Speaking Notes

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Transformation: Our Performance

My presentation is going to fall into four parts.

- First, I'm going to give an overview of VIA's performance in 2010 ending in December and the first quarter of 2011 in terms of ridership, revenues, and costs. The story here is a good one. Not only are we returning to growth in ridership and revenues sooner than expected after the 2008 recession, we are making significant gains in productivity.

- Second, I will give a quick update on the capital investment program. In terms of spending, capital investment in 2010 really started moving forward, and we are making good progress.

- Third, I want to take a look at pension costs -- because they have been increasing dramatically, in past years and that requires some explanation.

- Finally, I will talk about a major change in our accounting practices -- which sounds boring, but is actually an important step towards the goal of greater transparency and accountability that our Chairman talked about a few minutes ago.

Performance:
Ridership and Revenues

The financial crisis in 2008 and the recession in 2009 had a direct and immediate impact on VIA Rail. Our ridership and revenues dropped. Market analysts predict that it will be 2013 before we get back to 2008 levels, and to stability in travel markets.

In 2010, our performance in the Quebec-Windsor corridor confirmed that expectation -- ridership remained more or less even with 2009.

But in Western Canada, ridership increased <u>more</u> than anticipated. Demand from both domestic and international tourism markets jumped better than predictions -- a sign that efforts to improve our western tourism products and marketing are attracting attention.

Unfortunately, tourism markets in Eastern Canada really struggled throughout the year, and here our ridership dropped. So in the end we ended up with a slight decline overall, with a 1.3 percent drop in passenger-miles overall compared to 2009.

But if we look at passenger revenues for 2010, we see something interesting. Despite the slight decline in ridership, passenger revenues went up 3.2 percent. The increase is not dramatic, but it is important. It means that we are earning more revenues per passenger.

And if we look at those Key Performance Indicators that Marc just talked about, we see the same story. For example, one KPI measures revenue earned per seat-mile -- and that went up by 0.5 cents.

Another KPI measures revenues earned per employee. And that also went up, jumping from $86 to $93 in 2010.

If we look at the first quarter of 2011, things look even more encouraging. Compared with the first quarter of 2010, passenger revenues are up 6.2%, and passenger volumes increased 2.7 percent.

- In Corridor East, between Montreal and Toronto, revenues are up 5.7%, with ridership up 1.5%, and average fares have increased by approximately 4.7%.
- Revenues in Southwestern Ontario have increased by 8.3%, with a 5.2% increase in ridership.
- Eastern longhaul revenues are 9.2% higher than last year, while ridership was stable -- up just 0.4%.
- Revenues on the Canadian in the West improved 8.8% over the previous year, with increased ridership and higher average fares.
- The Remotes generated the same level of revenues as last year.

So, to sum up VIA's performance on ridership and revenues: in 2010, despite a slight drop in ridership, we increased revenues, and generated more value-per-passenger. And in the first quarter of 2011, revenues continue to increase -- and we've got ridership back on track for growth.

Performance:
Operating Costs

Now let's look at operating costs. While total costs in 2010 increased by 1.9% over 2009, they were actually $16.8 million lower than our budget for the year. This is the result of a renewed focus on increasing productivity, eliminating waste wherever possible, and keeping a tight control over all discretionary spending.

This result is also reflected in one of our Key Performance Indicators, which measures Direct Costs per Available Seat-Mile -- which we reduced by 0.7 cent per mile in 2010. With costs per seat mile down, and revenues per seat mile up, productivity is clearly improving.

Two areas where we achieved savings deserve special mention:

- Significant savings were achieved following a corporate reorganization that better aligned operations with VIA's strategic goals. That reduced management and non-unionized positions by 12 percent, and cut costs for compensation and benefits.

- In addition, fuel costs were significantly reduced. A big factor here was the fact that rebuilt F-40 locomotives, which are being upgraded through the capital investment program, started to come into service. The rebuilt locomotives are considerably more fuel efficient, reducing fuel consumption by 9 percent. The other significant contributor to the reduction was the price of fuel which was lower in 2010 compared to the previous year.

In the first quarter of 2011, operating costs are up by 0.5% over the first quarter of 2010. This is due to the increased pension costs. Excluding pension costs, operating expenses have actually dropped compared to the first quarter of 2010.

Higher compensation costs also raised overall operating costs. But a big part of this -- and this is a point I will return to shortly – is the big jump in pension costs. Excluding pension costs, compensation expenses actually dropped compared to the first quarter of 2010.

Performance:
Government Funding

As Marc said, our goal is to limit government operating funding to the remote, mandatory services only, and move toward better cost-recovery for other services.
At $261.5 million, our cash operating loss for 2010 was $0.3 million higher than in 2009. But our government operating funding was $35 million higher than in 2009. You may wonder why this is so.

The reason is that $35 million from VIA's internal Asset Renewal Fund was used to fund part of the operating deficit in 2009. That internal funding source is depleted and was not available in 2010.

Capital Investment

We started implementing the $923 million capital investment plan in 2007, and projects started to reach their peak in 2010. Capital spending totaled $268.6 million for the year, with work proceeding to rebuild and renew VIA's locomotives and passenger cars, major infrastructure projects started throughout the Ontario-Quebec corridor, and station improvements underway in all parts of VIA's network.

There were some delays in infrastructure projects in the Montreal-Ottawa-Toronto triangle, as well as in some equipment projects, due to contractors' set-up and production learning curves. VIA is working with the various contractors and suppliers to get the projects back on schedule or to revise schedules if required.

Benefits from these projects, in terms of improved level and quality of service, are already being realized. Infrastructure projects will be completed in 2011 and 2012 which will allow us to add additional frequencies in the Quebec - Windsor corridor next year.

VIA's Pension Plans

I mentioned a moment ago that VIA's pension costs have increased dramatically. They are going to continue to increase over the next few years. Since this will have a significant impact on our total operating costs, I want to explain briefly what is going on.

In the happy years before 2008, VIA's pension plans were "in surplus". That means that the value of the pension funds was much higher than needed to cover benefit payments. And that meant that, according to regulations, VIA enjoyed a "contribution holiday" -- we were not required to contribute to the fund. In fact, regulations prohibited VIA from contributing to the management pension fund.

That all changed with the financial crisis in 2008. Pension investments lost value, while interest earned on investments dropped. We suddenly found that the contribution holiday was over -- and had to start putting even more money into the funds to address pension deficits. And even though the economy may be improving, these costs are not going away. In fact, they are going to increase.

I want to emphasize that this situation is not unique to VIA Rail. In fact, the Office of the Superintendent of Financial Institutions reports that more than three-quarters of all pension plans in Canada are in deficit as of the end of 2010.

We have taken measures to reduce pension management and administrative costs wherever possible. But the reality is -- unless investment returns and interest rates in the market improve beyond all expectations -- VIA will face higher pension costs in the future.

Accounting Changes

Before closing, I want to say a few words about changes we have made to our accounting procedures at VIA Rail.

In 2010 VIA switched from a set of standards called the Generally Accepted Accounting Principles, to something called the International Financial Reporting Standards, or IFRS.

Those of you who read financial statements know that it can be difficult to compare statements from different companies. The International Financial Reporting Standards (IFRS) helps to make these kinds of comparisons easier and not only within Canada but worldwide.

By adopting these standards, VIA is using the same accounting benchmarks and standards as other commercial enterprises.

That may not seem like a big deal, but it is a step towards giving greater clarity and transparency to VIA's operations. It means, for example, that you can more easily compare our performance with those around the world like S.N.C.F. the national passenger rail in France of other businesses -- like airlines, or bus companies in Canada.

That is important, as VIA continues to work towards improved cost recovery for commercially viable services, and to do so in a manner that is open and accountable to Canadians.

It reflects, in short, the same spirit that lies behind this, VIA's first public meeting.

It is part of our effort to share with our shareholders -- Canadian taxpayers -- a clear account of where VIA is going, how we are getting there -- and how well we are doing.

Thank you.