



Speaking Notes

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VIA RAIL CANADA
DELIVERED TO THE QUEBEC MBA ASSOCIATION**

Transforming the Future of Passenger Rail in Canada

Thank you for inviting me to talk about VIA Rail. That's something I am always eager to do, because exciting things are happening at VIA. And I should point out that I'm joined here today by some of my colleagues who are helping to make those things happen, including members of VIA's Board of Directors, our President and CEO Marc Laliberté and members of our executive team. I am happy to also welcome two of VIA's front-line employees. They are the true face of VIA Rail to over four million Canadians every year.

It is a real pleasure to speak about how VIA Rail is changing the business of passenger travel in Canada – especially to an audience such as this!

I like to say that people who have gone through the rigours of an MBA program see the world differently. And to paraphrase Robert Kennedy, they don't just see the world as it is, they see the world as it could be.

They don't just look at a business or an organization and see problems – they see opportunity. They see opportunity to transform problems into solutions, and to transform organizations so that they work better, work smarter, and deliver more value than ever before.

That has been my experience. Going through the INSEAD MBA program in France, and the MPA program at Carleton University, changed how I see the world.

And the fact that five members of VIA's senior management team have completed the international MBA program has helped VIA see the future in a new way. I've seen the VIA team in action – as a member of the Board since 2006, as Chair of the Planning and Finance Committee, as Vice-Chairman, and since last December as Chairman. It is a privilege to be part of that team.

Because right now, this team is steering VIA Rail through one of the biggest transformations in the corporation's history. In fact we are transforming the future of passenger rail in Canada.

Our target is to make passenger rail not just another player in the Canadian transportation industry, but a market leader offering Canada's best travel experience. And we aim to become the first choice for passenger travel in key markets, especially for intercity travel between urban centres from Quebec City to Windsor.

That is what I want to talk about today.

First, I will give you some background – who we are, what VIA’s business is all about, and how the role of passenger rail is changing around the world.

Second, I’ll show how VIA is transforming the role of passenger rail in Canada by:

- transforming the passenger rail network with nearly one billion dollars in capital investment, a significant commitment by the Government of Canada in recognition of the future of passenger rail in Canada;
- transforming the way we do business, streamlining every aspect of our operations; and
- transforming our relationships – with customers, communities, and stakeholders across the country.

Finally, I’ll talk about value, the kind of value we are delivering by transforming passenger rail. In many instances, passenger rail is simply the smartest choice for travel today. Ultimately I’m going to try to get you to buy some train tickets so you can find that out for yourself.

VIA Background

Since 1977, VIA has operated Canada’s national passenger rail service on behalf of the Government of Canada. We run close to 500 trains weekly, on a 12,500 kilometre network from the Atlantic to the Pacific Oceans and north to Hudson Bay, providing service in both official languages to 450 communities. Operations are paid for through a combination of passenger revenues and public subsidies. In 2010, we carried more than four million passengers, and our 2010 revenues – which haven’t been reported yet – were slightly better than our 2009 revenues of \$265 million.

This revenue comes from our three distinct business lines, or VIA’s mandates.

First, we provide rapid intercity transportation. In the densely populated Québec-Ontario Corridor, 429 trains per week provide fast, convenient, downtown-to-downtown travel between major urban and suburban centres and communities.

Second, we contribute to Canada’s tourism industry through our long-distance travel and tourism services, attracting travelers from around the world. In Western Canada, VIA’s legendary western transcontinental The Canadian provides service three times per week between Vancouver and Toronto. In eastern Canada, the Ocean runs six times a week between Montréal and Halifax.

Third, we operate services designated by the Government of Canada to meet essential transportation needs in remote or isolated regions. VIA operates 50 trains per week in rural and remote regions of Canada. These trains serve many communities where alternative, year-round transportation is limited or unavailable.

Each of these business lines presents unique challenges, especially from a commercial point of view. For example, revenue from some of our intercity routes in the Corridor cover almost 100% of their direct operating costs. On the other hand, routes that serve remote regions have much less commercial potential.

Of course, our primary objective is to operate all our services efficiently, generating more revenues where possible while reducing the cost to the taxpayer. And in fact, over the past 20 years, we have reduced our financial dependence on the government by close to 36%. Lowering the burden on Canadian taxpayers has partly come from increasing our sales by more than 90% over that period but it is also a result of significant cost management.

Background: the role of passenger rail

Passenger rail is growing around the world! Just about everywhere you look – in the US, Europe, countries throughout Asia – you will see passenger rail growing as a key player in public transportation, with growing, not lessening, government investment.

And the fact is, no passenger rail service in the world operates without public funding. Even the biggest, most successful operators, like SNCF in France, receive public funding. Governments, and the societies they represent, choose to invest in rail because of the benefits rail delivers.

There are many benefits, and I'll just touch on three of the most important for Canadians.

First, there are environmental benefits. In Canada, the transportation sector generates 27% of all the greenhouse gas emissions emitted in the country. In real terms, this represents 200,000 kilotonnes per year, one of the highest per capita levels in the world. And transport's share has been going up through 2008, while other sectors of our economy like housing and manufacturing have gotten more efficient. Most of those emissions - 84% - come from road transport. In fact, only 3% of greenhouse gases in Canada can be attributed to railways, freight and passenger services combined. Passenger rail is simply one of the most environmentally sustainable modes of public transportation available. And we are continually improving our environmental performance at VIA. Since 1990, the year we began operating our current network, we have reduced our fuel consumption by more than 30% per passenger-kilometre, and we have reduced our greenhouse gas emissions by over 25%.

Second, there are benefits through improved efficiency and integration. Passenger rail is a catalyst for integration between all the different modes of passenger transportation available – providing connections between air transportation hubs, links to local and regional services like bus lines, as well as commuter and municipal transportation servicing major urban centres. And by providing a viable alternative to other modes, rail increases the efficiency and competitiveness of the transportation network as a whole.

Third, there are the benefits of transportation security and stability. Efficient transportation networks require a degree of redundancy to ensure that people can keep moving in all kinds of weather and in the event of threats to security or safety. In recent years – from the transportation security crisis of 9-11 to the winter storms we experienced just last month – passenger rail has proven that it can keep running when other modes are brought to a standstill.

All of these benefits are important as we look at the future challenges facing transportation here in Canada. In 2009 the Canadian Urban Transit Association completed a study showing that:

- by 2040, the Canadian population is expected to grow from 33 million to over 40 million, with more densely populated cities, and an aging population;
- mobility – keeping people moving – will become an increasingly important social and economic challenge, as traffic congestion gets worse and we face greater uncertainty about future energy sources;
- environmental issues, especially the impact of transportation on the environment, will remain as a major challenge – and the demand from Canadians for sustainable policies and practices will increase.

Add it all up, and it means that the need for efficient, high quality, and sustainable public transportation is becoming more important than ever. In such a future, passenger rail will pay big dividends to those who invest in it.

That's why the Government of Canada is investing almost one billion dollars, including \$407 million from Canada's Economic Action Plan, to improve and expand the capacity of passenger rail.

This is an unprecedented infusion of capital, the biggest capital investment program in VIA's history. The Government of Canada deserves full credit for making a bold and decisive move to secure the future of passenger rail in Canada. I would like to acknowledge the active role that Transport Canada has played to make it possible, especially the interest shown by the Minister of State for Transport, the Honourable Rob Merrifield, and the continued support of the Honourable Chuck Strahl, Minister of Transport, Infrastructure and Communities. They know a good investment for Canada when they see it!

Thanks to the investment program now underway we are on the threshold of a new era in Canadian passenger rail. We are transforming passenger rail as a vital, core service connecting Canada and Canadians across the country. And our long term goal is to:

- Make passenger rail a primary transportation “backbone” between major urban centres
- Offer faster and more frequent service with convenience that equals or surpasses anything else available – and with facilities and equipment that are welcoming, comfortable, and reliable year round.
- Integrate passenger rail with other modes and the transportation network as a whole, providing seamless interconnections with local, municipal and regional transportation services for communities across Canada.

It is an ambitious goal, but it is a practical one. Here is how we are moving it closer to reality.

Transforming the Network

The Government of Canada's \$923 million capital investment program started in 2007, and we have been putting that investment where it counts -- expanding track capacity, building better traffic control systems, modernizing passenger facilities and stations, remanufacturing locomotives and rail cars.

In the Québec - Ontario Corridor alone, we are investing \$474 million to expand and improve the infrastructure where the demand for passenger rail service is highest. Most of the track here is shared by both passenger and freight trains, and increasing freight as well as the length of these trains translates into bottlenecks and increased delays for passenger trains. We are upgrading the infrastructure and building new track to improve service on many Corridor routes, and particularly in the all-important Montreal-Ottawa-Toronto triangle.

Work on these infrastructure projects is well underway, and will be completed in 2012. Once completed, we will be able to operate more trains, deliver faster trip times, and provide a better quality of service than ever before.

In addition, we are improving safety and security systems along the Corridor to ensure that faster, more frequent trains can operate safely. Grade-level crossings, where roads cross rail lines, are being improved and eliminated where possible. New signalling systems are being installed. Centralized Traffic Control (CTC) technology is being upgraded.

With these infrastructure improvements VIA will have the capacity to serve an estimated *650 thousand additional passengers per year*.

We are also investing in our equipment – making our locomotives and passenger cars more reliable, more efficient, and more comfortable for travelers. For example, we are rebuilding 54 F-40 locomotives and 98 LRC passenger cars from the ground up – extending their life by 15-20 years at a far lower cost than new equipment, while reducing their operating costs. The locomotives are also being rebuilt to improve environmental performance – new technologies will reduce fuel consumption and emissions by nine percent.

At the same time, we are upgrading and modernizing key passenger stations to serve customers more efficiently, and to address operational and safety needs. Major station projects across Canada include improved platforms, lounges, lighting and boarding gates, interior and exterior renovations, and in some cases expansion or new facilities.

We are also investing in information technology to make travel time more productive for our customers. For example right now, we are implementing a new wireless Internet system. When it is completed this year, it will give passengers on board our trains the fastest, most powerful and most reliable Wi-Fi access available on any mobile platform. That means when you travel by train, you stay connected. By doing so, VIA becomes your mobile office when you need to work, and your mobile den when you switch to relax, watch a movie or chat on line.

Transforming Our Business

With a full-scale transformation of our network and infrastructure in progress, we are devoting renewed energy to transforming the way we operate as a business.

We know that capital investment in passenger rail carries with it high expectations for better performance, in terms of value delivered to the customer, and improved financial results. To deliver a good return on that investment, we have to continually improve the way we operate as a business.

In 2010 we implemented a new approach – known as LEAN management -- that focuses on operational excellence throughout the corporation. We are streamlining daily operations and procedures, focusing on those activities that add value for our customer.

Put simply, this means that employees and managers are asked to:

- Define and understand the work they do in terms of the value that it produces for our customers.
- Eliminate the waste – the activities, and time used that do not create customer value.
- Continuously review, streamline and improve those activities and procedures that do create value.

And to support this effort, we developed new performance management tools, including new “Key Performance Indicators” regarding productivity, revenues, costs, and safety. These measure how successful we are.

They are also important tools for encouraging everyone’s participation in the ongoing process of continuous improvement. The indicators are published monthly on VIA’s Intranet, and regular information sessions are held between managers and employees to discuss VIA’s performance. As a result, employees are aware of the key measurements and how their individual actions contribute to VIA’s success.

It is an approach that calls on the efforts of every single employee. And I want to emphasize here that VIA’s people really are the best in the business. Despite continued volatility in the marketplace, we increased 2010 revenues significantly over 2009. We also cut operating expenses well below the budget for the year. And we improved cost-recovery for passenger rail, regaining the upward momentum VIA had achieved before the 2009 recession.

We also completed a thorough review of our organizational structure, and realigned the organization to better reflect this streamlined focus on customer value. As part of this exercise, we reduced management staff by 12 percent.

Transforming Our Relationships

Transforming our network and equipment, and transforming our management practices, is just part of the story. We know that our success as a business ultimately depends on building strong relationships with our customers.

That means, first and foremost, that we must deliver what we promise to our customers and the communities we serve, and conduct our business with honesty and integrity.

It also means that we have to listen to our customers, try to understand what they value, what they are concerned about, and how we can provide a more rewarding experience for those who board our trains.

In 2010 we reviewed our methods of conducting surveys and measuring customer satisfaction. Working with an independent service provider, we believe that the procedures we have developed will give us more accurate and meaningful feedback, and help us to deliver better value, more consistently, to our customers.

We also try to develop an informed and personal relationship with our customers, through programs like our award winning customer loyalty program, VIA Preference. VIA was the first passenger railway in the Western Hemisphere to introduce a customer loyalty program.

In 2010 we made significant improvements to our VIA Preference members' web site. The online experience is now automatically customized to each member's needs when they log in, based on unique data such as the member's city of residence, membership level and points balance. In effect, the site is dynamically personalized to reflect each member's relationship with VIA.

This is one of the first sites of its kind for a loyalty program.

And we are developing new ways to communicate and interact with customers through popular social media services, such as Twitter. These services will help us deliver the right information to customers, when they need it -- while providing a forum for customers to comment, ask questions, and raise any concerns they might have.

We have an active community outreach program, recognizing that our services play an important role in the economic and social life of the communities we serve. For example, in 2010 we established a VIA-Gaspé working group, working with community leaders from the Gaspé region. We are working together to find ways to enhance service on the Montréal-Gaspé line -- and promoting local tourism at the same time.

Community outreach also means working closely with groups who represent customers who share common concerns or interests, such as travelers with physical disabilities.

We are particularly proud of our efforts to provide service in both official languages, and to be a shining example of Canada's linguistic duality. In its latest official report, the Office of the Commissioner of Official Languages praised the excellent cooperation received from VIA Rail.

We believe it is especially important to talk with and listen to communities who are impacted by our capital investment construction projects. As we move forward with new station, equipment and infrastructure improvements across our network, we consult with regional officials and communicate with local residents. Our goal is to not only relay key

project dates and details, but also to minimize any potential construction inconveniences as much as possible.

Ultimately, we are looking for better ways to listen and respond to customers and communities, and to carry out our role as a socially responsible corporation.

As a measure of our success, consider this. In 2010, travel agents cited our commitment to customer service when they picked VIA as the best passenger railway in the world, giving us the Agent's Choice Award – an award we have won every year but one since it was started nine years ago.

Last week VIA was given top place among transportation companies in Léger Marketing's Quebec report, which measures corporate reputations. Coming in at 39 in the list of 150 most admired corporations, VIA outranked every other transportation company.

The Smart Way to Travel

Earlier I mentioned I was going to get you to buy a ticket and travel by train.

I'm going to do that by presenting a very simple argument. For most travel in the Quebec-Ontario Corridor, the train is not only the most convenient option, and the most comfortable – it is the best choice in terms of dollars and cents.

For example, if you are going to Ottawa or Toronto or Quebec City, here are your alternatives. You can hurry to catch a cab, to get to the airport well before the departure time. You can wait in line to go through security, and then wait in line to board the plane. While in-flight you can try to have a conversation with the person beside you, if you can hear over the noise of the propeller. You eat out of a box if there is food on board. You arrive at the other end to get into a cab or a shuttle that takes you through heavy traffic and you finally arrive downtown. And for this experience you have paid good money to get a ticket. On top of that, there are cab fares to and from the airport that could easily add more than one hundred dollars to the price of your ticket.

That is just the direct financial cost. The other cost for you to consider is that you have been out of touch and unproductive for up to four and a half hours

Compare this to VIA's downtown to downtown service by train. You can catch a train 5 minutes before departure, and stay connected with the office or clients for the entire trip by phone and internet. You can talk to the person beside you quietly, or meet with colleagues around a business table. You eat your meal out of real dishes with real knives and forks, enjoy a glass of wine in a real glass and a cup of coffee in a china cup.

You do the math – which option gives you the better value, and the better use of your time?

I know when I travel to Ottawa, Toronto or Québec City, the train is a smart choice. And if you have seen any of VIA's recent TV ads, you know that it is considered a smart choice by people like Ricardo – Quebec's most popular TV chef – and members of the Montreal Alouettes –Canada's best football team. When you board our trains, you're in good company!

So if you haven't done so lately, I hope you'll give it a try. Find out why travelling by train is the "Human Way to travel".

Conclusion

As I said at the beginning of these remarks, our goal is to make passenger rail the best travel experience in Canada. We believe we can make passenger rail the first choice for intercity travel – not only leading the market for public transportation, but attracting a growing number of Canadians who will choose to travel by train rather than by private automobile.

Let me sum up how we are going to do that.

As our capital investment projects are completed over the next year, we will have new opportunities to deliver value to our customers -- better equipment, more attractive passenger facilities, faster trip times, more frequent train services between major centres.

We are making quality rail travel accessible and attractive to more Canadians.

That has important social and economic benefits for the communities we serve, and for Canada in general. Efficient public transportation between urban centres supports an increasingly mobile population, which is important for economic growth – and passenger rail is the most efficient and cost effective public transportation available.

It is also the safest and most environmentally sustainable mode available, proven in countries around the world to attract significant traffic away from less efficient and less sustainable modes.

As we move forward with the transformation of passenger rail service in Canada there will no doubt be new challenges.

But I know that we will meet those challenges – by continuously focusing on operational excellence, reducing costs, growing revenues, and delivering the best value possible to every customer who boards our trains.

In the spirit of MBA's everywhere, we will continue to transform problems into solutions, and to transform passenger rail so that it works better, works smarter, and delivers more value than ever before, for all Canadians!

Thank you.
