

## MESSAGE FROM THE BOARD OF DIRECTORS

The past year was an unusual and challenging one for VIA Rail management and the Board of Directors. The passenger transportation industry as a whole continued to struggle with instability and uncertainty in travel markets, and a slow recovery from the sharp downturn in 2003. At the same time, the Corporation entered an extended period of transition in leadership, following the departures of both the Chairman of the Board and the President and Chief Executive Officer.

In a period of fundamental transition like this, any corporation risks losing practical focus in day-to-day operations, and strategic focus in planning for the future. We are pleased to report that this did not happen at VIA. Indeed, the Corporation stayed extremely well-focused and performed remarkably well — thanks to extraordinary teamwork between employees, management, and the Board.

Revenues and ridership increased slightly over 2003. Markedly, revenues increased faster than ridership, as VIA continued to focus on generating higher returns by delivering a high-value service unique to passenger rail. In fact, VIA's yield — revenue generated per passenger-mile — was the highest in VIA's history. At the same time, rigorous control over costs helped in reducing expenses directly related to 2004 operations compared to 2003. Together, improved yield and cost containment helped push cost-recovery up to 58.9 per cent, on track to regaining levels achieved before the market downturn. Furthermore, given that a Canadian Industrial Relations Board ruling related to events in 1997 inflated the year's operating costs, financial performance in 2004 was first-rate.

The Board remains concerned about on-time performance, which continued to deteriorate in 2004, reaching a low of 70 per cent. Improved reliability of scheduled services is a top priority for customers, and vital to the success of passenger rail. Since the majority of performance issues stem from problems with capacity of the infrastructure that VIA does not control, significant long-term improvements will require cooperation with the freight railways and investment to increase capacity. At the same time, VIA is doing everything possible to address reliability issues

on a daily basis. Determined vigilance and management efforts to reduce the length of train delays, when they occur, produced some improvements in 2004. Overall, the severity of delays improved by 23 per cent — with a 25 per cent improvement in delays under VIA's control.

While the numbers reflecting day-to-day performance are moving in the right direction, limited infrastructure capacity continues to be a serious challenge that must be addressed if passenger rail is to continue moving forward.

The Board is mindful of VIA's responsibility to the future of passenger rail. VIA operates the service on behalf of the Government of Canada. It has a responsibility to ensure that Canada's national passenger service grows and develops in ways that best serve the interests of Canadians in the years ahead.

Throughout 2004, the Corporation remained focused on its longer-term strategy of growing a relevant, responsive and responsible passenger rail service. A number of initiatives discussed in this report demonstrate how VIA is developing the strengths of passenger rail as a high-quality, efficient, environmentally sustainable service. We are convinced that such a service will play an increasingly important role in meeting the transportation needs of Canadians in the 21st century.

Good governance of the Corporation will continue to be essential if VIA is to fulfill this role. To this end, the Board has been actively involved in developing and ensuring that the best possible practices and procedures are in place.

Members of the Board undertook a number of initiatives in 2004 to clarify the respective roles of the Board and Management, strengthening the excellent spirit of teamwork and cooperation that was evident throughout the year. We examined opportunities for realigning committees of the Board to improve their efficiency. Working with the Government of Canada, the Board was actively involved in implementing a new selection process to identify the best candidates for both VIA's President and Chief Executive Officer and Chairman of the Board in 2005.

The Board is confident that its efforts in 2004 will help continue effective, responsible stewardship of Canada's national passenger rail service into the future.