

1999 *annual report*



PEOPLE MOVING PEOPLE





The face of VIA Rail Canada

Corporate Overview

VIA Rail is Canada's national passenger rail service, created by the federal government in 1977. We serve all regions of Canada from the Atlantic to the Pacific coasts, and from the Great Lakes to Hudson Bay.

Our mission is to provide Canadian travellers with high-quality, low-cost transportation that is safe, attractive, and reliable, offering the best possible value for the government, taxpayers, and our customers.

Our vision is to be the best passenger transportation company in Canada.

We fulfill our mission - and we are achieving our vision - by reducing and controlling costs; by maximizing revenues; by providing exceptional service to our customers; and by building on the market strengths of passenger rail as one of the safest, most efficient and most reliable modes of transportation available.

VIA received \$170 million in government funding in 1999, \$271 million less than in 1990. However, we operate the same network today as in 1990 - running more trains, carrying more passengers, and delivering a higher quality of service than ever before.

In recognition of this success, VIA was named the "Best Canadian Transportation Experience" by the *Globe and Mail* in 1999.

VIA's operations contribute about \$1.8 billion annually to Canada's gross domestic product.

VIA's Services

VIA operates more than 460 trains weekly on 14,000 kilometers of track, connecting over 450 Canadian communities. With some 2,900 employees, VIA trains carried almost 3.8 million passengers over more than 931 million miles in 1999.

In Western Canada, VIA's legendary transcontinental service caters mainly to domestic and foreign tourism markets. The *Canadian*[™], a train running thrice-weekly between Toronto and Vancouver, was named one of the top five "Great Journeys of the World" by *National Geographic*, and one of the "Best Rail Experiences of the World" by the *International Railway Traveler*.

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.

In Atlantic Canada, the *Ocean*[™] runs six times a week between Montreal and Halifax, offering first class amenities with 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 key financial indicators and operating statistics summarize the performance of the corporation with 1990 representing the first year of the current passenger rail network.

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
KEY FINANCIAL INDICATORS (in millions of dollars)										
Total operating revenue	220.6	200.2	190.5	184.5	175.0	176.4	164.2	155.8	150.1	142.8
* Cash operating expenses	389.1	382.6	386.5	389.8	397.3	438.5	485.2	487.1	478.1	493.3
Capital Expenditures	10.9	18.3	16.4	20.7	39.6	25.3	11.8	44.7	40.1	31.5
** Total Government funding	170.0	178.4	228.7	245.2	295.4	318.2	348.1	388.9	392.8	441.5
KEY OPERATING STATISTICS										
* Revenue/Cash operating expenses ratio (%)	56.7	52.3	49.3	47.3	44.0	40.2	33.8	32.0	31.4	28.9
Total passengers carried (000's)	3,757	3,646	3,765	3,666	3,597	3,586	3,570	3,601	3,633	3,536
Total passenger miles (000,000's)	931	856	884	892	859	834	820	817	820	785
Government operating funding per passenger mile (cents)	18.3	20.8	24.0	25.2	29.8	35.1	41.0	42.1	43.0	52.2
Train miles operated (000's)	6,448	6,325	6,482	6,472	6,219	6,524	6,515	6,483	6,247	6,365
Car miles operated (000's)	43,168	42,068	41,242	40,491	37,100	36,351	35,861	35,993	35,890	35,767
Average passenger load factor (%)	59	56	58	59	61	60	59	57	58	57
Average number of passenger miles per train mile	144	135	136	138	138	128	126	126	131	123
On-time performance (%)	84	81	84	84	86	87	90	90	90	88
Number of employees at year-end	2,909	2,952	2,969	3,000	3,178	3,718	4,131	4,478	4,402	4,525

* Cash operating expenses exclude amortization of properties and reorganization charges.

** Excludes internal funding from the Asset Renewal Fund of 16.5M in 1999 and 33.6M in 1998 as described in Note 5 of the financial statements.

The Honourable David Collenette, 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 ending December 31, 1999.



MARC LEFRANÇOIS
Chairman of the Board



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*essage from
the Chairman*

The last year of the 20th century was the best year in the history of VIA Rail. In terms of revenue growth, ridership, on-time performance, and cost management - in fact, virtually every measure of performance - VIA met or exceeded its targets.

This is an extraordinary accomplishment.

When I came to VIA as Chairman of the Board in 1993, the corporation faced many difficult questions - questions about the place of passenger rail in the Canadian transportation sector, about the ability of VIA Rail to respond to a changing marketplace, and - above all - about VIA's ability to maintain a viable service with dramatically lower funding levels from the federal government.

Every year since then, the people of VIA have worked hard at answering those questions. In the process, they have transformed VIA into one of the finest, best managed corporations in Canada.

VIA's management team has developed an operational, financial management and marketing expertise second to none. Every single employee has brought an astonishing level of energy and professionalism to the job, every day. VIA's Board of Directors has consistently supported and guided VIA's efforts to be not just a viable player, but an industry leader in the Canadian transportation marketplace.

It is both an honour and a pleasure to be part of this effort. VIA Rail has eliminated an impressive \$271 million from its annual funding level and it has done this while improving and adding new products and services across the country. Most importantly, it has shown that a modern, efficient, well-managed passenger rail service is capable of responding to the future needs of Canadians, in a way that no other passenger service can do.

There is no question that passenger rail has a place in a national transportation system for the 21st century. Such a system must be increasingly sensitive to the need for safety, environmental responsibility, value for money, and to the problems of traffic congestion on the roads and in the air. VIA's shareholder, the Government of Canada, has recognized that passenger rail can address these concerns. The Minister of Transport, the Honourable David Collenette, in particular, has demonstrated an unequivocal commitment to good public transportation, and to a long-term policy for passenger rail that reflects the needs of Canadian travellers.

Developing such a long-term strategy is a very difficult task, and VIA Rail continues to work closely with the Minister of Transport to resolve the complex issues involved in financing a modern passenger rail service.

I am confident that these issues will be resolved soon. And I am confident that VIA Rail is ready to serve Canadians well and to earn its place in the future - competing for investment, for customers, and for a growing share of the market, as the best passenger transportation service in Canada.

MARC LEFRANÇOIS
Chairman of the Board

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:

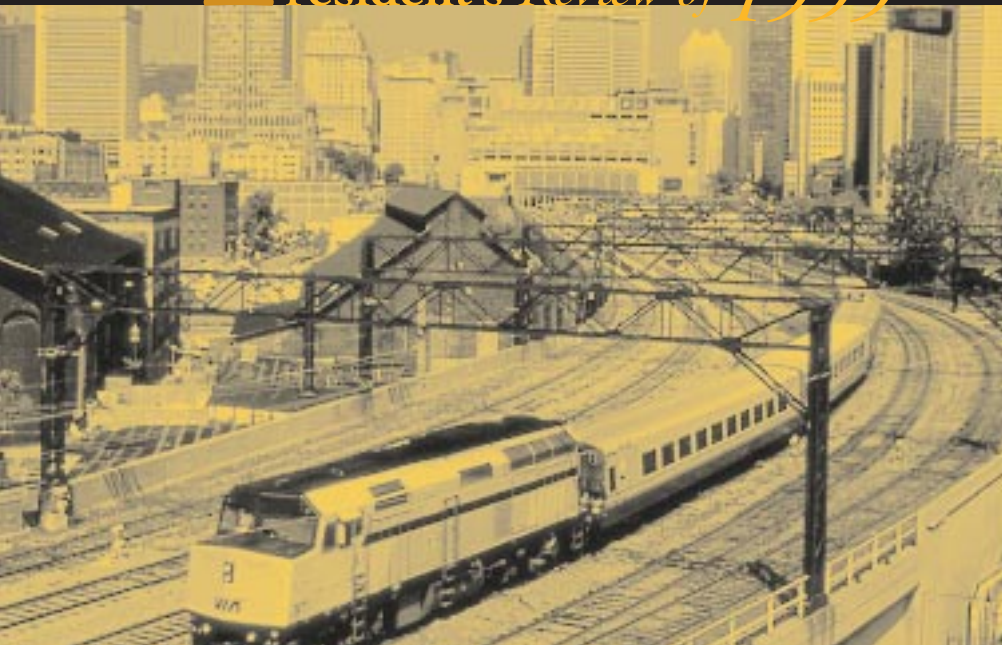
- Revenues for 1999 totaled \$220.6 million - \$20.4 million higher than in 1998, and almost \$78 million more than in 1990.
- Operating expenses were down \$104.2 million compared to 1990.
- Government funding was the lowest in recent history - more than 60 percent lower than in 1990.
- We carried more 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

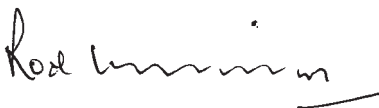
The face of VIA Rail today is that of an organization stronger, healthier, and more focused on the needs of the Canadian marketplace than ever before. There is enormous potential for passenger rail to grow in the years ahead.

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





CORPORATE DIRECTORY

As at December 31, 1999

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