

Throughout the 1990s, VIA Rail worked hard to streamline operations, to reposition itself in the marketplace, and to revitalize passenger rail for Canada's future. In 1999, those efforts came together better than ever before. We ended the decade - and the century - with an outstanding year. And we ended the year with something special.

On New Year's Eve, people across the country got on board to take the train into the new millennium. VIA's six "millennium trains" offered an opportunity to celebrate the dawn of a new century in a way that is uniquely Canadian. One hundred years ago, passenger rail helped to bring Canada into the 20th century. As the century closed, a renewed passenger rail service was moving with confidence into Canada's future. The millennium trains demonstrated that confidence - and they were filled to capacity.

In 1999, we demonstrated that VIA Rail is not only a competent passenger service operator: we are also a smart, innovative leader in passenger transportation. We know the market. We know how to develop products and services that respond to the market. We have the solid business expertise - the people, the financial know-how, the management skills - to deliver that product effectively.

The numbers tell the story:

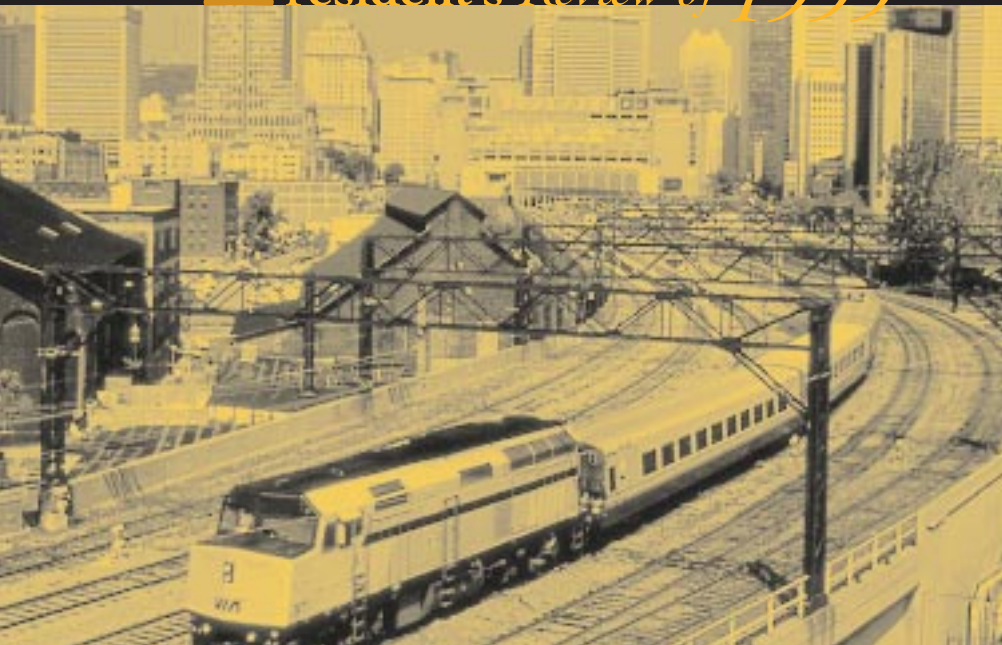
- Revenues for 1999 totaled \$220.6 million - \$20.4 million higher than in 1998, and almost \$78 million more than in 1990.
- Operating expenses were down \$104.2 million compared to 1990.
- Government funding was the lowest in recent history - more than 60 percent lower than in 1990.
- We carried more passengers - almost 3.8 million - and logged more passenger miles - 931 million - our best performance of the decade.
- At 56.7 percent, our revenue/cost ratio is almost double what it was in 1990, and VIA's best result ever.
- In terms of market growth, we outperformed virtually every other player in the travel industry.

Our financial performance was especially remarkable, given the unexpected costs we absorbed during the year. Costs resulting from rail accidents in 1999, the implementation of safety recommendations following the 1997 Biggar accident, and from Y2K compliance initiatives all added up to higher operating costs than we had hoped for.

Given the tight financial situation, we kept capital expenditures to a minimum at \$10.9 million - the lowest amount in recent memory. With lower capital spending, and dramatically increased revenues, we managed to absorb the extra costs over the year without exceeding our approved budget.

The end result demonstrates VIA's capabilities as a corporation. As we enter a new century, VIA is presenting the new face of passenger rail to Canadians - as the well-managed, smart, innovative leader in passenger transportation.

P resident's *Review of 1999*



THE FACE OF VIA'S PEOPLE

It is the people of VIA who bring this new face to the future. I cannot emphasize enough the important contribution that each and every employee at VIA made to our success in 1999.

We have worked hard at VIA to create a corporate culture where everyone is treated with respect. We give them the tools they need to do their job. We invest in them through training and development. But ultimately, it is their commitment to do their job well, to use the tools available, to exercise their skills effectively, that makes everything work. At VIA, that level of individual commitment is incredible.

In 1999, VIA continued to invest substantial time and effort in training, and in enhancing communication between people - both within and outside of the organization. For example, an important element of our training for locomotive engineers involves direct, hands-on contact with operations in our maintenance centres. We believe that when the people who operate our trains understand what goes on in the shop - and when the people in maintenance understand the job that the engineers have to do - everyone does their job better.



This approach to training and communication was particularly important during the first full year of operation under our *New Era Passenger Operation (NEPO)* initiative. Under *NEPO* the conductor and assistant conductor positions were merged with the locomotive engineer position, giving all customer-contact responsibilities to a single on-train employee in charge of customer service. The transition to *NEPO* required extensive training, to ensure not only better customer service but the safe operation of our trains. In 1999, this effort paid off, as operations under *NEPO* became established and functioned extremely well.

THE FACE OF SAFETY

Our commitment to safety has become more visible, and directly involves every employee more than ever before. In May, VIA officially launched a new safety policy under the slogan "Safety First and Foremost". I have made it my personal commitment to make safety the first focus of attention for every employee, every day.

This priority on safety is reflected in the appointment of a senior executive in charge of safety and in the new Executive Safety Council, which I personally chair. The executive council regularly reviews reports from 20 Safety and Health Committees across the country, and when an issue is raised for action - action is taken.

The Safety Council is part of the new Safety Management System that VIA is developing - one of the first in the Canadian rail industry. As part of this system, VIA also invested in state-of-the-art emergency response software.

The Safety Management System was initiated following a review of VIA operations in 1998 by Terry Worrall and Colin Churcher, two rail safety experts. Mr. Churcher conducted a follow-up review in 1999.

In his report, Mr. Churcher notes "a new attitude at VIA. Everywhere I went, I was aware of greater emphasis being placed on safety."

Unfortunately, many rail accidents are the result of circumstances beyond our control, as when a motor vehicle attempts to cross tracks in front of a train. The only way to avoid such incidents is through public education. We continue to work closely with initiatives such as *Operation Lifesaver* to alert the public to the dangers of trying to "beat the train".

In 1999, an accident near Thamesville, Ontario, claimed the lives of two locomotive engineers. We were all deeply affected by the tragic deaths of Don Blain and Kevin Lihou. Everyone at VIA is committed to ensure that such an incident will not happen again.

THE FACE OF GOOD MANAGEMENT

VIA's bottom line for 1999 attests to the expertise of VIA's management team. Throughout the year, we continued to stress the fundamentals of operating passenger rail as a business. Sound financial management, enhanced productivity, and operating economies all helped to reduce costs. Quality service, clearly focused on the needs of the customer, helped to generate significant revenue growth. A first-rate marketing team, and innovative product development, helped to increase traffic and get more people on our trains.

One of our noteworthy achievements in 1999 was an improvement in on-time performance - the first major improvement in ten years. On-time performance is one of the biggest factors influencing a customer's decision to take the train, and the good results achieved in 1999 came about through a lot of hard work, and persistent, day-to-day management. Senior management made it a priority to track performance every day, to identify performance problems, and to follow them through to their resolution.

Since on-time performance is directly affected by the rail infrastructure - and since most of that infrastructure is owned and maintained by the freight railways - VIA made a successful effort to improve communications with the operators in the field. VIA managers now meet regularly with other railway managers responsible for train scheduling and infrastructure operations. We understand better than ever before the constraints they are working under. They understand better than ever before our expectations with respect to performance. As a result, we can identify and resolve many potential problems before they arise, or adjust our own operating schedules when necessary.

A second important accomplishment for the year was the successful upgrading of our management information systems, as part of VIA's Y2K compliance initiatives. All key financial and human resource systems were replaced or upgraded to a state-of-the-art, compliant operating platform. Every technical system which could be affected by the Y2K bug was thoroughly tested, and upgraded if necessary. All systems operated flawlessly into the new year.

VIA's Equipment Maintenance department is continuing work towards ISO 9002 certification, developing quality standards, principles of process management and control, and regular compliance testing. We expect to achieve ISO 9002 certification in the year 2000. We are also applying for ISO 14001 certification for all environmental management activities within Equipment Maintenance. Applying these standards to such activities as recycling materials and handling toxic substances will help to ensure that passenger rail remains one of the most environmentally responsible transportation options in Canada.

THE FACE OF VIA IN THE MARKETPLACE

Passenger rail is increasingly recognized in the marketplace as more than just a viable transportation alternative. It is a *smart* choice for travellers.

VIA has developed a high level of expertise in identifying and serving key market segments where passenger rail is the smart choice for consumers. We enjoyed particularly strong growth in the tourism market, with our *Silver & Blue*[™] service on the *Canadian* in the West and our *Easterly* class service on the *Ocean* in the East.

Early in the year, we introduced a new airport shuttle and seamless baggage-handling service, called *AirConnect*[™], to meet the needs of passengers travelling to Montreal to catch flights from Dorval International Airport. We also added one more Ottawa-Montréal frequency, scheduled to coincide with international arrivals and departures at the airport. In December, we introduced major improvements to *VIA Préférence*[®], our customer rewards program with more than 200,000 members. The program now offers our most loyal customers an enriched package of rewards, and a new travel redemption option for short-distance trips.

VIA began exploring a number of new market opportunities during 1999. For example, we launched a pilot project in November, in partnership with Amtrak, to test the viability of a new express package service, carrying express shipments between Toronto and Chicago. We also began preparing new product and service offerings for the year 2000, which will enhance our response to the needs of business travellers in the Corridor.

THE FACE OF VIA IN CANADA

I believe that VIA's success in 1999 is ultimately due to the fact that passenger rail offers a vital contribution to meet Canada's emerging and future transportation needs.

Canadians are moving back to passenger rail, in part because they are fed up with congested highways. They are moving back to passenger rail because they want transportation that offers excellent value for their money. They are moving back to passenger rail because it is an important part of our heritage, and an important part of this country's future.

We at VIA Rail are proud to operate Canada's national passenger rail service, and we are very mindful of the responsibility this entails - a responsibility to serve Canadians well, to respond to the future, and to celebrate our heritage.

Canadian passenger rail is recognized as one of the most innovative, best run, best managed services in the world. Naturally, VIA is very gratified by this recognition as a corporation. But we are even more gratified that this recognition is given to us as *Canada's* passenger rail network.

Our new official logo adopted in 1999 reflects our commitment to Canada and Canadians. Combining the old VIA logo with the Canada wordmark and the maple leaf, the new symbol reinforces Canadians' pride in, and ownership of, their national passenger rail system. It conveys our pride to our customers, and to our employees. And it provides a constant reminder of why we are here: to serve Canadians.

It is by serving Canadians well that passenger rail will grow and prosper.

THE FUTURE

The face of VIA Rail today is that of an organization stronger, healthier, and more focused on the needs of the Canadian marketplace than ever before. There is enormous potential for passenger rail to grow in the years ahead.

There are also many challenges to overcome before that potential can be realized. The most important challenge is to provide passenger rail with access to the capital it needs to replace ageing equipment, and to modernize the infrastructure so that it can support new, more frequent, and faster train services.

The need for capital investment is critical, and urgent.

The federal government recognizes the urgency, and is exploring a number of new, innovative ways to finance passenger rail services for the future.

I am confident that a sound, durable, fiscally responsible solution can and will be found. Everyone at VIA Rail Canada shares this confidence. We are ready to move forward, to build on the momentum of 1999, and to make passenger rail the industry leader in the year 2000 and beyond.



ROD MORRISON
President and Chief Executive Officer

