant space.

VIA also completed energy conservation projects at various stations and installed wayside power facilities. These facilities provide the electricity needed for cooling, refrigeration and heating systems while trains are in the station or parked in the maintenance centre yard. This allows for a reduction in engine idling and reduces fuel consumption, as well as greenhouse gas emissions.

### Enhanced e-business services

VIA has pioneered the innovative application of technology to allow customers faster, more convenient access to passenger rail ticketing and reservations. VIA was the first passenger train company in the world to access the airline computer reservation system in 1995 and the first to create an online Internet booking service in 1997.





The Canadian Chamber of Commerce named VIA's Web site the Best Business-to-Consumer Web site for a large Canadian enterprise in 2003. VIA's online booking and research services currently draw approximately 500,000 visitors per month. The Web site attracted a 60 per cent increase in new users during the year. Approximately 16 per cent or \$34.8 million of all 2003 sales were booked online.

VIA's customized online booking service for the Ontario provincial government also received a Gold Award at the Public Sector Quality Fair 2003. The streamlined booking service for government employees, which helps to make VIA their first travel choice for intercity trips, was expected to save the Ontario government an estimated \$300,000 in travel transaction fees for the year 2003 alone.

In 2003 VIA became the first and only passenger transportation company in Canada to offer customers the option of both reserving and purchasing travel tickets through the use of self-serve kiosks. Thirty-three self-service ticketing kiosks have been installed at major stations in the Quebec City - Windsor Corridor. These kiosks help to eliminate the need for customers to wait in line during peak travel periods, while reducing the costs of ticket sales for VIA and allowing ticket office employees to concentrate their efforts on promoting and selling our products to customers who prefer personal interaction.

In partnership with Bell Canada, Intel and PointShot Wireless, VIA conducted extensive testing of wireless Internet access in selected *VIA 1* cars between Montreal and Toronto — the first passenger carrier in Canada to test such service. Wireless access has the potential of giving VIA a competitive advantage by enhancing business traveller productivity. Many customers have asked to travel exclusively in the "connected cars" during the tests. The feasibility of offering wireless services on a permanent basis will be evaluated in 2004.

Lastly, VIA added procurement activities to its Web site so that prospective suppliers from anywhere in the world can register and view a list of current opportunities for doing business with VIA. In addition to opening up access to a wider selection of suppliers, VIA has also found buyers for some of its surplus assets through this same site.

#### Improved *VIA Préférence* program

VIA's customer reward program, *VIA Préférence*<sup>™</sup>, has been highly successful since it was introduced in 1996, and VIA has continually improved the program to better recognize and serve its best customers. In 2003, the program was redesigned to make it more efficient and responsive to the individual needs of members.

VIA changed the way inbound communications from *VIA Préférence* members are handled to provide a more personal, customer-focused service. In the past, many calls, letters, faxes and e-mails from *VIA Préférence* members were handled by a marketing firm on VIA's behalf. Now, this gap between customers and VIA staff has been eliminated. All communications from members are handled directly by VIA's own customer service specialists. This not only allows VIA to build stronger, more personal relationships with active train travelers: it helps VIA gain much better knowledge and understanding of each customer's travel needs and priorities, and deliver a service that responds to those needs.

In addition, telephone sales and customer relations agents now have access to the *VIA Préférence* database, including customer profiles. Agents can view this information while serving customers to ensure more personal, customized service for *VIA Préférence* members.

In response to member feedback, VIA has also introduced more reward options, including one-way trips, children's tickets and cash upgrades for *VIA 1* travel, and made significant improvements to the *VIA Préférence* Web site. These changes provide more flexibility, greater value and better recognition to the Corporation's most loyal customers.

## Health, Safety and Security



The safety and security of every customer and employee is the number one priority for VIA. Attention to safety is integrated into every aspect of VIA's operations. Safety roles, responsibilities and accountabilities are clearly defined and documented.

VIA health and safety committees play an important role in this process, helping to identify and recommend corrective actions to potential causes for injuries, and assisting in safety and health related investigations. VIA has created two safety and health policy committees to provide system-wide support to the workplace committees. All health and safety committees consist of members of both VIA management and our two major unions, Canadian Auto Workers and Teamsters Canada Rail Conference.

Workplace Committee and Policy Committee activities are closely monitored by VIA's frontline management, by the Director, Safety, Health and Regulatory Affairs and by the Chief Operating Officer. Safety and Health related issues and activities are also reviewed, as required, by VIA's full executive through its Management Committee meetings.

### Safety Management System

Transport Canada conducted an implementation audit of VIA's Safety Management System in the fall of 2002, issuing its report in 2003. The audit included an exhaustive review of all components of the system, including the setting of annual safety targets, reporting and accountability procedures, employee involvement, risk management and compliance with rules and regulations.

In its findings, Transport Canada recognized the efforts and commitment required of VIA management, unionized employees and representatives to achieve success. Transport Canada also identified opportunities for further improvement to the Safety Management System. VIA's internal safety partners reviewed these suggestions and submitted implementation plans.

Transport Canada scheduled a follow-up audit in early 2004. This audit will focus on specific areas within VIA's operational processes and procedures.

### Corporate Security Master Plan

VIA has increased efforts to address security issues in recent years, working closely with the rail industry to improve the detection of threats to travellers and employee security, and to develop appropriate responses. These efforts continued in 2003, with a new Corporate Security Master Plan which identifies actions to be taken to protect the Corporation, its employees and its customers from external acts that may cause loss or harm.

Additional security measures include the introduction of new identification cards for employees, improved surveillance during passenger boarding, and increased use of assigned seating. VIA continues to work with federal agencies and police forces, as well as CN, CP, GO Transit and other freight and passenger transportation services, to share information, standardize security practices, and improve communications on security issues.

VIA has also developed a new partnership with the RCMP in 2003, to implement the force's Jetway transportation security program. Customized to suit passenger rail operations, the program provides new methods of investigating and reporting security incidents, as well as identifying potential risks.

### Upgrading management systems

In December 2003, VIA's Vancouver and Winnipeg maintenance centres received ISO 9001:2000 certification for their Quality Management systems. The certification covers servicing, repair and equipment maintenance activities. The Montreal Maintenance Centre had received the same certification the previous year.

## Environment



Transportation is the largest single energy user and contributor to greenhouse gas emissions in Canada. While passenger rail is one of the most environmentally sustainable modes of public transportation, VIA is committed to continually improving its operations to protect Canada's environment and the health of Canadians.

The Corporation has maintained ISO 14001 certification for its maintenance centres. A separate EMS manual for Maintenance Centres reflects differences in procedures that are required to comply with the ISO standard. This EMS manual includes environmentally approved operating procedures specific to maintenance centres and designed to minimize the environmental impact of their operations.

Environmental reporting is an integral part of the Corporation's management and accountability framework. VIA's vice president for Environment reports to the Board of Directors, senior management and employees on the status of all environmental initiatives.

### Locomotive efficiency

VIA purchased 21 new General Electric P-42 locomotives in 2002. These locomotives were built to the US EPA standards and have significantly improved the efficiency of VIA's operations.

### Environmental Management System

VIA's Environmental Management System (EMS) encompasses all environmental policies, procedures and guidelines at VIA. A new EMS manual was developed in 2003, which includes VIA's Environmental Policy, and defines the EMS framework and its environmental requirements. The manual sets out employees' responsibilities and accountability under the EMS, and describes the processes necessary to plan, implement, monitor and improve the system. In 2004, the manual will include work instructions for employees to conform to the Environmental Policy and EMS requirements.

VIA continues to operate older General Motors F-40 locomotives. A new system to automatically shut down engines during layover and heating them with wayside power in winter was investigated in 2003. Such a system would reduce fuel consumption by significantly reducing idling time, and thereby reduce emissions as well. This system will be implemented during the remanufacture of these locomotives, scheduled to start in 2005.

A locomotive shut down program, when weather permitted, was implemented in 2003 to reduce fuel consumption, as well as emissions from idling.

A permanent, cross-functional Environmental Planning Committee has been established to periodically review the application of the EMS, and to act as consultant in its development, implementation and continuous improvement. The Committee also monitors performance, proposes and plans initiatives, promotes environmental awareness, and liaises with outside agencies. Members of the committee represent every department of the Corporation.

### Waste management

The EMS and existing procedures provide for the safe and responsible disposal of waste materials at all VIA facilities. VIA continues to refine its practices to ensure adequacy and consistency in waste management activities at maintenance centres, stations and offices. In addition, pilot-tests for recycling and re-use programs were conducted in 2003 by local VIA Green Teams at major stations and on board VIA trains.

In addition, VIA has developed a new Environmental Assessment Program to allow employees to assess the conformance of VIA's facilities and operations to applicable environmental legal requirements and best management practices. Results of assessment surveys undertaken through this program are recorded for departmental review and action.

All passenger cars used in Corridor services have been modified to include full retention toilets. By the end of 2003, 50 per cent of the fleet used in Western Canada and Eastern Canada long haul services had been modified to include waste retention. Modification of all cars will be completed by 2005.



## People



VIA's success is due to the quality of its people — people who have proven themselves to be highly skilled and deeply committed to the well-being of customers, and passionate about the future of passenger rail in Canada. This passion and commitment were evident throughout 2003, as employees were called upon time and again to respond to difficult situations.

Throughout the year, VIA continued to work with employees to strengthen an environment where people are listened to with respect, encouraged to take responsibility for their jobs, and rewarded for exceptional performance.

### Increased communication with management

VIA conducted an Employee Opinion Survey in July, 2002, in order to determine how VIA employees themselves perceive the company, and to identify ways to improve the work environment for employees. The results of the survey present a very encouraging picture of the corporate culture at VIA. The vast majority of employees feel that VIA is the best transportation company in Canada. A full 96 per cent believe that the work they do is important to that success.

At the same time, the survey identified important opportunities to improve the way VIA's employees work as a team.

One primary concern raised by employees was the need to improve the quantity and quality of face-to-face communications between employees, managers and senior executives. As a result, VIA launched a series of "town hall" meetings across the country in the summer and fall of 2003. At these meetings, senior management shared the latest progress toward our strategic challenges and invited employees to ask questions, comment and make suggestions.

In addition, VIA's executive team established ongoing "Directors' Town Hall" meetings with senior management throughout the Corporation. These forums are designed to deepen directors' understanding of VIA's business challenges, as well as their own role in communications. Directors are provided with the latest company news, events and progress on VIA's business strategy, so they can in turn communicate these issues to their teams.

Managers are required to meet with their employee teams on a regular basis, and ensure that issues raised by employees are resolved or addressed in a timely fashion, thereby reinforcing the importance and the utility of face-to-face communications.

### Training and development

Results of the employee opinion survey, and "town hall" meetings on VIA's strategic plan, were used to enhance all VIA training and development programs. For example, employees identified the need for improved training for Customer Service Managers.

A new 13-day management skills program for new service managers in the Quebec City - Windsor Corridor was implemented in March of 2003. Also, a new three-day refresher program, concentrating on communication and leadership skills, was developed for existing front-line managers.

Several new training and development initiatives focused on advanced management skills were also developed in 2003. For example, director-level managers attended a finance course for non-financial managers, designed specifically for VIA in collaboration with McGill University. Two additional sessions are planned for 2004. As well, high potential young managers are encouraged to enrol in a Masters of Business Administration Program.

### E-learning initiative

VIA began developing and testing innovative "e-learning" programs in 2003, to make information and skills development available to all employees across the network. The e-learning program will be implemented in 2004, focusing on modules that enhance safety awareness, knowledge of new VIA products and services, basic management learning aids and desktop systems used at VIA.

## Entrepreneurship



Entrepreneurial initiatives that maximize opportunities for growth, reduce costs, and achieve a positive return on investment are essential to VIA's strategic plan. VIA has significantly reduced the need for government operating funding through such initiatives since 1990. Over this period, while cutting operating funding by 56 per cent, VIA has also increased the number of train departures in central Canada by almost 30 per cent, invested in modernizing the transcontinental passenger fleet, and increased revenues across the network.

### Investing in growth

VIA believes that it is realistic to aim at achieving full self-sufficiency on all passenger services in the Quebec City–Windsor Corridor, and for tourism services during peak operating periods. If achieved, the government would incur no operating costs for these services.

Capital investment is necessary to reach this objective. In order to achieve self-sufficiency, VIA needs to continue growing revenue and ridership, and this requires equipment and infrastructure that will allow VIA to meet the demand for more frequent and faster train services.

VIA continues to explore options for investing in Canada's passenger rail service, identifying those opportunities which would be most cost-effective, and which would ensure the greatest and most rapid return on investment, while improving the efficiency of the transportation system as a whole. Detailed assessments of these opportunities are provided to the Government of Canada, on an annual basis, for consideration in the development of national transportation policies and initiatives.

### Market-based pricing

VIA maintains a flexible pricing structure that reflects the product value being offered, responds to changing market conditions, and maximizes revenues. In 2003, VIA introduced new features to its yield management system to more accurately forecast demand for full-fare and discount fare seat inventory, with the goal of increasing revenue per mile.

In response to the continuing decline in travel throughout the year, particularly from international markets, VIA shifted advertising and marketing resources to strengthen domestic ridership. Targeted promotions, such as VIA's participation in the "Canada Loves Toronto" coalition, the "Hot Summer Deals Event" plus other specials throughout the year, helped to curtail the effects of

declining ridership. In October, VIA launched its first Web-based promotion to stimulate travel through online bookings for Corridor trains, including connections to and from Eastern Canada.

### Improved asset management

VIA continually explores ways to maximize the utilization of assets, including both the passenger fleet as well as station properties. For example, equipment cycling allows the best use of locomotives and passenger cars. By closely monitoring medium and long-term fleet plans, assets that are not needed in the short term are stored, in order to minimize maintenance costs.

VIA's station renewal program provides customers with more modern and convenient facilities, but also increases the value of these assets to the Corporation. In 2003, modifications to facilities at Vancouver, Halifax, Toronto, Bathurst and other stations across the network have improved ticketing and baggage handling, and increased VIA's prominence in these markets. In addition, a major redevelopment of Halifax Station has generated new tenancy and parking revenues.

### Developing new partnerships

Throughout 2003, VIA explored new partnerships with stakeholders to share the costs, and the risks, of developing new products and services. For example, VIA worked with IATA-affiliated travel agencies to implement automated billing and account settlement, which will encourage travel agents to move more bookings for services across Canada online. In addition, VIA worked with Government of Ontario travel agencies to make large corporate accounts fully accessible through VIA's Web site.

A wide range of new partnerships are either in place or under discussion in regions across the country. For example, VIA started discussions in 2003 with the City of Guelph to develop a new inter-regional transportation centre at VIA's passenger station.

### Reducing distribution costs

Improved telephone sales technology and Internet booking services have helped make VIA's services more accessible to both customers and travel agents, while reducing VIA's distribution costs. Similarly, the self-serve ticketing kiosks introduced in 2003 at major Corridor stations have proven popular with customers, and cost-effective for VIA. Within only three months of their installation, the kiosks were gaining acceptance, accounting for five per cent of ticket sales at these stations.

## Corporate Governance



VIA's Board of Directors plays a critical role in providing oversight and direction for the management of VIA, and ensuring that the long-term strategic policy of the corporation reflects the best interests of the shareholder. As VIA is a Crown Corporation, the shareholder is the Government of Canada and — ultimately — the people of Canada.

### Review of corporate governance practices

#### A) Independent Review

Corporate governance has been thoroughly reviewed and plans have been put in place to direct on-going improvement at VIA. The result is the emergence of an innovative, effective and wholly modern governance system at the Corporation. The process and results of the changes are described below.

In 2002, the Public Policy Forum, an independent organization, reviewed the governance culture, structure and practices of VIA's Board of Directors. The review concluded that VIA's Board is functioning well. Both management and Directors give the Board high ratings for its effectiveness, noting recent improvements in the Board's structure and rigour in its decision-making process. Directors are seen to represent a diversity of regional interests and other backgrounds that have served the Corporation well.

The Public Policy Forum also found that the relationship between management and the Board is strong, with ample evidence of mutual respect and trust, a situation that is due in part to the Directors' consistent focus on policy rather than operational issues.

In addition, shareholder relations were found to be increasingly professional and efficient. The shareholder, represented by the Minister of Transport and public servants, were also found to be generally pleased with how VIA is working.

The review concluded that the Board is discharging most of its "high-level" stewardship functions efficiently and effectively. However, the Public Policy Forum offered a number of recommendations to further enhance the effectiveness of the Corporation.

As a result of the review's findings, VIA implemented several initiatives to improve corporate governance in 2003. The program was developed to reflect and reinforce the special role of VIA's Board of Directors, which is quite different from that of a board in a private sector corporation.

#### B) Unique Context

For corporate governance purposes, VIA is a public sector entity with a profound difference from its private sector counterparts. It is an instrument of government policy in transportation, employment and capital expenditure, with a mandate that is fixed by statute and regulation under the *Canada Transportation Act*. The only shareholder is the Government of Canada. There are no external investors. All aspects of corporate management and operations are overseen by Parliament (standing and *ad hoc* committees of the House of Commons and the Senate), Transport Canada, the Minister of Transport, the Department of Finance, the Treasury Board, the Minister of Finance and the Auditor General.

VIA is subject to the *Financial Administration Act*. It thereby has restrictions on transactions, as well as audit restrictions and an internal audit function (by an external audit firm). Every year, the Corporation is audited jointly by an independent auditor and the Auditor General. VIA is also subject to Treasury Board restrictions and to a five-year special examination (a comprehensive, "value for money" audit). VIA's annual budget, operating plans and strategic plans are filed and reviewed by the Minister of Transport, Transport Canada, the Department of Finance and the Treasury Board. VIA's annual reports are filed and reviewed with the Minister of Transport and tabled with both Houses of Parliament.

In addition, VIA's activities are subject to extensive day-to-day review and regulation by Transport Canada, the Transportation Safety Board, the Canadian Transportation Agency, the Canadian Industrial Relations Board, Labour Canada, the Canadian Human Rights Commission, the Commissioner of Official Languages and the Privacy Commissioner. It is also governed by the *Canada Transportation Act*, the *Rail Safety Act*, the *Financial Administration Act*, the *Official Languages Act*, and the *Human Rights Act*.





### C) Gold Standard For Corporate Governance

With these considerations in mind, VIA developed a five-part program to enhance corporate governance. The first three components of the program were implemented in 2003, and implementation of the fourth was well under way. The fifth component will be implemented early in 2004.

#### **Board mandate and agenda**

The first component of the program was to define the Board's mandate, and establish the annual agenda for Board business. It was felt that this was particularly important given the unique nature of corporate governance at VIA.

#### **Corporate governance manual**

All Directors are now provided with a corporate governance manual, which sets out the Corporation's mandate, Board committees, corporate bylaws, and summaries of legislation governing VIA's operations.

#### **Orientation and training for Directors**

A two-part orientation and training program for new members of VIA's Board of Directors is being implemented. The first part, provided by the Government of Canada, includes a general orientation to corporate governance in Crown Corporations. The second part, customized specifically for VIA, provides training in matters unique to VIA's mandate and operations. This training will be implemented in 2004.

#### **Regular Board evaluations**

A process for conducting regular evaluations of Board performance, in consultation with the Board members themselves, has been established. The first such review was completed in 2003.

#### **Improved communications**

A confidential, secure Web site for use by Directors has been developed, and will be operational in 2004. The Web site will make information and documentation easily accessible to Board members, including information on VIA's corporate activities, as well as relevant legislative and regulatory issues. In addition, the site will provide secure e-mail communications between Board members.