

The Year in Review

MOVING FORWARD IN 2006

VIA has a strong track record managing Canada's passenger rail service. Between 1990 and 2006, the Corporation reduced operating funding requirements for the service by 59 per cent, while absorbing cost increases over the period. This reduction was achieved through vigorous revenue growth (up 108 per cent), and rigorous control of operating costs (down 14 per cent). The cost to the public for operating passenger rail has dropped significantly, and the quality of service across the country has improved.

Like many other businesses, VIA has faced new challenges in recent years, including increased operating expenses, particularly fuel. Some of these challenges have been more specific to passenger rail, including shifts in travel markets and demand, and rising costs resulting from aging equipment and infrastructure.

In 2005 VIA launched *Moving Forward*, a new business strategy to meet these challenges. The results were dramatic: VIA carried a record number of passengers during the year, and achieved a record increase in revenues. This plan will be reviewed in 2007.

Moving Forward makes the customer the cornerstone of VIA's mission, vision and values, and defines six key corporate goals for the Corporation. These goals provide a customer-focused framework for managing VIA's people and resources, adapting to new realities in the marketplace, and responding to the customers and communities VIA serves.

MOVING FORWARD – CORPORATE GOALS

> **Safety**

We will provide a safe and secure environment for our customers, ourselves and the general public.

> **People**

We will work together to create an environment that promotes a passionate commitment to realizing our vision and to VIA's business success.

> **Service**

We will consistently provide our customers with excellent travel experiences that exceed their expectations.

> **Growth**

We will seize opportunities to offer innovative products and services in all markets that we serve.

> **Entrepreneurship**

We will become increasingly self-sufficient by continually improving productivity and increasing the revenue/cost ratio on all train services.

> **Environment**

We will actively structure our operations to meet the needs of our customers in an environmentally sustainable and responsible manner, while contributing to Canada's commitment to the Kyoto accord.



Responding to Change





Canadian travel markets, and the travel industry as a whole, have changed in recent years. During the 1990s markets expanded rapidly, and VIA matched or exceeded that growth every year. In 2003 a number of uncontrollable events, including SARS, the war in Iraq, and the depreciation of the U.S. dollar, had a negative effect on travel markets. While domestic markets are in a recovery period and are now returning to 2002 levels, financial pressures have caused a number of bankruptcies, major restructuring and consolidations of services throughout the industry.

At the same time, travel patterns changed, with increased competition from other countries as destinations for international travel, a drop in overall travel into Canada from the U.S., and declines in long-distance travel in favour of shorter trips. Customer purchasing patterns have also changed, largely as a result of online technologies. Consumers continue to shift away from making purchases through traditional travel intermediaries, in favour of web-based tools which offer convenient, personalized travel planning and booking options.

VIA performed well during this period. Following a year-over-year drop in revenues in 2003, the Corporation responded quickly to shifts in the marketplace, with growth in both revenues and ridership. Despite intense competition, VIA maintained its performance in 2006. This was accomplished by continually refining marketing strategies and tools to acquire new passengers and build customer loyalty, all while identifying opportunities to provide enhanced, value-added services in key markets.



ALIGNING RESOURCES WITH THE CUSTOMER

In February of 2006, VIA restructured its organization to bring its resources more precisely in line with the core focus of meeting our customers' needs and exceeding their expectations. The new Customer function clearly identifies responsibilities and activities that contribute directly to the customer experience. A unified Operations branch brings new energy to the drive for operational excellence – aligning all resources involved in running passenger trains, including train operations, maintenance, safety and security.

The new Customer function integrates the process of developing and delivering services to VIA's customers, from market research, product and service design, sales and marketing, through to service delivery on board trains, in VIA's stations, in telephone sales offices and on the web. With more direct links between customer expectations, product development and service delivery, VIA has sharpened its business focus – and is better able to ensure consistency between what the customer expects, and what the customer actually experiences.

While the new structure clarifies roles and accountabilities for related activities, VIA continues to emphasize the value of cross-functional teams – working groups which bring together people from different departments and functions.

VIA first introduced the concept of cross-functional teams in 2001, when four regional service teams became responsible for VIA's operations in the East, the

West, Southwestern Ontario, and the area east of Toronto to Quebec City. These teams are responsible for all results related to the services and products they manage, including cost-recovery, on-time performance and customer satisfaction ratings. They provide a foundation for the collaboration and teamwork

necessary in a passenger service, and because of their proximity to their markets they are able to anticipate the needs and exceed the expectations of customers.

The cross-functional approach embodied in service teams is also vitally important when managing issues which cut across organizational boundaries, and require collaboration between all parts of the Corporation. In addition to the four service teams, there are 14 cross-functional teams at VIA today, including two created in 2006 – the Accessibility Review Committee and the Risk Management Committee. These groups bring together the perspectives and skills necessary to identify problems and opportunities, explore solutions and new ideas, and take action quickly – with a clear understanding of the impact their decisions will have on the customer.

Moving Forward

> Customer Focus

We appreciate and listen to our customers, and we innovate to provide the best passenger transportation experience at the best value for money.

BUILDING STRONG CUSTOMER RELATIONSHIPS

VIA's customer reward program, VIA Préférence, celebrated its 10th anniversary in 2006. Designed to build customer loyalty, the program allows members to accumulate points toward free train travel, as well as periodic special offers. VIA Préférence has close to half a million members and is still growing steadily.

With customer loyalty becoming a key focus for the Corporation, VIA is building on VIA Préférence to strengthen and manage its relationship with customers. In November, VIA launched the first phase of a new customer profile technology using information from the VIA Préférence customer database, as well as information gathered through RESERVIA, VIA's online booking system. The technology gives telephone and counter sales agents instant access to customer information when making

a booking – helping them to understand individual customers' needs, and provide a more personalized service, such as offering products tailored to individual travel habits and preferences. VIA's sales agents were also given extensive technology upgrades and improved network and telecommunications services in 2006, allowing them to respond to customers more quickly and efficiently.

Customer profile technology is part of a corporate strategy designed to help VIA become a customer-intimate organization – an organization that builds a more human bond with customers and strives to understand and respond to the specific needs of individual customers.

On a broader scale, this is a major focus of the new Customer function, integrating all aspects of service design, marketing and delivery to provide customers with a consistent, unique and high-value travel experience. Efforts to attract, train and develop people with the right talents – VIA's core competencies as a customer-focused organization – are vital to this approach, and key to maintaining and strengthening relationships with customers.

Moving Forward

> Service

We will consistently provide our customers with excellent travel experiences that exceed their expectations.

NEW SALES STRATEGIES AND TOOLS

With limited opportunities to expand under currently defined network and service levels, VIA must depend on increased sales – particularly sales of high-yield products and services – to maintain and improve revenues.

Telephone sales offices developed a more proactive sales strategy in 2006 – taking better advantage of contact with customers to offer higher value services, and to encourage customers to travel with VIA more frequently. VIA is also actively pursuing growth through business-to-business marketing, increasing sales to corporate customers, and through partnerships with tour operators and travel agencies.

For both individual and corporate customers, web-based access to information, bookings and reservations is becoming essential. VIA has been a pioneer in providing online tools for customers, and web-based sales now account for a record 33 per cent of total sales.

Recognizing that the online experience is now a significant part of the total customer experience, VIA began a comprehensive review of its web site in 2006, and will begin work on an enhanced web site in 2007. VIA also introduced new online payment options – including “virtual credit cards” and INTERAC bank transfers – to make online transactions more efficient, convenient and secure for customers.



ENHANCED SERVICES

VIA continues to explore opportunities to enhance the value of existing train services, and to develop new services that would help to increase revenues.

Wireless Internet access for customers, offered on a trial basis in 2005, was launched on all Corridor trains in 2006. This is the first commercial deployment of Wi-Fi on passenger trains in North America. Developed on a partnership basis with the technology service provider Parsons, Wi-Fi is an example of VIA's commitment to exceed customer expectations with a service that makes their trip more enjoyable, relaxing and productive.

In the Corridor, new schedules were introduced in response to customer feedback, providing for more convenient service from Montreal to Quebec City, and adding a new round trip between Montreal and Ottawa's Fallowfield station. Operation of the peak season Toronto-Niagara Falls train was extended in 2006, and, in partnership with Fallsview Casino Resort and Peller Estates Winery, VIA added an additional train with a special "learn to play" Casino car – the first of its kind in Canada. The car offered customers the opportunity to relax and enjoy a complimentary Peller Estate wine sampling, while learning to play poker or blackjack from a professional Fallsview Casino Resort croupier.

Moving Forward

> Growth

We will seize opportunities to offer innovative products and services in all markets that we serve.

In Atlantic Canada, *Easterly* class service on board the *Ocean* – designed as a "Maritime Learning Experience", complete with educational activities and regional cuisine – received high customer approval ratings during its first season in 2005. The service was improved and refined for its second year, operating for an extended peak season between Montreal and Halifax.

The Western Service team used 2006 to plan for a new summer tourism product on the Winnipeg-Churchill train, modeled on the *Canadian's* successful *Silver & Blue* class service and scheduled to begin in 2007. The Western team also established a new winter service between Edmonton and Jasper, to operate for 15 weeks beginning in January 2007. Developed in partnership with Marmot Basin and the Town of Jasper, the Snow Train Express will provide weekend getaways for skiers, snowboarders and outdoor enthusiasts, thus helping to support the winter tourism economy in the region.

LISTENING TO CUSTOMERS IN THE CORRIDOR

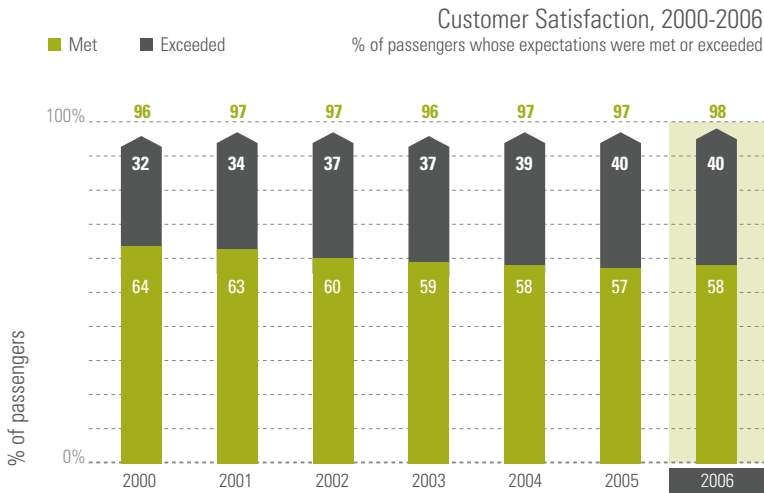
2006 marked the 150th anniversary of passenger rail service in central Canada. What began in 1856 with a 14-hour train trip between Toronto and Montreal has grown to become VIA's busiest market, with some 400 trains operating in the Quebec City-Windsor corridor every week.

To ensure that passenger rail continues to evolve and offer the best possible value to travellers in the Corridor, VIA undertook a close examination in 2006 of those features of rail service most important to customer satisfaction. In addition to on-time performance and the quality of on-board services, value for money was singled out as one of the most important benefits to Corridor customers. Based in part on this research, VIA introduced new pricing strategies for services between Montreal and Quebec City, between Montreal and Toronto, and between Toronto and Ottawa. Leading to a significant increase in ridership, this proved to be one of the most successful growth initiatives of 2006.

Following the success of this initiative, VIA launched the first steps in a comprehensive review of all Corridor services. This review will include a complete forward-looking assessment to determine how passenger rail must evolve to meet the changing needs of customers in the Corridor, and how it can serve more customers.

The review will be supported by a number of innovative tools for conducting market research, including a pilot project that proposes to use online technology to gather consumer feedback. New tools will engage online panels in providing feedback to market researchers, while simplifying the process of conducting surveys, collecting data, and analysing results. Experimenting with this new approach will give VIA insights into the value of using this new technology, and how it could be integrated into the Corporation's overall market research strategy.

In 2006, VIA maintained and slightly improved upon the high level of customer satisfaction achieved in recent years. Overall satisfaction has remained at 96 per cent or higher since 2000, reaching a high of 98 per cent in 2006. The proportion of those satisfied customers who say that VIA exceeded their expectations has also been steadily increasing since 2000.



Responsible Management





Aligning people, talents, and goals

VIA's Moving Forward plan depends on the understanding, talents, and creativity that people bring to the job, and the opportunities they have to make a real contribution to VIA's success.

VIA has made dialogue with people a priority – engaging employees in meaningful discussions about the Corporation's vision, mission, values and goals, keeping everyone informed about business challenges, and providing honest feedback on both individual and corporate performance. Throughout 2006 VIA continued to improve the way it consults with employees through surveys, "town hall" meetings and informal discussions. The Corporation also asked employees to identify what kind of information they wanted to see, and how it could be best presented. As a result, VIA completed a comprehensive redesign of the tools used to communicate with employees, such as the employee newsletter, bulletins and memos from senior management.

VIA also strengthened its employee recognition program in 2006, and a new recognition program – emphasizing employee contributions to VIA's success as a customer-focused organization – is currently being developed.



VIA began changing the way it manages human resources in 2004, shifting the HR function from a largely administrative role to a more strategic one, developing the talent of VIA's people, and aligning that talent with the goals of the Corporation. The process of hiring, training, promoting and rewarding talent is being rigorously

managed – to create an organization where people succeed by directing their creativity and innovation towards the success of passenger rail.

As part of this emphasis on managing talent, VIA identified eleven core competencies in 2006. Each competency – such as empathy and listening, teamwork, and creative problem-solving – combines knowledge, attitudes and skills that the Corporation needs to succeed as a customer-focused business. They also provide a valuable framework for people pursuing their own career growth and development at VIA Rail.

Moving Forward

> People

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The core competencies have been integrated into VIA's hiring practices, training and development programs, career and succession planning, and performance management. Management employees completed a self-assessment exercise on the competencies, which in turn was incorporated into the process for year-end evaluations. In 2007, all management employees will create personal development plans reflecting these evaluations.

Course modules on the competencies are now included in the growing number of learning tools available to employees online – either from their home computers or through well-equipped e-Learning classrooms.

VIA has also developed e-Careers, an online recruitment and career development service accessible to both employees and outside job applicants. E-Careers is an important tool that supports VIA's efforts to attract new people, new ideas and new energy to the Corporation – encouraging the recruitment and development of people with the right talents and skills for VIA's future.

In the spring of 2006, VIA introduced a flexible benefits program for management employees. The initiative allowed the Corporation to offer a highly competitive benefits program best suited to employees' personal needs, while at the same time containing the ever-growing costs associated with group benefits.

CONTROLLING COSTS

Despite rising costs for key operating expenses, VIA maintained – and slightly improved – the high level of cost-recovery achieved in 2005. At 63 per cent, the revenue/expense ratio for passenger rail has improved by more than 117 per cent over the past 16 years.

Employees throughout the Corporation helped to maintain this performance by controlling costs and increasing productivity in all aspects of VIA's operations. Continuing a practice introduced in 2005, VIA's performance management and incentive programs encouraged and rewarded management employees for demonstrating effective cost controls, and for contributing to revenue performance.

Technology is proving particularly effective in controlling costs. Internet-based booking and reservation technologies have helped VIA reduce costs significantly, while making access to rail services more convenient and efficient for VIA's customers and partners. In 2006, VIA developed a web-based distribution platform for consumers and travel partners. All travel agencies in the U.S. have migrated to this platform, and most Canadian travel agencies will soon follow. This improvement is expected to save the Corporation more than \$1 million annually.

Building strategic alliances is an important part of the newly realigned organization, allowing VIA to share the costs of developing and improving services, and expanding its marketing efforts, with its partners. For example, VIA completed implementation of wireless Internet service for customers on board all Corridor trains in 2006, with the service provider assuming the costs for implementing the technology. The service has provided extra convenience and value to customers without increasing VIA's operating costs.

Strategic partnerships with tour operators, travel agencies and associations are also valuable tools to control costs, and continued to be important in 2006. Through VIA's partnership with Brewster Transportation, VIA has established a marketing presence in China, one of the biggest emerging markets for travel to Canada. VIA continues to work with the Canadian Tourism Commission, regional and local tourism associations, as well as local chambers of commerce and boards of trade. These partnerships allow VIA to share the expertise and resources required to reach and develop new markets, while helping to support the Canadian tourism industry as a whole.

Moving Forward

> Entrepreneurship

We will become increasingly self-sufficient by continually improving productivity and increasing the revenue/cost ratio on all train services.

Another strategy – fuel hedging – has been an important tool to control costs in recent years. Diesel fuel is central to VIA's operations and accounts for 93 per cent of VIA's total energy consumption. For more than a decade the Corporation has employed a hedging strategy involving agreements with financial institutions about price levels for this important commodity. This risk management strategy provides protection against extreme fluctuations in price, and has also resulted in considerable savings for the company – \$27 million since 1996, and more than \$4 million in 2006 alone.

MANAGING THE FLEET

VIA is using its limited capital funds to maintain an efficient and reliable passenger service. At the same time, VIA is taking the necessary steps to prepare for the future, identifying and planning for the equipment renewal and improvements needed to maintain service in the years ahead, and which will require significant capital investment.

VIA completed assembly and modifications to the final Renaissance train set, on schedule and in time for the busy summer season. The Renaissance fleet was purchased in 2000. With the final set modified, the *Océan* between Montreal and Halifax now operates entirely with Renaissance equipment in the peak season – ensuring a uniform and consistent travel experience in Atlantic Canada.

The new equipment replaced a 21-car train set, which was redeployed for use in the West on the *Canadian*. This extra train set in Vancouver has helped to ensure on-time departures on VIA's flagship transcontinental train.

VIA is also developing plans for a comprehensive interior rebuild of the stainless steel fleet used on the Western transcontinental service. A competitive design process begun in 2005 has resulted in a full-sized, semi-functional mock-up of a redesigned sleeper bedroom. The design incorporates many customer advantages, including forward facing seats, heating and air conditioning controls, larger windows, and includes plans that would allow for a wheelchair accessible bedroom in every car. The project, which requires capital funding to proceed, would include all sleepers and Park cars in this fleet.

While funds for improving existing equipment are extremely limited, VIA was able to undertake a \$2.3 million overhaul of the stainless steel equipment used in the Quebec City-Windsor corridor. In 2006, the interiors of ten *VIA 1* cars from this fleet were modified to match the more spacious and comfortable *VIA 1* cars from the Light Rapid Comfortable (LRC) fleet, also used in the Corridor. The result is a more consistent service to all first class travellers in the Corridor. In 2007 VIA plans to overhaul ten *Comfort* class cars from the stainless steel fleet, to upgrade interiors and improve seating for customers.

Because the LRC fleet is also aging – leading to lower reliability and increased maintenance costs – VIA has also been taking the necessary preparatory steps for future renewal. VIA plans to undertake a major rebuilding project which will extend the life of this equipment by another 15 to 20 years, at a lower cost than buying new equipment. A prototype was completed in 2006, and will be tested in service in 2007. Further progress on this project will require capital funding.

A prototype for rebuilding VIA's General Motors F-40 locomotives was also completed in 2006. One of the company's oldest locomotives, in service since the 1980s, was completely stripped down and rebuilt from the ground up, incorporating state-of-the-art technology and components. The completely rebuilt engine provides 200 additional horsepower and lower fuel consumption, at half the cost of purchasing a new locomotive. The prototype will be tested in service in 2007. Rebuilding the remaining 53 F-40 locomotives will require capital funding.

CREATING A RISK-SMART CULTURE

VIA Rail is strengthening its approach to risk management, emphasizing the need to embed a risk management focus into all management processes across the Corporation. In an increasingly complex and rapidly changing business environment, it is vital for the Corporation to identify potential events or issues that might affect the reliability of its services, and to ensure that appropriate measures are in place to minimize the risks involved. Such events might include deterioration of the rail infrastructure, limiting VIA's ability to deliver reliable on-time performance, or sudden surges in fuel prices, significantly raising VIA's operating costs.

At the level of the Board of Directors, risk management is addressed by the Audit and Risk Committee, which monitors the procedures to identify principal business risks, and assesses steps undertaken to manage and mitigate them.

In 2006, VIA created a cross-functional team to enhance this risk management focus and to ensure that it becomes integral to all management activities – including strategic and budget planning processes, internal and external audit procedures, and key processes such as safety and security planning, environmental management activities, and capital project planning. The new Risk Management Committee will enhance and sustain the level of awareness and sensitivity amongst VIA's management team on the subject of risk management – providing an updated, corporate-wide risk assessment review annually, performing a gap analysis on major risks to determine if new actions should be taken, and monitoring all risk management initiatives.

The 2006 realignment also saw the merger of those groups responsible for health and safety, the environment, and quality control. The new Integrated Risk Management group is charged with helping employees develop a systematic awareness and approach to managing operational risk in their day-to-day work activities.



A Responsible Service





Managing passenger rail responsibly means managing the bottom line. It also means much more.

Since its beginnings, passenger rail has made vital contributions to Canadian society – to the growth and development of communities, to the economic infrastructure of the country, to the well-being and quality of life of Canadians. And it continues to play a role in the life of Canadians, communities and society that goes beyond the income statement.

With this unique role comes great responsibility. VIA embraces this responsibility, and acts on it every day.

VIA's activities – like those of any corporation – have an impact on the life not only of customers, but a broad range of people, communities and interest groups. Responsible management means recognizing that VIA Rail does not operate in a vacuum. VIA is connected to the society it serves, and strives to be a good corporate citizen – taking its impact on others into account in management decisions, and responding with integrity and respect to all stakeholders who are affected by its activities.

Moving Forward

> Passion

We are passionate about passenger rail and the role that it can play in the social, economic and environmental development of Canada.



RESPONDING TO COMMUNITIES

Viewed by Canadians as a national icon, VIA is committed to providing a service that reflects and responds to all facets of Canada's diverse, multicultural society.

As a federal institution, VIA plays an important role in promoting Canada's linguistic duality. The Corporation is committed to serving passengers in the official language of their choice, and to using both French and English in all internal and external communications, as well as in business practices. In 2006, when VIA carried 4.1 million passengers, just six complaints were filed with the Office of the Commissioner of Official Languages. All were investigated and corrective measures were taken, to ensure that VIA continues to provide quality service in both official languages.

In responding to people and communities in difficult circumstances, VIA also fulfills needs that passenger rail is uniquely positioned to address. In 2006, VIA worked closely with both the federal and provincial governments to help Canadians fleeing violence in Lebanon. As flights carrying returning Canadians arrived in Toronto and Montreal, VIA provided complimentary transportation to individuals and families

to complete the final leg of their journey home. VIA's employees received recognition from many, including the Red Cross and the Government of Ontario, for their extraordinary efforts during the crisis.

VIA is also recognized as an industry leader work-

ing with people with disabilities to provide accessible transportation services. In 2006, VIA created a new cross-functional Accessibility Committee, drawing together resources and expertise throughout the company to ensure that VIA continues to provide a responsive, accessible service. One of the first priorities for the Committee was to establish an external advisory group, helping VIA to engage in a dialogue with concerned groups of customers with special needs.

On many occasions throughout its history, VIA has provided special services to groups and communities who deserve recognition in Canada. In June 2006, VIA operated the Chinese Redress Express – a train bringing Canadian Chinese Head Tax payers, their families and descendants from Vancouver to Ottawa. The purpose of their journey was to witness an historic apology in the House of Commons.

Finally, in November of 2006, VIA operated two unique trains linked to Remembrance Day. Between 1942 and 1948 some 40,000 war brides and 20,000 children came to Canada from Britain and Europe, first touching Canadian soil in Halifax. The War Bride Train brought hundreds of surviving war brides and family members from across the country back to Halifax to take part in special reunion celebrations. Following those celebrations, the Troop Train honoured Canadian veterans, bringing them with their families from Halifax to Ottawa for Remembrance Day ceremonies in the capital.

Moving Forward

> Respect

We are human – people who respond with integrity to the needs of our customers, to each other, and to the people and communities we serve.

ENSURING SAFETY AND SECURITY

All VIA employees recognize that safety and security are the top priority for travellers – and that safety can never be taken for granted. VIA Rail has one of the best safety records in the business, a testament to our continual efforts to improve safety procedures and to remain vigilant with respect to security.

VIA developed and implemented a comprehensive safety management system in 2001, integrating rules, procedures and responsibilities for safety and making safety a top priority for every employee. This system is regularly audited by Transport Canada, and employees continue to review the system on an ongoing basis to provide essential feedback and suggest improvements. As in 2005, safety targets and performance measures were aligned with and integrated into VIA's business strategy for 2006. In addition, safety performance is continually monitored by Health and Safety committees at all major VIA locations across Canada. These committees review annual safety reports and ongoing safety performance data to establish specific objectives for improving workplace safety, and to identify issues that require the attention of senior management.

An integral part of the safety management system is the Hazardous Assessment and Risk Control Strategies database, which was reviewed and updated early in 2006. This database is consulted by managers to identify and mitigate situa-

tions involving risk to customers, communities or employees. VIA developed a new hazard protection program using the database, along with a new training program for employees and VIA's Health and Safety committees.

At the request of employees, VIA introduced an influenza immunization program in the fall of 2005. VIA continued the program in the fall of 2006, making flu shots universally available to employees on a voluntary basis, free of charge. At the same time, the Pandemic Planning Committee, newly created in 2006, focussed on developing and monitoring a proactive approach for mitigating the risks for VIA of a potential pandemic influenza outbreak in Canada, and ensuring that a rapid response plan is in place should one occur.

A cross-functional team is responsible for reviewing security policies and procedures at VIA Rail. The Strategic Security Planning Committee, chaired by the president with representatives from all departments and all parts of the passenger rail network, works with regulators and industry partners to enhance VIA's security standards, and ensure that the best possible facility and operations security procedures are implemented at VIA. This committee oversaw further refinements and improvements to VIA's security practices and procedures in 2006, following an analysis of VIA's security systems by an outside consultant in late 2005.

Moving Forward

> Safety

We will provide a safe and secure environment for our customers, ourselves and the general public.

As part of this continuing emphasis on efficient and effective security for passenger rail, VIA's Board of Directors approved a Corporate Security Policy in 2006. New security standards are currently being developed for VIA's facilities, operations, and the Corporation as a whole.

AN ENVIRONMENTALLY RESPONSIBLE PASSENGER SERVICE

Passenger rail is considered one of the safest modes of public transportation available today, and one of the most environmentally sustainable. For VIA, managing passenger rail responsibly means operating the safest possible service, while continually reducing the environmental impact of this mode of transportation.

VIA's Environmental Policy commits the company to operating all aspects of its business in an environmentally responsible manner. This policy is distributed to all employees and shared with contractors, and provides the foundation for VIA's environmental management system.

Moving Forward

> Environment

We will actively structure our operations to meet the needs of our customers in an environmentally sustainable and responsible manner.

A new e-Learning module explaining the company's environmental commitment and encouraging "green" work practices was launched in 2006. This training is supported by on-going efforts to raise environmental awareness both inside and

outside the Corporation by the new Integrated Risk Management group, and by voluntary groups of employees known as Green Teams. In 2006, Green Teams participated with other associations and agencies in activities such as Earth Day, Car Free Day, Clean Air Day, and the International Youth Summit on Sustainable Urban Transportation.

In 2004 VIA enacted a Green Procurement Guide, which sets guidelines for purchasing environmentally-friendly products and services, and in recent years the Corporation has sourced recycled paper for a variety of publications and supplies, including napkins, timetables and newsletters. Recycling of plastic, cans, glass and newspapers occurs on board and in offices across the network, while used linens and uniforms are also repurposed or recycled, with proceeds going to a variety of Canadian charities. This year, in an effort to reduce waste, VIA introduced a reusable coffee mug for sale to passengers.

One of VIA's primary environmental goals is the continued reduction of greenhouse gas emissions through reduced fuel consumption. VIA has succeeded in significantly decreasing emissions since 1990, even as the volume of its operations has grown. Compared to 1990, VIA operates 20 per cent more trains and carries 18 per cent more passengers; in the same period, VIA reduced greenhouse gas emissions by 15 per cent.

In 2006, improvements were made to the air conditioning of Renaissance sleeper cars and the windows of P-42 locomotives to improve their energy efficiency, which will in turn have an impact on fuel efficiency. The proposed rebuild of a fleet of 20-year-old locomotives and a fleet of 25-year-old passenger cars will result in further improvements in fuel efficiency.

As a transportation choice, passenger rail is recognized as one of the most environmentally sustainable options for Canadian travellers. In 2004, rail transportation accounted for less than one per cent of Canada's total greenhouse gas emissions, or 6,000 kilotons of CO₂e.¹ Of that total, VIA's operations accounted for 0.03 per cent, or 194 kilotons.

A PARTNER IN THE GLOBAL COMMUNITY

While VIA's operations are based in Canada, the Corporation recognizes that Canada is part of a global community, and that the Corporation's actions can affect people in other parts of the world.

In 2006 VIA became the first major transportation company in Canada to serve only fair trade certified coffee to its customers. Through cooperation with TransFair Canada, an independent, not-for-profit certification body for fair trade products, VIA is able to guarantee that the coffee served on its trains has been grown according to strict environmental standards, and that the farmers and workers who produce the coffee have been paid a fair price for the product. VIA hopes that its commitment to fair trade will set an example for others, helping to improve the living conditions of farmers and workers in other countries.

VIA also had the opportunity to take the lead in exchanging views, expertise and solutions with the international community. In June 2006 VIA hosted the annual meeting of the International Union of Railways – the first time this event has been hosted outside of Europe – and the 7th World Congress on Railway Research. Also in June, VIA was a partner of the International Economic Forum of the Americas. The theme of the Forum – Growing Through Partnership: From Risk to Reward – covered a wide range of issues, among them sustainable development.

International dialogue with communities around the world provides VIA with an opportunity to share information specific to Canada's approach to passenger rail, while fostering an open and in-depth discussion of the most important economic, social and cultural issues facing society today.

¹ Source: Canada's GHG Inventory, Environment Canada, 2004. CO₂e, or carbon dioxide equivalent, is the quantity of a given greenhouse gas multiplied by its global warming potential. This is the standard unit for comparing the degree of harm caused by different greenhouse gasses.