

The Year in Review

Operating a modern passenger service in Canada is a tough business. The Canadian travel and tourism industry as a whole is going through difficult changes, in a very challenging environment. The industry in general experienced one of the worst years on record in 2003. Predictions for a market recovery in 2004 proved to be overly optimistic, and competition for customers has become more intense than ever before.

The needs and expectations of those customers are also changing. Increasingly sophisticated travellers have high expectations not only for transportation efficiency — moving from point A to point B — but for the level of service they experience along the way. Wireless mobile technology has created new expectations about how people connect travel time to work and family life. The Internet and information technologies have raised expectations for fast, convenient customer service, and easy access to personalized travel options.

At the same time, world events have made safety and security a higher priority for travellers than ever before. Growing awareness of the environmental impacts of transportation have increased demands for environmentally responsible management in all passenger modes.

It is a business environment where success depends on creative thinking, finding new ways to anticipate and respond to customer needs, to add value for the customer, and to deliver that value consistently day after day. VIA met this challenge in 2004, ensuring that passenger rail stays in step with the needs of Canadians today, and relevant to Canada's transportation needs in the future.

VIA'S STRATEGIC PLAN

VIA's Strategic Plan, approved by the Board of Directors in 2003, continued to focus our creative thinking in 2004. The Plan sets out clear objectives to ensure that activities and initiatives align with our long-term goals for passenger rail.

SAFETY

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

VIA's Safety Management System has earned recognition as a model for the industry, and was praised by Transport Canada auditors in 2004. To ensure the security of our operations, we implemented a Corporate Security Master Plan and a wide range of new security measures, with the help of international security and counter-terrorism experts. A new communications program ensures that our employees remain vigilant and aware of security issues at all times.

PEOPLE

Working together to create an environment which promotes a passionate commitment to VIA's business success.

We launched the first steps towards a comprehensive redesign of Human Resources in 2004, with a new approach to strategic human resource management based on our vision for people at VIA — a vision that will bring out the best in our people and align our talents with the future needs of passenger rail.

SERVICE

To consistently provide our customers with excellent travel experiences.

Our customer satisfaction ratings reached their highest level in four years during the last quarter of 2004. Overall, service continues to meet or exceed the expectations of the customer 97 per cent of the time.

Reliable on-time performance is essential for continued high levels of customer satisfaction. VIA intensified efforts to reduce train delays, working closely with the freight railways to resolve scheduling and operating conflicts on a daily basis. More sustainable options for consistent reliability are being identified.

GROWTH

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

In current travel markets, consistent, sustainable growth depends more than ever on our ability to capitalize on those aspects of passenger rail that set us apart from competitors. Throughout the year, we focused on identifying, developing and marketing the unique strengths of passenger rail in meeting the needs of travellers.

ENVIRONMENT

To conduct our business of meeting the needs of customers in an environmentally sustainable and responsible manner.

VIA's Environmental Policy recognizes the importance of promoting environmental awareness among its employees, suppliers, customers and partners. Our Environmental Management System (EMS), which encompasses all environmental policies, programs and procedures, has been made available online to employees. While maintenance centre employees had already received EMS training, training for the balance of on- and off-train employees began in 2004.

ENTREPRENEURSHIP

To move towards self-sufficiency by reducing government funding for operations and applying savings toward new capital investment.

We continued to address funding reduction with a strategy combining reduced costs with revenue growth. Costs of operations in 2004, excluding the CIRB decision, dropped slightly compared to 2003. On the revenue side, we focused on increasing yield — generating higher revenues per passenger-mile. Product development and design projects, undertaken in 2004, will increase yield further in the years ahead.



Bach-Mai
Program-Analyst
Montreal

Wanting to
connect.
It's only human.

We do everything in our power to ensure that our customers can access the information they need, when they need it.

MEETING NEW DEMANDS IN THE MARKETPLACE

The nature of the transportation marketplace itself is changing, especially in Eastern Canada and the Montreal-Ottawa-Toronto triangle. Intense competition and price wars characterized these markets throughout 2004, with the arrival of new, low-fare air services. In many cases, these services have made sharp inroads into VIA's traditional markets. At the same time, shifting markets have opened new opportunities for VIA to realign and focus on the strengths of passenger rail to meet customer needs, in ways that other passenger services cannot duplicate.

REPOSITIONING PASSENGER RAIL IN THE EAST

Passenger rail has provided a core transportation service in Eastern Canada for more than a century. But the demand for traditional passenger rail service has been falling consistently for many years. In 2003, the decline accelerated, with passenger volumes on the *Ocean* down 30 per cent compared to the year 2000. The decline continued in 2004.

Much of that decline is due to competition from discount airlines. In terms of price, speed, and scheduled frequencies, rail can simply not deliver the same kind of basic transportation service the airlines are providing today.

At the same time, passenger rail remains an important travel option for many communities served by the *Ocean*, and we are committed to finding new ways to improve the service's financial performance. In 2004, we conducted extensive research with tour operators, customers and employees to find better ways for passenger rail to respond to the changing market in Eastern Canada, and better ways to support the needs of the region.

We found that there is a significant demand for a high-quality tourism service throughout the Maritime provinces. Provided that the service delivers an exceptional travel experience — the kind of experience not possible on a plane or a bus — such a service has a place in the regional tourism industry. While maintaining its role in the region's transportation system, a high-yield tourism service would generate significant revenue growth, helping to reduce the costs of providing year-round intercity transportation.

As a result, VIA is repositioning the *Ocean* to fill this market niche. The new *Easterly* class will provide attentive customer service and a unique learning travel experience, meeting the expectations of customers. On-board activities will include enriched cultural and learning opportunities, with entertainment and educational content tied to regional culture, history and geography. Dining will reinforce the cultural connection, with regionally-inspired cuisine and an animated personal-service touch. The newly introduced Renaissance passenger cars will be decorated to reflect Atlantic themes and culture.

The objective is to create an experience that surrounds the customer with a rich feeling of Atlantic Canada from the moment they board the train — and maintain that experience with high-quality service throughout the journey. The result will be the transformation of a basic transportation service into a viable transportation and tourism service, closely tied to the heritage of Eastern Quebec, New Brunswick and Nova Scotia. And it will be a service uniquely aligned to the market — one that no competitor can provide.

The repositioned *Easterly* class service will be introduced in June 2005. By 2008, it is expected to increase VIA's Eastern revenues by 62 per cent over 2003.

This project is similar to the highly-successful repositioning of service on board the *Canadian*, between Toronto and Vancouver, in the 1990s. The introduction of *Silver and Blue*[™] class, a high-end tourism service in the West, met with immediate acclaim and improved financial performance, with demand often outpacing capacity. In 2004, VIA's Western service posted the highest revenue gains of all VIA's services. The Western service team will monitor the implementation of the new Eastern service closely, and apply what they learn to further improve *Silver and Blue* class.

MARKETING OUR STRENGTHS

Passenger rail has also been challenged by airlines in the Montreal-Ottawa-Toronto triangle, with discount airfares and frequent service cutting into VIA's market base, especially among business travellers.

Whether or not this market has the capacity to sustain the current level of air services over the long run is open to debate. There is no question, however, that the airlines are offering a very different kind of service than passenger rail — bare-bones, no-frills transportation that cannot match the comfort and personal service available on the train.

We believe that the market needs the passenger rail alternative. Rail provides fast, downtown-to-downtown travel between major centres while serving many smaller communities along the way. Those who board our trains — especially business travellers — enjoy the value of making the most productive use of travel time, with wireless Internet access coming on board, laptop plug-ins, freedom to use their cell phones, or even conduct business meetings while travelling in comfort. Others welcome the opportunity to stretch out and relax. Whether travelling on business or not, all of our customers appreciate the level of attentive, personal service that has earned VIA an international reputation as a leader in passenger rail.

In the spring of 2004, we launched an innovative marketing campaign, "It's Only Human," emphasizing these unique benefits of passenger rail travel. At the same time, employees increased efforts to deliver those benefits consistently, and improve the quality of service even further. Those efforts are showing results and, we believe, will continue to attract customers back to passenger rail in 2005 and onwards.

RESPONSIVE, HIGH-QUALITY SERVICE

To ensure our place in the market, VIA must constantly focus on improving customer service in all parts of Canada. It is the key competitive advantage that sets passenger rail apart. It is an advantage that begins from our first contact with the customer — on the telephone, at our stations, or through our highly-successful website — as well as service on board the train.

Many customers have asked for convenient, fast access to train information, reservations and ticketing. The 33 self-service ticketing kiosks we introduced in stations throughout the Corridor during 2003 have proved very successful, and we continue to explore ways to make self-service options easily available to those customers who choose this option. We have also continued to improve our website, by ensuring that personal assistance from a “live” service representative is available on demand. Ongoing improvements to telephone sales operations enhanced service further, while reducing costs.

Our cross-functional regional Service Teams, created in 2001, have brought decision-making processes closer to the markets and the customers they serve, improving VIA’s ability to respond to the new needs of travellers. Following focused sessions with the management team, the roles and responsibilities of these teams were clarified and realigned in 2004, to speed up responses to customer concerns and Service Team initiatives.

Front-line employees received a follow-up session of VIA’s successful “Achieving Excellence in Customer Service” training program in 2004. At the same time, VIA introduced a new emphasis on “soft skills,” such as department, communication, planning, interpersonal and organizational skills.



Perry

Locomotive Engineer
Montreal

Wanting to
make people feel
comfortable.
It's only human.

We take our passengers' comfort to heart.

A NEW VISION FOR PEOPLE

If customer service is VIA's key competitive advantage, the source of that advantage lies in the talent and commitment of employees — from the front-line attendants on board the trains, to the team leaders, to the mechanics who help keep trains running on schedule. All of the major objectives for VIA in the foreseeable future depend on harnessing the creativity and imagination of people.

The high level of commitment of our employees has helped make the Renaissance of passenger rail a success. Our Strategic Plan continues to make a focus on people a top priority — creating an environment which promotes a passionate commitment to VIA's business success. Efforts to communicate VIA's vision, values and strategic goals, and to keep employees informed about business challenges and performance, have been improved and will continue to improve. Recent organizational changes, such as the realignment of VIA's cross-functional teams, have helped create more opportunities for people to put their knowledge and skills into action on the job in order to better serve our customers.

A NEW FOCUS ON TALENT

In 2004, we took our vision for people at VIA Rail a step further, launching the transformation of the Human Resources department from a largely administrative role to a far more strategic one — managing the talent of the Corporation. This is particularly important at a time when many of VIA's people — and hence our talent — will soon become eligible for retirement.

This transformation will be supported by the implementation of a new “e-HR” online tool that will make it possible to handle the administrative role more efficiently. For example, information about policies can be made directly available to employees online. Once the technology for handling this administrative function is in place, the task will be to make a new kind of service available — helping employees gain more control in developing meaningful careers at VIA, and making a real contribution to the future of passenger rail.

Our objective is to help employees and managers build better, stronger bridges between individual talents and career aspirations, and the strategic goals of the Corporation. When the transformation of Human Resources is complete, everyone

at VIA will have direct access to information about VIA's current business priorities and future objectives. A broad range of new tools, procedures and support will help people look at their talents and career goals and find ways to match these to their personal objectives as well as to the needs of the Corporation three, five, or ten years down the road. They can then map out their own career, with a personal portfolio of options for training, growth and development at VIA Rail.

Managers began training in 2004 in the use of new tools for setting individual and team objectives, with clear links between short-term operational objectives and the longer-term strategic goals of the Corporation. Human Resources is helping managers integrate objective-setting with employee training, learning and development plans, evaluations, and performance management. New e-learning tools will also expand the range of development opportunities for our people, with training tied directly to performance objectives and VIA's strategic goals.

A comprehensive review of compensation, pension and benefits, as well as the service recognition program in 2004, examined how rewards for employees can be better linked to VIA's corporate strategy — supporting efforts that drive the success of VIA Rail more effectively.

Hiring and succession planning is also taking on a more strategic focus. Human Resources has identified key positions, the core talents needed to fill those positions, and the training people need to move into those positions at the right time. Hiring new talent will focus not only on filling specific job openings, but on recruiting the kind of people VIA needs in the long-term — the kind of people who will help VIA succeed down the road.

The transformation of Human Resources is a long-term project that will unfold over several years. Our vision for people at the heart of this transformation — a vision where every individual can align their creativity, intelligence and innovation with meaningful work and the future of passenger rail — will become an integral part of strategic planning in the years ahead.

ENVIRONMENTALLY RESPONSIBLE MANAGEMENT

Transportation is the largest single energy user and contributor to greenhouse gas emissions in Canada. Road vehicles — passenger cars, light trucks and commercial trucks — account for over 70 per cent of transportation-related greenhouse gas emissions.

Passenger rail is one of the most environmentally sustainable modes of public transportation available. VIA believes that there is enormous potential for enhancing rail's contribution to the environment — by continually improving our current operations, and exploring opportunities to expand our role in protecting Canada's environment and the health of Canadians.

In 2003, we officially made an environmental goal part of our Strategic Plan. However, VIA had established environmental practices and procedures much earlier. For example, VIA's maintenance centres have been leaders for VIA on the environmental front. They were the first to adopt an environmental policy and to put in place an Environmental Management System (EMS), for which they received the ISO 14001 certification.

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

ENVIRONMENTAL POLICY

VIA Rail Canada Inc., Canada's national passenger rail service, is devoted to meeting current and future passenger rail needs in an **ENVIRONMENTALLY SUSTAINABLE AND RESPONSIBLE MANNER**.

VIA Rail recognizes the importance of promoting **ENVIRONMENTAL AWARENESS** among its employees, suppliers, customers and partner communities and is committed to **CONTINUALLY IMPROVE** its environmental performance by:

- **ENSURING COMPLIANCE** with applicable Government laws and regulations;
- **ASSESSING AND MANAGING** the environmental impacts of its operations; and
- **ESTABLISHING ENVIRONMENTAL OBJECTIVES AND TARGETS** and associated **ENVIRONMENTAL MANAGEMENT PROGRAMS** with respect to the environmental effects of its activities, properties and services.

ENVIRONMENTAL MANAGEMENT SYSTEM

VIA's Environmental Management System (EMS) manual outlines the company's commitment to conducting its business in an environmentally responsible manner. It contains VIA Rail's environmental policy as well as the requirements and procedures in place for VIA to achieve its environmental objectives. The system itself was implemented in late 2003, while the manual was distributed to all managers in June 2004.

The Environmental Management System manual includes a "Training and Awareness" section, which calls for training to be provided to all employees according to the environmental aspects associated with their role and responsibilities. Training began in the fall of 2004.

A permanent, cross-functional Environmental Planning Committee has been established to periodically review the application of the system, 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.

In addition, VIA has developed an Environmental Assessment Program to allow employees to assess VIA's facilities, conformance to environmental legal requirements, and best management practices. Results of these assessment surveys are distributed to managers for review and action.

FLEET MANAGEMENT

Our efforts to modernize aging equipment since the early 1990s have made an important contribution to environmental objectives. Modern waste retention systems have been installed on all trains operating in the Quebec City — Windsor corridor; these systems are also being installed on all cars used for transcontinental and remote services. Improved operating efficiency has reduced fuel consumption and greenhouse gas (GHG) emissions significantly. Overall fuel consumption per passenger-mile has been reduced by over one-fifth since 1990.

In 2002, we purchased 21 new General Electric P-42 locomotives. These locomotives were built to the United States Environmental Protection Agency standards and have significantly improved the efficiency of VIA's operations.

VIA also continues to operate older General Motors F-40 locomotives. We have issued tenders to rebuild these locomotives. The work would include a new system to automatically shut down engines during layover and heat them with wayside power in the winter. Such a system would reduce fuel consumption by significantly reducing idling time, and thereby decreasing emissions as well.

SAFETY AND SECURITY

Everyone at VIA Rail recognizes that safety and security is a primary concern for travellers. Passenger rail is widely recognized as the safest mode of public transportation, and an increasingly attractive alternative for Canadians concerned about the dangers of travelling on congested highways. We are proud of VIA's safety record and we are also especially mindful of concerns about security.

SECURITY

Given recent world events and continuing concerns about terrorism, security has become an even more important element in our focus on safety management. We have developed a wide range of measures to mitigate risks and potential threats, and to ensure that security vigilance is practiced throughout the organization.

We developed a Corporate Security Master Plan, which identifies actions to be taken to protect the Corporation, its employees and its customers from external acts which are intended to cause harm or loss. Key points of the plan and updates on security issues are communicated regularly to all employees. An important focus of communications is to develop a heightened "security awareness" among employees, and to maintain vigilance regarding security throughout the Corporation.

VIA has conducted a complete review of security measures, with the help of experts in international security and counter-terrorism. As a result, we made a number of improvements to enhance security and have strengthened information-sharing networks with other rail operators, both domestically and internationally, as well as with government agencies and emergency services.

A key initiative coming out of this exercise was the establishment by Management Committee of the Strategic Security Planning Committee (SSPC) to review, assess and adjust VIA's wide range of security measures. VIA's Strategic Security Planning Committee regroups participants from many key VIA departments, and its activities are also linked to those of unions, government departments, security intelligence services and other railways.

SAFETY MANAGEMENT SYSTEM

As a result of the five-year review of the *Railway Safety Act* in 2001, all federally-regulated railways are required to implement a Safety Management System (SMS). VIA participated in the development of this regulation as well as the guidebook for implementing such a system.

We implemented our own Safety Management System in 2001, and submit it annually to Transport Canada. Transport Canada has recognized VIA as a leader in the industry, consistently praising our willingness to take immediate actions in order to improve our Safety Management System when required.

Transport Canada conducted an implementation audit of the 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 demonstrated by VIA management, unionized employees and representatives, as well as the success achieved to date by VIA. The report confirmed that the overall implementation of the system is proceeding well. A number of opportunities for further improvement were also identified, and a third audit was scheduled for 2004.

The 2004 audit report once again showed very good results, particularly with regard to an ongoing commitment towards the Safety Management System at all levels within the organization. VIA was also given good marks for the corrective actions that were taken to improve the system's documentation and ongoing implementation.

VIA continues to refine the system, improving communication of safety performance targets to front-line employees, documentation of safety procedures, and continued integration of the system into all facets of VIA operations.