VIA Rail entered 2009 facing two key challenges: protecting passenger rail’s share of the public transportation market, while continuing to build the foundations for long-term stability and growth.

Even though we had achieved outstanding growth in ridership and revenues in 2008, there were clear warning signs of a severe, global economic downturn that would last throughout 2009. For passenger rail, and for the transportation industry as a whole, this meant a sharp drop in demand for services, especially in key tourism and business travel markets. Passenger carriers found themselves with excess capacity—more seats to sell than there were customers to fill them—and the competition for business between carriers was intense throughout the year.
For each mode, the challenge of maintaining its share of a shrinking market was critical, and VIA was well positioned to meet this challenge. Delivering a competitive, attractive service, VIA continued to build on the strengths of passenger rail as the most dependable, all-weather mode of transportation, offering stress-free service with a high level of comfort, and a valuable alternative to those concerned about the environmental impact of their transportation choices. Marketing and promotion strategies underlined VIA’s excellent customer service, along with pricing strategies to reward and retain existing customers, and attract new ones. We improved the on-time performance of our trains in most parts of the country. Product enhancements helped attract new interest in train travel. VIA’s continued focus on improving service delivery and the customer experience strengthened its brand as “A more human way to travel”.

And we raised customer satisfaction to the highest levels achieved in the last four years.

As a result, VIA’s place in the travel market remained strong throughout 2009. As expected, overall ridership and revenues declined for all passenger carriers, including VIA. Despite fierce competition, by providing excellent services at competitive prices, VIA was able to protect its market share among public modes in the Quebec City - Windsor corridor, which represents approximately 80 per cent of its business.

At the same time, VIA continued to position passenger rail for long-term, sustainable growth. VIA’s Capital Investment Program hit full stride in 2009, ensuring that the critical components of a renewed infrastructure will be in place as the economy and travel markets recover.

And VIA continued to refine both its fundamental business strategy, and the management tools to implement that strategy. A new management plan, Make the difference, clarifies VIA’s strategic focus on customer service, identifies key priorities for improving passenger rail over the coming years, and provides clear guiding principles to engage employees in achieving those priorities.
VIA’S TRACK RECORD

While 2009 proved a difficult year in terms of ridership and revenues, VIA’s long-term performance record remains strong. Since 1990, VIA has:

- Reduced reliance on government operating funding by 44%
- Increased revenues by 85.5%
- Increased passenger miles by 11.7%
- Increased cost recovery by 75.4%
As part of the Economic Action Plan launched in 2009, the Government of Canada announced $407 million in new funding for VIA’s Capital Investment Program. This funding is in addition to the five-year, $516 million capital funding announced by the government in 2007, bringing total investment in the passenger rail network to $923 million. With a primary focus on renewing equipment and infrastructure, VIA’s Capital Investment Program progressed well in 2009.
MORE EFFICIENT, RELIABLE LOCOMOTIVES

The first of 53 rebuilt F-40 locomotives was completed in April 2009. The 20-year-old F-40s, used in all parts of Canada, are being stripped down to their shells and rebuilt from the ground up, incorporating the latest locomotive technologies.

Rebuilding will extend the life of these locomotives by 15-20 years, at less than half the cost of buying new locomotives. At the same time, VIA will ensure that the locomotives meet current environmental and safety standards—reducing their greenhouse gas emissions by up to 12 per cent, and reducing annual maintenance costs by 15 per cent. The project will be completed by 2012.

With the additional Economic Action Plan funding, VIA has started overhauling its P-42 locomotives, including implementing an automatic engine stop/start system, designed to minimize engine idling and resulting in fuel savings. The project is scheduled to be completed in 2011.

MORE ATTRACTIVE, COMFORTABLE PASSENGER CARS

All of VIA’s passenger cars are being improved through the investment plan and the Corporation will begin to introduce the overhauled cars in 2010.

In May 2009, VIA awarded a contract for the complete overhaul of 98 LRC (“light, rapid, comfortable”) passenger cars, which will extend their life by up to 20 years. The cars are used for both Business class and Economy class service in the Quebec City - Windsor corridor. New electrical and mechanical systems will be installed, and the lighting, heating and air conditioning systems will be improved to reduce energy consumption and costs. VIA will also renovate the interiors of the cars, and ensure that the equipment meets current standards of passenger safety and comfort.

With the additional Economic Action Plan funding announced in 2009, VIA began work to enhance its Renaissance cars, used in the Quebec City - Windsor corridor and Eastern Canada, in order to improve accessibility for travellers with special needs. VIA also began major improvements to the classic stainless steel cars used for the Western transcontinental service. The improved transcontinental fleet will play a key role in revitalizing passenger rail service in Western Canada in the years ahead.
INCREASING CAPACITY FOR FASTER, MORE FREQUENT SERVICE

The largest part of the Capital Investment Program focuses on infrastructure in the Quebec City - Windsor corridor, where both freight and passenger rail traffic is most highly concentrated. Developed on VIA’s own infrastructure or in partnership with the freight railways, which own most of the infrastructure, the investment is upgrading tracks and signalling to increase capacity, and allow passenger trains to operate safely at higher speeds and with less delays. Projects launched in 2009, or prepared for launch in the near future, include:

- An investment of over $300 million, in partnership with CN, to upgrade infrastructure between Montreal and Toronto, eliminating bottlenecks and reducing schedule conflicts between freight and passenger trains.
- New rail sidings and advanced traffic control systems between Smiths Falls and Brockville, in partnership with Canadian Pacific.
- Infrastructure improvements on VIA-owned track between Montreal, Ottawa and Smiths Falls, and between London and Windsor.

MODERN, ATTRACTIVE PASSENGER STATIONS

Projects involving over 40 passenger stations at key locations across the country were launched—and some of them completed—in 2009. These projects include building new stations as well as improving existing stations to enhance platforms, signage, interiors, and various other elements to address operational, functional and health and safety needs.

INVESTING FOR EFFICIENCY

VIA is also investing in information technology to support more efficient business operations, and better service to the customer. Major information technology projects completed or underway in 2009 include a complete redesign of VIA’s consumer website, the launch of a corporate intranet linking employees and critical information services throughout the organization, and a new electronic time-card system for maintenance employees, which will allow the Corporation to save costs, increase efficiency and eliminate paper.
In 2009, VIA launched a new management plan called *Make the difference*. The plan articulates VIA’s business priorities and provides the framework for managing VIA’s people and resources. While all six priorities are important, the plan reinforces customer focus as the core of VIA’s business strategy. And it provides clear guiding principles that help all employees understand how their own actions can help VIA achieve its goals.

**CORPORATE PRIORITIES**

**CUSTOMER PROMISE**
- Continuously improve our customers’ travel experience

**GROWTH**
- Grow our business faster than the market

**EFFICIENCY**
- Seize opportunities to efficiently improve the bottom line

**SAFETY AND SECURITY**
- Ensure the safety and security of our customers, ourselves, and the general public

**PEOPLE**
- Create a work environment that fosters engagement in the success of our business

**ENVIRONMENT**
- Manage our operations in an environmentally sustainable manner
GOAL: CONTINUOUSLY IMPROVE OUR CUSTOMERS’ TRAVEL EXPERIENCE

Travellers have many options to choose from when deciding how to get from point A to point B. VIA’s single most important competitive advantage—the reason why travellers choose passenger rail—lies in the kind of experience that VIA provides, and how that is different from other modes. That experience lies at the heart of VIA’s promise to customers.

In 2009, VIA continued to define that promise more clearly, and to develop new tools, guidelines and behavioural standards to fully engage employees in creating positive, memorable travel experiences for customers.

VIA’S BRAND: A MORE HUMAN WAY TO TRAVEL

In recent years, VIA’s brand as A more human way to travel has continued to evolve, building on the unique strengths of passenger rail to deliver a more comfortable, relaxing travel experience than other modes. In 2009, this evolution continued and VIA examined its service more closely from the customers’ point of view so it could better meet their expectations.

To do this, VIA representatives accompanied passengers from the beginning to the end of their travel—from the time they purchased their ticket to the time they left the station, including their time on board—to determine VIA’s strengths, as well as the areas where there was room for improvement. Customers confirmed that the brand A more human way to travel accurately reflects their expectations and they defined in more concrete terms how the rail experience is created, and how it can be improved.

FOCUS ON “TOUCH POINTS”

In 2009, VIA established eleven key customer touch points at which it can offer the best travel experience and continue to distinguish itself as A more human way to travel. These touch points include each point of contact between VIA and the customer, from the customers’ pre-trip planning activities, reservations, service at VIA stations and on board the train, through to contact with customers after completing a trip.

As a result, VIA began developing clear standards for service delivery at each touch point, along with training and review programs to ensure that all employees involved understand how they respond to customer expectations. VIA’s Customer Advocacy Teams identified and helped develop standards in two priority areas—cleanliness on board trains, and communicating on-time performance information.
VIARAIL.CA

VIA’s web site was redesigned in 2009, providing customers with better access to information about train services, schedules, and online reservation options. The new web site is simpler and easier to use, incorporating the most current site navigation standards, as well as being compliant with the W3C (World Wide Web Consortium) guidelines, which establish standards for web site creation such as web accessibility for disabled users, among others. It is an increasingly important point of contact for both customers and travel agents, accounting for almost 50% of total sales in 2009.

For the first time, VIA is also making real-time arrival and departure information available on the site for all Quebec City - Windsor corridor trains. In addition to continual updates on arrival time for a train’s final destination, the site provides scheduled and estimated departure/arrival times for each station stop en route, so that customers can follow the status of any Corridor train from its departure through to its final destination.

VIA plans to offer this same service for its trains in Atlantic and Western Canada in the future, as well as a mobile version accessible by web-enabled phones and other handheld devices.

With the launch of the new web site, VIA also simplified the terminology used to describe different classes of services and service options, which some customers found confusing. The new terms convey the nature of the service provided. For example, “VIA1” service has been renamed “Business” class service, and all services providing sleeping accommodation have been consolidated as “Sleeper” class service or “Sleeper Touring” class if meals are included.

NEW TICKETING OPTIONS

VIA improved its telephone reservation service by giving customers the option of making a reservation and paying for their tickets by phone in a single step. Now customers save time when they arrive at the station, and the system improves the accuracy of VIA’s seat inventory information.

EXCELLENT SERVICE WINS AWARDS

In 2009, the Society of International Railway Travelers named the Canadian one of “The World’s Top 25 Trains.” Excellent service, the efficiency and courtesy of its staff, and an unforgettable cross-country experience were among the factors that earned the Canadian a place on the prestigious list.

And for the third year in a row, VIA won first place for passenger rail services in the annual Agents’ Choice Awards—once again coming out ahead of operators such as Rocky Mountaineer, Orient Express, Amtrak, Japan Rail, and the Trans-Siberian Railway. Travel agents cited VIA’s knowledgeable staff and good service in awarding the distinction to VIA.
With the market shrinking in an uncertain economy, growth in VIA’s ridership and revenues was not a realistic goal in 2009. VIA’s primary objective was to prevent its share of key markets from shrinking, while ensuring that the right tools and resources were in place to seize opportunities for growth when the economy begins to recover.

VIA was successful on both counts. Continued focus on meeting customer expectations, along with carefully targeted fare discounts, improved service offerings, and marketing initiatives held passenger rail’s overall share of key public transportation markets at the same level as that of 2008. The Capital Investment Program is building a solid platform for future service improvements and market growth. The Make the difference management plan is refining VIA’s organizational focus to respond quickly to increased demand as markets improve.

**ALIGNING FARES TO THE MARKET**

Competition based on price remained a critical factor in all markets, as all passenger carriers struggled to fill seats from a declining pool of potential customers. To protect its share of the overall market, VIA adjusted its fare plan. Special fares were extended throughout the Corridor for end-to-end travel, and new discounts were made available for senior travellers aged sixty years or more. In addition, VIA made discounted fares available for all passengers in Sleeper classes year-round, and introduced discounts for National Defence employees.

**REWARDING LOYAL CUSTOMERS**

In July, a two-day strike by locomotive engineers that halted all train services was resolved, when the Teamsters Canada Rail Conference and VIA agreed to binding arbitration. To reward loyal customers who were inconvenienced by the disruption of services—and to attract new customers to passenger rail—VIA offered a limited-time 60% discount on rail travel across the country.

The response to the six-day promotion was dramatic, with online reservations alone reaching 26,000 in one day, compared to a normal level of 3,000 per day. Sales during the six days generated more than $14 million in revenues. And those sales included many customers who would not normally have tried passenger rail. Of the 369,000 people who purchased at least one ticket, 37% said they rarely or never travelled with VIA, and 19% said they chose VIA after originally planning to travel by other modes.
RAISING VIA’S PROFILE IN THE MARKETPLACE

VIA continued to strengthen its presence and visibility in the marketplace through new industry partnerships, as well as highly publicized special train services and sponsorships.

VIA expanded its partnership with Expedia, one of the world’s largest online travel portals. VIA has featured Expedia as the exclusive provider of hotels, car rentals and other services directly on VIA’s site for several years. Now Expedia’s site features VIA’s services, with VIA being the only passenger railway service to enjoy this exposure. This partnership—the first of its kind for both VIA and Expedia—is expected to boost VIA’s sales by encouraging site visitors from all around the world to book rail trips when planning their vacation.

VIA also offered high profile special-event trains in partnership with organizers of festivals and events. Special-event trains bring VIA into contact with new potential customers.

NEW PARTNERS AND PRAISE FOR VIA PRÉFÉRENCE

VIA’s customer loyalty program, VIA Préférence, received two awards from the Relationship Marketing Association of Quebec for the second year in a row, in the Customer Relationship Management and Relational Promotion categories.

In March of 2009, VIA Préférence entered into an agreement with the SNCF, the French railway, which allowed VIA Préférence members to redeem their points for reward trips on the entire SNCF network. The agreement also allowed members of SNCF’s loyalty program to redeem their points for reward travel with VIA across the entire network.

VIA Préférence further enhanced the program in 2009 through several partnerships while the VIA Préférence eBoutique launched a promotion featuring a coalition of more than 100 partners, including SonyStyle.ca and Chapters.Indigo.ca.

Participation in VIA Préférence was opened to VIA employees in late 2009, allowing them to collect points on their purchases at the VIA Préférence eBoutique.
GOAL: SEIZE OPPORTUNITIES TO EFFICIENTLY IMPROVE THE BOTTOM LINE

Faced with a significant decline in revenues, reducing costs was a priority for VIA in 2009. At the same time, VIA continued to take advantage of opportunities to generate new revenues through partnerships in niche markets. And with an eye on the future, VIA launched a comprehensive review of its information technology resources, ensuring that all technology projects supported the Corporation’s business goals, and investing in major technology projects to improve operational efficiency.

REDUCING COSTS

Efforts to control costs at all levels of the organization produced significant savings, with total operating costs for the year almost $29.5 million lower than budget.

Substantial savings were achieved through the careful management of staffing levels at stations and on trains, which were continually adjusted to reflect expected passenger levels. Similarly, effective fleet management ensured that train consists were reduced in size wherever possible, in line with ridership, which helped to lower fuel and other operating costs. In addition, many vacant staff positions were left unfilled to achieve savings in compensation.

EXPLORING NEW BUSINESS OPPORTUNITIES

VIA continued to explore new business opportunities developed in partnership with local and regional tourism organizations and other service providers. For example, VIA’s seasonal bike train between Toronto and Niagara Falls, which has won widespread media attention, allows customers to take their bicycles with them on the train. Developed in partnership with the Niagara-on-the-Lake Chamber of Commerce, the City of Toronto, and the Ontario government, the service encourages cyclists to bring their bicycles when visiting the region. The service completed its third successful year, and in 2009 VIA introduced a similar concept on select Montreal-Toronto trains during the summer months. Many communities served by VIA have expressed interest in developing similar services geared to regional needs.

VIA also continued to develop cost-effective partnerships with other partners in the tourism industry, including partnerships between VIA, as a Crown corporation, and private companies. For example, a new service was offered in partnership with Croisières AML and Fairmont Hotels and Resorts.

INFORMATION TECHNOLOGIES

VIA’s use of online ticketing and reservation systems has proven the value of technology—both as an efficient tool to improve access for customers and travel agents, and as a way to reduce costs. In recent years, VIA has expanded the use of online services for individuals and organizations, including the use of “virtual credit cards” to facilitate settlement with overseas agents and tour operators. With web-based sales now approaching half of VIA’s total passenger revenues, these technologies have generated operating savings of approximately $1.6 million per year.
In 2009, VIA completed a comprehensive review of its information technology needs, and identified the technology resources that are most critical to support the Corporation’s strategic goals. A new Information Technology strategy defines specific goals for expanding and upgrading information systems throughout the organization. A newly appointed Chief Information Officer, reporting directly to the President and CEO, is responsible for ensuring that VIA’s investment in technology meets current and future needs in the most efficient way possible.

Many key investments in Information Technology projects were launched or completed in 2009, including the redesign of VIA’s web site, the creation of VIA’s first corporate intranet, the modernization of VIA’s reservation systems, and automation for managing on-train processes such as ticket sales and product inventories.

iVIA—CONNECTING PEOPLE AND INFORMATION

In 2009 VIA launched iVIA, the Corporation’s first intranet. A major step forward in communicating critical information to employees, iVIA provides access to the tools they need on the job—including online learning and training modules, corporate policies and procedures, status updates on corporate projects and performance data.

The intranet provides an efficient platform for improved teamwork and coordination throughout the Corporation, as well as the opportunities to continually refine and improve the way traditional paperwork is handled, such as the processing of forms and personnel information. The capabilities of the new system, as well as the range of information available, will continue to evolve to support increased operational efficiencies in the years ahead.
SAFETY AND SECURITY

GOAL: ENSURE THE SAFETY AND SECURITY OF OUR CUSTOMERS, OURSELVES, AND THE GENERAL PUBLIC

VIA Rail developed one of the rail industry’s first integrated safety management systems in 2001, and is widely recognized as a leader in the safe and secure management of its operations. The system—which integrates the rules, procedures and responsibilities for safe rail operations—is audited annually by Transport Canada, and is continually reviewed by the Corporation. Safety issues are also monitored by Health and Safety committees at all major VIA locations across Canada. These committees review annual safety reports and ongoing performance data to establish specific objectives for improving workplace safety, and to identify issues that require the attention of senior management.

Security issues have also become top-of-mind for employees. VIA works with regulators and industry partners to enhance its security standards, and to implement the best possible facility and operations security procedures. VIA’s Safety, Security and Risk Management team, reporting directly to the President and CEO, consolidates all safety, security, environment and non-financial risk management activities under a senior director, thus ensuring better coordination among these functions.

EMERGENCY PREPAREDNESS

VIA’s Train Emergency Response Plan details emergency procedures to be followed in response to events such as a train derailment, a security incident, or a potential health scare. It includes a clear outline of the responsibilities of all employees, the chain of command in place, and the steps necessary to ensure good communication and coordination of emergency measures.

In addition, all employees receive emergency preparedness training relative to the area in which they work. For those who work on board the train, their training ranges from extinguishing an on-board fire, to dealing with a bomb threat and evacuation. Training for employees in maintenance facilities also includes procedures for dealing with hazardous materials.

PANDEMIC PREPAREDNESS PLAN

In response to World Health Organization alerts concerning the H1N1 virus in 2009, VIA organized a cross-functional working group to implement its Pandemic Preparedness Plan. The Plan ensures that health risks are closely monitored with both Health Canada and VIA’s health service provider, Medysis, and that measures are in place to respond in the event of a pandemic.

The working group coordinated proactive communications throughout the organization to ensure that all employees were alert to any symptoms of the H1N1 infection in people at VIA facilities and on board trains, and procedures for responding to any potential outbreaks of the disease.
Because VIA’s Pacific Station in Vancouver is close to the Olympics site, VIA tightened security measures to prepare for the 2010 Olympic Games, and introduced new measures as required by the Government of Canada. The measures, which include emergency response procedures and employee awareness training, and partnerships with law enforcement agencies, cover all types of emergencies and natural disasters. Site and perimeter security has been enhanced by installing detection and monitoring systems, implementing improved access controls, and adding physical security presence at VIA’s Pacific Station and operations areas.

BUSINESS CONTINUITY

Business continuity planning at VIA enables the organization to continue its operations in the event of incidents or situations that may impact people, facilities or equipment. By clearly identifying the critical services necessary for delivery of passenger train service and defining the time by which these services must be re-established, VIA is able to recover and resume regular operations in an organized and efficient manner. Risk analysis drives the development of continuity procedures while various exercises including communication tests and desktop simulations are used to improve employee familiarity and proficiency with the procedures.

INFORMATION TECHNOLOGY AND SECURITY

The 2008 Special Examination Report, issued by the Office of the Auditor General in 2009, recommended that VIA assess the risks and threats to its Information Technology systems, and the measures needed to mitigate these risks.

VIA agreed, and launched an IT Security Program to identify and prioritize required initiatives to reduce security risks that could affect the confidentiality and integrity of VIA systems. Key security projects, including a review of IT Security Policies, and the implementation of a system intrusion detection system, are underway and will be completed in 2010.

In addition, a new e-Learning module on information technology was launched for all VIA employees. The course outlines each employee’s role and the responsibilities that come with using information technology, with information on recognizing security risks and reporting suspicious activity.

SAVING LIVES

All on-train employees receive first-aid training, and on-board service managers are also trained to administer cardiopulmonary resuscitation (CPR). Now, service managers and designated employees in stations, maintenance centres, etc. are also trained to use Automated External Defibrillators, which had been installed in 2008 on all passenger trains as well as in selected passenger stations and work locations.

Since they were deployed, defibrillators have been used three times, two of which resulted in two lives saved. For example, in August 2009, an alert, trained employee saved a life by using the defibrillator at the Toronto Maintenance Centre, after a colleague collapsed during a training class.
GOAL: CREATE A WORK ENVIRONMENT THAT FOSTERS ENGAGEMENT IN THE SUCCESS OF OUR BUSINESS

No organization can truly excel unless the people in it are committed to the work they do, find that work rewarding, and are proud to be part of the organization’s success. This is especially true for VIA Rail, where success depends on the quality of the experience employees create for its customers.

In view of this, VIA has been transforming its human resources function over the last several years to make it more strategic and better defined, a fact acknowledged by the Auditor General in her last Special Examination Report.

VIA’s new management plan, Make the difference, brings a clear focus to the role of each employee, and the impact of each employee’s actions on the success of passenger rail — summed up in the key guiding principle, “I make the difference”. Major initiatives in 2009 helped provide VIA’s people with the resources and support to make that difference on the job.

A NEW NETWORKED ENVIRONMENT

VIA’s new intranet, iVIA, gives all employees easy access to information on corporate goals and performance, news bulletins, procedures and policies, as well as e-Learning courses, the new welcome aboard program, and access to an online “Learning and Development Campus” with training and career development tools for all employees.

VIA is also exploring ways to extend the information network through devices other than desktop computers. For example, digital screens are being tested in strategic work locations to continuously broadcast corporate information, as well as information specific to the work location, such as recent policy announcements. In addition, work is being done to introduce mobile devices for front-line employees to receive and transmit accurate information on safety, food and beverages, tickets and passenger profiles.

TRAINING AND CAREER DEVELOPMENT

VIA continued to develop new training initiatives, especially e-Learning resources and modules, which help employees align personal development efforts with career opportunities, and with the strategic goals of the Corporation. A new “Career Ladder” system helps management employees understand their options for pursuing career paths within the Corporation, as well as the skills they need to pursue those options.
A new training program (Creating Stellar Customer Relations) was developed in 2008 and launched in 2009 to provide Customer Experience employees with a better understanding of customer needs and expectations, tools and techniques to meet those expectations, and practical help in applying those techniques in real-life situations. This is the first time a training program combines classroom learning with e-Learning at VIA.

In 2009, VIA also launched a new leadership training program (Senior Leadership Essentials) to support managers in the development of their management competencies and coaching skills. This program is in response to the 2008 employee engagement survey, through which employees said they wanted to see improvements in the areas of managing performance and recognition.

**COLLECTIVE AGREEMENTS**

Bargaining for renewal of collective agreements between VIA and the Teamsters Canada Rail Conference, representing locomotive engineers, reached an impasse in 2009. Following a two-day strike, outstanding issues were submitted to binding interest arbitration, and a Memorandum of Agreement arising from the award of the arbitrator between VIA and the union was signed in December.

Bargaining for renewal of new collective agreements with the Canadian Auto Workers, which represent on-train, station and maintenance staff started in 2009. Bargaining of outstanding issues will continue in 2010.

**COMMUNITY INVOLVEMENT**

VIA supports and encourages employee participation in community events and activities that reflect values that are important to them.

- 2009 marked the 20th anniversary of the Kids Help Phone charitable organization, which provides phone and online counselling and referral services for young people. VIA has partnered with Kids Help Phone for several years, and employees participate in fundraising activities such as the “Walk for Kids Help Phone” event in May.

- In the fall of 2009, VIA and its employees participated in the National Charitable Campaign, raising funds for United Way Canada and HealthPartners. VIA’s slogan for the campaign, which raised $241,000, was “Take action that will make the difference.”

- Team VIA Rail raised $63,000 for the Multiple Sclerosis Society of Canada as part of the RONA MS Bike Tour in August. The team of 62 VIA employees and their friends and families was the largest team participating, and raised the largest amount of money.

- VIA operated eight “Santa Trains”, providing special holiday excursions for children in the communities of Jasper, Prince George and Prince Rupert. With all the work being carried out by VIA volunteers, 100% of the proceeds went towards local charities and the Kids With Cancer Society.

- In Halifax, VIA hosted “All Aboard for Safety”, an open house event to help children learn about general safety issues, and safety around trains and rail lines. Presentations and activities involved representatives from local police, community groups, and national organizations.
GOAL: MANAGE OUR OPERATIONS IN AN ENVIRONMENTALLY SUSTAINABLE MANNER

Passenger rail is widely recognized as one of the most environmentally sustainable modes of transportation—"A Green Choice" when it comes to travel. VIA works every day to continuously improve rail as an option for those concerned about the environmental impacts of transportation.

VIA’s Environmental Policy and objectives set clear guidelines for activities throughout the Corporation, focusing on compliance with environmental regulations, cutting fuel consumption, and reducing the environmental footprint of all VIA business operations.

INVESTING IN GREEN TECHNOLOGIES

Capital investment in rebuilt locomotives and passenger cars will ensure that VIA’s equipment meets or exceeds current environmental standards, reducing both fuel consumption and emissions generated by passenger rail.

VIA has already achieved significant reductions, cutting fuel consumption by over 25 per cent per passenger-kilometre, and greenhouse gas (GHG) emissions by almost 19 per cent since 1990. Rebuilt equipment will incorporate more efficient heating, cooling, ventilation, lighting and lay-over systems. These modifications will result in additional reductions in fuel consumption and GHG emissions.

GREEN TEAMS

VIA’s Green Teams—composed of volunteer employees at locations throughout VIA’s network—promote sound environmental practices across the country and encourage all employees to identify ways to improve VIA’s environmental performance. The Teams have helped to develop and launch valuable initiatives such as waste reduction programs in VIA offices and facilities, and a metal recycling program whose proceeds were donated to a local school. They also coordinate VIA’s participation in events that raise public awareness of environmental issues, such as the 2009 Earth Day, Car Free Day, and Waste Reduction Week. In 2009, the Teams began issuing the Green Bulletin, which provides information and updates on environmental projects, issues and events to all employees.
MANAGING ENVIRONMENTAL RISKS

VIA developed an Environmental Management System (EMS) in 2004, providing a corporate-wide framework for tracking, evaluating and communicating environmental performance. As part of its Special Examination of VIA in 2008, the Office of the Auditor General reviewed VIA’s EMS and concluded that the environmental management system and practices enabled VIA to manage its key environmental risks. The Special Examination Report, submitted in 2009, recommended a number of ways VIA could improve the implementation of the EMS, particularly with regard to identifying, monitoring and managing environmental risks.

VIA agreed with the recommendations, and began implementing improvements in 2009, with action on all recommendations to be completed in 2010. A methodology for evaluating risks is being developed and integrated within the EMS, along with updates to the EMS and corporate risk registries. In addition to existing internal audit procedures for maintenance facilities, a new environmental audit plan for non-maintenance facilities will be implemented, including procedures for reporting audit results to VIA management. A site contamination management program will be developed for sites that deal with potential environmental contaminants.

VIA is also developing a new system for identifying and documenting environmental objectives, targets and initiatives.

ENVIROEXPO

EnviroExpo is a program that was set up two years ago by VIA, in partnership with Youth Science Canada, a non-profit organization that has been organizing science fairs at the local, regional and national levels for almost 50 years. The purpose of EnviroExpo is to challenge young people to find unique solutions to environmental problems that we are facing, while adding an artistic flair to their project presentation. This program is aimed at all Canadian students attending secondary schools or CEGEPs.

Youth can participate in EnviroExpo at the regional or national level. At the national level, the top three participants receive a $10,000-scholarship each, offered by VIA.

VIA employees from coast to coast are proud to be involved as volunteers in the science fairs. VIA’s EnviroExpo initiative earned recognition from the Railway Association of Canada’s Safety and Environment Awards Program in 2009.
THE BOARD OF DIRECTORS
The Board of Directors consists of the Chairman, the President and Chief Executive Officer and 14 other directors, all appointed by the Government of Canada. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA’s operations to Parliament.

The Corporation and its Board of Directors are committed to implementing principles and best practices of good governance. All members of the Board sign a code of ethics reflecting the spirit and intent of the Accountability Act, which sets out standards of transparency and accountability for the officers and directors of Crown corporations.

In 2009, the Government of Canada appointed Mr. Donald A. Wright for a second term as Chairman of the Board. It also appointed Mr. Marc Laliberté as President and Chief Executive Officer, effective January 4, 2010.

THE AUDITOR GENERAL’S SPECIAL EXAMINATION
The Office of the Auditor General (OAG) carries out a special examination of Crown corporations every five years. The OAG submitted a report in 2009 on the special examination of VIA completed in 2008. The report identified one significant deficiency in the area of strategic planning and noted continued improvements in VIA’s governance practices, concluding that the management of the Corporation’s financial, human and material resources is economic and efficient, and that VIA’s activities are carried out effectively.

The report also made a number of recommendations for improvement. VIA accepted both the conclusions of the report and the recommendations, all of which have been implemented or are in the process of being implemented.
ACCESS TO INFORMATION
VIA believes that openness and transparency are the starting point in building a trusted relationship with customers, and with the public in general. VIA receives and responds promptly to information requests under the Access to Information Act and the Privacy Act, and has been given top marks for transparency among federal agencies.

In 2009, VIA received 26 requests under the Access to Information Act. Due to legislative deadlines, three requests were carried over into 2010.

OFFICIAL LANGUAGES
VIA is committed to the principles of the Official Languages Act and provides service to customers in the language of their choice. On every VIA train, and in stations and Telephone Sales Offices, there are employees who are qualified to provide service to customers in both official languages.

As well, employees who work in regions that are designated bilingual for language of work purposes have the choice to work in their preferred official language. VIA also takes every opportunity, within its mandate, to actively contribute to the promotion of Canada’s linguistic duality.

The Commissioner of Official Languages released its 2008-2009 report card of federal institutions in June 2009, and VIA received a B (Good) rating. The Commissioner noted significant improvements in the Service to the Public category over 2008.

When VIA appeared before the House of Commons’ Committee on Official Languages, in the fall of 2009, it received congratulations from the members in recognition for its performance in implementing official languages within the organization.
This discussion and analysis presents data and comments on the Corporation's financial position and results for the year 2009, excluding the financial results of VIA's variable interest entity (included in the Consolidated Financial Statements) and all non-funded items. It should be read in conjunction with the Consolidated Financial Statements that follow, and the Year at a Glance on page 1.

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>VS BUDGET</th>
<th>VS 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>(IN MILLIONS OF CANADIAN DOLLARS)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PASSENGER REVENUE</td>
<td>250.3</td>
<td>(49.1)</td>
<td>(16.4)</td>
</tr>
<tr>
<td>TOTAL REVENUE</td>
<td>264.9</td>
<td>(50.5)</td>
<td>(16.0)</td>
</tr>
<tr>
<td>CASH OPERATING EXPENSES</td>
<td>526.1</td>
<td>29.5</td>
<td>5.3</td>
</tr>
<tr>
<td>CASH OPERATING DEFICIT</td>
<td>261.2</td>
<td>(21.0)</td>
<td>(8.7)</td>
</tr>
<tr>
<td>TOTAL PASSENGERS CARRIED (IN THOUSANDS)</td>
<td>4,229</td>
<td>(444)</td>
<td>(9.5)</td>
</tr>
</tbody>
</table>
A severe, global economic recession depressed travel and tourism markets throughout 2009, with all passenger carriers suffering losses in both ridership and revenues. Excess seat capacity led to intense competition between carriers. In contrast to 2008, when VIA achieved record breaking growth, VIA’s challenge in 2009 was to maintain its market position, and protect its markets in the face of deep fare discounts from competitors. The Corporation was successful in maintaining passenger rail’s share of the public transportation market in the Quebec City-Windsor corridor, which represents approximately 80 per cent of its business.

VIA experienced drops in total ridership and revenues in line with the passenger transportation industry as a whole. Passenger revenues for the year were down $32.6 million or 11.5 per cent compared to 2008, while ridership dropped 8.2 per cent to 4.2 million passengers. VIA reduced expenses, eliminating some 5.3 per cent or $29.5 million from the budget for the year. However, with high base operating costs and little flexibility to adjust services, cost savings were not enough to offset lower revenues. As a result, there was a significant gap between VIA’s operating deficit and its operating funding. VIA will draw on its internal Asset Renewal Fund to meet the 2009 funding shortfall.

VIA continues to remain confident in the longer-term future of passenger rail, and the Government of Canada reinforced this confidence with the addition in January of $407 million for capital investment through the federal Economic Action Plan, bringing the total funds for VIA’s Capital Investment Program now underway to $923 million. Investment projects to renew VIA’s equipment and the rail infrastructure proceeded throughout 2009, progressively achieving substantial improvements in rail service across the country and scheduled to reach full benefits by 2012.
PASSENGER REVENUE AND RIDERSHIP

Overall, total revenues decreased $34.3 million compared to 2008, an 11.5 per cent decrease and 16 per cent below the annual budget for 2009. Ridership suffered a decline, with total passenger count dropping 8.2 per cent compared to 2008, and 9.5 per cent below budget.

Revenues were affected both by declining demand for passenger services, and by a very competitive pricing environment. Carriers discounted fares throughout the year. U.S. and overseas travel to Canada continued to decline, along with both consumer and business domestic travel, leading to excess seat capacity in the industry as a whole.

The decline in ridership affected all VIA services. In Western Canada, the Canadian depends on tourism from the U.S. and overseas to maintain revenues, which dropped significantly, and VIA’s aging equipment for the service is becoming uncompetitive in this market. Service in Eastern Canada experienced a similar downturn, with Sleeper Touring class revenues dropping significantly for the year.

While the Quebec City - Windsor corridor markets performed better than the transcontinental trains, the economic downturn reduced higher-yield business class travel, which affected VIA’s total revenues. The Corridor also experienced the most intense price-based competition from other carriers who faced similar ridership declines.

In order to protect market share, VIA introduced a more attractive and flexible fare discount program, along with targeted promotions and service enhancements. For example, following a disruption in service due to strike action by locomotive engineers, VIA offered a 60 per cent discount sale on Business class in the Corridor and Economy class across Canada—as a means to retain loyal customers, and attract new customers to train travel. The six-day sale generated $14 million in revenue, and attracted 369,000 customers—37 per cent of which said they had rarely or never travelled with VIA before.

Service enhancements generated new interest in the high-end business travel market. Maintaining and renewing interest in train travel helped VIA to retain market share against market acquisition attempts from other public modes.

OPERATING COSTS

Throughout 2009, VIA exercised rigorous cost containment to respond to the worsening travel market and to mitigate the effects of the revenue shortfalls. Cost savings brought total operating expenses for the year to $526.1 million, 5.3 per cent below the budget set for 2009. Significant savings were achieved by managing staffing levels and compensation, and fuel costs were lower than budget due to reduced consumption and dropping prices. On-board product costs were also lower, primarily due to reduced ridership.

Expenses did however increase $12.8 million (2.5 per cent) compared to the previous year. The main increase stems from contributions to the unionized pension plan ($10.1 million). Following the deterioration of the plan’s solvency situation in the first part of 2008, the Corporation, which had previously benefited from a contribution holiday, proactively resumed current service costs contributions in the last quarter of 2008. These contributions continued for all of 2009. Fuel expenses also rose by $6.5 million, and maintenance material costs increased by $1.3 million. Reorganization expenses also grew by $1.8 million as a result of the voluntary early retirement program offered to specific management employees.
Effective cost control generated savings which partly offset these increases, including $2 million from on-train product costs and $1.4 million in sales and marketing expenses. The yearly salary increase announced in 2009 was absorbed by a gain in productivity.

VIA was, however, unable to reduce costs further largely because of high fixed operating costs. VIA is committed to providing train service to all Canadians, and it has little flexibility when adjusting train services and frequencies to meet demand. This means, for example, that VIA cannot reduce the frequency of a service to reduce costs—unlike airlines, which have more flexibility in cancelling specific flights.

Investment revenue has also been affected by the recession, which will lead to an increase in VIA’s contributions to its pension fund in the coming years.

Aging equipment and inflationary pressures continue to have an impact on operating costs. These pressures affect all aspects of VIA operations, including equipment repairs, routine maintenance and compensation. While VIA’s operating funding has decreased by 44 per cent since 1990, inflation over this same period was approximately 50 per cent.

CAPITAL EXPENDITURES

The Government of Canada announced in January an additional $407 million investment in passenger rail through the 2009 Economic Action Plan, bringing the total for VIA’s Capital Investment Program to $923 million.

In 2009, capital spending totalled $116.8 million (as compared to $54.5 million for the previous two years). The Corporation proceeded rebuilding and renewing its locomotives and passenger cars, and started major infrastructure projects throughout the Quebec City - Windsor corridor, as well as station improvements in all parts of its network.

### CAPITAL EXPENDITURES 2007-2009

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUIPMENT RENEWAL</td>
<td>$45.7 million</td>
</tr>
<tr>
<td>INFRASTRUCTURE IMPROVEMENTS</td>
<td>$80.4 million</td>
</tr>
<tr>
<td>STATIONS, INFORMATION TECHNOLOGIES, AND OTHER PROJECTS</td>
<td>$45.2 million</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$171.3 million</strong></td>
</tr>
</tbody>
</table>

Capital spending will accelerate over the next two years, with over $300 million per year in capital spending planned for 2010 and 2011. The results, in terms of a better level and quality of passenger rail service across Canada, and increased capacity for passenger rail service in the Corridor, will be gradually realized over the coming years.
ON-TIME PERFORMANCE

On-time performance, which has been a major challenge for passenger rail in recent years, improved significantly in 2009, up 8 percentage points to 83 per cent—the largest year-over-year improvement achieved in recent years.

To improve on-time performance, VIA added time to most of its schedules. Developed in negotiations with the freight railways, the new schedules provide more realistic arrival and departure times, so that customers can depend on a more reliable service. In the Quebec City - Windsor corridor, on-time performance reached 84 per cent, a 13 per cent improvement over 2008.

In Western Canada, schedules were completely redesigned to improve the quality of the services offered to our customers, while providing better connecting services, delivering more attractive options to tour operators, and aligning with freight train flows. As a result, on-time performance increased significantly from 23 per cent to 84 per cent, with an equally significant improvement in customer satisfaction.

Performance for the Eastern transcontinental deteriorated slightly, due to temporary speed restrictions on the short line infrastructure that CN has acquired, and continuing congestion on CN infrastructure.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to start using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles (GAAP), but there are significant differences in recognition, measurement and disclosures.

In its 2010 fiscal year, the fiscal year immediately prior to the one in which it commences reporting under IFRS, the Corporation will, effectively, have to maintain two parallel books of account: one set of books of account will be prepared using the current version of Canadian GAAP and would be used for current reporting; another set of books of account will be prepared using the current version of IFRS and would be used for reporting of comparative amounts during the Corporation’s 2011 fiscal year.

The identification, evaluation and selection of the accounting policies necessary for the Corporation to changeover to IFRS is currently underway. Consideration of impacts on operational elements such as Information Technology and internal control over financial reporting are integral to this process, as well as the preparation of draft financial statements and related note disclosure. The Treasury Board of Canada Secretariat has confirmed that the use of IFRS is an acceptable set of accounting standards for the Corporation.
Recovery in travel and tourism markets will depend on recovery in the economy as a whole. While there were signs of improvement in the Canadian, U.S. and world economies by the end of 2009, full recovery will likely be slow and uneven throughout 2010. VIA does not expect to see a return to significant growth in passenger rail before 2011.

VIA’s challenge in 2010 will continue to be retaining existing customers in a highly competitive market, while taking advantage of opportunities to expand its customer base wherever possible. Passenger rail remains well positioned to deliver a competitive, attractive service to Canadians—a dependable, all-weather mode of transportation, offering stress-free service with a high level of comfort. In 2010, the environment will continue to be a corporate priority for the Corporation, in an effort to manage its operations in an environmentally sustainable manner. And as usual, VIA will carry on focusing on customers, striving to exceed their expectations every time.

Improved on-time performance, along with incremental enhancements in products and services, will continue to attract new interest in passenger rail. In Western Canada especially, major tour operators have already expressed renewed interest in VIA’s service, encouraged by the enhanced schedule introduced in 2009, and announced improvements to equipment which will bring on-board accommodations in line with international standards.

In the longer term, VIA’s capital investment in equipment and infrastructure will provide the platform for significant improvements, and the tools necessary to capture opportunities for growth as the economy recovers. With modern equipment and the capacity to offer faster, more frequent service, VIA expects to return Canadian passenger rail to the growth enjoyed over the past two decades, with a service that is reliable, efficient, and financially sustainable for the future.